

B U I L D I N G B C



Homeowner  
Protection Office

March 31 | 2002

Financial Statements



R E S T O R I N G C O N F I D E N C E

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financial  
statements





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 and Minister Responsible for Housing,  
Province of British Columbia*

I have audited the balance sheet of the *Homeowner Protection Office* as at March 31, 2002 and the statement of revenues and expenditures and deficit and the statement of cash flows for the year ended March 31, 2002. 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, 2002 and the results of its operations and its cash flows for the year ended March 31, 2002, in accordance with Canadian generally accepted accounting principles.

*Wayne Strelieff*

*Victoria, British Columbia  
April 19, 2002*

Wayne Strelieff, CA  
Auditor General

## HOMEOWNER PROTECTION OFFICE

### 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 19, 2002

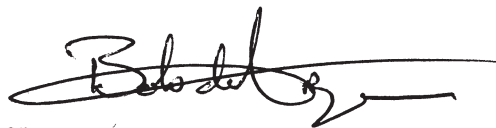
HOMEOWNER PROTECTION OFFICE

**Balance Sheet**  
As at March 31, 2002

	<u>2002</u> <u>(\$000's)</u>	<u>2001</u> <u>(\$000's)</u>
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ 353	\$ 198
Cash for reconstruction and PST programs	4,238	2,140
Due from Province of British Columbia (note 4)	26	28
Due from CMHC (note 1)	96	405
Accounts receivable	916	38
Prepaid expenses	42	37
Current portion of loans receivable	<u>1,240</u>	<u>721</u>
	6,911	3,567
LOANS RECEIVABLE (note 3)	15,266	8,260
CAPITAL ASSETS (note 5)	<u>275</u>	<u>329</u>
	<u>\$ 22,452</u>	<u>\$ 12,156</u>
<b>LIABILITIES AND DEFICIT</b>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 530	\$ 448
Loss provision for CMHC-insured loans (note 2d)	3,544	2,421
Due to Province of British Columbia (note 6)	<u>24,849</u>	<u>15,275</u>
	28,923	18,144
CONTINGENCIES (note 2d)		
COMMITMENTS (note 7)		
DEFICIT	<u>(6,471)</u>	<u>(5,988)</u>
	<u>\$ 22,452</u>	<u>\$ 12,156</u>

Approved by the Board:

Chair



Member



HOMEOWNER PROTECTION OFFICE  
**Statement of Revenues and Expenditures  
and Deficit**  
For the year ended March 31, 2002

	<u>2002</u> (\$000's)	<u>2001</u> (\$000's)
<b>Revenues</b>		
Federal contributions for Reconstruction Program	\$ 7,298	\$ 9,022
Reconstruction levies	4,872	2,643
Provincial contributions	2,932	1,580
License fees	2,114	1,601
Loan discount recoveries	1,659	571
Interest	133	216
Donations and other	8	1
	<u>19,016</u>	<u>15,634</u>
<b>Expenditures</b>		
Reconstruction Program	14,690	11,967
PST Relief Grant Program	2,278	1,575
Licensing and registrar	1,773	1,155
Finance and administration	513	571
Research and education	245	304
	<u>19,499</u>	<u>15,572</u>
 (Loss) Income (Schedule 1)	 (483)	 62
 Deficit, beginning of year	 <u>(5,988)</u>	 <u>(6,050)</u>
<b>Deficit, end of year</b>	<b><u><u>\$ (6,471)</u></u></b>	<b><u><u>\$ (5,988)</u></u></b>

HOMEOWNER PROTECTION OFFICE

**Statement of Cash Flows**  
For the year ended March 31, 2002

	2002 (\$000's)	2001 (\$000's)
<b>Cash flows from Operating Activities</b>		
<b>Cash received from:</b>		
Government of Canada for Reconstruction Program	\$ 7,607	\$ 8,617
Residential builders for reconstruction levies	4,047	2,724
Province of British Columbia for programs	2,932	1,580
Homeowners for principal-only payments on loans	2,466	736
Residential builders for license fees	2,057	1,608
Interest	143	229
Partners in funding research and education activities	8	26
<b>Cash paid to:</b>		
Homeowners for reconstruction loans	(15,934)	(12,224)
Financial institutions for interest on CMHC-insured loans	(3,692)	(2,380)
Suppliers and employees	(3,320)	(2,867)
Homeowners for PST Relief Grants	(2,182)	(1,455)
Province of British Columbia for loan interest	(811)	(870)
Financial institutions for defaults on CMHC-insured loans	(609)	(482)
Cash flows used in operating activities	<u>(7,288)</u>	<u>(4,758)</u>
<b>Cash flows from Investing Activities</b>		
Purchase of capital assets	<u>(116)</u>	<u>(177)</u>
Cash flows used in investing activities	<u>(116)</u>	<u>(177)</u>
<b>Cash flows from Financing Activities</b>		
Province of British Columbia for PST program	10	64
Proceeds from borrowing	<u>9,647</u>	<u>5,197</u>
Cash flows from financing activities	<u>9,657</u>	<u>5,261</u>
<b>Net Increase in Cash</b>	2,253	326
<b>Cash, beginning of year</b>	<u>2,338</u>	<u>2,012</u>
<b>Cash, end of year</b>	<u><u>\$ 4,591</u></u>	<u><u>\$ 2,338</u></u>
Represented by:		
Cash	353	198
Cash for reconstruction and PST programs	<u>4,238</u>	<u>2,140</u>
	<u><u>\$ 4,591</u></u>	<u><u>\$ 2,338</u></u>

## HOMEOWNER PROTECTION OFFICE

### Notes to Financial Statements For the year ended March 31, 2002

#### 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.



HOMEOWNER PROTECTION OFFICE

**Notes to Financial Statements**

For the year ended March 31, 2002

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.

## HOMEOWNER PROTECTION OFFICE

### Notes to Financial Statements

For the year ended March 31, 2002

#### 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.

HOMEOWNER PROTECTION OFFICE

**Notes to Financial Statements**  
For the year ended March 31, 2002

As at March 31, 2002 the Office had approved financial assistance as follows:

	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))	5,230	\$ 117,577	\$ -
- Housing co-operatives (note 3a(ii))	32	57,737	-
No-interest loans (note 3b)	865	22,867	22,867
Deferred payment loans (note 3c)	767	18,129	18,129
Total loans approved	<u>6,894</u>	216,310	40,996
Less:			
Loans approved but not yet issued			
- Homeowners		(22,875)	(7,096)
- Housing co-operatives		(46,395)	-
Present value discount		(13,959)	(13,959)
Loss provision for CMHC-insured loans		(3,544)	-
Loan write-offs		(1,274)	(149)
Loan repayments		(15,533)	(3,286)
Loans receivable		<u>\$ 112,730</u>	16,506
Less: current portion			(1,240)
Loans receivable			<u>\$ 15,266</u>

The present value of the interest to be paid in the future by the Office on the subsidized interest loans is \$38.5 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 32 housing co-operatives contain 1,848 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%.

HOMEOWNER PROTECTION OFFICE

**Notes to Financial Statements**

For the year ended March 31, 2002

**5. Capital Assets**

	March 31, 2002 (\$000's)			March 31, 2001 (\$000's)	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	
Computer software	\$ 150	\$ (132)	\$ 18	\$ 34	
Computer hardware	221	(173)	48	38	
Office furniture and equipment	294	(198)	96	141	
Leasehold improvements	183	(88)	95	116	
Vehicles	22	(4)	18	-	
Total	<u>\$ 870</u>	<u>(595)</u>	<u>\$ 275</u>	<u>\$ 329</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 \$24.8 million borrowed by the Office, \$6.5 million is due April 3, 2002 with interest accrued at 1.77% per annum, \$12.3 million is due on May 14, 2002 with interest accrued at 1.90% per annum and \$6.0 million is due on September 3, 2002 with interest accrued at 2.17%.

**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	(\$000's)	
2003	\$	254
2004	\$	257
2005	\$	216
2006	\$	-
Total	<u>\$</u>	<u>727</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.

HOMEOWNER PROTECTION OFFICE

**Notes to Financial Statements**

For the year ended March 31, 2002

**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, 1999) 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.

HOMEOWNER PROTECTION OFFICE

**Schedule 1**  
**Revenues and Expenditures by Program**

For the year ended March 31, 2002

	Reconstruction Program		PST Relief Grant Program	
	2002 (\$000's)	2001 (\$000's)	2002 (\$000's)	2001 (\$000's)
<b>Revenue</b>				
Federal contributions	\$7,298	\$ 9,022	\$ 0	\$ 0
Reconstruction levies	4,872	2,643	0	0
Provincial contributions	0	0	2,307	1,580
License fees	0	0	0	0
Loan discount recoveries and other	1,659	571	0	0
Interest	94	171	11	20
	<u>13,923</u>	<u>12,407</u>	<u>2,318</u>	<u>1,600</u>
<b>Expenditures</b>				
Reconstruction loan grants	7,605	5,613	0	0
Interest subsidy	3,559	2,380	0	0
PST Relief Grants	0	0	2,182	1,455
Salaries and wages	627	633	67	84
Loss provision on CMHC-insured loans	1,766	2,131	0	0
Interest expense	655	714	0	1
Travel, office and other	196	177	10	12
Rent and utilities	93	85	11	11
Legal and professional fees	110	109	1	1
Amortization	51	66	6	9
Communications and printing	28	59	1	2
Research studies	0	0	0	0
Consumer and Industry Education	0	0	0	0
	<u>14,690</u>	<u>11,967</u>	<u>2,278</u>	<u>1,575</u>
Income (Loss)	<u>\$ (767)</u>	<u>\$ 440</u>	<u>\$ 40</u>	<u>\$ 25</u>

HOMEOWNER PROTECTION OFFICE

**Schedule 1**  
**Revenues and Expenditures by Program**

For the year ended March 31, 2002

Licensing & Registrar		Finance & Administration		Research & Education		Total	
2002 (\$000's)	2001 (\$000's)	2002 (\$000's)	2001 (\$000's)	2002 (\$000's)	2001 (\$000's)	2002 (\$000's)	2001 (\$000's)
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 7,298	\$ 9,022
0	0	0	0	0	0	4,872	2,643
625	0	0	0	0	0	2,932	1,580
1,571	1,003	543	598	0	0	2,114	1,601
4	0	0	0	4	1	1,667	572
19	14	7	8	2	3	133	216
<u>2,219</u>	<u>1,017</u>	<u>550</u>	<u>606</u>	<u>6</u>	<u>4</u>	<u>19,016</u>	<u>15,634</u>
0	0	0	0	0	0	7,605	5,613
0	0	0	0	0	0	3,559	2,380
0	0	0	0	0	0	2,182	1,455
958	546	344	339	85	96	2,081	1,698
0	0	0	0	0	0	1,766	2,131
49	64	18	37	6	14	728	830
362	235	69	92	13	18	650	534
142	79	47	46	14	16	307	237
75	89	4	10	21	16	211	225
80	61	25	35	8	13	170	184
107	81	6	12	12	19	154	173
0	0	0	0	61	85	61	85
0	0	0	0	25	27	25	27
<u>1,773</u>	<u>1,155</u>	<u>513</u>	<u>571</u>	<u>245</u>	<u>304</u>	<u>19,499</u>	<u>15,572</u>
<u>\$ 446</u>	<u>\$ (138)</u>	<u>\$ 37</u>	<u>\$ 35</u>	<u>\$ (239)</u>	<u>\$ (300)</u>	<u>\$ (483)</u>	<u>\$ 62</u>



Homeowner  
Protection Office

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