Homeowner Protection Office

31 March 2006

Financial Report

New homes enrolled in warranty insurance continued upward with a significant increase in the enrollment of new multi-family residential units.

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The B.C. housing market in which the HPO operated remained strong throughout the year.

Management Discussion and Analysis

Overview

Revenues collected from residential builder license fees provide the funding for the Homeowner Protection Office's (HPO) programs with the exception of the Reconstruction Loan Program and the PST (Provincial Sales Tax) Relief Grant Program. The Reconstruction Loan Program is funded by a reconstruction levy on new residential units in multi-unit buildings constructed in the coastal climate zone. When demand for financial assistance is greater than the revenues collected from the reconstruction levy, the HPO receives bridge financing from the Province of British Columbia. The HPO is required to repay these borrowings over time. The PST Relief Grant Program is administered by the HPO on behalf of the Province of British Columbia and the Province funds all expenditures under this program.

The B.C. housing market in which the HPO operates remained strong throughout the year. New homes enrolled in warranty insurance continued upward with a significant increase in the enrollment of new, multi-family residential units. The number of licensed builders rose slightly over the same time period from last year. The demand for financial assistance decreased over last year; however, the average value of repair loans rose significantly as a result of rising costs in the residential construction sector, owner delays in repairs resulting in additional damage and the expected higher proportion of loans involving high-rise remediation. These factors resulted in an increase in both revenues and expenditures.

Net Operating Results

Net income was up $3.1 million from a net income of $4 million in 2004/05 to $7.1 million in 2005/06. While revenues increased $3.7 million from $24.9 million in 2004/05 to $28.6 million in 2005/06, expenditures rose modestly, up $0.5 million from $20.9 million in 2004/05 to $21.4 million in 2005/06. This rise in expenditures was moderated by a reduction in the loan loss provision in the amount of $1.2 million. Although most expenditure categories experienced increases due to increased demand for services, expenditures on reconstruction loan grants experienced a significant rise as a result of the rising cost of repairs. The actual net income is substantially higher than the budget net income due to a stronger housing market than anticipated. (See table below showing the changes in net operating results.)

	Net Operating Results										
	Actual 2005/2006 ($000's)	Actual % change to actual over last year	**Budget 2005/2006 ($000's)**	Actual % to Budget 2005/2006	**2004/2005 ($000's)**	Actual % change to actual over last year	**2003/2004 ($000's)**	Actual % change to actual over last year	**2002/2003 ($000's)**	Actual % change to actual over last year	**2001/2002 ($000's)**
Revenues	**28,569**	14.6	**27,138**	5.3	**24,940**	2.5	**24,339**	3.8	**23,444**	23.3	**19,016**
Expenditures	**21,440**	2.8	**24,596**	(12.8)	**20,864**	5.9	**19,702**	(1.1)	**19,917**	2.1	**19,499**
Net income (loss)	**7,129**	74.9	**2,542**	180.4	**4,076**	(12.1)	**4,637**	31.5	**3,527**	830.2	**(483)**

Management Discussion and Analysis cont'd

General Operating Program Results

Research and Education, and Licensing programs are funded by residential builder license fees.

Expenditures on industry research and education, and consumer information are close to last year's expenditures at $0.5 million. Revenues from license fees rose significantly, up $0.4 million in 2005/06 to $3.5 million from $3.1 million in 2004/05 as a result of a continued strong housing market. Expenditures on licensing and compliance activities increased $0.4 million to $2.2 million in 2005/06, up from $1.8 million in 2004/05. Increased expenditures were mainly attributable to increased staffing costs to process an increased volume of license applications and owner-builder exemption applications. Additional expenditures in the 2005/06 year were also incurred as a result of conducting public consultation and industry collaboration on the HPO's "Raising the Bar" initiative.

Financial Assistance Program Results

The HPO provides financial assistance through its Reconstruction Loan Program and administers the PST (Provincial Sales Tax) Relief Grant Program.

PST Relief Grant Program

The PST Relief Grant Program provides a rebate on completed building envelope renovations and is available to owners of condominiums, townhouses, detached homes and housing co-operatives. This program is administered on behalf of the Province of British Columbia. PST Relief Grant payments are down from $3.3 million in 2004/05 to $2.9 million in 2005/06. The PST Relief Grant Program experiences fluctuations in the total value of grant payments as payments are made upon completion of eligible repairs subject to advance approval of the grant application. As grant applications may be submitted at any time, increases (decreases) may not necessarily indicate a trend. (See table below showing the changes in the value of PST Relief Grant payments.)

	Value of PST Relief Grant Payments								
	2005/2006 ($000's)	% Change over last year	**2004/2005 ($000's)**	% Change over last year	**2003/2004 ($000's)**	% Change over last year	**2002/2003 ($000's)**	% Change over last year	**2001/2002 ($000's)**
Grant payments	**2,874**	(12.1)	**3,271**	30.8	**2,501**	(19.5)	**3,107**	42.4	**2,182**

Reconstruction Loan Program

The HPO continues to provide financial assistance to all eligible homeowners to meet the demand as homeowners repair leaky units. Although the demand for financial assistance continues, a decline in the number of approved loans of 25% over last year, excluding housing co-operative repair loans, was experienced. A downward trend in the demand for financial assistance is being experienced in all loan categories and may be influenced by the rising repair costs and the decisions of homeowners to delay repairs. The fluctuations in the number of loans issued occur normally due to the timing of when strata councils approve the repair costs. It is anticipated that a spike in loans may occur if repair costs

Management Discussion and Analysis cont'd

stabilize or the urgency for the repairs override the desire to delay repairs. The number of housing co-operative repair loans approved as expressed in units decreased when compared to last year, mainly due to the cancellation of one 61-unit repair project by CMHC even given the possible repair and accessible reconstruction loan. This category of repair loans experiences a high degree of swings in the number of approved repair loans due to a variety of factors including long lead times before reconstruction begins. (See table below showing the changes in the annual number of approved loans expressed in units.)

	Number of Approved Reconstruction Loans (expressed in units)								
	2005/2006	% Change over last year	2004/2005	% Change over last year	2003/2004	% Change over last year	2002/2003	% Change over last year	2001/2002
HPO mortgages and deferred payment loans	**411**	3.0	**399**	3.9	**384**	(28.8)	**539**	10.5	**488**
Financial institutions no-interest loans	**423**	(40.7)	**713**	4.4	**683**	(36.6)	**1,077**	(1.7)	**1,096**
Total HPO & financial institutions loans	**834**	(25.0)	**1,112**	4.2	**1,067**	(34.0)	**1,616**	2.0	**1,584**
Total co-op repair loans administered by CMHC	**100**	(57.8)	**237**	(64.5)	**667**	373.0	**141**	(66.3)	**419**

The average value of the issued loan amounts continued an upward trend that resulted in an increase in expenditures in the Reconstruction Loan Program. For example, the average reconstruction loan for all three categories in the table below rose 20% from last year's average, which experienced an average 16% rise in 2004/2005. The average value per unit of issued reconstruction loans is now $54,000 versus $45,000 in 2004/2005, up significantly from $39,000 in 2003/04. The per unit value of approved housing co-operative repair loans also increased 10.9% over last year's cumulative average loan amount of $56,173 to $62,300 due to the continued rising repair costs. This trend is due to a multitude of factors including the continued rising repair costs associated with labour and materials. (See table below showing the average value per unit of issued reconstruction loans independent of housing co-operative loans.)

	Average Value per Unit of Issued Reconstruction Loans								
	2005/2006	% Change over last year	2004/2005	% Change over last year	2003/2004	% Change over last year	2002/2003	% Change over last year	2001/2002
HPO mortgages	**$ 59,658**	25.9	**$ 47,393**	14.5	**$ 41,383**	14.5	**$ 36,133**	21.0	**$ 29,855**
HPO deferred payment loans	**$ 50,823**	11.7	**$ 45,509**	27.9	**$ 35,585**	(13.9)	**$ 41,307**	53.9	**$ 26,845**
Financial institutions no-interest mortgages	**$ 51,558**	21.6	**$ 42,411**	5.2	**$ 40,308**	12.8	**$ 35,746**	30.6	**$ 27,361**

Management Discussion and Analysis cont'd

Rising interest rates and rising average value of reconstruction repair costs in the 2005/06 year resulted in a significant increase in subsidy interest payments, which the HPO paid to financial institutions and CMHC holding no-interest repair loans. The total interest subsidy costs increased 12.5% from $4.4 million in 2004/05 to $4.9 million in 2005/06. A significant increase in interest subsidy costs was experienced in the housing co-operative repair loan category arising from an increase of $24 million in the total value of loans approved to date over last year and rising interest rates.

Mortgages held by financial institutions are based on the bank's prime lending rate for a five-year term. The average annual prime-lending rate in 2005/06 was 4.7%, up from 4% in 2004/05.

Interest is paid on housing co-operative loan advances made during the repair period at a construction-floating rate set by CMHC. In 2005/06, the average construction-floating rate was 2.9%. On completion of the repairs, the interest rate is set by CMHC at an interest rate equal to the bid yield of a five-year Government of Canada benchmark bond with approximately five years remaining in its term plus not more than 0.75%. On a year-to-date basis, interest rates for post-interest adjustment dates range from a low of 3.47% to a high of 5.50%. (See table below showing the changes in interest subsidy costs.)

	Value of Interest Subsidy Costs								
	2005/2006 ($000's)	% Change over last year	**2004/2005 ($000's)**	% Change over last year	**2003/2004 ($000's)**	% Change over last year	**2002/2003 ($000's)**	% Change over last year	**2001/2002 ($000's)**
Financial institutions	**4,021**	8.7	**3,700**	(16.4)	**4,427**	18.6	**3,734**	17.0	**3,191**
CMHC	**893**	33.3	**670**	5.3	**636**	2.7	**619**	68.2	**368**
Total interest subsidy costs	**4,914**	12.4	**4,370**	(13.7)	**5,063**	16.3	**4,353**	22.3	**3,559**

Total revenues for the Reconstruction Loan Program rose significantly over last year. The continued high volume of new multi-unit construction activity in the coastal climate zone resulted in an 18.9% increase over last year in reconstruction levies collected. A total of $15.1 million was collected in 2005/06, up from $12.7 million in 2004/05. Loan discount recoveries were up reflecting the ongoing repayment of HPO loans. Recoveries are up 18.2% over last year, mainly due to the strong residential housing market and the increasing value of units. (See table below showing the changes in Reconstruction Loan Program revenues.)

	Revenues under the Reconstruction Loan Program								
	2005/2006 ($000's)	% Change over last year	**2004/2005 ($000's)**	% Change over last year	**2003/2004 ($000's)**	% Change over last year	**2002/2003 ($000's)**	% Change over last year	**2001/2002 ($000's)**
Reconstruction levies	**15,065**	18.9	**12,675**	24.0	**10,224**	43.0	**7,150**	46.8	**4,872**
Federal contributions	**–**	–	**–**	(100.0)	**4,490**	(34.8)	**6,890**	(5.6)	**7,298**
Loan discount recoveries and other	**6,806**	18.3	**5,752**	43.2	**4,016**	37.5	**2,921**	66.6	**1,753**
Total revenues	**21,871**	18.7	**18,427**	(1.6)	**18,730**	10.4	**16,961**	21.8	**13,923**

Management Discussion and Analysis cont'd

Funds for repair loans advanced throughout the year on behalf of eligible homeowners continued to exceed the incoming funds to operate the Reconstruction Loan Program. This resulted in increased short-term borrowing from the Province of British Columbia by the HPO throughout the year bringing the total cumulative debt obligation to $31.8 million as at March 31st, 2006 up from $28.4 million in the same period last year. The total current cumulative debt obligation includes accrued interest and a $0.4 million no-interest PST Relief Grant Operating Advance. It is anticipated that the HPO will repay the bridge financing loans provided by the Province of British Columbia over time with incoming reconstruction levies collected in the ensuing years. (See table below showing the changes in short term borrowing obligations.)

	HPO Short-term Debt and Advances Due to the Province of B.C.								
	2005/2006 ($000's)	% Change over last year	**2004/2005 ($000's)**	% Change over last year	**2003/2004 ($000's)**	% Change over last year	**2002/2003 ($000's)**	% Change over last year	**2001/2002 ($000's)**
Balance outstanding on March 31st	**31,816**	12.1	**28,388**	12.6	**25,214**	0.4	**25,124**	1.4	**24,775**

In addition to its debt obligations, the HPO has a commitment to pay the subsidized interest costs on behalf of eligible homeowners for all repair loans provided by financial institutions and CMHC for housing co-operative repair loans. The present value of interest to be paid in the future by the HPO on subsidized interest loans approved is $81.7 million in 2005/06 up from $75.1 million in 2004/05. This is mainly due to rising interest rates and an increase in the total approved value of the housing co-operative repair loans.

The HPO expects a continuation of the strong housing market. It is anticipated that the existing level of revenues from reconstruction levies and license fees will be maintained as a result of the continued strong housing market. The continuation of a strong housing market will also make it easier for homeowners to sell their repaired homes and repay their no-interest loans, positively impacting loan discount recoveries. Expenditures will likely trend upward in a rising construction cost environment and as the HPO implements the directions approved in the Futures Report which articulated the HPO Board's recommendations for the future of the *Homeowner Protection Act* and Homeowner Protection Office.

Statement of Management Responsibility

The financial statements and all other information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements of the Homeowner Protection Office (HPO) have been prepared by management in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to financial statements.

Management depends upon a system of internal controls that provide reasonable assurance, on a cost-effective basis, that the financial information is reliable and accurate. The HPO's external auditors independently perform such tests of the system of internal controls, as they consider necessary for the purpose of expressing their opinion on the financial statements.

The Audit and Finance Committee, which comprises directors who are not employees, oversees management's discharge of its financial reporting responsibilities. The committee meets periodically with management and the external auditors to discuss auditing, financial reporting and internal control matters. The external auditors have access to the Audit and Finance Committee without management's presence.

L. A. McKay

Ken Cameron
Chief Executive Officer

Linda McKay
Manager, Finance and Administration

April 28, 2006

Auditors' Report

To the Directors of
Homeowner Protection Office

And

To the Minister of Forests and Range and the
Minister Responsible for Housing

We have audited the balance sheet of the Homeowner Protection Office (HPO) as at March 31, 2006 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the HPO'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 HPO 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
Vancouver, British Columbia
April 28, 2006

As at March 31, 2006

Balance Sheet

(expressed in thousands of dollars)

	2006 $	2005 $
Assets		
Current assets		
Cash	749	362
Cash for Reconstruction Loan and PST Relief Grant programs (note 3)	2,665	1,618
Due from Province of British Columbia (note 4)	295	255
Accounts receivable	769	1,097
Prepaid expenses	42	43
Current portion of loans receivable (note 3)	2,492	2,339
	7,012	5,714
Loans receivable (note 3)	41,296	33,477
Capital assets (note 5)	42	91
	$ 48,350	$ 39,282
Liabilities and Surplus		
Current liabilities		
Accounts payable and accrued liabilities	756	945
Loan loss provision (note 3)	2,880	4,180
Due to Province of British Columbia (note 6)	31,816	28,388
	35,452	33,513
Net assets		
Invested in capital assets	42	91
Unrestricted	12,856	5,678
	12,898	5,769
	$ 48,350	$ 39,282

Commitments (notes 3(f) and 7)

Approved by the Board of Directors

_________________ **Director** _________________ **Director**

The accompanying notes form an integral part of these financial statements.

Statement of Operations

(expressed in thousands of dollars)

	2006 $	2005 $
Revenues		
Reconstruction levies	15,065	12,675
Loan discount recoveries	6,669	5,642
License fees	3,476	3,051
Provincial contributions	3,146	3,396
Interest	165	143
Other	48	33
	28,569	24,940
Expenditures		
Reconstruction loan grants (note 3(b))	9,296	8,208
Interest subsidy (note 3(a))	4,914	4,370
PST Relief Grants	2,874	3,271
Salaries and wages	2,548	2,224
Travel, office and other	1,228	1,012
Interest and fees	896	672
Legal and professional fees	227	201
Communications and printing	217	147
Rent and utilities	203	208
Consumer and industry education	77	82
Depreciation	71	103
Research	68	71
Loan Loss provision	(1,179)	295
	21,440	20,864
Excess of revenues over expenditures	7,129	4,076

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Net Assets

(expressed in thousands of dollars)

	Invested in capital assets $	Unrestricted $	2006 Total $	2005 Total $
Balance – Beginning of year	91	5,678	5,769	1,693
Excess of revenues over expenditures	(71)	7,200	7,129	4,076
Investment in capital assets	22	(22)	–	–
Balance – End of year	42	12,856	12,898	5,769

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

(expressed in thousands of dollars)

	2006 $	2005 $
Cash flows from operating activities		
Cash received from		
Residential builders for reconstruction levies	15,381	12,518
Homeowners for principal-only payments on loans	14,256	11,967
Residential builders for license fees	3,492	3,101
Province of British Columbia for programs	3,237	3,158
Interest	168	134
Partners in funding research and education activities	48	25
Cash paid for		
Homeowners for reconstruction loans	(24,856)	(21,809)
Financial institutions for interest on CMHC-insured loans	(5,040)	(4,334)
Suppliers and employees	(4,768)	(3,827)
Homeowners for PST Relief Grants	(2,874)	(3,271)
Province of British Columbia for loan interest	(814)	(671)
Financial institutions for defaults on CMHC-insured loans	(120)	(345)
	(1,890)	(3,354)
Cash flows from investing activities		
Purchase of capital assets	(22)	(66)
Cash flows from financing activities		
Proceeds from borrowing	2,946	3,173
Province of British Columbia for PST Relief Grant program	400	–
	3,346	3,173
Increase (Decrease) in cash	1,434	(247)
Cash – Beginning of year	1,980	2,227
Cash – End of year	3,414	1,980
Represented by		
Cash	749	362
Cash for Reconstruction Loan and PST Grant Relief programs (note 3)	2,665	1,618
	$ 3,414	$ 1,980

The accompanying notes form an integral part of these financial statements.

Notes to Financial Statements

1. General

The Homeowner Protection Office (HPO) was created in 1998 under the *Homeowner Protection Act* S.B.C. 1998, c. 31 (the "*Act*"). The purposes of the *Act* are:

- to license residential builders and other persons required to be licensed under the *Act*;
- to carry out research and education respecting residential construction in British Columbia; and
- to administer the Reconstruction Loan Program to provide financial assistance to eligible homeowners for home reconstruction.

The license fees collected, including a per unit license fee for new or building envelope renovated dwelling units, fund all of the operations of the HPO except for the Reconstruction Loan and PST (Provincial Sales Tax) Relief Grant Programs. The Province provides a contribution to the Office to cover the administration costs and grant payments of the PST Relief Grant Program. The research and education function has a mandate to disseminate information to the residential construction industry and to homeowners in areas such as cost effective building techniques, best practices for retrofitting housing, building code changes and consumer education.

2. Significant accounting policies

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are noted below.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant areas requiring the use of management estimates relate to the determination of the present value of loans receivable, loan loss provision, and the estimated useful lives of capital assets. Actual results could differ from the estimates.

Capital assets

Capital assets are recorded at cost and depreciated on a straight line basis over their estimated useful lives as follows:

Computer software and hardware	three years
Leasehold improvements	over the lease term
All other capital assets	five years

No-interest loans and deferred payment loans

No-interest loans and deferred payment loans provided by the HPO are concessionary loans in that no interest is charged to the homeowner. These loans are recorded at their net present value (net of the grant component) less any provision required for doubtful collection. Net present value is determined by discounting no-interest loans over their terms and discounting deferred payment loans over 20 years at the provincial government borrowing rate for equivalent terms. Present value discounts are recorded as a grant expense. Principal repayments are first applied to the reduced loan balance (net present value) and then recorded as revenue (loan discount recoveries) when received.

Notes to Financial Statements cont'd

Canada Mortgage and Housing Corporation (CMHC)-insured loans

Loans provided by financial institutions under the Reconstruction Program do not appear on these financial statements. However, the HPO has indemnified CMHC for any claims that may be made against the CMHC insurance on these loans up to $375 million. Accordingly, the HPO's loan loss provision reflects a provision for CMHC-insured loans (note 3).

Loan loss provision

The loan loss provision consists of an amount that is established for specific impaired loans and a non-specific allowance to provide for losses inherent in the loan portfolio for which a specific allowance cannot yet be determined. The loan loss provision is made to reduce the carrying amount of individual loans recorded in the amounts of the HPO to their estimated realizable amount, and also provides for estimated loan losses incurred on CMHC-insured loans.

Financial dependence

The HPO is financially dependent on the Province of British Columbia for its financing and ability to borrow funds for operations (note 6).

Federal and provincial taxes

The HPO is exempt from corporate income taxes and is not subject to the Goods and Services Tax.

Cash

Cash consists of cash held in accounts with financial institutions.

Cash for reconstruction and PST programs

Cash consists of cash amounts, restricted as to use (note 3).

3. Reconstruction Loan

Under the *Act*, money paid to the credit of the Reconstruction Loan Program must only be used for the purposes of the program. Accordingly, cash balances for this program are segregated and shown separately on the Balance Sheet.

Under the Reconstruction Loan Program, financial assistance is provided to homeowners who cannot afford to pay or obtain conventional financing for repairs to their homes with premature building envelope failure. Mortgages are registered against the title of the homes to be repaired as security for the financial assistance granted. This financial assistance is provided in the form of subsidized interest loans, no-interest loans or deferred payment loans as follows:

Notes to Financial Statements cont'd

a) Subsidized interest loans through the first mortgage lender

i) Homeowner

Under agreements with financial institutions and CMHC, the HPO approves loans to homeowners for repairs to homes with premature building envelope failure and issues CMHC insurance certificates for these loans. The loan is advanced by the financial institution that holds a first mortgage on the property and, as a consequence, does not appear on these financial statements. The homeowner makes monthly principal-only payments to the financial institution. The HPO pays interest on the homeowner's behalf to the financial institution at the prime borrowing rate of the lender. This interest is included in the interest subsidy in the Statement of Operations.

ii) Housing co-operatives

Under an agreement with CMHC, the Office approves loans to housing co-operatives with premature building envelope failure. The loan is advanced by CMHC who is also the first mortgage lender. The housing co-operative makes a monthly principal-only payment to CMHC. The Office pays interest on the housing co-operative's behalf to CMHC. While the repairs are underway and prior to the interest adjustment date (IAD), the Office pays interest at CMHC's Construction Floating Rate. At IAD, the interest rate on a loan is set for an initial five-year term to equal the bid yield of a five-year Government of Canada benchmark bond with approximately five years remaining in its term plus not more than 0.75% per annum, compounded semi-annually in arrears. This benchmark is also used to set the interest rate for the second and final five-year term. This interest is included in interest subsidy in the Statement of Operations.

The HPO has not provided guarantees or indemnities for any of the loans to housing co-operatives. The only obligation of the HPO with respect to these loans is to pay interest. Consequently, neither the loans nor a provision for losses appear on the Balance Sheet of the Office.

b) No-interest loans through the HPO

In cases where there is no first mortgage or where the first mortgage lender refuses to provide a loan, the HPO provides a no-interest loan to the homeowner. The homeowner makes principal-only payments to the Office. Loans advanced directly by the HPO are not CMHC-insured. The net present value of these loans is included in loans receivable in the Balance Sheet. The net present value of the interest discount has been recorded as reconstruction loan grants in the Statement of Operations.

c) Deferred payment loans through the HPO

In circumstances where eligible homeowners qualify for no-interest loans under the Reconstruction Loan Program, but whose income is such that they cannot afford at least $50 per month as a principal-only loan payment, the HPO may approve a deferred payment loan. Deferred payment loans do not accrue interest and do not require any payments to be made for as long as the home owner resides in the home. If the net sales proceeds of the home, after repaying other mortgages in priority to the deferred payment loan and paying reasonable legal and real estate expenses, are not sufficient to fully repay the deferred payment loan, then the shortfall may be forgiven. The net present value of these deferred payment loans is included in loans receivable in the Balance Sheet. The net present value of the interest discount has been recorded as reconstruction loan grants in the Statement of Operations.

Notes to Financial Statements cont'd

d) The HPO approved financial assistance as follows:

	Number of Loans	Total Financial Assistance ($000's)	Financial Assistance Reported on the Balance Sheet 2006 ($000's)	Financial Assistance Reported on the Balance Sheet 2005 ($000's)
Subsidized interest loans				
Homeowners (note 3a(i))	8,126	240,149	-	-
Housing co-operatives (note 3a(ii))	54*	186,464	-	-
No-interest loans (note 3(b))	1,830	73,299	73,299	55,474
Deferred payment loans (note 3(c))	1,535	50,859	50,859	42,828
Total loans approved	11,545	550,771	124,158	98,302
Less:				
Loans approved but not yet issued				
Homeowners		(34,269)	(24,460)	(11,523)
Housing co-operatives		(155,752)	-	-
Present value discount		(26,020)	(26,020)	(23,339)
Loan loss provision		(2,880)	-	-
Loan write-offs		(3,038)	(246)	(256)
Loan repayments		(178,388)	(29,644)	(27,368)
Loans receivable		150,424	43,788	35,816
Less: Current portion			(2,492)	(2,339)
Loans receivable			41,296	33,477

(*) The 54 approved co-operative loans comprises 2,993 homes.

e) The revenues and expenditures of the Reconstruction Loan Program were as follows:

	2006 ($000's)	2005 ($000's)
Revenues		
Reconstruction levies	15,065	12,675
Loan discount recoveries	6,669	5,642
Interest	121	110
Provincial contributions	16	-
	21,871	18,427
Expenditures		
Reconstruction loan grants	9,296	8,208
Interest subsidy	4,914	4,370
Administrative costs	1,206	993
Interest and fees	860	644
Loan loss provision	(1,179)	295
	15,097	14,510
Excess of program revenues over expenditures	6,774	3,917

Notes to Financial Statements cont'd

f) The present value of the interest to be paid in the future by the HPO on the subsidized interest loans approved comprises:

	2006 ($000's)	2005 ($000's)
Loans held by financial institutions	31,644	30,515
Housing co-operative repair loans – issued	7,064	4,699
Housing co-operative repair loans – approved but not issued	42,992	39,922
	81,700	75,136

Loans held by financial institutions are amortized over a 15-year period. Housing co-operative repair loans are amortized over a 40-year period.

Loans were approved, but not issued in instances where strata corporations or housing co-operatives had not yet signed contracts for the repair of the building envelope or had not yet passed the final special assessment for the cost of the repairs. It is uncertain if CMHC will access each housing co-operative loan approved by the HPO due to their independent determination of housing co-operative viability.

4. Due from the Province of British Columbia

This account receivable includes interest due from the Province of British Columbia (the Province) representing interest earned on the Office's balance of its overnight bank deposits in the Province's offset interest program, and reimbursement of PST Relief Grant payments made on behalf of the Province. The Province's offset interest program pays interest to the Office at the prime rate of the Royal Bank of Canada less 1.75% approximately one month in arrears. Under the agreement between the Province and the Office, the Province reimburses the HPO on a monthly basis for all PST Relief Grant payments made to eligible homeowners.

	2006 ($000's)	2005 ($000's)
PST Relief Grant reimbursement	147	238
Other provincial contributions	137	-
Offset interest earned	11	15
Other	-	2
Total	295	255

Notes to Financial Statements cont'd

5. Capital assets

	Cost ($000's)	Accumulated Depreciation ($000's)	2006 Net Book Value ($000's)	2005 Net Book Value ($000's)
Office furniture and equipment	285	(280)	5	7
Computer hardware	298	(271)	27	58
Leasehold improvements	173	(173)	-	-
Computer software	177	(171)	6	14
Vehicles	40	(36)	4	12
	973	(931)	42	91

6. Due to Province of British Columbia

The HPO has the authority to borrow up to a maximum of $75 million from the Province to fund operatons and the Reconstruction Loan Program. The HPO's Board of Directors has approved borrowing to a maximum of $55 million.

At March 31, 2006, the HPO had borrowed $31.8 million made up of short-term borrowings which comprised $7.3 million due on April 6, 2006 with interest accrued at 3.38% per annum, $3 million due on April 18, 2006 with interest accrued at 3.55% per annum, $5 million due on May 10, 2006 with interest accrued at 3.59%per annum, $8.9 million due May 15, 2006 with interest accrued at 3.63% per annum, $7.2 million due June 12, 2006 with interest accrued at 3.73% per annum, and $0.4 million due for payment on March 31, 2007 without interest.

7. Commitments

The HPO is committed in the normal course of business to paying interest on homeowners' behalfs to financial institutions at the prime rate of the lender. The actual interest subsidy payment amounts made and the present value of interest amounts to be paid in the future are disclosed in note 3.

During 2005, the HPO entered into an operating lease for its office premises, which expires on January 31, 2011. At March 31, 2006, the Office has minimum rental obligations under operating leases for office premises as follows:

Year ending March 31	($000's)
2007	201
2008	207
2009	213
2010	219
2011	187
	1,027

The rental payments and operating costs are disclosed in the Statement of Operations.

Notes to Financial Statements cont'd

8. Related party transactions

In the normal course of operations the HPO acquires goods and services from the Province of British Columbia under prevailing trade terms. Amounts due to/from the Province of British Columbia and income and expenses during the year are disclosed in the Balance Sheet and Statement of Operations respectively.

9. Financial instruments

The financial instruments of the HPO consist of cash, balances due to and from the Province of British Columbia, accounts receivable, loans receivable, and accounts payable. The fair values of balance sheet items, which are highly liquid or short-term in nature, approximate their carrying value. The fair value of loans receivable and amounts due to and from the Province of British Columbia are not practicable to determine.

The HPO's financial instruments are exposed to credit and interest rate risk. Credit risk is the risk that the HPO will incur a loss because of default of a reconstruction loan. Interest rate risk is the risk that the interest the Office pays may change with the fluctuations in the market interest rates. Risk management policies have been implemented by the management. These policies include evaluating the eligibility for assistance under the Reconstruction Loan Program, securing the loan with a charge on title, and subsequently evaluating renewal requests, and regularly monitoring the loans.

10. Employee benefit plans

The HPO provides a defined benefit pension plan and other post-retirement benefits to all of its employees.

The HPO contributes to the Public Service Pension Plan (the plan), a jointly trusteed pension plan, to which employees and employers of the public service contribute. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of benefits. The plan is a multi-employer contributory pension plan. Basic pension benefits are defined. The plan has about 51,000 active plan members and approximately 30,000 retired plan members.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the plan funding. The latest valuation as at March 31, 2005, indicated an unfunded liability of $767 million for basic pension benefits. The next valuation will be as at March 31, 2008, with results available in 2009. The actuary does not attribute portions of the unfunded liability to individual employers. The Homeowner Protection Office paid $136,815 for employer contributions to the plan during the year (2005 - $124,600).

Under the terms of their employment, employees of the HPO are also entitled to termination and other post retirement benefits that include health care benefits which are provided under public service benefit plans.

Defined contribution plan accounting is applied to these benefit plans as the HPO has insufficient information to apply defined benefit plan accounting. As such, the cost of employee future benefits for these plans is recognized as an expense in the year contributions are paid.

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