Real Estate Council of Ontario
Annual Report 2005–2006

Celebrating a New Era

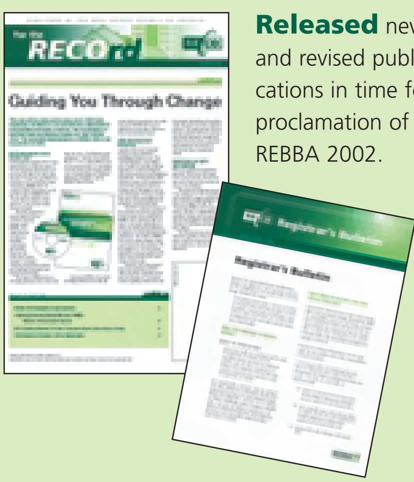
RECO

Real Estate Council of Ontario

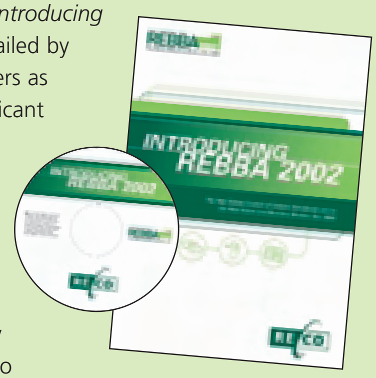
Celebrating 2005–2006

Implemented all planned operational objectives in time for the proclamation of the Real Estate and Business Brokers Act, 2002 on March 31, 2006.

REBBA 2002
Real Estate & Business Brokers Act, 2002



Released new and revised publications in time for proclamation of REBBA 2002.

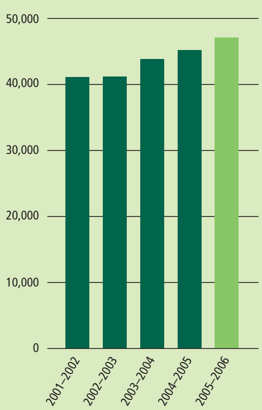


Produced the *Introducing REBBA 2002* kit, hailed by industry stakeholders as RECO's most significant accomplishment in its efforts to ensure registrants were informed and prepared for REBBA 2002. The kit, mailed to every registrant in Ontario before March 31, 2006, contains a video presentation on CD–Rom and a 300-page publication – *Guide to REBBA 2002.*

Recruited members for a new Commercial Real Estate Advisory Group, which will provide advice to the Board of Directors on regulatory issues in the commercial real estate sector.

Contents

TOTAL REGISTRANTS



Experienced an increase in the number of individuals and businesses registered to trade in real estate in Ontario of approximately 2,400.

Successfully completed a review of RECO's organizational structure and implemented changes to support the administration of REBBA 2002.

Conducted a client satisfaction survey, with a view to enhancing RECO's programs and services based on input from registrants and consumers, to fulfill Administrative Agreement requirement of the Ministry of Government Services.

Promoted the use of MyWeb, an extranet service for registrants, provides access to RECO updates, news, personal registration information and insurance payments. There are more than 22,000 registrants using the service.

RECO Investigator, Jo Ann Swain, was named 2005 Investigator of the Year by the Council of Licensure, Enforcement and Regulation. The international award recognizes an investigator in occupational and professional regulation who has demonstrated exceptional performance in a particular case and has a history of excellent performance beyond what is expected or required.

Celebrating Achievements

Bruce Law
Chair, Board of Directors

Bruce Law, who served as Vice-Chair in 2004, has also served as Chair of the Insurance, Appeals and By-laws Committees and Code of Ethics Task Force.

With over 30 years of industry experience, his areas of expertise include commercial brokerage, buyer/tenant representation and corporate commercial consulting. He has served as President of the Hamilton Burlington District Real Estate Board (now the Real Estate Association of Hamilton Burlington) as well as a variety of industry-related committees.

Mr. Law is Broker, Associate Vice-President of J.J. Barnicke Limited in Burlington, Ontario.

It is my great pleasure to present the Annual Report of the Real Estate Council of Ontario (RECO) for the fiscal year ending March 31, 2006. I am honoured to have served as Chair of the RECO Board this past year.

The 2005–2006 fiscal year was significant in the history of regulation in Ontario's real estate industry. The successful implementation of the Real Estate and Business Brokers Act, 2002 was a highpoint in the list of accomplishments since RECO took on its mandate nine years ago.

RECO appreciates the strong working partnership that was built over the years with the Ministry of Government Services. The advantages of this relationship were evident in the productive consultations and discussions between RECO and the Ministry over the course of the year. We value the hard work and time spent by Ministry staff in making sure the real estate industry received legislation that meets the needs of the current marketplace.

While a large part of the year involved adapting to new or revised responsibilities and managing issues of change brought on by REBBA 2002, this has not been the only focus of Board efforts as other initiatives have also required our attention.

One project was the completion of the strategic planning process. The Board met with RECO management to discuss RECO's core purposes, find answers to issues of strategic importance and then determine strategic priorities for the coming years. The result was the creation of long-term goals that would bring both exclusive and mutual value to the public, registrants and government.

During last year's Annual General Meeting, RECO's Board of Directors made a commitment to establish a Commercial Real Estate Advisory Group (CREAG) to replace the Commercial "as of right" Director. The purpose of the CREAG is to provide advice to the Board on regulatory issues in the commercial real estate sector.

The Governance Committee was assigned the task of developing terms of reference, reviewing the possible composition of the CREAG and providing recommendations to the Board. As a result of the recommendations, the Board of Directors began a recruitment process to establish the CREAG. We anticipate that the CREAG will be established in the near future and that its first meeting will be held in early June 2006.

The Insurance Committee continued its review of the insurance program. The Committee is weighing such factors as stability, affordability, coverage and the insurance requirements of the new Act. The aim is to identify and evaluate options for maintaining a sound program that will meet our needs for years to come.

Overall, it was a year of significant accomplishments with new legislation undoubtedly the most notable. I would like to express my congratulations to RECO staff and Board of Directors for their hard work and dedication this past year. It has enabled us to achieve a seamless implementation of the new Act in conjunction with other RECO Board and staff responsibilities.

I also appreciate the continuing support and input of Ministry staff and industry stakeholders in improving Ontario's real estate regulatory framework. We have all worked long and hard and I am proud of the successful outcome of our joint efforts.

Sincerely,

Bruce Law

Bruce Law
Chair, Board of Directors

THE SUCCESSFUL IMPLEMENTATION OF THE REAL ESTATE AND BUSINESS BROKERS ACT, 2002 WAS A HIGHPOINT IN THE LIST OF ACCOMPLISHMENTS SINCE RECO TOOK ON ITS MANDATE NINE YEARS AGO.

A Year of Significant Accomplishments

Tom Wright
President/Chief Executive Officer

Tom Wright joined RECO as Registrar in 1997 and took over as President and CEO in January 2002. Prior to joining RECO, Tom was Information and Privacy Commissioner for the Province of Ontario from 1991 to 1997, heading the office responsible for ensuring that ministries and government agencies of the provincial government comply with Ontario's freedom of information and privacy laws. A graduate of Queen's Law School, Tom was called to the Ontario Bar in 1975 and practiced law for 10 years prior to joining the Ontario Public Service in 1985, where he held various legal positions before becoming Commissioner.

The 2005–2006 fiscal year will undoubtedly be remembered as the beginning of a new era in real estate regulation. The proclamation of the *Real Estate and Business Brokers Act, 2002* on March 31, 2006, marked the culmination of years of anticipating real estate act reform. Such an overhaul of real estate law had not occurred in Ontario since 1942. When it did finally come, we recognized that for registrants it was a once in a career event – literally.

While continuing to carry out the day-to-day activities of regulating Ontario's real estate industry, the successful implementation of REBBA 2002 became RECO's top operational priority.

In the five months from the time the regulations were released until REBBA 2002 was proclaimed, we focused on informing registrants about the new requirements, developing new publications, training staff and preparing the organization for the transition. During this time, RECO's Board of Directors, management and staff were also engaged in a learning process that will continue as new questions arise.

I believe RECO's single most significant accomplishment in 2005–2006 was the production of the *Introducing REBBA 2002* kit, which was delivered to every registrant. The comprehensive 300-plus-page *Guide to REBBA 2002* and the companion video presentation on CD-Rom, which highlights the key changes, have already proven to be an indispensable resource for information about the application of the Act and regulations.

As the industry's anticipation of REBBA 2002 grew, so did the number of requests for RECO to attend trade shows and provide up-to-date information.

Throughout the course of 2005–2006, we participated in more than thirty media and public education events, including real estate board trade shows and REBBA 2002 events.

While our top priority was preparing for the implementation of REBBA 2002, we continued to move forward efficiently with business as usual. The 2005–2006 year marked the introduction of RECO's Client Satisfaction Survey, which will be conducted every two years to fulfill a requirement of our Administrative Agreement with the Ministry of Government Services. The survey, which was conducted amongst both registrants and consumers, helped us assess our service delivery, identify areas for improvement, and implement changes to ensure that we continue to deliver quality services and information. The survey results clearly indicated that registrants and consumers believe all of RECO's programs and services are important and that RECO is meeting or exceeding their service expectations.

We were pleased to find that registrants valued the availability of information in several formats, particularly electronically. This feedback underscores the value of our e-mail updates, introduced this year, and the popular MyWeb extranet service for registrants. We now have more than 22,000 registrants using MyWeb and receiving news and updates by e-mail. Our website traffic in the past year more than doubled, in part due to our ability to notify registrants as new publications and information became available on the website.

The Board of Directors ensured that resources were allocated to achieve our goals, and provided the necessary support and direction. RECO's management team and staff worked hard to ensure that the transition to administering REBBA 2002 was a smooth one. Looking back at the past year, I am proud of what RECO has accomplished and thank each and every staff member for their dedication and contribution to making 2005–2006 an exceptional year.

Sincerely,

Tom Wright

Tom Wright
President/Chief Executive Officer

WHILE CONTINUING TO CARRY OUT THE DAY TO DAY ACTIVITIES OF REGULATING ONTARIO'S REAL ESTATE INDUSTRY, THE SUCCESSFUL IMPLEMENTATION OF REBBA 2002 BECAME RECO'S TOP OPERATIONAL PRIORITY.

Preparing Registrants for New Legislation

Allan Johnston
Registrar

Allan Johnston joined RECO in August of 1998 and became Registrar in 2002. Before joining RECO, he was involved in the real estate industry for 25 years. Allan has been a REALTOR, the Executive Officer of the Halifax/Dartmouth Real Estate Board and General Manager, Policy and Procedures Group with the Toronto Real Estate Board. He also served on two of RECO's Task Forces during 1997 and 1998, assisting in the development of RECO's Code of Ethics and the CCD process.

Prior to becoming involved in real estate, he held a number of management and executive positions in other industries in Canada after serving for 15 years in the Royal Air Force.

As described in the messages from both RECO's Chair and RECO's President, the bulk of RECO's activities during fiscal year 2005–2006, involved preparing for REBBA 2002.

Given the changes anticipated under the new Act, a significant amount of time was spent this past year preparing for the administration of the new Act and regulations, while continuing to meet our day-to-day responsibilities and maintain our normal service levels.

Staff training was an important step toward ensuring that RECO could respond accurately and efficiently to the questions of both consumers and registrants. The *Guide to REBBA 2002*, developed primarily as a resource for registrants, was also a useful resource for staff as they adapted to the changes.

Changes under REBBA 2002, particularly the Code of Ethics being a regulation rather than a RECO By-law, meant new processes and policies needed to be developed. The interpretation of new provisions was a priority in order to ensure that publications, particularly new Registrar's Bulletins, could be developed and made available to registrants. Assessing the impact of changes on day-to-day activities of registrants allowed us to initially focus on the areas we anticipated would generate the most questions.

The establishment of an "Ask the Registrar" e-mail address provided registrants with an opportunity to submit questions about the new requirements, both before and after the new Act came into effect. Monitoring these questions allowed RECO to develop a frequently asked questions section in its newsletter, and to identify specific areas where the application of new provisions, in actual practice, required additional direction and guidelines to be developed.

Some complex topics related to the application of provisions under REBBA 2002 have required careful consideration. We are continuing to address questions and concerns as they arise and expect education and awareness efforts to continue in the months ahead.

Needless to say, it has been a very busy year dealing with new issues and responsibilities related to legislative changes while maintaining our day-to-day activities.

In 2005–2006, the Office of the Registrar initiated 348 administrative regulatory actions, which include such actions as issuing a reprimand, sanctions or imposing terms and conditions on a registration.

The Registrar's Office issued 24 proposals to refuse or revoke registration. Of the proposals issued, 17 involved an allegation of mortgage fraud. While the incidents of mortgage fraud continue to increase in jurisdictions throughout North America, our position is clear – any registrant proven to have knowingly participated in mortgage fraud faces losing their registration.

Complete statistics on the activities of the Office of the Registrar can be found in the Performance Review section of this report.

I expect the coming year to be even busier, as we continue to effectively and efficiently administer REBBA 2002.

Sincerely,

Allan Johnston
Registrar

GIVEN THE CHANGES ANTICIPATED UNDER THE NEW ACT, A SIGNIFICANT AMOUNT OF TIME WAS SPENT THIS PAST YEAR PREPARING FOR THE ADMINISTRATION OF THE NEW ACT AND REGULATIONS, WHILE CONTINUING TO MEET OUR DAY-TO-DAY RESPONSIBILITIES AND MAINTAIN OUR NORMAL SERVICE LEVELS.

Report on Objectives

GOVERNANCE & ACCOUNTABILITY

Meet the obligations of the Governance Model	The Governance Committee was responsible for developing an evaluation process for the Board of Directors and Board Chair. Building on the Board meeting evaluation process established in 2004–2005, the Governance Committee recommended the adoption of a new review process following each Board meeting that would focus on the effective performance of the Directors collectively to achieve and/or meet its obligations. The Board has approved the revised evaluation, implementing the new form at its March 2006 meeting. During the past fiscal year, the Vice-Chair attended a symposium, for chief elected and chief staff officers, conducted by the Canadian Society of Association Executives. In addition, Directors attended the Ministry's Board Retreat for Administrative Authorities in October 2005.
Complete the Strategic Planning process initiated in 2005; amend business plan as required	The strategic planning process initiated in the previous fiscal year concluded in May 2005. The Board reviewed and formally approved the strategic plan at its September meeting. Priorities are aimed at creating value for the public, registrants and government. The business plan for fiscal 2006 to 2008 was developed based on the established priorities and published in August 2005.
Fulfill requirements of the Administrative Agreement with the Ministry of Government Services, providing input as needed	RECO conducted its first client satisfaction survey, seeking input from both consumers and registrants. Overall, the majority of registrants are satisfied or extremely satisfied with RECO's services and identify all of RECO's programs as important. Notably, registrants responded positively to questions regarding electronic communication and generally prefer e-mail notification over website, hard copy and other communication options. One of the registrant survey questions related to how registrants wanted to receive information about REBBA 2002. More than 70 percent of registrants supported the production of the Guide to REBBA 2002. RECO continued to work closely with Ministry staff during the past fiscal year to assist with finalizing the regulations, share information about initiatives and implementation of REBBA 2002, and ensure that reporting requirements were met.
Enhance nomination and election process	The review of the nomination and election process was not scheduled for fiscal 2005–2006. However, RECO notified registrants of the call for nominations using its new e-mail system, which appeared to result in increased number of candidates standing for election. In the previous year, only one candidate stood for election in each region. In fiscal 2005–2006, the western region elected a Director by acclamation, while elections were held in the central and eastern regions with a total of eight candidates standing for election. The recruitment for members to serve on RECO's new Commercial Real Estate Advisory Group was also successful. RECO received more than 60 applications from commercial

Enhance nomination and election process *(continued)*	practitioners. The recruitment process for members included an announcement using the new e-mail system.
Review, revise and approve strategic plans and operational budgets	The budget for fiscal 2005–2006 supported the strategic priorities established, such as registrant education and awareness related to the implementation of REBBA 2002. Funds were allocated to support the successful implementation of the new Act and related activities. The approval of the new strategic plan in fiscal 2005-2006 eliminated the need for review and revisions. New departmental reports, notably Communications and the Office of the Registrar, have been added to Board meetings to enhance performance monitoring in these areas. To further enhance planning and reporting, RECO's new organizational structure includes the addition of a Director of Corporate Services responsible for supporting the strategic planning process and ensuring the development of priority plans, performance measurements, management controls and critical success factors in each reporting department or service area for which he/she is responsible.

NEW LEGISLATION

Successful implementation of new legislation	REBBA 2002 came into effect on March 31, 2006. Following the release of the regulations in November 2005, RECO devoted its efforts to developing communications materials, revising existing publications, training staff and reviewing policies and procedures. Staff were provided with REBBA 2002 training sessions, covering the general regulations, the Code of Ethics and the new complaints process. Specific departmental needs were also addressed through information meetings and discussions. Special training sessions were developed for staff who have a direct role in the hearings process.
Work with Ministry to finalize draft regulations of the Act and align responsibilities for effective delivery	RECO continued to provide input and feedback to Ministry staff during the final phase of regulation development. RECO continues to work with Ministry staff on specific issues.
Develop and implement a strategic marketing communications plan on the new Act and regulations	The REBBA 2002 communications plan was approved by the Board of Directors at its September 2005 meeting. Registrant understanding and awareness of new legislative requirements was identified as a significant responsibility as well as an effective means of ensuring that consumers are protected. Significant resources were devoted to the development of new communications, including the comprehensive Guide to REBBA 2002 and the companion video presentation on CD-ROM highlighting key changes under REBBA 2002. These two pieces comprised the "Introducing REBBA 2002" kit for registrants. The kits were delivered to the more than 44,000 registered real estate brokers and salespersons in the province in March 2006. A searchable online version of the Guide is anticipated to be available on RECO's website in June 2006. Registrar's Bulletins, related to new legislative requirements were developed, and existing Bulletins were revised to ensure consistency with REBBA 2002. The REBBA 2002 section of the RECO website provided links to all new and revised publications, newsletters and a frequently asked questions section. The implementation of the "Ask the Registrar" e-mail address allowed RECO to identify common questions and address these questions in new and revised publications. Consumer awareness initiatives included the media attention resulting from the regulation announcement during the Ministry's Consumer Awareness Week in November 2005. RECO and the protections afforded by REBBA 2002 were mentioned in more than 30 news articles and nine media interviews during fiscal 2005-2006. Linked to the release of the regulations, RECO participated in the Ministry's Fraud Free Calendar 2006, which was distributed to more than 200,000 consumers in Ontario. A series of new consumer publications are to be developed in the coming fiscal year.

NEW LEGISLATION *(continued)*

Continue to examine organizational structure to effectively support the implementation of the new Act and regulations once proclaimed	RECO has made adjustments to its organizational structure that are intended to both meet the requirements of the new Act and ensure that operations remain efficient and effective. The new structure was reviewed and approved by the Board at its January 2006 meeting. The most significant change is the grouping of RECO's departments within two divisions: regulatory and corporate services. The Registrar assumes authority for regulatory departments and the new position of Director of Corporate Services will oversee departments such as Information Technology, Finance and Communications. REBBA 2002 authorized RECO to appoint a Deputy Registrar and this position was in place when REBBA 2002 came into effect on March 31, 2006. Other regulatory changes required under REBBA 2002 have already been completed. Adjustments to the Corporate Services Division of RECO will take place in the coming fiscal year. The new structure includes the addition of staff members over the next one to two years in areas where increased activity or higher demands for services necessitate the additional staff. Enhancing services for consumers and registrants was identified as a priority during the strategic planning process conducted in fiscal 2005–2006.
Review and revise forms	An inventory assessment of existing forms was conducted and all forms were revised to ensure they were consistent with REBBA 2002. On an ongoing basis, RECO will identify potential new forms, hard copy and/or electronic format, to enhance service delivery to both consumers and members.

COMMUNICATIONS & STAKEHOLDER RELATIONS

Increase brand recognition in the marketplace	RECO leveraged the partnership and marketing benefits of the Ministry's Consumer Awareness Week (November 2005), including an enhanced corporate profile, consumer messaging and collaborations with other industry stakeholders. Media messages served to further enhance RECO's image and increase consumer awareness.
Promote a better understanding of the real estate process, including respective rights and responsibilities	Based on results of the consumer component of the client satisfaction survey, RECO has identified several consumer information needs and the most desirable communication channels. Developing consumer-focused publications and website material is a key priority in the coming fiscal year. Input and feedback from consumers also allowed RECO to enhance its online presence through the addition of "key words" previously not identified as potential internet search terms.
Improve communications channels to distribute information in a timely manner	The most significant enhancement to RECO's information delivery was the implementation of an e-mail service for registrants who are signed up for MyWeb, RECO's extranet service. The ability to distribute announcements and information electronically ensures that registrants have timely and convenient access to the information they need. The e-mail notifications included announcements about new Registrar's Bulletins, special notices regarding the need to appoint a Broker of Record under REBBA 2002 and information about new advertising requirements under REBBA 2002. Enhancements to the website were also underway during fiscal 2005–2006 and are anticipated to be finalized and launched in June 2006. These enhancements include the full implementation of new public notice requirements and the addition of a consumer section to the RECO website.
Strengthen working relationship with the Ministry of Government Services (Sector Liaison and Communications)	RECO attended regular meetings with Ministry staff on key corporate initiatives, particularly those related to the rollout of REBBA 2002. These meetings were primarily for the purpose of information sharing, as well as identifying and/or clarifying roles and responsibilities.

Continue to work with the Ontario Real Estate Association (OREA) and its member boards	RECO participated in more than 20 real estate board/association events and trade shows throughout the province in fiscal 2005–2006. The majority of these related to the implementation of REBBA 2002 and provided RECO with an opportunity to increase registrant awareness of the impending changes. RECO continued to work with the OREA and its member boards and associations to ensure that registrant information needs were met. For example, the Guide to REBBA 2002 was provided to the OREA for delivery to all current and registering real estate students. RECO continued to participate in RECO/OREA liaison meetings to discuss issues, minimize the potential for overlap in communications related to REBBA 2002.
Continue to participate in the Canadian Regulators Group (CRG) and Association of Real Estate Licence Law Officials (ARELLO)	RECO was fortunate to be in located Toronto, which was the host city for ARELLO's 75th anniversary conference in September 2005. In 1929, a handful of real estate regulators gathered in Toronto to exchange information and facilitate cooperation among regulators and policy makers in the area of real property. As a result, ARELLO was formed in 1930. RECO's participation in the conference included several attendees at the event, as well as sponsorship of the ARELLO Awards Breakfast. RECO attended the CRG meeting held in Banff, Alberta in May 2005 and will be attending the next CRG meeting in Quebec City in June 2006.
French language services	French-speaking staff were available during regular business hours; responding in French to all communications received in French.

IMPROVE OPERATIONAL EFFICIENCY

Obtain additional office space	RECO acquired additional floor space adjacent to its existing facilities as a short-term means of accommodating space needs in fiscal 2005–2006. RECO is also conducting a facilities review to determine options, including rental and ownership, in advance of the expiry of its existing leases in December 2007.
Maintain brokerage inspection program	RECO continued its risk-based inspections program, conducted courtesy inspections of new brokerages and provided support to brokerages as it related to new legislative requirements.

EDUCATION

Implement recommendations to improve continuing education	The Education Committee, assisted by a consultant, analyzed feedback from the public consultation on proposed changes to the continuing education program. Based on this analysis, the Education Committee developed a report to the Board of Directors offering key recommendations for improvements. The report will be presented to the Board of Directors in the coming fiscal year. The Board will then provide the report along with its comments and suggestions to the Registrar, who assumed responsibility for continuing education under REBBA 2002.

INSURANCE

Provide a stable and affordable Insurance program that meets the requirements of the Act	The Insurance Committee continued its review of the Insurance Program, including long-term objectives and options. Following an analysis of all available options, the Committee has limited itself to a review of the most viable self-insurance alternatives and will engage in an in-depth analysis of the preferred options. Registrant insurance for the coverage period from September 2006 to September 2007 will continue to be provided by Lloyds through Aon, the insurance broker for the current program.

Performance Review 2005–2006

REGISTRATION

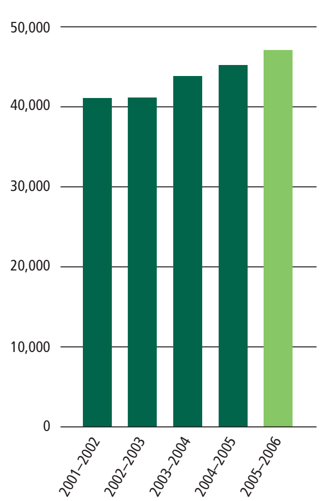
RECO's registration services include processing new business and individual broker/salesperson registrations, registration renewals and reinstatements, as well as maintaining the registrant database and executing the duties of the Registrar. The Registrar determines eligibility to trade in real estate based on Ontario's regulatory and legislative requirements.

As of March 31, 2006, 48,272 individuals and businesses were registered with RECO. This reflects a 5 percent increase from 45,882 in 2004–2005.

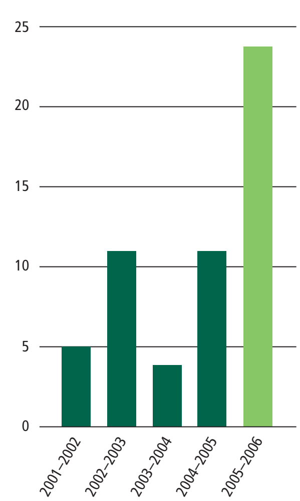
In 2005-2006, new registrations increased to 5,135 from 4,284 the previous year while renewals rose to 19,309 from 16,321. Registration staff processed a total of 37,409 transactions in 2005–2006 – a 2 percent increase from 36,756 in 2004–2005.

The Registrar has the authority to propose to refuse, revoke or refuse to renew registration where the applicant cannot reasonably be expected to conduct business in a financially prudent way or where past behaviour creates a reasonable apprehension that the applicant will not carry out their business with integrity and honesty.

TOTAL REGISTRANTS



REFUSALS AND REVOCATIONS



What Our Stakeholders Are Saying

"I am pleased that the rollout of the Real Estate and Business Brokers Act, 2002 was seamless. The information and communication about the changes to the legislation were easily accessible and clear.

I would like to thank the Chair, Board of Directors…and RECO staff for making the past year a historic one for real estate professionals and consumers across Ontario."

Honourable Minister Gerry Phillips
Minister of Government Services

In 2005–2006, the Registrar issued proposals to refuse or revoke 24 registrations compared with 20 the year before. 17 of the 24 proposals issued to refuse or revoke registration involved an allegation of mortgage fraud. RECO continues to take decisive action against mortgage fraud to safeguard the integrity of the real estate industry.

A registrant may appeal the Registrar's proposal to the Licence Appeal Tribunal (LAT). In 2005–2006, 10 LAT hearings were held compared to six LAT hearings in 2004–2005.

The Registrar also took administrative regulatory action against registrants, such as imposing terms and conditions or issuing a reprimand, in 348 cases.

EDUCATION

RECO's Continuing Education program helps to equip real estate brokers and salespersons in Ontario with the up-to-date skills and knowledge they require in their daily business, which in turn helps to ensure excellence in their service to clients and customers.

RECO's Continuing Education requirements apply to all registered real estate brokers and salespersons regardless of the length of time they have been trading in real estate. In order to renew their registration, all registrants must have fulfilled the requirements of RECO's Continuing Education program.

Registrants are required to complete a minimum of 24 Continuing Education credit hours each two-year cycle that they are registered. Each broker and salesperson must take a mandatory six-hour RECO Real Estate Update Course. The balance of the courses may be selected from a wide range of areas allowing registrants to tailor their education to areas of special interest.

In 2005–2006, RECO's Education Committee approved 17 new providers and 45 new courses.

Continuing Education Program Update

In March 2006, the review of the continuing education program, which began in 2004, took another step forward as the Education Committee received the consultant's final report. Based on this report, recommendations will be presented to the Board and will ultimately be considered by the Registrar who, under REBBA, now assumes authority for continuing education.

INSPECTIONS AND INVESTIGATIONS

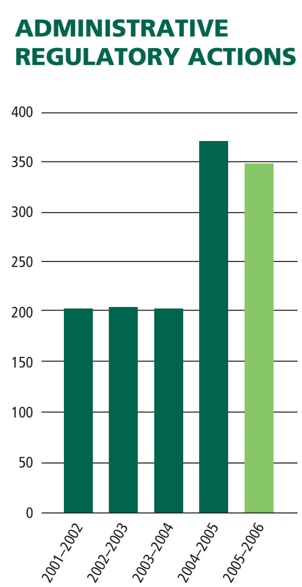
Inspections

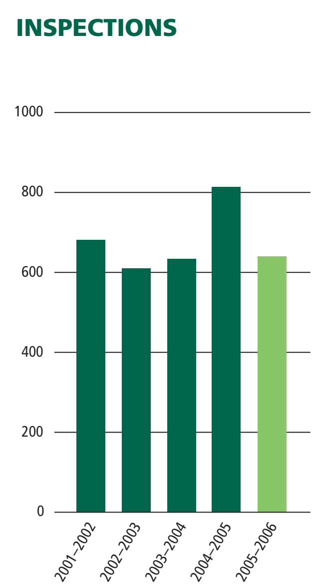
RECO's inspections program enables one-on-one contact between RECO inspectors and brokers and provides opportunities to educate brokers about maintaining current and appropriate records. RECO inspectors typically select brokers for inspection on a random basis and schedule an appointment to visit the brokerage office. When dictated by circumstances, such as a complaint, an inspection can be conducted without notice. Courtesy inspections are also offered to new brokerages to help them start out their business in compliance with regulatory requirements.

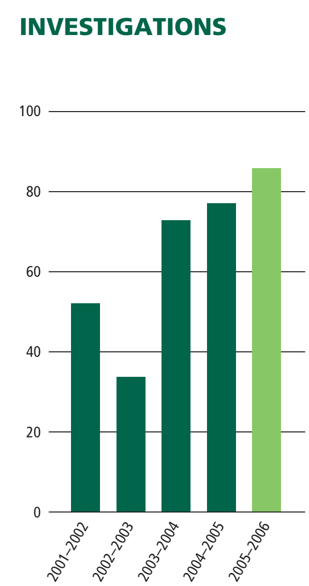
During brokerage inspection visits, inspectors examine records such as trust account documentation, trade contracts and trade record sheets. RECO conducted 638 inspections in 2005–2006.

Investigations

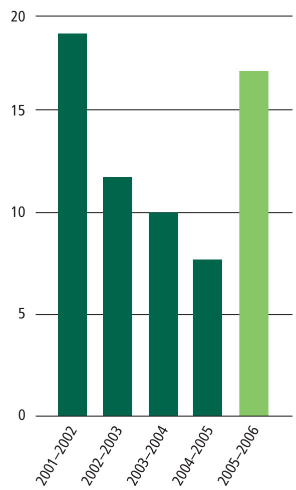
RECO investigates alleged violations of



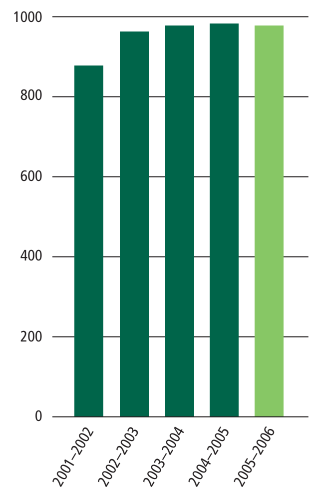




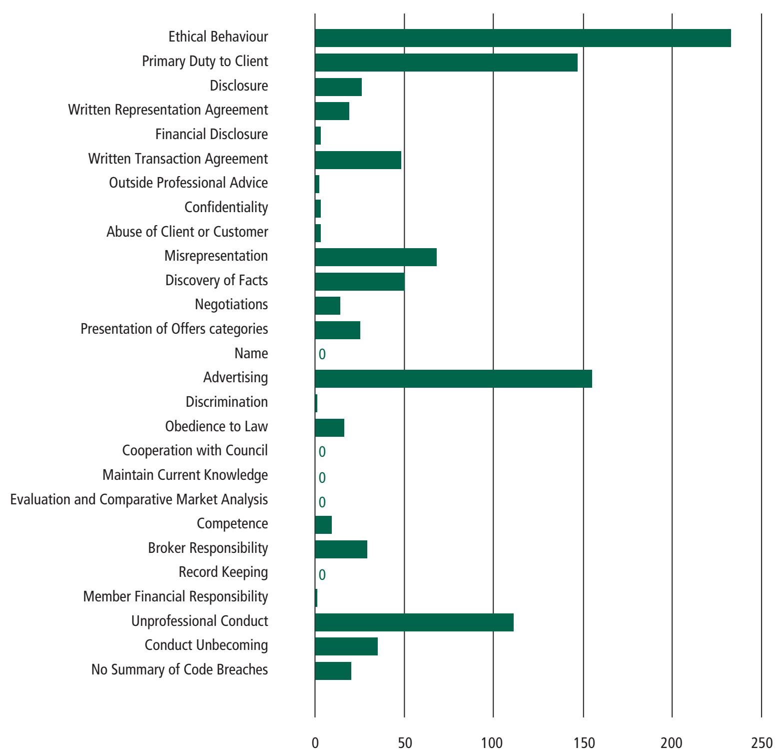
CONVICTIONS



COMPLAINTS



SUMMARY OF CODE VIOLATIONS 2005–2006



real estate legislation and regulations. The number of investigations in 2005–2006 increased to 86 from 77 in 2004–2005. This upward trend is the result of an increase in investigations related to trust account fraud. In some cases, RECO took action to protect consumers by freezing monies held in trust by the brokerages that were under investigation and issued public advisories.

RECO's investigative work led to 20 prosecutions in the Ontario Court of Justice resulting in a total of 18 convictions. The total of fines imposed was $145,930 compared to $95,300 in the previous year. Total fines vary from year to year depending on the number and severity of offences.

COMPLAINTS

The Code of Ethics sets out the minimum standards of conduct expected of RECO registrants. The Code covers such areas as Primary Duty to Client, Written Representation Agreement, Discovery of Facts, Disclosure and Advertising. Complaints involving a Code violation are handled through RECO's Complaints, Compliance and Discipline (CCD) process.

The top three Code breaches in 2005–2006 were Ethical Behaviour, Advertising and Primary Duty to Client. In 2005–2006, RECO received a total of 10,532 inquiries related to compliance and discipline. This 40 percent increase from the previous year resulted partly from RECO's efforts to educate and promote awareness among registrants about the anticipated changes under REBBA 2002. As a result, there was an increase in the number of registrants calling RECO to inquire about future compliance with regulatory requirements under REBBA 2002. Another portion of the increase is attributed to an increase in media exposure in the third quarter which generated an increase in consumer awareness and subsequent inquiries.

The number of written complaints remained relatively stable at 975 compared to 978 in 2004–2005.

A total of 855 complaints were resolved in 2005–2006. 28 percent of the complaints were resolved through administrative actions such as a written caution or a requirement to complete education courses, 3 percent led to personal interviews, 1 percent were referred to the Registrar for further action, 38 percent were dismissed by the Manager of CCD, 2 percent were closed because the complainant withdrew the complaint and 25 percent were closed because the complainant did not return a permission to share (attend as a witness) form. The remaining 2 percent were disposed by means of discipline decisions.

Thirty-nine complaints in 2005–2006 resulted in a formal disciplinary hearing and four of these cases were reviewed by the Appeals Committee. The number of hearings held in any given year depends on the nature of complaints received in that year.

CLAIMS STATISTICS

RECO's Insurance Program has accumulated claim results for 66 months. Since September 1, 2004 Lloyds of London has been RECO's primary insurer for all three coverages – errors and omissions, consumer deposit and commission protection.

A number of significant highlights over the last year gleaned from the data are reported below (as of February 28, 2006).

Consumer Deposit Insurance Policy

The Consumer Deposit coverage protects consumers from loss of deposits due to fraud, insolvency or misappropriation of funds. The number of claims reported remains low for this component of the program. The total cost of Consumer Deposit claims, both completed and in process, from the inception of the Program to February 28, 2006 is $1,107,630.[1]

Commission Protection Insurance Policy

The Commission Protection coverage protects registrants against loss of commissions as a result of fraud, insolvency or misappropriation of funds. The total cost of Commission Protection claims, both completed and in process, from the inception of the Program to February 28, 2006 is $947,526.

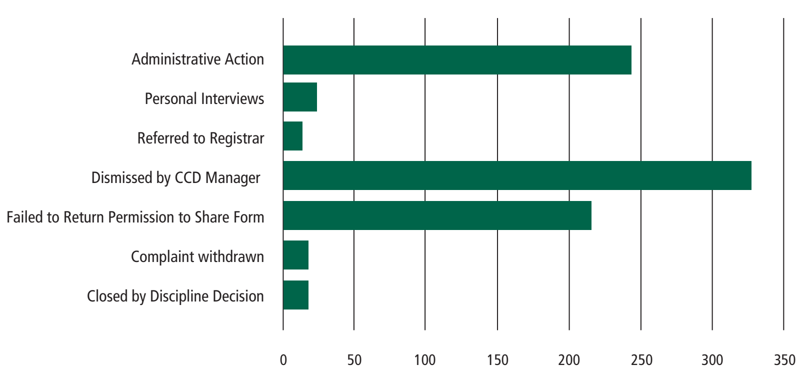
Errors & Omissions Insurance Policy

The Errors & Omissions coverage provides registrants with professional liability protection for errors and omissions committed in the course of their professional services. Since inception of the Program to February 28, 2006 a total of 2,913 claims have been reported, of which 1,972 claims have been completed and the files closed. There are 941 claims still open and being investigated or defended.

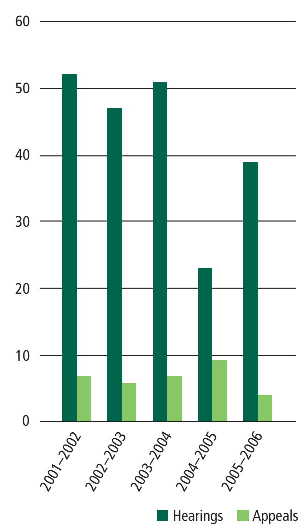
The total cost of Errors and Omissions claims, both completed and in process, from September 1, 2000 to February 28, 2006 was approximately $13,166,530 (including legal fees, adjusting fees and claim payments). Over this period, the average cost of a completed claim was $3,026 and the average cost of a claim in process was $7,657. These figures reflect a small increase in the average cost of

[1] Note: The total cost of claims (for errors and omissions, consumer deposit and commission protection) includes both paid and reserved amounts for the previous and current Program insurers.

BREAKDOWN OF RESOLVED COMPLAINTS



HEARINGS AND APPEALS



claims over last year (as of February 28, 2005) when the average cost was $2,823 for a completed claim and $6,108 for claims in process. Claims in process tend to be either more complex or of higher-value and as such require more investigation, are often in litigation and generally take longer to be completed.

There has been a significant increase in the number of "Non-Disclosure/ Miscommunication" claims which is the result of a change in the manner in which the new insurer classifies claims.

Learning from Loss Experience

Since September 2000 RECO has shared statistical summaries of claims loss information with OREA and RECO's Education Committee. As a result, the RECO Real Estate Update Course materials incorporate this information with a view to educating registrants on how to minimize or avoid errors and/or omissions which may result in claims.

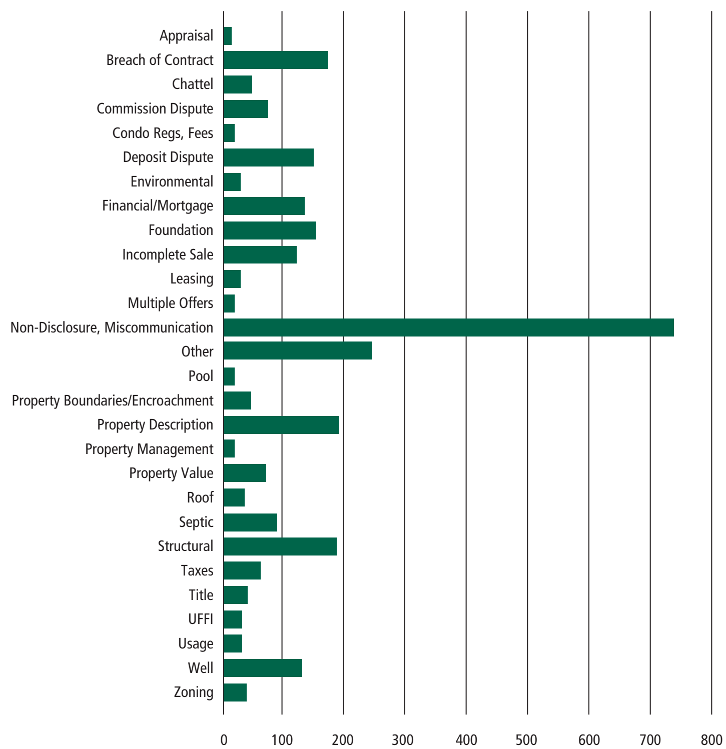
FINANCIAL REVIEW

This financial review is based on the audited financial statements for the year ended March 31 2006 and the comparative figures for the year ended March 31 2005.

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, fees related to the education nominee agreement with the Ontario Real Estate Association, cost recoveries and penalties assessed by the discipline committee 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.

ERRORS AND OMISSIONS CLAIMS: BY CAUSE OF LOSS
(Urban and Rural Claims – Sept. 1, 2000–Feb. 28, 2006)



GENERAL OPERATIONS

Revenues

Recognized registration revenues increased from $6,492,560 in fiscal 2005 to $6,830,016 in fiscal 2006 due to an increase of approximately 2,700 new registrations between December 2004 and March 2005. Other operating revenues increased to $1,175,600 in fiscal 2006 from $1,165,217 in fiscal 2005. Education revenues increased by $14,813; transfers increased by $32,150; CCD revenues decreased by $37,689 due to lower recoveries and penalties assessed by the disciplinary panels; and other miscellaneous revenues increased by $1,112. Interest earned increased to $189,964 in fiscal 2006, compared to $120,960 in fiscal 2005, as more funds were available for investment.

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 Administrative Agreement, and amortization. Total expenses increased in fiscal 2006 by $1,333,667 to $7,675,734 from $6,342,067 in the previous year. Operating departments were higher by $723,075; Board Committees and Task Forces were higher by $2,520; and other corporate expenses were higher by $608,072.

Increased expenses in operating departments and facilities were due to: $102,595 for the leasing of additional space and a favourable adjustment to realty taxes in 2005 not repeated in 2006; $141,475 for adjustments and additional staff in the legal department; $113,350 for adjustments and additional staff in the Communications and Corporate Initiatives department; $104,785 for higher credit card charges, higher document scanning costs, higher postage and other administrative costs. Increases in other operating departments are primarily due to adjustments to staffing costs. Increased expenses in other corporate expenses were due to: $550,470 in the communications-related activities related to the implementation of REBBA 2002 and other registrant communications; $30,394 for consumer-related publications offset by $42,231 in lower costs for website design and maintenance; $91,680 for amortization on leasehold improvements; $44,223 for additional participation in national and international regulators groups; and $32,011 in directors' and officers' liability insurance.

Net Income and Accumulated Fund Balance

Net income for the year was $520,446 compared to $1,436,670 in fiscal 2005. This income together with the increase in the fund balances invested in property, plant and equipment resulted in an increase in the accumulated fund balance from $774,821 in fiscal 2005 to $1,316,921.

Net Current Assets

Net current assets, excluding deferred revenue, were $8,501,792 at March 31, 2006 compared to $7,224,307 at March 31, 2005.

What Our Stakeholders Are Saying

"We applaud you for your efforts in the development of the "Introducing REBBA 2002 kit" project. This is an excellent tool to get the message to the industry members.

Al Jacobson
Saskatchewan Real Estate Commission

INSURANCE PROGRAM

Revenues

Premium revenues increased by $397,341 to $4,955,081 from $4,557,740 in 2005; Stabilization revenues increased by $317,148 to $1,340,980 from $1,023,832 in 2005; and administration revenues increased by $183,954 to $1,107,927,from $923,973 in 2005. These increases were due primarily to an increase in subscribers to the program. Interest was $71,209 higher in fiscal 2006 as more funds were available for investment.

Expenses

Premium expense was $383,622 higher than the $4,341,156 in fiscal 2005 due also to the increase in subscribers to the program. No expenses are charged to the stabilization fund. Expenses of the administration fund decreased from $1,056,701 in 2005 to $836,198 in 2006. Printing and other costs of $204,679 related to distribution of new insurance policies were not required in 2006, and legal and other consulting costs were reduced by $61,159; however, credit card discounts increased by $41,745 as greater numbers elected the on-line payment option; and systems support costs increased by $52,276.

Net Income and Accumulated Fund Balance

Net income for the premium fund for 2006 was $230,303 compared to $241,445 in 2005; $1,462,560 for the stabilization fund compared to $1,098,414 in 2005; and $334,361 compared to a loss of $119,168 for the administration fund in 2005. Interest of $400,677 earned in prior years on the premium fund was transferred from the accumulated premium fund to the accumulated insurance administration fund. At March 31, 2006, the accumulated fund balances were: $925,270 in the premium fund; $5,112,841 in the stabilization fund; $854,499 in the insurance administration fund.

Net Current Assets

Net current assets, excluding deferred revenues and prepaid insurance premiums were $8,059,399 at March 31, 2006 compared to $5,950,505 at March 31, 2005.

Financial Statements March 31, 2006

AUDITORS' REPORT

April 28, 2006

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, 2006 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, 2006 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
Toronto, Ontario

BALANCE SHEET As at March 31, 2006

	OPERATIONS FUND		INSURANCE TRUST FUNDS		TOTAL	
	2006	2005	**2006**	2005	**2006**	2005
	$	$	**$**	$	**$**	$
ASSETS						
Current assets						
Cash	**256,258**	300,969	**109,412**	62,121	**365,670**	363,090
Short-term investments	**8,671,514**	7,017,304	**7,923,612**	5,864,988	**16,595,126**	12,882,292
Accounts receivable	**226,853**	275,745	**1,520**	44,504	**228,373**	320,249
Prepaid insurance premiums	**-**	-	**2,097,217**	1,788,675	**2,097,217**	1,788,675
Deposits and prepaid expenses	**127,331**	115,511	**105,417**	105,417	**232,748**	220,928
Goods and Services Tax recoverable	**-**	-	**4,780**	19,223	**4,780**	19,223
	9,281,956	7,709,529	**10,241,958**	7,884,928	**19,523,914**	15,594,457
Property, plant and equipment (note 2)	**488,446**	510,100	**-**	-	**488,446**	510,100
	9,770,402	8,219,629	**10,241,958**	7,884,928	**20,012,360**	16,104,557
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	**600,164**	265,222	**82,929**	142,794	**683,093**	408,016
Government fee payable (note 5)	**180,000**	220,000	**-**	-	**180,000**	220,000
Provincial sales tax payable	**-**	-	**2,413**	2,954	**2,413**	2,954
Deferred registration revenue (note 3(a))	**5,369,721**	4,859,717	**-**	-	**5,369,721**	4,859,717
Deferred insurance premiums (note 3(b))	**-**	-	**2,210,987**	1,888,327	**2,210,987**	1,888,327
Deferred insurance stabilization (note 3(b))	**-**	-	**576,786**	539,388	**576,786**	539,388
Deferred insurance administration (note 3(b))	**-**	-	**476,233**	446,079	**476,233**	446,079
	6,149,885	5,344,939	**3,349,348**	3,019,542	**9,499,233**	8,364,481
Deferred registration revenue (note 3(a))	**1,815,150**	1,589,769	**-**	-	**1,815,150**	1,589,769
	7,965,035	6,934,708	**3,349,348**	3,019,542	**11,314,383**	9,954,250
ACCUMULATED FUND BALANCES						
Investment in property, plant and equipment (note 2)	**488,446**	510,100	**-**	-	**488,446**	510,100
Restricted						
Insurance Premium Fund (schedule II)	**-**	-	**925,270**	1,095,644	**925,270**	1,095,644
Premium Stabilization Fund (schedule II)	**-**	-	**5,112,841**	3,650,281	**5,112,841**	3,650,281
Insurance Administration Fund (schedule II)	**-**	-	**854,499**	119,461	**854,499**	119,461
Unrestricted	**1,316,921**	774,821	**-**	-	**1,316,921**	774,821
	1,805,367	1,284,921	**6,892,610**	4,865,386	**8,697,977**	6,150,307
	9,770,402	8,219,629	**10,241,958**	7,884,928	**20,012,360**	16,104,557

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, 2006

	OPERATIONS FUND		INSURANCE TRUST FUNDS		TOTAL	
	2006	2005	**2006**	2005	**2006**	2005
	$	$	**$**	$	**$**	$
Revenues and Insurance Trust Funds receipts						
Registration Fees (note 3)	**6,830,616**	6,492,560	**-**	-	**6,830,616**	6,492,560
Insurance Premium Fees (note 3)	**-**	-	**4,955,081**	4,557,740	**4,955,081**	4,557,740
Premium Stabilization Fees (note 3)	**-**	-	**1,340,980**	1,023,832	**1,340,980**	1,023,832
Insurance Administration Fees (note 3)	**-**	-	**1,107,927**	923,973	**1,107,927**	923,973
Other income	**1,175,600**	1,165,217	**-**	-	**1,175,600**	1,165,217
	8,006,216	7,657,777	**7,403,988**	6,505,545	**15,410,204**	14,163,322
Expenses and expenditures						
Council expenditures (schedules I and II)	**7,675,734**	6,342,067	**5,560,976**	5,397,857	**13,236,710**	11,739,924
Operating income before interest income	**330,482**	1,315,710	**1,843,012**	1,107,688	**2,173,494**	2,423,398
Interest income	**189,964**	120,960	**184,212**	113,003	**374,176**	233,963
Net income for the year	**520,446**	1,436,670	**2,027,224**	1,220,691	**2,547,670**	2,657,361
Opening accumulated fund balances	**774,821**	(614,641)	**4,865,386**	3,644,695	**5,640,207**	3,030,054
Fund balances invested in property, plant and equipment (note 2)	**21,654**	(47,208)	**-**	-	**21,654**	(47,208)
Ending accumulated fund balances	**1,316,921**	774,821	**6,892,610**	4,865,386	**8,209,531**	5,640,207

STATEMENT OF CASH FLOWS For the year ended March 31, 2006

	OPERATIONS FUND		INSURANCE TRUST FUNDS		TOTAL	
	2006	2005	**2006**	2005	**2006**	2005
	$	$	**$**	$	**$**	$
CASH PROVIDED BY (USED IN)						
Operating activities						
Net income for the year	**520,446**	1,436,670	**2,027,224**	1,220,691	**2,547,670**	2,657,361
Items not affecting cash						
Loss on obsolete software	**-**	41,583	**-**	-	**-**	41,583
Amortization	**335,457**	243,777	**-**	-	**335,457**	243,777
	855,903	1,722,030	**2,027,224**	1,220,691	**2,883,127**	2,942,721
Non-cash working capital items related to operations						
Short-term investments	**(1,654,210)**	(1,402,788)	**(2,058,624)**	(1,814,988)	**(3,712,834)**	(3,217,776)
Accounts receivable	**48,892**	(22,960)	**42,984**	6,223	**91,876**	(16,737)
Prepaid insurance premiums	**-**	-	**(308,542)**	48,307	**(308,542)**	48,307
Deposits and prepaid expenses	**(11,820)**	74,266	**-**	(12,084)	**(11,820)**	62,182
Deferred insurance expense	**-**	-	**-**	-	**-**	-
Goods and Services Tax recoverable	**-**	-	**14,443**	16,014	**14,443**	16,014
Deferred government fee	**-**	-	**-**	-	**-**	-
Accounts payable and accrued liabilities	**334,942**	17,344	**(59,865)**	87,482	**275,077**	104,826
Government fee payable	**(40,000)**	-	**-**	-	**(40,000)**	-
Provincial sales tax payable	**-**	-	**(541)**	(905)	**(541)**	(905)
Insurance premiums payable	**-**	-	**-**	-	**-**	-
Deferred registration revenue	**735,385**	52,040	**-**	-	**735,385**	52,040
Deferred insurance premiums	**-**	-	**322,660**	(47,823)	**322,660**	(47,823)
Deferred insurance stabilization	**-**	-	**37,398**	256,841	**37,398**	256,841
Deferred insurance administration	**-**	-	**30,154**	135,582	**30,154**	135,582
	(586,811)	(1,282,098)	**(1,979,933)**	(1,325,351)	**(2,566,744)**	(2,607,449)
	269,092	439,932	**47,291**	(104,660)	**316,383**	335,272
Investing activities						
Purchase of property, plant and equipment	**(313,803)**	(332,568)	**-**	-	**(313,803)**	(332,568)
Increase (decrease) in cash during the year	**(44,711)**	107,364	**47,291**	(104,660)	**2,580**	2,704
Cash – Beginning of year	**300,969**	193,605	**62,121**	166,781	**363,090**	360,386
Cash – End of year	**256,258**	300,969	**109,412**	62,121	**365,670**	363,090

NOTES TO FINANCIAL STATEMENTS March 31, 2006

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 Government Services (MGS) (previously the Ministry of Consumer and Business Services) 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. On March 31, 2006, the Real Estate and Business Brokers Act, 2002 (REBBA 2002) was proclaimed.

The insurance program is a compulsory program to provide compulsory consumer deposit insurance, compulsory errors and 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. Effective March 31, 2006, the requirements for insurance are designated in the regulations of REBBA 2002.

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 each year.

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 program.

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 real estate broker and a real estate brokerage 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	over the term of the lease

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 and accounts payable and accrued liabilities approximates their fair values because of their short-term nature and maturities.

2 PROPERTY, PLANT AND EQUIPMENT

			2006
	Cost $	Accumulated amortization $	Net $
Computer equipment and software	1,336,341	1,114,155	222,186
Office furniture and equipment	821,697	668,191	153,506
Leasehold improvements	366,706	253,952	112,754
	2,524,744	2,036,298	488,446

			2005
	Cost $	Accumulated amortization $	Net $
Computer equipment and software	1,193,218	945,761	247,457
Office furniture and equipment	717,655	606,898	110,757
Leasehold improvements	300,068	148,182	151,886
	2,210,941	1,700,841	510,100

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

	$
Invested in property, plant and equipment – Beginning of year	510,100
Additions during the year	313,803
Amortization charge for the year	335,457
Invested in property, plant and equipment – End of year	488,446

3 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	6,449,486
Registration fees received in fiscal 2006	7,566,001
Less: Amounts recognized as revenue in the year	(6,830,616)
Ending balance	7,184,871
Amounts to be recognized as revenue in fiscal 2007	5,369,721
Amounts to be recognized as revenue in fiscal 2008	1,815,150
	7,184,871

b) Insurance Trust Funds

	Insurance Premium Fund $	Premium Stabilization Fund $	Insurance Administration Fund $	Total $
Opening balance	1,888,327	539,388	446,079	2,873,794
Insurance payments received in fiscal 2006	5,277,741	1,378,378	1,138,081	7,794,200
Less: Amounts recognized as revenue in the year	(4,955,081)	(1,340,980)	(1,107,927)	(7,403,988)
Ending balance	2,210,987	576,786	476,233	3,264,006
Amounts to be recognized as revenue in fiscal 2007	2,210,987	576,786	476,233	3,264,006

4 INTERFUND TRANSFER

During the year, the Board of Directors approved the transfer of the accumulated interest in the Insurance Premium Fund amounting to $400,677 to the Insurance Administration Fund and to the allocation of interest earned in future to the Premium Stabilization and Insurance Administration Funds only. This interest will be used in the Insurance Administration Fund to offset increasing credit card discounts and other insurance administration costs.

5 MINISTRY OF GOVERNMENT SERVICES

An Administrative Agreement was entered into with the Ministry of Consumer and Business Services. The services of this ministry are now under the Ministry of Government Services (MGS). Under this agreement, the maximum fee payable will not exceed $220,000 per year. Amounts payable under the agreement are recognized in the year incurred. MGS provided certain administrative services during fiscal 2006 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:

	$
2007	368,759
2008	284,517
2009	28,955
2010	23,823
2011	15,522
	721,576

7 FUNDS HELD IN TRUST

The Council holds in trust consumer deposits transferred by brokers as dormant trust funds. At March 31, 2006, these deposits, together with accumulated interest, amounted to $248,546 (2005 – $227,548). 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.

9 COMPARATIVE FIGURES

Certain of the comparative figures have been restated to conform to the current year's financial statement presentation.

SCHEDULE OF COUNCIL EXPENDITURES For the year ended March 31, 2006

	2006	2005
	$	$
OPERATING EXPENSES		
Facilities costs	**883,379**	780,784
Registration department	**797,994**	738,754
Administrative support services	**679,299**	574,514
Inspections and investigations	**618,733**	565,762
Information technology	**320,455**	271,571
Complaints department	**501,702**	459,821
Legal department	**584,973**	443,498
President and Chief Executive Officer	**332,630**	301,455
Communications department	**297,764**	184,414
Office of the Registrar	**153,607**	129,434
MGS service charges (note 5)	**92,539**	89,993
	5,263,075	4,540,000
BOARD OF DIRECTORS AND TASK FORCES		
Board of Directors per diems	**70,236**	70,982
Board of Directors travel and meeting costs	**51,645**	42,156
Nominee Working Group	**1,725**	-
Agency Task Force Working Group	**1,506**	-
Real Estate Act Task Force	**1,075**	8,416
Education Committee	**33,800**	31,784
Governance Committee	**6,172**	7,051
By-law Committee	**64**	6,099
Audit Committee	**-**	849
Finance Committee	**3,634**	-
	169,857	167,337
OTHER CORPORATE		
Amortization	**335,457**	243,777
Communications	**889,373**	349,866
Government fee (note 5)	**179,363**	211,712
Disciplinary activities	**76,969**	85,531
Legal and consulting	**355,889**	364,463
Directors' and officers' liability insurance	**187,637**	155,626
Annual general meeting	**58,161**	62,451
Loss on obsolete software	**-**	41,583
Strategic planning	**41,768**	38,579
Elections	**13,257**	29,902
Consumer advisory group	**15,413**	4,335
Audit fees	**31,557**	33,170
Canadian Regulators' Group	**57,958**	13,735
	2,242,802	1,634,730
	7,675,734	6,342,067

SCHEDULE OF FUND BALANCES For the year ended March 31, 2006

	Insurance Premium Fund $	Premium Stabilization Fund $	Insurance Administration Fund $	2006 Total $	2005 Total $
INSURANCE FUNDS					
Insurance funds recognized	**4,955,081**	**1,340,980**	**1,107,927**	**7,403,988**	6,505,545
Interest earned	**-**	**121,580**	**62,632**	**184,212**	113,003
	4,955,081	**1,462,560**	**1,170,559**	**7,588,200**	6,618,548
EXPENDITURES					
Brokerage fees	**-**	**-**	**253,000**	**253,000**	240,917
Actuarial fees	**-**	**-**	**189,813**	**189,813**	158,407
Provincial sales tax	**-**	**-**	**(54,189)**	**(54,189)**	-
Legal and audit	**-**	**-**	**29,355**	**29,355**	121,920
Insurance staffing	**-**	**-**	**73,497**	**73,497**	74,632
Insurance committee	**-**	**-**	**10,467**	**10,467**	13,164
Bank charges and other miscellaneous	**-**	**-**	**(699)**	**(699)**	682
Stabilization committee	**-**	**-**	**833**	**833**	2,800
Printing costs	**-**	**-**	**24,175**	**24,175**	75,072
Credit card discounts	**-**	**-**	**142,138**	**142,138**	100,393
Processing and mailing costs	**-**	**-**	**87,899**	**87,899**	241,081
System support	**-**	**-**	**79,909**	**79,909**	27,633
Insurance	**4,724,778**	**-**	**-**	**4,724,778**	4,341,156
	4,724,778	**-**	**836,198**	**5,560,976**	5,397,857
NET INCOME FOR THE YEAR	**230,303**	**1,462,560**	**334,361**	**2,027,224**	1,220,691
OPENING ACCUMULATED FUND BALANCES	**1,095,644**	**3,650,281**	**119,461**	**4,865,386**	3,644,695
INTERFUND TRANSFER (note 4)	**(400,677)**	**-**	**400,677**	**-**	-
ENDING ACCUMULATED FUND BALANCES	**925,270**	**5,112,841**	**854,499**	**6,892,610**	4,865,386

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

Deputy Registrar

As delegated by the Registrar, the Deputy Registrar provides leadership and fair-mindedness in the administration of the Real Estate and Business Brokers Act, 2002 and ensure the highest possible level of consumer protection and knowledge in the operation of the real estate brokerage industry in Ontario. Under the direction of the Registrar, the Deputy Registrar assists in the managing of the enforcement and administration of REBBA 2002, exercising the authority provided for by REBBA 2002.

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 investigations 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 President/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.

ELECTED REPRESENTATIVES

BRUCE S. LAW SIOR,CCIM
Chair
Broker
J.J. Barnicke Limited
Burlington

JOE O. PINHEIRO
Vice-Chair
Broker/Owner
Pinheiro Realty & Ins. Ltd.
London

THOMAS W. BOSLEY
FRI, CRB
Broker/Owner
Bosley Real Estate Ltd.
Toronto

LYNN CRAIGMYLE
Broker/Manager
Bowes & Cocks Limited,
Haliburton

RICK KOLARI
Broker
NBR R.A. Kolari Realty Inc.
Sudbury

CYNTHIA LAI FRI
Broker
Visar Realty Inc.
Toronto

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

BRIAN C. SUKKAU
FRI, CMR, CRB
Associate Broker
Royal LePage Niagara Real Estate Centre Inc.
St. Catharines

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

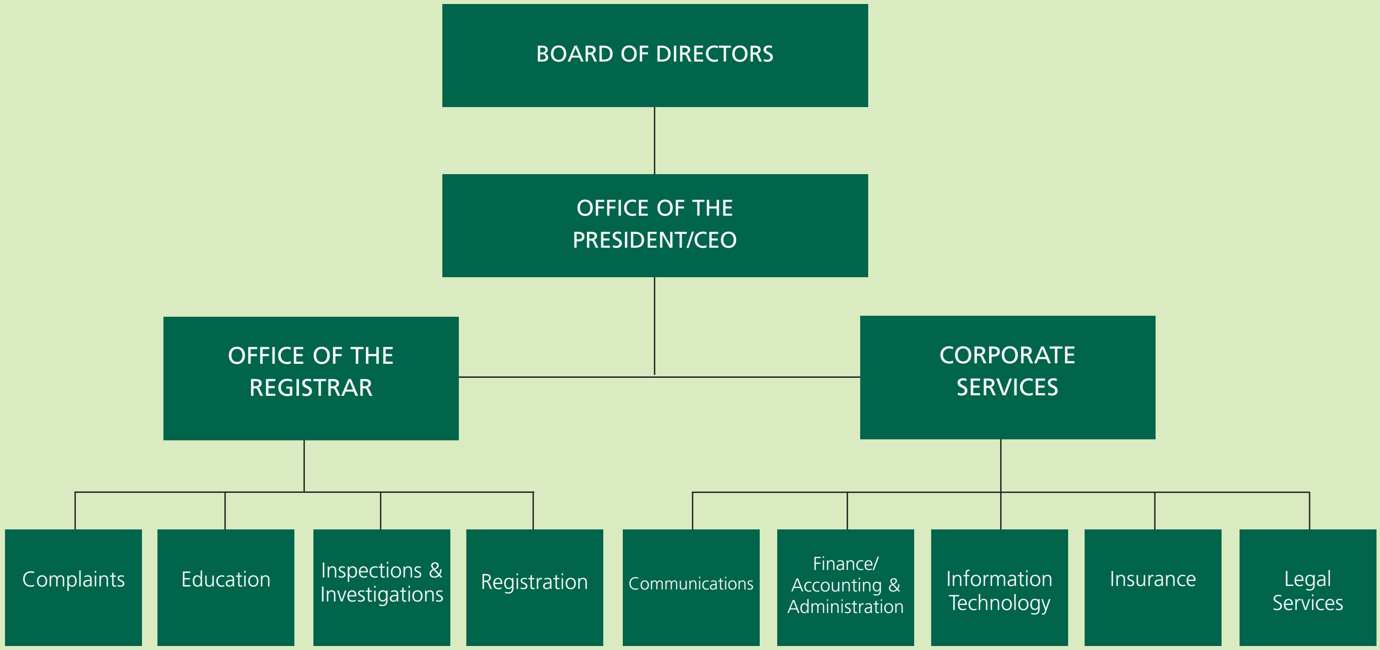
MINISTERIAL APPOINTEES

LAWRENCE BREMNER
Associate
Gowling Lafleur Henderson LLP
Hamilton

BOB DUNLOP
President
Carson, Dunlop & Associates
Toronto

MARY SHENSTONE
Executive Lead – Agencies, Boards and Commissions Project
Ministry of Government Services Toronto

ORGANIZATIONAL CHART



RECO's programs and services are delivered through the structure outlined in the Organizational Chart above.

RECO is committed to working with consumers, registrants and government to maximize the value of regulation through:

Registration – Enforcing the standards required to obtain and maintain registration under REBBA 2002

Education – Establishing the minimum requirements for pre-registration, registration-related and continuing education programs

Brokerage Office Inspections – Conducting more than 600 routine, random and courtesy inspections of brokerage offices each year, to ensure compliance with REBBA 2002 and educate brokers

Complaints & Investigations – Addressing concerns and complaints about the conduct of registrants received from all sources and taking appropriate regulatory action to protect the public interest

Code of Ethics – Enforcing the Code of Ethics, a regulation under REBBA 2002, which defines the conduct expected of registrants and the principles upon which they must do business in Ontario

Insurance – Establishing and administering insurance requirements, which include consumer deposit protection paid for by real estate brokers and salespersons.

CORPORATE PROFILE

CORE PURPOSE

To foster confidence and integrity in real estate transactions

MISSION

To regulate the activity of trading in real estate in the public interest

RESPONSIBILITY

Interpret, enforce and suggest modifications to regulations.

RELATIONSHIP

RECO has an exclusive contract with the government to administer the Act and must perform in a manner consistent with the government's expectations and the terms of the Administrative Agreement.

CORE VALUES

RECO is dedicated to organizational behaviour characterized by:

Integrity: Be truthful and trustworthy
Accountability: Administer the Act competently in accordance with law
Fairness: Act impartially and equitably
Respect: Treat all with courtesy

The Real Estate and Business Brokers Act, 2002 (REBBA 2002) was proclaimed on March 31, 2006. The Real Estate Council of Ontario (RECO) is responsible for administering the REBBA 2002 and associated regulations on behalf of the Ontario Ministry of Government Services. RECO regulates the activity of trading in real estate in the public interest.

Under the Act, it is required that a person be registered with RECO in order to trade in real estate in Ontario.

RECO as a not-for-profit organization comprises two distinct categories: Corporate Services and the Office of the Registrar. General operating receipts are derived primarily from registration fees required under the Act. 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 Committee and miscellaneous revenues. Any excess revenue is invested to enhance programs and services. Insurance receipts are comprised of premiums, premium stabilization amounts and administration fees. All receipts related to the Insurance Program are required to be held in trust and segregated from general operating funds into these three trust categories.

As of March 31, 2006, RECO had 60 employees.

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