Homeowner
Protection Office

Financial Report

March 31, 2009




Contents



Management Discussion and Analysis

Overview

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

The B.C. residential construction market in which the HPO operates weakened significantly in the latter half of the 2008-09 fiscal year. The total of new homes enrolled in warranty insurance decreased in 2008-09 mainly due to the decline in the number of new, multi-unit homes constructed, which directly affected the revenue flow for the Reconstruction Program. This decline resulted in a significant drop in revenues and decreased the ability of the HPO to meet all current financial assistance demand in the current year.

Revenues from licensed residential builders and owner builders were not significantly impacted in the current year. Many builders continued to renew their licences and build single detached homes. As well, owner builder activity was not significantly impacted.

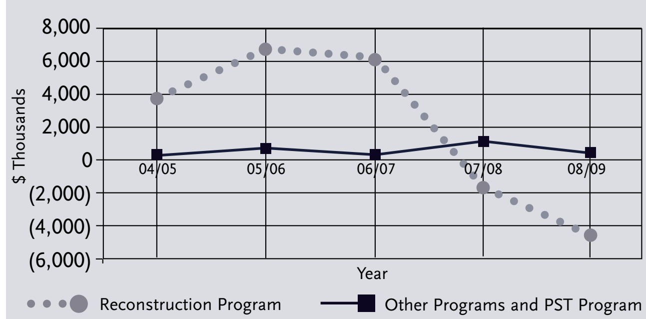
Management Discussion and Analysis

Net Operating Results

Net operating results continued to reflect a deficiency of program revenues over expenditures in the Reconstruction Program. This deficiency increased over last year due to the significant drop in the construction of new, multi-unit homes that attract a reconstruction fee while demand for financial assistance remained strong. (See Graph 1: Net Operating Results)

Other programs, including the PST Relief Grant Program, continued to operate within the available program resources and maintained an operating surplus. (See Graph 1: Net Operating Results)

Graph 1: **Net Operating Results**

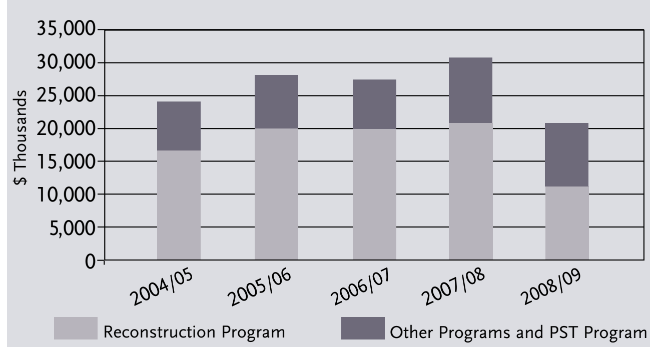


Revenues and Expenditures

Revenues – Summary Level

Total revenues are down significantly over last year as revenues in most categories declined due to the drop in new home construction. The revenues in the Reconstruction Program experienced the greatest decline, as the Program is heavily reliant on reconstruction fees. The revenues in Other Programs, including the PST Relief Grant Program did not experience a sharp decline. (See Graph 2: Revenues – Summary Level)

Graph 2: **Revenues – Summary Level**

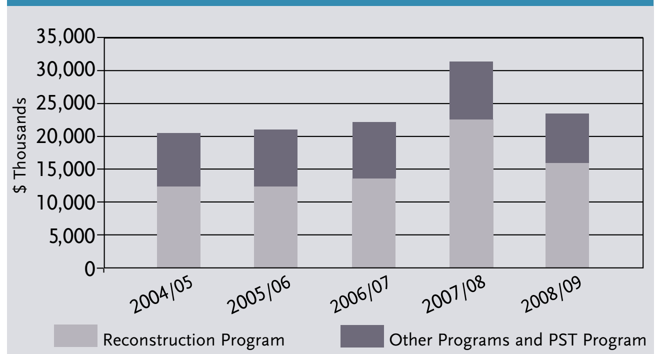


Expenditures – Summary Level

Total expenditures are down over last year as program expenditures were adjusted downward during the year. In the Reconstruction Program, expenditures were held to within the approved operating deficit level.

In Other Programs, the expenditure levels were within the level of expenditure range over the past four years, as expenditures are managed within available revenues. (See Graph 3: Expenditures – Summary Level)

Graph 3: **Expenditures – Summary Level**



Management Discussion and Analysis

Revenues and Expenditures – Summary Level

Significant change occurred between the actual operating results and budget as the budget was based on a slowing housing market. The weakening economic conditions and tightening of the credit markets affected the number of multi-unit building starts as projects were put on hold. This resulted in a substantial drop in the number of multi-unit building starts and a corresponding drop in the reconstruction fee revenues. License and exemption fee revenues were not impacted significantly and remained within the expected range. Provincial contributions towards the PST Relief Grant Program are down as fewer applications were received from eligible homeowners who completed reconstruction projects. As revenues declined, adjustments in expenditures were made which resulted in a substantial reduction or delay in program expenditures. This resulted in an overall decrease in the actual expenditures by 28 percent when compared to budgeted expenditures. (See Table 1: Revenues and Expenditures – Summary Level)

Table 1: **Revenues and Expenditures – Summary Level**

	Actual 2008/2009 ($000's)	Actual % change to actual over last year	**Budget 2008/2009 ($000's)**	Actual % change to budget 2008/2009	**2007/2008 ($000's)**	% change over last year	**2006/2007 ($000's)**	% change over last year	**2005/2006 ($000's)**	% change over last year	**2004/2005 ($000's)**
Revenues											
Reconstruction fees	**5,869**	(63.0)	**15,000**	(60.9)	**15,863**	(1.7)	**16,131**	7.1	**15,065**	18.9	**12,675**
License fees	**4,726**	3.6	**5,157**	(8.4)	**4,560**	29.3	**3,527**	1.5	**3,476**	13.9	**3,051**
Provincial contributions	**2,091**	(38.2)	**4,000**	(47.7)	**3,386**	37.1	**2,470**	(21.5)	**3,146**	(7.4)	**3,396**
Interest and other	**406**	(7.3)	**216**	88.0	**438**	59.9	**274**	28.6	**213**	21.0	**176**
Loan discount recoveries	**7,015**	5.9	**4,239**	65.5	**6,624**	12.6	**5,883**	(11.8)	**6,669**	18.2	**5,642**
Total Revenues	**20,107**	(34.9)	**28,612**	(29.7)	**30,871**	9.1	**28,285**	(1.0)	**28,569**	14.6	**24,940**
Expenditures											
Reconstruction loan grants	**9,543**	(37.3)	**12,330**	(22.6)	**15,231**	87.5	**8,125**	(12.6)	**9,296**	13.3	**8,208**
Interest subsidy	**5,512**	(17.4)	**7,839**	(29.7)	**6,677**	10.4	**6,046**	23.0	**4,914**	12.4	**4,370**
Salaries and benefits	**2,823**	5.5	**2,906**	(2.9)	**2,677**	5.9	**2,527**	(0.8)	**2,548**	14.6	**2,224**
Operating	**2,314**	(1.9)	**2,870**	(19.4)	**2,359**	23.7	**1,907**	(2.0)	**1,946**	16.5	**1,671**
PST Relief Grants	**1,959**	(39.2)	**3,875**	(49.4)	**3,221**	37.9	**2,336**	(18.7)	**2,874**	(12.1)	**3,271**
Interest and fees	**1,398**	(12.4)	**2,724**	(48.7)	**1,596**	21.9	**1,309**	46.1	**896**	33.3	**672**
Research and Education	**423**	78.5	**865**	(51.1)	**237**	(28.0)	**329**	126.9	**145**	(5.2)	**153**
Loan loss provision	**104**	126.9	**-**	100.0	**(387)**	52.2	**(810)**	31.3	**(1,179)**	(499.7)	**295**
Total Expenditures	**24,076**	(23.8)	**33,409**	(27.9)	**31,611**	45.2	**21,769**	1.5	**21,440**	2.8	**20,864**
Net (loss) Income	**(3,969)**	(436.4)	**(4,797)**	17.3	**(740)**	(111.4)	**6,516**	(8.6)	**7,129**	74.9	**4,076**

Management Discussion and Analysis

The most significant change on a percentage basis that occurred between the actual operating results and budget was in the PST Relief Grant Program. Grants fell significantly due to the receipt of fewer grant applications. As the program is fully funded by the Province, the reimbursements for grants made on behalf of the Province (Provincial contributions) are also down significantly. General program expenditures were adjusted to fall within the available revenues. (See Table 2: Revenues and Expenditures – Other Programs and PST Relief Grant Program)

Table 2: **Revenues and Expenditures – Other Programs and PST Relief Grant Program**

	Actual 2008/2009 ($000's)	Actual % change to actual over last year	**Budget 2008/2009 ($000's)**	Actual % change to budget 2008/2009	**2007/2008 ($000's)**	% change over last year	**2006/2007 ($000's)**	% change over last year	**2005/2006 ($000's)**	% change over last year	**2004/2005 ($000's)**
Revenues											
License fees	**4,726**	3.6	**5,157**	(8.4)	**4,560**	29.3	**3,527**	1.5	**3,476**	13.9	**3,051**
Provincial contributions	**2,091**	(38.2)	**4,000**	(47.7)	**3,386**	37.1	**2,470**	(21.5)	**3,146**	(7.4)	**3,396**
Interest and other	**335**	139	**88**	280.7	**294**	69.9	**173**	127.6	**76**	15.2	**66**
Total Revenues	**7,152**	(13.2)	**9,245**	(22.6)	**8,240**	33.5	**6,170**	(7.9)	**6,698**	2.8	**6,513**
Expenditures											
Salaries and benefits	**2,389**	9.9	**2,432**	(1.8)	**2,174**	8.2	**2,009**	(1.7)	**2,043**	10.6	**1,847**
PST Relief Grants	**1,959**	(39.2)	**3,875**	(49.4)	**3,221**	37.9	**2,336**	(18.7)	**2,874**	(12.1)	**3,271**
Operating	**1,867**	21.0	**2,073**	(9.9)	**1,543**	29.1	**1,195**	(6.7)	**1,281**	18.3	**1,083**
Research and Education	**423**	78.5	**865**	(51.1)	**237**	(28.0)	**329**	126.9	**145**	(5.2)	**153**
Total Expenditures	**6,638**	(7.5)	**9,245**	(28.2)	**7,175**	22.3	**5,869**	(7.5)	**6,343**	(0.2)	**6,354**
Net Income	**514**	(51.7)	**-**	100.0	**1,065**	253.8	**301**	(15.2)	**355**	123.3	**159**

Management Discussion and Analysis

A significant change occurred in the Reconstruction Program revenue stream as the construction of multi-unit buildings came off previous highs and fell significantly below the five-year average. This had a major impact on the HPO's ability to meet all of the current demand for financial assistance. The Reconstruction Program expenditures were held to within approved budgetary levels. (See Table 3: Revenues and Expenditures – Reconstruction Program)

Table 3: **Revenues and Expenditures – Reconstruction Program**

	Actual 2008/2009 ($000's)	Actual % change to actual over last year	**Budget 2008/2009 ($000's)**	Actual % change to budget 2008/2009	**2007/2008 ($000's)**	% change over last year	**2006/2007 ($000's)**	% change over last year	**2005/2006 ($000's)**	% change over last year	**2004/2005 ($000's)**
Revenues											
Reconstruction fees	**5,869**	(63.0)	**15,000**	(60.9)	**15,863**	(1.7)	**16,131**	7.1	**15,065**	18.9	**12,675**
Interest and other	**71**	(50.7)	**128**	(44.5)	**144**	42.6	**101**	(26.3)	**137**	23.4	**111**
Loan discount recoveries	**7,015**	5.9	**4,239**	65.5	**6,624**	12.6	**5,883**	(11.8)	**6,669**	18.2	**5,641**
Total Revenues	**12,955**	(42.8)	**19,367**	(33.1)	**22,631**	2.3	**22,115**	1.1	**21,871**	18.7	**18,427**
Expenditures											
Reconstruction loan grants	**9,543**	(37.3)	**12,330**	(22.6)	**15,231**	87.5	**8,125**	(12.6)	**9,296**	13.3	**8,208**
Interest subsidy	**5,512**	(17.4)	**7,839**	(29.7)	**6,677**	10.4	**6,046**	23.0	**4,914**	12.4	**4,370**
Interest and fees	**1,350**	(12.6)	**2,724**	(50.4)	**1,545**	21.4	**1,273**	48.0	**860**	33.5	**644**
Salaries and benefits	**434**	(13.7)	**474**	(8.4)	**503**	(2.9)	**518**	2.6	**505**	34.0	**377**
Operating	**495**	(42.9)	**797**	(37.9)	**867**	15.9	**748**	6.7	**701**	13.8	**616**
Loan loss provision	**104**	126.9	**-**	100.0	**(387)**	52.2	**(810)**	31.3	**(1,179)**	(499.7)	**295**
Total Expenditures	**17,438**	(28.6)	**24,164**	(27.8)	**24,436**	53.7	**15,900**	5.3	**15,097**	4.0	**14,510**
Net (loss) Income	**(4,483)**	(148.4)	**(4,797)**	6.5	**(1,805)**	(129.0)	**6,215**	(8.3)	**6,774**	72.9	**3,917**

Approved Reconstruction Loans

Approved loans are down over last year as the HPO was unable to meet all the demand for financial assistance within the approved operating budget. This was largely due to the significant increases in the average loan value. (See Table 5: Average Annual Value Per Unit of Issued Reconstruction Loans)

The proportion of loans funded directly by the HPO increased slightly from 52% in 2007-08 to 57% in 2008-09 as more eligible homeowners qualified for HPO financing. This proportion will change from time-to-time depending upon the economic conditions and value of reconstruction repair assessments. The HPO continues to provide financial assistance to housing co-operatives with loan commitment letters already in place. However, the HPO has stopped making new commitments for financial assistance for repairs to federally funded housing co-operative projects in British Columbia. The repair value for the housing co-operative repair program as of March 31, 2009 was $149,750,000 for a total of 39 projects (2,045 units). (See Table 4: Number of Approved Reconstruction Loans)

Table 4: **Number of Approved Reconstruction Loans** (Expressed in Units)									
	2008/2009	% Change over last year	**2007/2008***	% Change over last year	**2006/2007**	% Change over last year	**2005/2006**	% Change over last year	**2004/2005**
HPO mortgages and deferred payment loans	**243**	(52.4)	**511**	(11.1)	**575**	39.9	**411**	3.0	**399**
Financial institutions no-interest loans	**171**	(57.7)	**404**	(31.1)	**586**	38.5	**423**	(40.7)	**713**
Total HPO and financial institutions loans	**414**	(54.8)	**915**	(21.2)	**1,161**	39.2	**834**	(25.0)	**1,112**
Total housing co-op repair loans administered through CMHC	**-**	(100.0)	**151**	(66.4)	**449**	349.0	**100**	(57.8)	**237**

*In the 2007/08 annual report, the number of approved loans was inadvertently reported for issued and non-issued loans rather than approved loans. These numbers have been replaced with the number of approved loans.

Average Annual Value Per Unit of Issued Reconstruction Loans

The average value of the total issued loan amounts, excluding co-operative repair loans, increased on average in excess of 30% this year from last year as reconstruction costs for approved repair projects increased. Reconstruction costs tend to be higher than general construction costs and are also a reflection of the state of the building envelope under repair. Although general construction costs decreased in the latter half of the 2008-09 fiscal year, any decrease in reconstruction costs for repair loans would not be reflected in the loans issued in 2008-09 due to the long lead-time to construction. (See Table 5: Average Annual Value Per Unit of Issued Reconstruction Loans)

Table 5: **Average Annual Value Per Unit of Issued Reconstruction Loans**									
	2008/2009	% Change over last year	**2007/2008**	% Change over last year	**2006/2007**	% Change over last year	**2005/2006**	% Change over last year	**2004/2005**
HPO mortgages	$ **88,276**	20.2	$ **73,421**	25.1	$ **58,710**	(1.6)	$ **59,658**	25.9	$ **47,393**
HPO deferred payment loans	$ **78,524**	32.8	$ **59,131**	20.6	$ **49,045**	(3.5)	$ **50,823**	11.7	$ **45,509**
Financial institutions no-interest mortgages	$ **84,298**	41.4	$ **59,616**	16.6	$ **51,129**	(0.8)	$ **51,558**	21.6	$ **42,411**

Interest Subsidy Costs

Interest paid on mortgages held by financial institutions is based on the bank's prime lending rate. The annual prime-lending rate in 2008-09 averaged 4.04% for the fiscal year, with a high of 4.75% and a low of 2.50%. The steady decrease in bank prime lending rates affects the HPO's interest subsidy expense resulting in lower interest costs. The decrease in the interest subsidy is also attributable to a decrease in total value of loans issued in 2008-09.

Interest is paid on housing co-operative loan advances made during the repair period at a construction floating rate set by CMHC. At March 31, 2009, the CMHC construction floating rate was 0.64%. 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 3.71% to a high of 4.79%. (See Table 6: Interest Subsidy Costs)

Management Discussion and Analysis

Table 6: **Interest Subsidy Costs**									
	2008/2009 ($000's)	% Change over last year	**2007/2008 ($000's)**	% Change over last year	**2006/2007 ($000's)**	% Change over last year	**2005/2006 ($000's)**	% Change over last year	**2004/2005 ($000's)**
Financial institutions	**3,215**	(32.7)	**4,777**	3.3	**4,625**	15.0	**4,021**	8.7	**3,700**
CMHC for housing co-operative loans	**2,297**	20.9	**1,900**	33.7	**1,421**	59.1	**893**	33.3	**670**
Total interest subsidy cost	**5,512**	(17.4)	**6,677**	10.4	**6,046**	23.0	**4,914**	12.4	**4,370**

Short-term Debt

Funds for repair loans advanced throughout the year on behalf of eligible homeowners continued to exceed the incoming funds to operate the Reconstruction Program. This resulted in increased short-term borrowing from the Province by the HPO throughout the year bringing the total cumulative debt obligation to the Province to $68 million as at March 31st, 2009, up from $53.5 million at the same time last year. The total current cumulative debt obligation includes accrued interest of $0.4 million. At the end of March 2009, the weighted average cost of borrowing was 1.64%. It is anticipated that the HPO will repay the bridge financing loans provided by the Province over time with incoming funds from loan repayments and reconstruction fees collected in the ensuing years. (See Table 7: Short-term Debt Due to the Province.)

Table 7: **Short-term Debt Due to the Province**									
	2008/2009 ($000's)	% Change over last year	**2007/2008 ($000's)**	% Change over last year	**2006/2007 ($000's)**	% Change over last year	**2005/2006 ($000's)**	% Change over last year	**2004/2005 ($000's)**
Balance outstanding on March 31st	**68,003**	27.3	**53,400**	53.5	**34,780**	9.3	**31,816**	12.1	**28,388**

Retained Earnings

Retained earnings of the HPO decreased from $18.7 million in 2007-08 to $14.7 million in 2008-09 mainly due to a deficiency of revenues over expenditures in the Reconstruction Program. (See Table 8: Retained Earnings)

Table 8: **Retained Earnings**									
	2008/2009 ($000's)	% Change over last year	**2007/2008 ($000's)**	% Change over last year	**2006/2007 ($000's)**	% Change over last year	**2005/2006 ($000's)**	% Change over last year	**2004/2005 ($000's)**
Retained Earnings	**14,705**	(21.3)	**18,674**	(3.8)	**19,414**	50.5	**12,898**	123.6	**5,769**

Full-time Equivalents of Staff Resources

HPO reduced its full-time equivalents of staff resources as a result of targeted reductions in expenditures in response to declining revenues. These reductions were achieved through attrition and not filling vacancies. (See Table 9: Full-time Equivalents of Staff Resources)

Management Discussion and Analysis

Table 9: **Full-time Equivalents of Staff Resources**											
	Actual 2008/2009	Actual % change to actual over last year	**Budget 2008/2009**	Actual % change to budget 2008/2009	**2007/2008**	% change over last year	**2006/2007**	% change over last year	**2005/2006**	% change over last year	**2004/2005**
Full-time equivalents	**33**	(5.7)	**42**	(21.4)	**35**	-	**35**	-	**35**	2.9	**34**

Future Expectations

HPO expects a continuing softening of the housing market, with only a modest pick up in the construction of new multi-unit buildings in 2010 due to the current economic conditions. As the existing supply of housing units is absorbed and capital becomes more readily available, it is expected that the construction of multi-unit buildings put on hold will resume. While existing builders will continue to renew their licences, it is expected that new builders will not be entering the residential construction market at the same pace as in recent years. Low interest rates will positively affect the interest costs in the Reconstruction Program as interest subsidy costs are a significant proportion of the Program's overall costs. While general construction costs are expected to drop, reconstruction costs will not experience a similar drop as these repair costs are generally higher than new construction costs.

Consumer confidence will continue to be a key factor in the health of British Columbia's market housing industry. The expected level of new housing development, while lower than in previous years, will provide sufficient revenue to enable the HPO to continue to promote consumer protection through licensing, research and education and encouraging the viability of the home warranty insurance system.

Sensitivity and Impact on Future Operating Budgets

HPO programs are sensitive to changes in the housing market. The Office is dependent upon revenues from new home construction to deliver programs. When a decrease in these revenues occurs, program delivery is adjusted to fit within available resources. When revenues increase, program delivery is expanded. This results in variability of service levels. These programs are managed to ensure that deficits do not occur.

The Reconstruction Program is largely dependent upon revenues from a reconstruction fee, which is applied to all new multi-unit homes constructed in the coastal climatic zone. When construction levels decline in this segment of the housing market, a deficiency of revenues over expenditures occurs. The Program is also sensitive to interest rate changes as the program is dependent upon bridge financing from the Province and has outstanding short-term debt. Rate increases result in higher borrowing costs and an increase in interest subsidy costs. Changes in reconstruction costs also affect the Program expenditures; in periods of rising reconstruction costs, program expenditures rise. Under these circumstances, as the Program continues to provide financial assistance, increases in deficits occur. (See Table 10: Surplus (deficit) for the next three years)

Table 10: **Surplus (Deficit) for the Next Three Years**			
	2009/2010 ($000's)	**2010/2011 ($000's)**	**2011/2012 ($000's)**
Surplus (Deficit by Program):			
Other Programs	790	806	803
Reconstruction Program	(8,434)	(13,721)	(7,786)
Surplus (Deficit) – Summary Level	(7,644)	(12,915)	(6,983)

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.

Ken Cameron
Chief Executive Officer

Linda McKay, CMA
Manager, Finance and Administration

May 15, 2009

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Auditor's Report

To the Directors of
Homeowner Protection Office

And

To the Minister of Housing and Social Development

We have audited the balance sheet of Homeowner Protection Office ("HPO") as at March 31, 2009 and the statements of operations, retained earnings 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 company as at March 31,2009 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
May 15, 2009

Balance Sheet

as at March 31, 2009

(expressed in thousands of dollars)

	2009 $	2008 $
Assets		
Current assets		
Cash	2,332	2,450
Cash for reconstruction loan and PST Relief Grant (note 3)	2,346	1,334
Due from Province of British Columbia (note 4)	35	62
Accounts receivable	80	499
Prepaid expenses	94	35
Current portion of loans receivable (note 3)	3,194	3,151
	8,081	7,531
Loans receivable (note 3)	76,562	67,224
Property and equipment (note 5)	624	105
	85,267	74,860
Liabilities and Retained Earnings		
Current liabilities		
Accounts payable and accrued liabilities	1,322	1,148
Loan loss provision (note 3)	1,237	1,638
Due to Province of British Columbia (note 6)	68,003	53,400
	70,562	56,186
Retained earnings	14,705	18,674
	85,267	74,860

Commitments (note 7)

Approved by the Board of Directors

_______________ Director _______________ Director

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

Statement of Operations

For the year ended March 31, 2009

(expressed in thousands of dollars)

	2009 $	2008 $
Revenues		
Loan discount recoveries (note 2)	7,015	6,624
Reconstruction fees	5,869	15,863
License and exemption fees	4,726	4,560
Provincial contributions	2,091	3,386
Interest	156	245
Other	250	193
	20,107	30,871
Expenditures		
Reconstruction loan grants (note 3(b) and (c))	9,543	15,231
Interest subsidy (note 3(a))	5,512	6,677
Salaries and benefits	2,823	2,677
PST Relief Grants	1,959	3,221
Interest and fees	1,398	1,596
Travel, office and other	1,077	1,399
Legal and professional fees	353	378
Communications and printing	299	312
Research and education	423	237
Rent and utilities	358	222
Amortization of property and equipment	227	48
Loan loss provision	104	(387)
	24,076	31,611
Net Loss from Operations	(3,969)	(740)

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

Statement of Retained Earnings

as at March 31, 2009

(expressed in thousands of dollars)

	2009 $	2008 $
Beginning of year	18,674	19,414
Net Loss Income from Operations	(3,969)	(740)
End of year	14,705	18,674

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

Statement of Cash Flows

as at March 31, 2009

(expressed in thousands of dollars)

	2009 $	2008 $
Cash flows from operating activities		
Cash received from		
Homeowners for principal-only payments on loans	14,475	13,782
Residential builders for reconstruction fees	6,233	16,781
Residential builders for licence fees	4,774	4,567
Province of British Columbia for programs	2,082	3,364
Partners in funding research and education activities	250	193
Interest on bank deposits	168	245
Cash paid for		
Homeowners for reconstruction loans	(26,385)	(42,077)
Financial institutions for interest on CMHC - insured loans	(5,664)	(6,682)
Suppliers and employees	(5,818)	(4,984)
Homeowners for PST Relief Grants	(1,959)	(3,221)
Province of British Columbia for loan interest	(1,286)	(1,414)
	(13,130)	(19,446)
Cash flows from investing activities		
Purchase of property and equipment - net	(466)	(135)
Cash flows from financing activities		
Net proceeds from borrowing	14,490	18,838
Province of British Columbia for PST Relief Grant program	–	(400)
	14,490	18,438
Increase (decrease) in cash	894	(1,143)
Cash - Beginning of year	3,784	4,927
Cash - End of year	4,678	3,784
Represented by		
Cash	2,332	2,450
Cash for reconstruction loan and PST Relief Grant programs	2,346	1,334
	4,678	3,784

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

1. General

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

(a) to strengthen consumer protection for buyers of new homes,
(b) to improve the quality of residential construction, and
(c) to support research and education respecting residential construction in British Columbia.

A further purpose of the *Act* is to establish a Reconstruction Program to provide financial assistance to eligible homeowners for home reconstruction.

The purposes of the HPO are:

(a) to license residential builders and other persons required to be licensed under this *Act*,
(b) to carry out research and education respecting residential construction in British Columbia, and
(c) to administer the Reconstruction Program.

The license and exemption fees collected, including a per unit license fee for new or building envelope renovated dwelling units, fund consumer education, industry education, research and education and administrative support.

The Reconstruction Program is funded by the collection of a reconstruction fee on each new multi-unit home constructed for sale in the coastal climatic zone. The Province of British Columbia (Province) provides a contribution to the HPO to cover the administration costs and grant payments of the PST (Provincial Sales Tax) Relief Grant.

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 and loan loss provision. Actual results could differ from the estimates.

Cash

Cash comprises cash held in a separate account with a Canadian Chartered Bank and is not restricted as to use.

Cash for reconstruction loan and PST Relief Grant

Cash for reconstruction loan and PST Relief Grant comprises cash amounts held with a Canadian Chartered Bank in separate accounts and is restricted as to use (note 3).

Property and equipment

Property and equipment are recorded at cost and amortized on a straight line basis over their estimated useful lives as follows:

Computer software and hardware	three years
Computer server	five years
Leasehold improvements	over the lease term
All other property and equipment	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 grant component) less any provision required for loan losses. 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.

Canada Mortgage and Housing Corporation (CMHC)-insured loans

Loans provided by financial institutions under the Reconstruction Program do not appear on the balance sheet of the HPO. However, the HPO has indemnified CMHC for any claims that may be made against CMHC on these loans up to $375 million with respect to any approved financial institution loans issued under the Reconstruction Program up to October 1, 2024. Accordingly, the HPO's loan loss provision reflects a provision for CMHC-insured loans (note 3).

Loan loss provision

The loan loss provision comprises a general 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 financial statements of the HPO to their estimated realizable amount. As the HPO indemnifies CMHC with respect to its insurance of homeowner loans, the HPO reviews the homeowner loan portfolio for any indications of default or impairment. If any default or impairment on outstanding principal amounts has occurred, the HPO records a liability for a loan provision in respect of these loans. Housing co-operative repair loans are loans on which the HPO is liable to pay interest subsidies only. Because these loans issued by CMHC carry no recourse to the HPO in event of borrower default on the loan principal, no provision is assessed or provided for with respect to housing co-operative repair loans.

Financial dependence

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

Revenue recognition

Unit license fees and reconstruction fees are recognized as revenue on a monthly basis upon receipt of funds from the home warranty insurance providers. The owner builder authorization fees are recognized on receipt of payment when a completed exemption form is accepted by the HPO. Provincial contributions for reimbursement of administrative costs associated with the delivery of the PST Relief Grant program are recognized on a quarterly basis. Provincial contributions for reimbursement of grants paid out to applicants are recognized on a monthly basis upon disbursement of grants. Interest earned on cash accounts are recognized on a monthly basis. Other revenues comprising mainly Building Smart seminar fees are recognized on a monthly basis.

Loan discount recoveries comprise the discounted value of the HPO mortgages and deferred payment loans that are amortized into income on a monthly basis. See Note 3 for discussion on the accounting policy on loan discount amortization.

Federal and provincial taxes

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

Adoption of new accounting standards

(a) Financial Instruments

On October 2, 2008, the Accounting Standards Board (AcSB) determined that adoption of the Canadian Institute of Chartered Accountants (CICA) Handbook. Section 3855, Financial Instruments – Recognition and Measurement, Section 1530, Comprehensive Income, and Section 3865, Hedges, was optional for non-publicly accountable enterprises. The Public Sector Accounting Board (PSAB) proposed maintaining the status quo. On hearing concerns, PSAB announced its intention to re-evaluate its proposed guidance. The HPO is a non-publicly accountable enterprise under the definitions contained in the CICA Handbook.

The HPO has chosen to not adopt the requirements of these sections until there is clarity in future developments in reporting guidance for non-publicly accountable enterprises pertaining to financial instruments and International Financial Reporting Standards for the year ending March 31, 2009. As permitted, the HPO has also chosen not to adopt the related sections of new financial instrument standards, including Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation.

(b) Capital Disclosures and Financial Instruments – Disclosure and Presentation

CICA Handbook Section 1535, Capital Disclosures was amended in August 2008 whereby non-publicly accountable enterprises with externally imposed capital requirements are required to disclose information that enables users of its financial statements to evaluate the effect of these requirements. Effective April 1, 2008, the HPO adopted Section 1535 which requires a non-publicly accountable enterprise to disclose any externally imposed capital requirements and the consequences of non-compliance. Adoption of this standard did not have any impact on financial statement disclosures as the HPO does not have any externally imposed capital requirements.

Future accounting policy changes

In 2007, the CICA issued a new accounting standard Section 3064, Goodwill and Intangible Assets, which is effective for the HPO beginning April 1, 2009. The standard reinforces the principle that assets can only be recognized in accordance with the definition of an asset. The standard also considers software as an intangible asset. The new standard is required to be applied retrospectively and the comparative figures are not restated. The HPO is currently determining the impact of this new standard on the financial statements.

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 in the coastal climatic zone. 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 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, is not recorded as a loan on the balance sheet of the HPO. As the HPO has indemnified CMHC for defaults of principal and interest repayments on these loans, the HPO considers the likelihood of default on these loans as an integral component of its assessment of the need for a loan loss allowance. 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 as interest subsidy in the statement of operations.

ii) Housing Co-operatives

Under an agreement with CMHC, the HPO evaluates the eligibility of housing co-operative repair projects with premature building envelope failure for financial assistance. 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 HPO 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 HPO 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 bench mark 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 during the construction period up to one year and thereafter, for a period of ten years. Consequently, neither the loans nor a pro vision for losses appear on the balance sheet of the HPO.

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 HPO. Loans advanced directly by the HPO are not CMHC-insured. The net present value of these loans is included in loans receivable on 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 Program, but their 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 homeowner resides in the home. If the net proceeds from the sale 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 on the balance sheet. The net present value of the interest discount has been recorded as reconstruction loan grants in the statement of operations.

d) Details of loans issued under the Reconstruction Program:

	2009		2008	
	Number of loans	**Balance outstanding ($000's)**	**Number of loans**	**Balance outstanding ($000's)**
On-Balance Sheet Loans				
No-interest loans	1,227	64,164	1,270	49,439
Deferred payment loans	1,272	55,019	1,266	57,831
Less: loans discount		39,427		36,895
	2,499	79,756	2,536	70,375
Less: current portion		3,194		3,151
		76,562		67,224
Third-party Loans (Off-Balance Sheet Loans)				
Subsidized interest loans				
Homeowner	1,782	82,401	2,055	81,891
Housing co-operatives (*)	29	65,287	22	50,682
	1,811	147,688	2,077	132,573
Total loans outstanding	4,310	227,444	4,613	202,948

The allowance for losses on loans comprises:	**2009 ($000's)**	**2008 ($000's)**
Beginning of year	1,638	2,025
Allowance/Recovery of losses during the year	104	(387)
Write-offs	(505)	-
End of year	1,237	1,638

(*) In 2008/09, the 29 repaired or under reconstruction housing co-operative loans covered 1,620 homes. In 2007/08, the 22 repaired or under reconstruction housing co-operative loans covered 1,143 homes.

Cumulative loans approved to March 31, 2009 were as follows:

	Number of loans	Total financial assistance approved ($000's)
Subsidized interest loans		
Homeowners	9,287	316,838
Housing co-operatives (*)	39	149,750
No-interest loans	2,498	123,288
Deferred payment loans	2,196	90,598
	14,020	680,474

At March 31, 2009, total loans approved, but not yet issued were as follows:

	Number of loans	Total financial assistance approved ($000's)
On-Balance Sheet Loans		
No-interest loans	84	5,898
Deferred payment loans	78	4,875
	162	10,773
Off-Balance Sheet Loans		
Homeowners	98	7,811
Housing co-operatives (**)	10	72,653
	108	80,464
	270	91,237

(*) The 39 approved housing co-operative loans comprise 2,045 homes.
(**) The 10 approved, but not yet issued comprise 425 homes.

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

	2009 ($000's)	2008 ($000's)
Revenues		
Reconstruction fees	5,869	15,863
Loan discount recoveries	7,015	6,624
Interest	71	144
	12,955	22,631
Expenditures		
Reconstruction loan grants	9,543	15,231
Interest subsidy	5,512	6,677
Administrative costs	929	1,370
Interest and fees	1,350	1,545
Loan loss provision	104	(387)
	17,438	24,436
Deficiency of program revenues over expenditures	(4,483)	(1,805)

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

	2009 ($000's)	2008 ($000's)
Loans held by financial institutions	15,115	30,489
Housing co-operative repair loans - issued	20,010	15,886
Housing co-operative repair loans - approved but not issued	18,858	60,923
	53,983	107,298

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 approved housing co-operative repair loan for eligible repairs under the Reconstruction Program due to their independent determination.

The HPO has stopped making new commitments for financial assistance for repairs to federally funded housing co-operative projects in British Columbia. However, the HPO continues to provide financial assistance to housing co-operatives with loan commitment letters already in place. The repair value for the housing co-operative repair program as of March 31, 2009 was $149,750,000 for a total of 39 projects (2,045 units). This has resulted in a significant decrease in the present value of interest costs to be paid in the future by the HPO. The present value of interest costs on loans held by financial institutions has decreased primarily due to declining interest rates.

4. Due from the Province of British Columbia

This account receivable includes interest due from the Province representing interest earned on the HPO'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 HPO 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 HPO, the Province reimburses the HPO on a monthly basis for all PST Relief Grant payments made to eligible homeowners.

	2009 ($000's)	2008 ($000's)
PST Relief Grant reimbursement	31	22
Offset interest earned	4	15
Other provincial contributions	-	25
	35	62

5. Property and Equipment

	Cost ($ 000's)	Accumulated Amortization ($ 000's)	2009 Net Book Value ($ 000's)	2008 Net Book Value ($ 000's)
Computer software	403	(264)	139	22
IT server	396	(79)	317	–
Computer hardware	381	(353)	28	46
Furniture and equipment	370	(305)	65	13
Leasehold improvements	276	(201)	75	24
Vehicles	17	(17)	–	–
	1,843	(1,219)	624	105

6. Due to Province of British Columbia

The HPO's Board of Directors has approved borrowing to a maximum of $75 million; the Province has approved a borrowing level of up to a maximum of $74.2 million.

At March 31, 2009, the HPO had borrowed $68 million made up of short-term borrowings comprising the following:

Due Date	Interest Rate	Amount (Expressed in millions of dollars)
April 20, 2009	2.05%	22.1
April 22, 2009	0.70%	3.0
May 11, 2009	2.04%	6.1
May 13, 2009	2.00 %	10.2
May 21,2009	1.90%	7.6
May 26, 2009	1.34%	4.9
July 27, 2009	0.58%	4.0
January 14, 2010	0.80%	10.1
		68.0

7. Commitments

The HPO is committed, in the normal course of business, to paying interest on behalf of eligible homeowners to financial institutions. HPO is also committed to CMHC on behalf of eligible co-operatives during the one-year construction period and thereafter, for a 10-year period. The actual interest subsidy payment amounts made and the present value of estimated interest amounts to be paid in the future are disclosed in note 3(e) and (f).

During 2008, the HPO entered into a new lease agreement incorporating its existing lease agreement and supply of additional office space, which expires on January 31, 2011. At March 31, 2009, the HPO has minimum rental obligations under operating leases as follows:

Year ending March 31	($000's)
2010	377
2011	337
	714

The rental payments and operating costs are disclosed in the statement of operations.

Notes to Financial Statements

March 31, 2009

(continued)

8. Related Party Transactions

In the normal course of operations the HPO acquires goods and services from the Province under prevailing trade terms. Amounts due to/from the Province and income and expenses during the year are disclosed in the balance sheet and statement of operations respectively.

9. Financial Instruments

The estimated fair values of cash, accounts receivable, accounts payable are considered to be approximately equal to their carrying value because of the short-term nature of these instruments. The short-term debt is valued at the principal amount plus accrued interest as the debt is under a fixed rate contract held to maturity.

The fair value of loans receivable cannot be readily determined due to the lack of available comparable market information as the loans do not bear a market rate of interest and the timing of repayment is not determinable.

The HPO's exposure to credit risk is limited to the carrying amount of loans receivable, accounts receivable and the guarantees provided by the HPO to CMHC. Significant changes in the economy of British Columbia or deterioration in the credit profile of its borrowers, which represent a concentration in its portfolio, may result in actual losses, which are different from those estimated in the loan loss allowance.

The HPO's exposure to interest rate risk is limited to borrowings from the Province which are short-term fixed interest rate contracts based on the open market and its interest subsidy in respect of homeowner and housing co-operative loans. As the interest on homeowner loans is calculated based on the financial institution's prime rate, the HPO's interest exposure re-prices to market rates frequently. The HPO's exposure to interest rate risk in respect of housing co-operatives is disclosed in note 3(f).

10. Employee Benefit Plans

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

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 HPO paid $198,834 for employer contributions to the plan during the year (2008 - $178,708).

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. Therefore, the cost of employee future benefits for these plans is recognized as an expense in the year contributions are paid.