



financial report

31 March 2003



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MANAGEMENT DISCUSSION AND ANALYSIS



Virginia Watson
Manager, Accounting

The purposes of the Homeowner Protection Office are to license residential builders and other persons required to be licensed under the *Act*; to monitor the performance of the home warranty insurance system; to carry out research and education respecting residential construction in British Columbia; and to administer the Reconstruction Program to provide financial assistance to eligible homeowners for home reconstruction. The HPO also administers the Provincial Sales Tax (PST) Relief Grant Program on behalf of the Province.

For the year ended March 31, 2003 the HPO's net income was \$3.527 million. For the year ended March 31, 2002 we had a net loss of \$483,000. We have once again met our objective to be financially self-sustaining on a year-over-year basis, excluding the Reconstruction Loan Program. When the results are considered excluding the Reconstruction Program, the net income for the year ended March 31, 2003 was \$433,000 compared to the net income for the year ended March 31, 2002 which was \$284,000.

The Reconstruction levy revenues increased 47% to \$7.150 million for the year ended March 31, 2003. This increase is a result of the growth in new home construction. The levy is collected on the construction of multi-unit homes in B.C.'s coastal climate zone and under the *Act* is to be used only for the purposes of the Reconstruction Program. The expenditures in the Reconstruction Program declined this year due to the reduction in the demand for Homeowner's Reconstruction Loans and the loans being paid off faster than anticipated. As there is such a strong housing market, homeowners are

selling their homes and paying off their reconstruction loans. The Reconstruction Program expenditures reached their peak last year and we believe they will continue to decline as fewer new loan applications are received.

License fees collected increased 17% this year to \$2.469 million from \$2.114 million. The increase in fees is due to both the increased number of residential builders during the year and the growth in new home construction. Expenditures for the Licensing Program increased from \$1.773 million in 2002 to \$1.977 million for the year ended March 31, 2003.

The Research and Education program had expenditures of \$288,000 during 2003. This is a slight increase over the previous year's expenditures. We have once again met our objective to leverage our contribution for research studies by having our partners invest at least twice the amount committed by the Homeowner Protection Office.

Provincial contributions for the PST Relief Grant program for the year ended March 31, 2003 increased by \$955,000 over the previous year. This reflects the additional PST Relief Grants that were paid out this year over last year as more repairs on leaky homes are completed. Since the program was introduced in 1999, \$7.5 million in grants have been approved. We will continue to see demand for this program as more repairs are completed on leaky homes.

This has been another year of growth and continued demand for the HPO's program areas as the residential construction sector activity increases, research is completed and disseminated to industry and consumers, and more leaky homes are repaired.



financial statements

31 March 2003



REPORT OF THE AUDITOR GENERAL OF BRITISH COLUMBIA



*To the Board of Directors
of the Homeowner Protection Office, and*

*To the Minister of Community, Aboriginal and
Women's Services*

I have audited the balance sheet of the *Homeowner Protection Office* as at March 31, 2003 and the statement of revenues and expenditures and deficit and the statement of cash flows for the year ended March 31, 2003. These financial statements are the responsibility of the Office's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the *Homeowner Protection Office* as at March 31, 2003 and the results of its operations and the changes in its cash flows for the year ended March 31, 2003, in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia
April 25, 2003*

A handwritten signature in black ink that reads "Wayne Strelloff". The signature is written in a cursive, flowing style.

Wayne Strelloff, CA
Auditor General

STATEMENT OF MANAGEMENT RESPONSIBILITY

The financial statements of the Homeowner Protection Office (the “Office”) 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 Office’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 is comprised of 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.



Dan Maxwell
Acting Chief Executive Officer



Virginia Watson
Manager, Accounting

April 25, 2003

HOMEOWNER PROTECTION OFFICE

BALANCE SHEET AS AT MARCH 31, 2003

	<u>2003</u> <u>(\$000's)</u>	<u>2002</u> <u>(\$000's)</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 338	\$ 353
Cash for reconstruction and PST programs	2,096	4,238
Due from Province of British Columbia (note 4)	19	26
Due from CMHC (note 1)	375	96
Accounts receivable	1,054	916
Prepaid expenses	22	42
Current portion of loans receivable	<u>1,658</u>	<u>1,240</u>
	5,562	6,911
LOANS RECEIVABLE (note 3)	21,346	15,266
CAPITAL ASSETS (note 5)	<u>155</u>	<u>275</u>
	<u>\$ 27,063</u>	<u>\$ 22,452</u>
LIABILITIES AND DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 786	\$ 530
Loss provision for CMHC-insured loans (note 2d)	3,972	3,544
Due to Province of British Columbia (note 6)	<u>25,249</u>	<u>24,849</u>
	30,007	28,923
CONTINGENCIES (note 2d)		
COMMITMENTS (note 7)		
DEFICIT	<u>(2,944)</u>	<u>(6,471)</u>
	<u>\$ 27,063</u>	<u>\$ 22,452</u>

Approved by the Board:

Chair



Member



HOMEOWNER PROTECTION OFFICE

STATEMENT OF REVENUES AND EXPENDITURES AND DEFICIT

FOR THE YEAR ENDED MARCH 31, 2003

	2003 (\$000's)	2002 (\$000's)
Revenues		
Reconstruction levies	\$ 7,150	\$ 4,872
Federal contributions for Reconstruction Program	6,890	7,298
Provincial contributions	3,982	2,932
Loan discount recoveries	2,833	1,659
License fees	2,469	2,114
Interest	120	133
Donations and other	0	8
	<u>23,444</u>	<u>19,016</u>
Expenditures		
Reconstruction Program	13,867	14,690
PST Relief Grant Program	3,200	2,278
Licensing and registrar	1,977	1,773
Finance and administration	585	513
Research and education	288	245
	<u>19,917</u>	<u>19,499</u>
Income (Loss) (Schedule 1)	3,527	(483)
Deficit, beginning of year	<u>(6,471)</u>	<u>(5,988)</u>
Deficit, end of year	<u><u>\$ (2,944)</u></u>	<u><u>\$ (6,471)</u></u>

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2003

	2003 <u>(\$000's)</u>	2002 <u>(\$000's)</u>
Cash flows from Operating Activities		
Cash received from:		
Residential builders for reconstruction levies	\$ 7,006	\$ 4,047
Government of Canada for Reconstruction Program	6,611	7,607
Homeowners for principal-only payments on loans	4,714	2,466
Province of British Columbia for programs	3,982	2,932
Residential builders for license fees	2,474	2,057
Interest	120	143
Partners in funding research and education activities	0	8
Cash paid to:		
Homeowners for reconstruction loans	(15,202)	(15,934)
Financial institutions for interest on CMHC-insured loans	(3,984)	(3,692)
Suppliers and employees	(3,844)	(3,320)
Homeowners for PST Relief Grants	(3,107)	(2,182)
Financial institutions for defaults on CMHC-insured loans	(652)	(609)
Province of British Columbia for loan interest	(578)	(811)
Cash flows used in operating activities	<u>(2,460)</u>	<u>(7,288)</u>
Cash flows from Investing Activities		
Purchase of capital assets	<u>(28)</u>	<u>(116)</u>
Cash flows used in investing activities	<u>(28)</u>	<u>(116)</u>
Cash flows from Financing Activities		
Province of British Columbia for PST program	51	10
Proceeds from borrowing	<u>280</u>	<u>9,647</u>
Cash flows from financing activities	<u>331</u>	<u>9,657</u>
Net (Decrease) Increase in Cash	(2,157)	2,253
Cash, beginning of year	<u>4,591</u>	<u>2,338</u>
Cash, end of year	<u><u>\$ 2,434</u></u>	<u><u>\$ 4,591</u></u>
Represented by:		
Cash	338	353
Cash for reconstruction and PST programs	<u>2,096</u>	<u>4,238</u>
	<u><u>\$ 2,434</u></u>	<u><u>\$ 4,591</u></u>

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

1. General

The Homeowner Protection Office (the "Office") was created in 1998 under the *Homeowner Protection Act* S.B.C. 1998, c. 31 (the "*Act*"). The purposes of the Office 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 Program to provide financial assistance to eligible homeowners for home reconstruction.

Effective July 1, 1999, all persons who wish to carry on the business of a residential builder in British Columbia must obtain a licence from the Office's Registrar. Effective October 1, 2000, repair contractors who wish to perform specified building envelope renovations in British Columbia must obtain a licence from the Office's Registrar. The license fees collected fund all of the operations of the Office except for the Reconstruction and Provincial Sales Tax Relief Grant Programs. The Province provides a contribution to the Office to fund a portion of the costs of ensuring compliance with the *Act*. 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.

The Reconstruction Program provides subsidized interest loans, no-interest loans and deferred payment loans to owners of homes with premature building envelope failure who are not able to finance or pay for repairs. A reconstruction levy is collected on residential units in multi-unit buildings constructed after July 1, 1999 in the coastal climatic zone. The Government of Canada through the Canada Mortgage and Housing Corporation (CMHC) provides a contribution to the Reconstruction Program equal to fifty percent of the Reconstruction Program expenditures net of interest revenue. The total contribution from the Government of Canada will not exceed \$27.7 million.

The Office also administers the Provincial Sales Tax (PST) Relief Grant Program on behalf of the Province. The Province provides a contribution to the Office to cover the administration costs and grant payments of the program.

The expenditures and revenues of these programs are reported in Schedule 1.

2. Significant Accounting Policies

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles that are considered appropriate for the Office. The significant accounting policies are noted below.

a) 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 amortization of capital assets. Actual results could differ from the estimates.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

b) Capital assets

Capital assets are recorded at cost and amortized 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

Assets costing less than \$1,000 are expensed in the year of purchase.

c) No-interest loans and deferred payment loans

No-interest loans and deferred payment loans provided by the Office are concessionary loans in that no interest is charged to the homeowner. These loans are recorded at their net present value (net of 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 borrowing rate for equivalent terms. Present value discounts are recorded as 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.

d) Loss provision for CMHC-insured loans

Loans provided by financial institutions under the Reconstruction Program do not appear on these financial statements. However, the Office has indemnified CMHC for any claims that may be made against the CMHC insurance on these loans up to \$250 million. The Office records a 4% loan loss provision on these loans.

e) Federal and provincial taxes

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

3. Reconstruction Program

Under the *Act*, money paid to the credit of the Reconstruction Program must only be used for the purposes of the program.

Under the Reconstruction Program, financial assistance is provided to homeowners who cannot afford to pay for repairs to their homes with premature building envelope failure. The financial assistance is secured by mortgages registered against the title of the home to be repaired. This financial assistance is provided in the form of subsidized interest loans, no-interest loans or deferred payment loans as follows:

a) Subsidized interest loans through the first mortgage lender

i) Homeowner

Under agreements with financial institutions and CMHC, the Office 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 Office pays interest on the homeowner's behalf to the financial institution at the prime rate of the lender. This interest is reported as interest subsidy on Schedule 1.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

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 percent per annum, compounded semi-annually not in advance. 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 on Schedule 1.

The Office has not provided guarantees or indemnities for any of the loans to housing co-operatives. The only obligation of the Office 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 Office

In cases where there is no first mortgage or where the first mortgage lender refuses to provide a loan, the Office provides a no-interest loan to the homeowner. The homeowner makes principal-only payments to the Office. Loans advanced directly by the Office are not CMHC insured. The present value of these loans is included in loans receivable on the balance sheet.

c) Deferred payment loans through the Office

In circumstances where eligible homeowners qualify for no-interest loans under the Reconstruction Program, but whose income is such that they cannot afford at least \$50 per month as a principal-only loan payment, the Office 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 homeowner lives 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 will be forgiven. The present value of these deferred payment loans is included in loans receivable on the balance sheet.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

	Number of Loans	Total Financial Assistance (\$000's)	Financial Assistance Reported on the Balance Sheet of the Office (\$000's)
Subsidized interest loans			
- Homeowners (note 3a(i))	6,307	\$ 156,075	\$ -
- Housing co-operatives (note 3a(ii))	34	67,488	-
No-interest loans (note 3b)	1,240	36,417	36,417
Deferred payment loans (note 3c)	931	24,903	24,903
Total loans approved	<u>8,512</u>	284,883	61,320
Less:			
Loans approved but not yet issued			
- Homeowners		(34,571)	(12,195)
- Housing co-operatives		(53,877)	-
Present value discount		(18,002)	(18,002)
Loss provision for CMHC-insured loans		(3,972)	-
Loan write-offs		(1,948)	(171)
Loan repayments		<u>(41,515)</u>	<u>(7,948)</u>
Loans receivable		<u>\$ 130,998</u>	23,004
Less: current portion			<u>(1,658)</u>
Loans receivable			<u>\$ 21,346</u>

The present value of the interest to be paid in the future by the Office on the subsidized interest loans is \$56 million.

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.

The 34 housing co-operatives contain 1,989 homes.

4. Due from the Province of British Columbia

Under an agreement with the Province of British Columbia (the Province), the Office invests the balance of its overnight bank deposits in the Province's offset interest program.

Approximately one month after the interest is earned, this program pays interest to the Office at the prime rate of the Royal Bank of Canada less 1.75%.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

5. Capital Assets

	March 31, 2003 (\$000's)		March 31, 2002 (\$000's)	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	\$ 152	\$ (146)	\$ 6	\$ 18
Computer hardware	230	(207)	23	48
Office furniture and equipment	294	(257)	37	96
Leasehold improvements	173	(112)	61	95
Vehicles	40	(12)	28	18
Total	<u>\$ 889</u>	<u>(734)</u>	<u>\$ 155</u>	<u>\$ 275</u>

6. Due to the Province of British Columbia

The Office has the authority to borrow up to a maximum of \$75 million from the Province to fund operations and the Reconstruction Program. The Office's Board of Directors has approved borrowing to a maximum of \$30 million.

Of the \$25.249 million borrowed by the Office, \$6.028 million is due April 29, 2003 with interest accrued at 2.72% per annum, \$5.019 million is due on May 12, 2003 with interest accrued at 2.75% per annum, \$7.067 million is due on June 3, 2003 with interest accrued at 2.72% per annum, \$7.010 million is due on June 12, 2003 with interest accrued at 3.0% per annum and \$125,000 has no fixed term of repayment and is without interest.

7. Commitments

The Office is committed in the normal course of business to paying interest on homeowners' behalf to financial institutions at the prime rate of the lender.

The Office has minimum rental obligations under operating leases for office space as follows:

Fiscal Year	(<u>\$000's</u>)
2004	\$ 311
2005	\$ 262
2006	\$ -
2007	\$ -
Total	<u>\$ 573</u>

8. Related Party Transactions

In the normal course of operations the Office acquired goods and services from the Province and certain Crown corporations, under prevailing trade terms.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

9. Employee Benefit Plans

The Office has a defined benefit plan and a defined retirement plan for all of its employees. In addition, the Office has defined health care plans for all employees and retirees.

The Office and its employees contribute to the Public Service Pension Plan in accordance with the *Public Sector Pension Plans Act*. The British Columbia Pension Corporation administers the Plan, including the payment of pension benefits on behalf of employers and employees to whom the *Act* applies. The Plan is a multi-employer defined benefit plan. The most recent actuarial valuation (March 31, 2002) has determined the Plan is in a surplus position. Effective January 1, 2001, the Public Service Pension Plan's management changed to a joint trusteeship whereby the management, risks and benefits are shared between employees and employers. Previously these matters were the sole responsibility of the Province of British Columbia.

Employees are also entitled to specific health care and termination benefits as provided for under collective agreements and terms of employment.

Defined contribution plan accounting is applied to these benefit plans as the Office 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.

SCHEDULE I REVENUES AND EXPENDITURES BY PROGRAM

FOR THE YEAR ENDED MARCH 31, 2003

	Reconstruction Program		PST Relief Grant Program	
	2003 (\$000's)	2002 (\$000's)	2003 (\$000's)	2002 (\$000's)
Revenue				
Reconstruction levies	\$7,150	\$4,872	\$ 0	0
Federal contributions	6,890	7,298	0	0
Provincial contributions	0	0	3,232	2,307
Loan discount recoveries and other	2,833	1,659	0	0
License fees	0	0	0	0
Interest	88	94	7	11
	<u>16,961</u>	<u>13,923</u>	<u>3,239</u>	<u>2,318</u>
Expenditures				
Reconstruction loan grants	6,827	7,605	0	0
Interest subsidy	4,353	3,559	0	0
PST Relief Grants	0	0	3,107	2,182
Salaries and wages	490	627	67	67
Loss provision on CMHC-insured loans	1,103	1,766	0	0
Travel, office and other	282	196	7	10
Interest expense	613	655	0	0
Rent and utilities	67	93	12	11
Communications and printing	14	28	1	1
Amortization	30	51	5	6
Legal and professional fees	88	110	1	1
Research studies	0	0	0	0
Consumer and Industry Education	0	0	0	0
	<u>13,867</u>	<u>14,690</u>	<u>3,200</u>	<u>2,278</u>
Income (Loss)	<u>\$ 3,094</u>	<u>\$ (767)</u>	<u>\$ 39</u>	<u>\$ 40</u>

Licensing & Registrar		Finance & Administration		Research & Education		Total	
2003 (\$000's)	2002 (\$000's)	2003 (\$000's)	2002 (\$000's)	2003 (\$000's)	2002 (\$000's)	2003 (\$000's)	2002 (\$000's)
\$ 0	0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 7,150	\$ 4,872
0	0	0	0	0	0	6,890	\$ 7,298
750	625	0	0	0	0	3,982	2,932
0	4	0	0	0	4	2,833	1,667
1,807	1,571	507	543	155	0	2,469	2,114
18	19	5	7	2	2	120	133
<u>2,575</u>	<u>2,219</u>	<u>512</u>	<u>550</u>	<u>157</u>	<u>6</u>	<u>23,444</u>	<u>19,016</u>
0	0	0	0	0	0	6,827	7,605
0	0	0	0	0	0	4,353	3,559
0	0	0	0	0	0	3,107	2,182
1,146	958	424	344	105	85	2,232	2,081
0	0	0	0	0	0	1,103	1,766
380	362	68	69	27	13	764	650
25	49	7	18	2	6	647	728
172	142	48	47	15	14	314	307
133	107	9	6	9	12	166	154
86	80	22	25	7	8	150	170
35	75	7	4	2	21	133	211
0	0	0	0	115	61	115	61
0	0	0	0	6	25	6	25
<u>1,977</u>	<u>1,773</u>	<u>585</u>	<u>513</u>	<u>288</u>	<u>245</u>	<u>19,917</u>	<u>19,499</u>
<u>\$ 598</u>	<u>\$ 446</u>	<u>\$ (73)</u>	<u>\$ 37</u>	<u>\$ (131)</u>	<u>\$ (239)</u>	<u>\$ 3,527</u>	<u>\$ (483)</u>