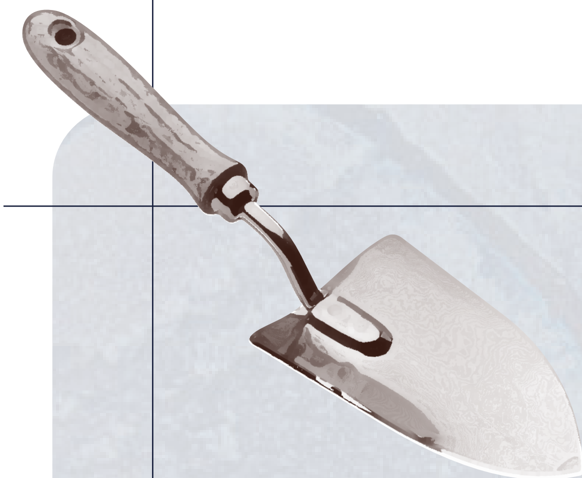
Homeowner
Protection Office



Financial

Report

31 March 2005

Homeowner Protection Office

Homeowner Protection Office

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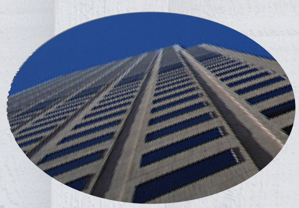

OVERVIEW

Revenues collected from residential builder license fees provide the funding for the HPO's programs with the exception of the Reconstruction Loan Program and the PST 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 Office 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 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 operated remained strong throughout the year. Housing starts continued upward. The number of licensed builders remained relatively stable with a slight decrease over the same time period from last year. The demand for financial assistance increased over last year as more owners of leaky homes repaired their units. These factors resulted in an increase in both revenues and expenditures.

NET OPERATING RESULTS

Net income is down $0.6 million from a net income of $4.6 million in 2003/04 to $4.0 million in 2004/05. While revenues increased $0.6 million from $24.3 million in 2003/04 to $24.9 million in 2004/05, expenditures rose significantly, up $1.2 million from $19.7 million in 2003/04 to $20.9 million in 2004/05. This rise in expenditures was mainly attributable to a greater demand for reconstruction loans, rebate payments under the PST Relief Grant Program and increased initiatives in the Research and Education program. Compared to the budget, revenues are up significantly due to a stronger housing market, while expenditures are down due to a favourable interest environment. The office ended the year with a surplus. (See table below showing the changes in net operating results).

	Net Operating Results								
	Actual 2004/2005 ($000's)	Actual % change to actual over last year	Budget 2004/2005 ($000's)	Actual % to Budget 2004/2005	2003/2004 ($000's)	% change over last year	2002/2003 ($000's)	% change over last year	2001/2002 ($000's)
Revenues	24,940	2.5	21,242	17.4	24,339	3.8	23,444	23.3	19,016
Expenditures	20,864	5.9	22,537	(7.4)	19,702	(1.1)	19,917	2.1	19,499
Net income (loss)	4,076	(12.1)	(1,295)	414.7	4,637	31.5	3,527	830.2	(483)

GENERAL OPERATING PROGRAM RESULTS

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

Expenditures on research and education are up significantly from $0.3 million in 2003/04 to $0.5 million in 2004/05 as a result of increased initiatives including the "Building Smart" seminars.

Revenues from license fees collected experienced a slight increase, up $0.1 million from $2.9 million in 2003/04 to $3.1 million in 2004/05 as a result of a continued strong housing market. Expenditures on licensing and compliance activities decreased slightly from $1.9 million in 2003/04 to $1.8 million in 2004/05 mainly due to lower support service costs.

FINANCIAL ASSISTANCE PROGRAM RESULTS

The HPO provides financial assistance to owners of leaky homes through its Reconstruction Loan Program and the administration of the PST 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 up significantly from $2.5 million in 2003/04 to $3.3 million in 2004/05. The PST Relief Grant Program experiences fluctuations in the total value of grant payments as payments are made on the 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 grant payments).

Value of PST Relief Grant Payments

	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	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. The demand for financial assistance, as expressed by the number of loans approved, is up 4.2% over last year, excluding housing co-operative repair loans. This rise follows a substantial decrease in the previous year. The fluctuations in the number of loans issued occur due to the timing of when strata councils approve the repair cost. (See table below showing the changes in the number of loans approved by the HPO).

Number of Approved Reconstruction Loans

	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	399	3.9	384	(28.8)	539	10.5	488
Financial institutions no-interest loans	713	4.4	683	(36.6)	1,077	(1.7)	1,096
Total HPO & financial institutions loans	1,112	4.2	1,067	(34.0)	1,616	2.0	1,584
Total co-op loans through CMHC	237	(64.5)	667	373.0	141	(66.3)	419

The average value of the issued loan amounts continued an upward trend that contributed to an increase in expenditures in the Reconstruction Loan Program. For example, the value of the average reconstruction loan rose 14.5% again this year to over $47,000 per unit in 2004/05 for HPO-issued mortgages. This trend is mainly due to the rising repair costs associated with labour and materials. (See table on the next page showing the changes in the annual average loan amounts by loan category).

Average Value Per Unit of Issued Reconstruction Loans

	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)
HPO mortgages	47,393	14.5	41,383	14.5	36,133	21.0	29,855
HPO deferred payment loans	45,509	27.9	35,585	(13.9)	41,307	53.9	26,845
Financial institutions no-interest loans	42,411	5.2	40,308	12.8	35,746	30.6	27,361

The per unit value of approved housing co-operative repair loans also increased significantly up 47.5% over last year's cumulative average loan amount of $38,090 to $56,173 due to significantly higher repair costs for these units.

Low interest rates in the 2004/05 year resulted in a significant decrease in subsidy interest payments, which the HPO paid to financial institutions and CMHC holding no-interest repair loans. This cost decreased 13.7% from $5.1 million in 2003/04 to $4.4 million in 2004/05, although the average value of loans increased in the current year. Mortgages held by financial institutions are based on the bank's prime lending rate. In 2004/05 the average interest rate was 4.0%, down from 4.6% in 2003/04. Interest is paid on housing co-operative loan advances made during the repair period at a construction-floating rate set by CMHC. In 2004/05, the average construction-floating rate was 2.3%. 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, the average interest rate was 4.70%. (See table below showing the changes in interest subsidy costs).

Value of Interest Subsidy Costs

	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	3,700	(16.4)	4,427	18.6	3,734	17.0	3,191
CMHC	670	5.3	636	2.7	619	68.2	368
Total interest subsidy costs	4,370	(13.7)	5,063	16.3	4,353	22.3	3,559

Total revenues for the Reconstruction Loan Program remained relatively constant over last year. The high volume of new multi-unit construction activity resulted in a 24% increase over last year in reconstruction levies collected. A total of $12.7 million was collected in 2004/05, up from $10.2 million in 2003/04. Loan repayments were strong, resulting in a 43.2% increase over last year in loan discount recoveries. The strong revenue in-flow from other sources was negatively offset in the current year when compared to last year as a result of the cap placed on the Government of Canada's funding towards the Reconstruction Program. The total funding commitment from the Government of Canada was reached in October 2003. As a result, the total revenues remained relatively the same as last year although revenues from reconstruction levies increased 24% in the current year. (See table on the next page showing the changes in Reconstruction Loan Program revenues).

Revenues Under the Reconstruction Loan Program

	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	12,675	24.0	10,224	43.0	7,150	46.8	4,872
Federal contributions	0	(100.0)	4,490	(34.8)	6,890	(5.6)	7,298
Loan discount recoveries and other	5,752	43.2	4,016	37.5	2,921	66.6	1,753
Total revenues	18,427	(1.6)	18,730	10.4	16,961	21.8	13,923

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 B.C. by the HPO throughout the year bringing the total cumulative debt obligation to $28.4 million as at March 31st, 2005, up from $25.2 million in the same period last year. 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 the table below showing the changes in short-term borrowing obligations).

HPO Short-term Debt Due to the Province of B.C.

	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	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. As demand for financial assistance continues, the commitment to pay interest costs on subsidized repair loans increases. (See the table below showing the present value of this interest cost).

Present Value (PV) of Subsidized Interest Costs

	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)
Present value of interest on approved loans on March 31st	97,300	43.1	68,000	21.4	56,800	45.5	38,500

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 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 may trend upward as the demand for financial assistance continues in a rising construction cost environment. The implementation of the Futures Report may impact revenues and expenditures.

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 (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 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 29, 2005

To the Directors of
Homeowner Protection Office

And

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

We have audited the balance sheet of **Homeowner Protection Office** (the "Office") as at March 31, 2005 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 Office'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 Office as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at March 31, 2004 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 23, 2004.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia
April 29, 2005

(in thousands of dollars)

	2005 $	2004 $
Assets		
Current assets		
Cash	362	349
Cash for reconstruction and PST programs (note 3)	1,618	1,878
Due from Province of British Columbia (note 4)	255	5
Accounts receivable	1,097	990
Prepaid expenses	43	23
Current portion of loans receivable (note 3)	2,339	1,969
	5,714	5,214
Loans receivable (note 3)	33,477	26,573
Capital assets (note 5)	91	128
	$ 39,282	$ 31,915
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	945	769
Loan loss provision (note 3)	4,180	4,239
Due to Province of British Columbia (note 6)	28,388	25,214
	33,513	30,222
Net assets		
Invested in capital assets	91	128
Unrestricted	5,678	1,565
	5,769	1,693
	$ 39,282	$ 31,915

Commitments (note 7)

Approved by the Board of Directors

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

(in thousands of dollars)

	2005			2004
	Invested in capital assets $	**Unrestricted $**	**Total $**	**Total $**
Balance – Beginning of year	128	1,565	1,693	(2,944)
Excess of revenues over expenditures	(103)	4,179	4,076	4,637
Investment in capital assets	66	(66)	0	0
Balance – End of year	91	5,678	5,769	1,693

(in thousands of dollars)

	2005 $	2004 $
Revenues		
Reconstruction levies	12,675	10,224
Loan discount recoveries	5,642	3,929
Provincial contributions	3,396	2,626
License fees	3,051	2,935
Interest	143	125
Other	33	10
Federal contributions	0	4,490
	24,940	24,339
Expenditures		
Reconstruction loan grants (note 3(b))	8,208	6,616
Interest subsidy (note 3(a))	4,370	5,063
PST Relief Grants	3,271	2,501
Salaries and wages	2,224	2,128
Travel, office and other	1,012	955
Interest	672	761
Loan loss provision	295	892
Rent and utilities	208	270
Legal and professional fees	201	158
Communications and printing	147	161
Amortization	103	120
Consumer and industry education	82	7
Research studies	71	70
	20,864	19,702
Excess of revenues over expenditures	4,076	4,637

(in thousands of dollars)

	2005 $	2004 $
Cash flows from operating activities		
Cash received from		
Residential builders for reconstruction levies	12,518	10,387
Homeowners for principal-only payments on loans	11,967	7,540
Province of British Columbia for programs	3,158	2,626
Residential builders for license fees	3,101	2,844
Interest	134	127
Partners in funding research and education activities	25	8
Government of Canada for reconstruction program	0	4,865
Cash paid for		
Homeowners for reconstruction loans	(21,809)	(15,760)
Financial institutions for interest on CMHC-insured loans	(4,334)	(5,300)
Suppliers and employees	(3,827)	(3,603)
Homeowners for PST Relief Grants	(3,271)	(2,501)
Province of British Columbia for loan interest	(671)	(820)
Financial institutions for defaults on CMHC-insured loans	(345)	(550)
	(3,354)	(137)
Cash flows from investing activities		
Purchase of capital assets	(66)	(94)
Cash flows from financing activities		
Proceeds from borrowing	3,173	149
Province of British Columbia for PST program	0	(125)
	3,173	24
Decrease in cash	(247)	(207)
Cash – Beginning of year	2,227	2,434
Cash – End of year	1,980	2,227
Represented by		
Cash	362	349
Cash for reconstruction and PST programs	1,618	1,878
	$ 1,980	$ 2,227

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.

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 Office except for the Reconstruction and Provincial Sales Tax (PST) 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 that are considered appropriate for the Office. 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 amortization of capital assets. Actual results could differ from the estimates.

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.

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 expenses. Principal repayments are first applied to the reduced loan balance (net present value) and then recorded as revenue (loan discount recoveries) when received.

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. Accordingly, the Office's loan loss provision reflects a provision for CMHC-insured loans.

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 Office to their estimate realizable amount, and also provides for estimated loan losses incurred on CMHC-insured loans.

Financial dependence

The Office 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 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. Accordingly, cash balances for this program are segregated and shown separately on the balance sheet.

Under the Reconstruction 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. 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 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 which is also the first mortgage lender. The housing co-operative makes monthly principal-only payments 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 the 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 the interest subsidy in the Statement of Operations.

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 in 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 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 Statements of Operations.

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 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 Statements of Operations.

d) The Office approved financial assistance as follows:

	Number of Loans	Total Financial Assistance ($000's)	Financial Assistance Reported on the Balance Sheet March 31, 2005 ($000's)	Financial Assistance Reported on the Balance Sheet March 31, 2004 ($000's)
Subsidized interest loans				
Homeowners (note 3a(i))	7,703	216,674	-	-
Housing co-operatives (note 3a(ii))	51	162,508	-	-
No-interest loans (note 3(b))	1,577	55,474	55,474	44,632
Deferred payment loans (note 3(c))	1,377	42,828	42,828	33,408
Total loans approved	10,708	477,484	98,302	78,040
Less:				
Loans approved but not yet issued				
Homeowners		(21,729)	(11,523)	(13,079)
Housing co-operatives		(143,106)	-	-
Present value discount		(23,339)	(23,339)	(20,733)
Loan loss provision		(4,180)	-	-
Loan write-offs		(2,927)	(256)	(246)
Loan repayments		(129,326)	(27,368)	(15,440)
Loans receivable		152,877	35,816	28,542
Less: Current portion			(2,339)	(1,969)
Loans receivable			33,477	26,573

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

	2005 ($000's)	2004 ($000's)
Revenues		
Reconstruction levies	12,675	10,224
Loan discount recoveries	5,642	3,929
Interest	110	87
Federal contributions	0	4,490
	18,427	18,730
Expenditures		
Reconstruction loan grants	8,208	6,616
Interest subsidy	4,370	5,063
Administrative costs	993	993
Interest	644	732
Loan loss provision	295	892
	14,510	14,296
Excess of program revenues over expenditures	3,917	4,434

The present value of the interest to be paid in the future by the Office on the subsidized interest loans approved is $97.3 million (2004: $68 million).

Loans were approved, but not issued in instances where owners, 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 51 housing co-operatives contain 2,893 homes.

4. Due from the Province of British Columbia

The balance due from the Province of British Columbia (the Province) includes reimbursement of PST Relief Grant payments made on behalf of the Province and interest earned on the HPO's balance of its overnight bank deposits in the Province's offset interest program. Under agreement between the Province and the HPO, the Province reimburses the Office on a monthly basis for all PST Relief Grant payments made to eligible home-owners. 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 after the interest is earned.

	March 31, 2005 ($000's)	March 31, 2004 ($000's)
PST Relief Grant reimbursement	238	0
Offset interest earned	15	5
Miscellaneous	2	0
	255	5

5. Capital Assets

	Cost ($000's)	Accumulated amortization ($000's)	2005 Net ($000's)	2004 Net ($000's)
Office furniture and equipment	283	(276)	7	17
Computer hardware	284	(226)	58	55
Leasehold improvements	173	(173)	0	26
Computer software	175	(161)	14	11
Vehicles	40	(28)	12	19
	955	(864)	91	128

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 $37 million.

Of the $28.4 million borrowed by the Office, $6.5 million was due on April 13, 2005 with interest accrued at 2.35%, $6.4 million is due on May 3, 2005 with interest accrued at 2.39%, $6 million is due on May 13, 2005 with interest accrued at 2.37% and $9.5 million is due on June 16, 2005 with interest accrued at 2.45% .

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 actual interest subsidy payment amounts made and the present value of interest amounts to be paid in the future are shown in note 3.

During the year, the Office entered into a new operating lease for its office space, which expires on January 31, 2011. The Office has minimum rental obligations under operating leases for office space as follows:

Year ending March 31	($000's)
2006	197
2007	200
2008	203
2009	207
2010	210
	1,017

8. **Related party transactions**

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

9. **Financial Instruments**

The financial instruments of the Office 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.

10. **Employee benefit plans**

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

The Office contributes to the Public Service Pension Plan (the plan), a jointly trusteed multi-employer defined benefit 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 has about 52,000 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, 2002, indicated a $546 million funding surplus for basic pension benefits. The next valuation will be as at March 31, 2005, with results available in 2006. The actuary does not attribute portions of the surplus to individual employers. The Homeowner Protection Office paid $124,600 for employer contributions to the plan in fiscal 2005 (2004: $123,000).

Under the terms of their employment, employees of the Office 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 Office has insufficient information to apply defined plan accounting. As such, the cost of employee future benefits for these plans is recognized as an expense in the year contributions are paid.