

# Return of Organization Exempt From Income Tax

**2012**

**Open to Public Inspection**

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

The organization may have to use a copy of this return to satisfy state reporting requirements

Department of the Treasury  
Internal Revenue Service

**A** For the 2012 calendar year, or tax year beginning **January 1**, 2012, and ending **December 31**, 20 **12**

**B** Check if applicable:  
 Address change  
 Name change  
 Initial return  
 Terminated  
 Amended return  
 Application pending

**C** Name of organization **Tarion Warranty Corporation**  
 Doing Business As  
 Number and street (or P O box if mail is not delivered to street address) Room/suite  
**5160 Yonge Street**  
 City, town or post office, state, and ZIP code  
**North York, Canada, M1P-5J4**

**D** Employer identification number  
**98-0197825**

**E** Telephone number  
**416 229-3800**

**G** Gross receipts \$ **50,910,688**

**F** Name and address of principal officer **Howard Bogach**

**H(a)** Is this a group return for affiliates?  Yes  No  
**H(b)** Are all affiliates included?  Yes  No  
 If "No," attach a list (see instructions)

**I** Tax-exempt status  501(c)(3)  501(c) ( **4** ) ◀ (insert no)  4947(a)(1) or  527

**J** Website: ▶ **www.tarion.com**

**K** Form of organization  Corporation  Trust  Association  Other ▶

**L** Year of formation **1976** **M** State of legal domicile

**Part I Summary**

Activities & Governance	<b>1</b>	Briefly describe the organization's mission or most significant activities. <b>Tarion is responsible for administering the Ontario New Home Warranties Plan Act, which outlines the warranty protection that new home and condominium builders. The primary purpose of Tarion is to ensure that builders abide by this legislation and to step in to protect consumers when builders fail to fulfill their warranty obligations.</b>		
	<b>2</b>	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets.		
	<b>3</b>	Number of voting members of the governing body (Part VI, line 1a)	<b>3</b>	<b>15</b>
	<b>4</b>	Number of independent voting members of the governing body (Part VI, line 1b)	<b>4</b>	<b>14</b>
	<b>5</b>	Total number of individuals employed in calendar year 2012 (Part V, line 2a)	<b>5</b>	<b>219</b>
	<b>6</b>	Total number of volunteers (estimate if necessary)	<b>6</b>	<b>0</b>
	<b>7a</b>	Total unrelated business revenue from Part VIII, column (C), line 12	<b>7a</b>	
<b>b</b>	Net unrelated business taxable income from Form 990-T, line 34	<b>7b</b>		
Revenue	<b>8</b>	Contributions and grants (Part VIII, line 1h)		
	<b>9</b>	Program service revenue (Part VIII, line 2g)	<b>36,212,790</b>	<b>37,406,791</b>
	<b>10</b>	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	<b>15,205,393</b>	<b>13,503,897</b>
	<b>11</b>	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	<b>0</b>	<b>0</b>
	<b>12</b>	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	<b>51,418,183</b>	<b>50,910,688</b>
Expenses	<b>13</b>	Grants and similar amounts paid (Part IX, column (A), lines 1–3)		
	<b>14</b>	Benefits paid to or for members (Part IX, column (A), line 4)		
	<b>15</b>	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	<b>24,022,941</b>	<b>24,192,734</b>
	<b>16a</b>	Professional fundraising fees (Part IX, column (A), line 11e)		
	<b>b</b>	Total fundraising expenses (Part IX, column (D), line 25) ▶		
	<b>17</b>	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	<b>15,305,566</b>	<b>15,055,208</b>
<b>18</b>	Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25)	<b>39,328,507</b>	<b>39,247,942</b>	
<b>19</b>	Revenue less expenses. Subtract line 18 from line 12	<b>12,089,676</b>	<b>11,662,747</b>	
Net Assets or Fund Balances	<b>20</b>	Total assets (Part X, line 16)	Beginning of Current Year <b>377,657,961</b>	End of Year <b>427,493,477</b>
	<b>21</b>	Total liabilities (Part X, line 26)	<b>217,158,578</b>	<b>241,775,311</b>
	<b>22</b>	Net assets or fund balances. Subtract line 21 from line 20	<b>160,499,383</b>	<b>185,718,166</b>

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**Part II Signature Block**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge

Sign Here ▶ Signature of officer **Edmond Lee** Aug. 15, 2013  
 Type or print name and title **Edmond Lee VP**

Paid Preparer Use Only  
 Print/Type preparer's name Preparer's signature  
 Firm's name ▶  
 Firm's address ▶

May the IRS discuss this return with the preparer shown above? (see instructions)

For Paperwork Reduction Act Notice, see the separate instructions.

SCANNED SEP 11 2013

**Part IV Checklist of Required Schedules**

		Yes	No
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? If "Yes," complete Schedule A . . . . .		✓
2	Is the organization required to complete Schedule B, Schedule of Contributors (see instructions)? . . . . .		✓
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "Yes," complete Schedule C, Part I . . . . .		✓
4	<b>Section 501(c)(3) organizations.</b> Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If "Yes," complete Schedule C, Part II . . . . .		✓
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If "Yes," complete Schedule C, Part III . . . . .		✓
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If "Yes," complete Schedule D, Part I . . . . .		✓
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? If "Yes," complete Schedule D, Part II . . . . .		✓
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III . . . . .		✓
9	Did the organization report an amount in Part X, line 21, for escrow or custodial account liability; serve as a custodian for amounts not listed in Part X; or provide credit counseling, debt management, credit repair, or debt negotiation services? If "Yes," complete Schedule D, Part IV . . . . .		✓
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? If "Yes," complete Schedule D, Part V . . . . .		✓
11	If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable.		
a	Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI . . . . .	✓	
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VII . . . . .		✓
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VIII . . . . .		✓
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part IX . . . . .		✓
e	Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X . . . . .	✓	
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? If "Yes," complete Schedule D, Part X . . . . .		✓
12 a	Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI and XII . . . . .	✓	
b	Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI and XII is optional . . . . .		✓
13	Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E . . . . .		✓
14 a	Did the organization maintain an office, employees, or agents outside of the United States? . . . . .	✓	
b	Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? If "Yes," complete Schedule F, Parts I and IV . . . . .	✓	
15	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the United States? If "Yes," complete Schedule F, Parts II and IV . . . . .		✓
16	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the United States? If "Yes," complete Schedule F, Parts III and IV . . . . .		✓
17	Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? If "Yes," complete Schedule G, Part I (see instructions) . . . . .		✓
18	Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? If "Yes," complete Schedule G, Part II . . . . .		✓
19	Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III . . . . .		✓
20 a	Did the organization operate one or more hospital facilities? If "Yes," complete Schedule H . . . . .		✓
b	If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return? . . . . .		✓

**Part IV Checklist of Required Schedules (continued)**

	Yes	No
21 Did the organization report more than \$5,000 of grants and other assistance to any government or organization in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i> . . . . .		✓
22 Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i> . . . . .		✓
23 Did the organization answer "Yes" to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i> . . . . .	✓	
24a Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25</i> . . . . .		✓
b Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception? . . . . .		
c Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds? . . . . .		
d Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year? . . . . .		
25a <b>Section 501(c)(3) and 501(c)(4) organizations.</b> Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i> . . . . .		✓
b Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i> . . . . .		✓
26 Was a loan to or by a current or former officer, director, trustee, key employee, highest compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i> . . . . .		✓
27 Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? <i>If "Yes," complete Schedule L, Part III</i> . . . . .		✓
28 Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions):		
a A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .		✓
b A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .		✓
c An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .		✓
29 Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i> . . . . .		✓
30 Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i> . . . . .		✓
31 Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i> . . . . .		✓
32 Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i> . . . . .		✓
33 Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i> . . . . .		✓
34 Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1</i> . . . . .		✓
35a Did the organization have a controlled entity within the meaning of section 512(b)(13)? . . . . .		✓
b If "Yes" to line 35a, did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .		✓
36 <b>Section 501(c)(3) organizations.</b> Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .		✓
37 Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i> . . . . .		✓
38 Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11b and 19? <b>Note.</b> All Form 990 filers are required to complete Schedule O . . . . .	✓	

Part V Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response to any question in this Part V



		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable		
1b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable		
1c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?		
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return		
2b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? <b>Note.</b> If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)		
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?		<input checked="" type="checkbox"/>
3b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O		
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?		<input checked="" type="checkbox"/>
b	If "Yes," enter the name of the foreign country: See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.		
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?		<input checked="" type="checkbox"/>
5b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?		<input checked="" type="checkbox"/>
5c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?		
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible as charitable contributions?		<input checked="" type="checkbox"/>
6b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?		
<b>7 Organizations that may receive deductible contributions under section 170(c).</b>			
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?		
7a			
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?		
7b			
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?		
7c			
d	If "Yes," indicate the number of Forms 8282 filed during the year		
7d			
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?		
7e			
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?		
7f			
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?		
7g			
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?		
7h			
8	<b>Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.</b> Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?		
9	<b>Sponsoring organizations maintaining donor advised funds.</b>		
a	Did the organization make any taxable distributions under section 4966?		
9a			
b	Did the organization make a distribution to a donor, donor advisor, or related person?		
9b			
10	<b>Section 501(c)(7) organizations.</b> Enter:		
a	Initiation fees and capital contributions included on Part VIII, line 12		
10a			
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities		
10b			
11	<b>Section 501(c)(12) organizations.</b> Enter:		
a	Gross income from members or shareholders		
11a			
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them.)		
11b			
12a	<b>Section 4947(a)(1) non-exempt charitable trusts.</b> Is the organization filing Form 990 in lieu of Form 1041?		
12a			
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year		
12b			
13	<b>Section 501(c)(29) qualified nonprofit health insurance issuers.</b>		
a	Is the organization licensed to issue qualified health plans in more than one state? <b>Note.</b> See the instructions for additional information the organization must report on Schedule O.		
13a			
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans		
13b			
c	Enter the amount of reserves on hand		
13c			
14a	Did the organization receive any payments for indoor tanning services during the tax year?		
14a			
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O		
14b			

**Part VI Governance, Management, and Disclosure** For each "Yes" response to lines 2 through 7b below, and for a "No" response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions. Check if Schedule O contains a response to any question in this Part VI

**Section A. Governing Body and Management**

		Yes	No
<b>1a</b>	Enter the number of voting members of the governing body at the end of the tax year . . . . . <b>1a</b> <b>15</b> If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O.		
<b>b</b>	Enter the number of voting members included in line 1a, above, who are independent . . . . . <b>1b</b> <b>14</b>		
<b>2</b>	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee? . . . . . <b>2</b>		<input checked="" type="checkbox"/>
<b>3</b>	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors, or trustees, or key employees to a management company or other person? . . . . . <b>3</b>		<input checked="" type="checkbox"/>
<b>4</b>	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed? . . . . . <b>4</b>		<input checked="" type="checkbox"/>
<b>5</b>	Did the organization become aware during the year of a significant diversion of the organization's assets? . . . . . <b>5</b>		<input checked="" type="checkbox"/>
<b>6</b>	Did the organization have members or stockholders? . . . . . <b>6</b>	<input checked="" type="checkbox"/>	
<b>7a</b>	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body? . . . . . <b>7a</b>	<input checked="" type="checkbox"/>	
<b>b</b>	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body? . . . . . <b>7b</b>	<input checked="" type="checkbox"/>	
<b>8</b>	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following:		
<b>a</b>	The governing body? . . . . . <b>8a</b>	<input checked="" type="checkbox"/>	
<b>b</b>	Each committee with authority to act on behalf of the governing body? . . . . . <b>8b</b>	<input checked="" type="checkbox"/>	
<b>9</b>	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O. . . . . <b>9</b>		<input checked="" type="checkbox"/>

**Section B. Policies** (This Section B requests information about policies not required by the Internal Revenue Code.)

	Yes	No
<b>10a</b>	<input checked="" type="checkbox"/>	
<b>b</b>		
<b>11a</b>		<input checked="" type="checkbox"/>
<b>b</b>		
<b>12a</b>	<input checked="" type="checkbox"/>	
<b>b</b>	<input checked="" type="checkbox"/>	
<b>c</b>		<input checked="" type="checkbox"/>
<b>13</b>	<input checked="" type="checkbox"/>	
<b>14</b>	<input checked="" type="checkbox"/>	
<b>15</b>		
<b>a</b>	<input checked="" type="checkbox"/>	
<b>b</b>	<input checked="" type="checkbox"/>	
<b>16a</b>		<input checked="" type="checkbox"/>
<b>b</b>		

**Section C. Disclosure**

- 17** List the states with which a copy of this Form 990 is required to be filed ► *n/a*
- 18** Section 6104 requires an organization to make its Forms 1023 (or 1024 if applicable), 990, and 990-T (Section 501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply.  
 Own website     Another's website     Upon request     Other (explain in Schedule O)
- 19** Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public during the tax year.
- 20** State the name, physical address, and telephone number of the person who possesses the books and records of the organization: ► **Tieu-Minh To, 5160 Yonge Street 12th Floor, Toronto, ON Canada 416-229-3825**

**Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors**

Check if Schedule O contains a response to any question in this Part VII

**Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees**

**1a** Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation. Enter -0- in columns (D), (E), and (F) if no compensation was paid.
- List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee, or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

List persons in the following order: individual trustees or directors; institutional trustees; officers, key employees; highest compensated employees; and former such persons.

Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee.

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(1) See Note #2 (list of Officers, etc)										
(2)										
(3)										
(4)										
(5)										
(6)										
(7)										
(8)										
(9)										
(10)										
(11)										
(12)										
(13)										
(14)										

**Part VII Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees** (continued)

(A) Name and title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(15)										
(16)										
(17)										
(18)										
(19)										
(20)										
(21)										
(22)										
(23)										
(24)										
(25)										
<b>1b Sub-total</b>							<b>5,023,967</b>			
<b>c Total from continuation sheets to Part VII, Section A</b>										
<b>d Total (add lines 1b and 1c)</b>							<b>5,023,967</b>			

**2** Total number of individuals (including but not limited to those listed above) who received more than \$100,000 of reportable compensation from the organization **62**

	Yes	No
<b>3</b> Did the organization list any <b>former</b> officer, director, or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i>	✓	
<b>4</b> For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i>	✓	
<b>5</b> Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i>		✓

**Section B. Independent Contractors**

**1** Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization. Report compensation for the calendar year ending with or within the organization's tax year.

(A) Name and business address	(B) Description of services	(C) Compensation
Beutel Goodman & Company Ltd	Investment Management	498,454
Gowlings Lafleur Henderson LLP	Legal Services	446,301
Peoplesource	Staffing Services	391,700
Jarislowsky Fraser Ltd	Investment Management	329,279
ThoughtCorp	Technology Consultation	307,132

**2** Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of compensation from the organization **22**

**Part VIII Statement of Revenue**

Check if Schedule O contains a response to any question in this Part VIII.

			(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514	
<b>Contributions, Gifts, Grants and Other Similar Amounts</b>	<b>1a</b> Federated campaigns . . . . .	<b>1a</b>					
	<b>b</b> Membership dues . . . . .	<b>1b</b>					
	<b>c</b> Fundraising events . . . . .	<b>1c</b>					
	<b>d</b> Related organizations . . . . .	<b>1d</b>					
	<b>e</b> Government grants (contributions)	<b>1e</b>					
	<b>f</b> All other contributions, gifts, grants, and similar amounts not included above	<b>1f</b>					
	<b>g</b> Noncash contributions included in lines 1a-1f. \$						
	<b>h Total.</b> Add lines 1a-1f . . . . . ▶						
<b>Program Service Revenue</b>	<b>2a</b> <b>New Home Enrol</b>	<b>Business Code</b> 524298	34,239,741	34,239,741			
	<b>b</b> <b>Builder Reg an</b>	524298	3,167,050	3,167,050			
	<b>c</b> . . . . .						
	<b>d</b> . . . . .						
	<b>e</b> . . . . .						
	<b>f</b> All other program service revenue .						
	<b>g Total.</b> Add lines 2a-2f . . . . . ▶		37,406,791				
<b>Other Revenue</b>	<b>3</b> Investment income (including dividends, interest, and other similar amounts) . . . . . ▶		12,437,862	12,437,862			
	<b>4</b> Income from investment of tax-exempt bond proceeds ▶						
	<b>5</b> Royalties . . . . . ▶						
	<b>6a</b> Gross rents . . . . .	(i) Real	(ii) Personal				
	<b>b</b> Less: rental expenses						
	<b>c</b> Rental income or (loss)						
	<b>d</b> Net rental income or (loss) . . . . . ▶						
	<b>7a</b> Gross amount from sales of assets other than inventory	(i) Securities	(ii) Other				
	<b>b</b> Less: cost or other basis and sales expenses . . . . .						
	<b>c</b> Gain or (loss) . . . . .	1,066,035					
	<b>d</b> Net gain or (loss) . . . . . ▶		1,066,035	1,066,035			
	<b>8a</b> Gross income from fundraising events (not including \$ of contributions reported on line 1c). See Part IV, line 18 . . . . . <b>a</b>						
		<b>b</b> Less: direct expenses . . . . . <b>b</b>					
<b>c</b> Net income or (loss) from fundraising events . ▶							
<b>9a</b> Gross income from gaming activities. See Part IV, line 19 . . . . . <b>a</b>							
	<b>b</b> Less: direct expenses . . . . . <b>b</b>						
	<b>c</b> Net income or (loss) from gaming activities . . ▶						
<b>10a</b> Gross sales of inventory, less returns and allowances . . . . . <b>a</b>							
	<b>b</b> Less: cost of goods sold . . . . . <b>b</b>						
	<b>c</b> Net income or (loss) from sales of inventory . . ▶						
<b>Miscellaneous Revenue</b>		<b>Business Code</b>					
<b>11a</b> . . . . .							
<b>b</b> . . . . .							
<b>c</b> . . . . .							
<b>d</b> All other revenue . . . . .							
<b>e Total.</b> Add lines 11a-11d . . . . . ▶							
<b>12 Total revenue.</b> See instructions. . . . . ▶			50,910,688	50,910,688			



**Part IX Statement of Functional Expenses**

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

Check if Schedule O contains a response to any question in this Part IX

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.

	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1 Grants and other assistance to governments and organizations in the United States. See Part IV, line 21				
2 Grants and other assistance to individuals in the United States. See Part IV, line 22				
3 Grants and other assistance to governments, organizations, and individuals outside the United States. See Part IV, lines 15 and 16				
4 Benefits paid to or for members				
5 Compensation of current officers, directors, trustees, and key employees	4,192,144	1,740,617	2,451,527	
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7 Other salaries and wages	15,920,670	11,236,224	4,684,446	
8 Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)	1,046,871	714,978	331,893	
9 Other employee benefits	628,762	429,423	199,338	
10 Payroll taxes	2,404,288	1,642,049	762,239	
11 Fees for services (non-employees):				
a Management	433,831	195,195	238,636	
b Legal	2,100,646	1,783,656	316,990	
c Accounting	170,126	0	170,126	
d Lobbying				
e Professional fundraising services. See Part IV, line 17				
f Investment management fees	1,030,784	0	1,030,784	
g Other. (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O.)	1,440,090	104,976	1,335,114	
12 Advertising and promotion	648,876	418,801	230,075	
13 Office expenses	1,048,778	558,352	490,426	
14 Information technology	901,074	495,590	405,484	
15 Royalties				
16 Occupancy	1,748,431	710,740	1,037,691	
17 Travel	881,078	776,164	104,914	
18 Payments of travel or entertainment expenses for any federal, state, or local public officials				
19 Conferences, conventions, and meetings	227,251	55,306	171,945	
20 Interest	510,320	0	510,320	
21 Payments to affiliates				
22 Depreciation, depletion, and amortization	2,691,168	1,695,436	995,732	
23 Insurance	159,128	0	159,128	
24 Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O.)				
a Warranty Claims (net claim reserve)	190,778	190,778	0	
b				
c				
d				
e All other expenses	872,848	342,985	529,863	
25 Total functional expenses. Add lines 1 through 24e	39,247,942	23,091,270	16,156,672	
26 Joint costs. Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720)				

**Part X Balance Sheet**

Check if Schedule O contains a response to any question in this Part X

		(A) Beginning of year		(B) End of year
<b>Assets</b>	<b>1</b> Cash—non-interest-bearing . . . . .	2,484,591	<b>1</b>	2,777,770
	<b>2</b> Savings and temporary cash investments . . . . .		<b>2</b>	
	<b>3</b> Pledges and grants receivable, net . . . . .		<b>3</b>	
	<b>4</b> Accounts receivable, net . . . . .	3,995,323	<b>4</b>	4,956,894
	<b>5</b> Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L . . . . .		<b>5</b>	
	<b>6</b> Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions). Complete Part II of Schedule L . . . . .		<b>6</b>	
	<b>7</b> Notes and loans receivable, net . . . . .		<b>7</b>	
	<b>8</b> Inventories for sale or use . . . . .		<b>8</b>	
	<b>9</b> Prepaid expenses and deferred charges . . . . .	382,233	<b>9</b>	1,087,821
	<b>10a</b> Land, buildings, and equipment, cost or other basis. Complete Part VI of Schedule D . . . . .	7,878,102		
	<b>b</b> Less: accumulated depreciation . . . . .	4,529,633		
	<b>11</b> Investments—publicly traded securities . . . . .	364,170,191	<b>11</b>	411,610,309
	<b>12</b> Investments—other securities. See Part IV, line 11 . . . . .		<b>12</b>	
	<b>13</b> Investments—program-related. See Part IV, line 11 . . . . .		<b>13</b>	
	<b>14</b> Intangible assets . . . . .	2,954,472	<b>14</b>	3,712,214
	<b>15</b> Other assets. See Part IV, line 11 . . . . .		<b>15</b>	
<b>16 Total assets.</b> Add lines 1 through 15 (must equal line 34) . . . . .	377,657,961	<b>16</b>	427,493,477	
<b>Liabilities</b>	<b>17</b> Accounts payable and accrued expenses . . . . .	10,294,546	<b>17</b>	9,584,378
	<b>18</b> Grants payable . . . . .		<b>18</b>	
	<b>19</b> Deferred revenue . . . . .	138,032,984	<b>19</b>	161,163,563
	<b>20</b> Tax-exempt bond liabilities . . . . .		<b>20</b>	
	<b>21</b> Escrow or custodial account liability. Complete Part IV of Schedule D . . . . .		<b>21</b>	
	<b>22</b> Loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L . . . . .		<b>22</b>	
	<b>23</b> Secured mortgages and notes payable to unrelated third parties . . . . .		<b>23</b>	
	<b>24</b> Unsecured notes and loans payable to unrelated third parties . . . . .		<b>24</b>	
	<b>25</b> Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D . . . . .	68,831,048	<b>25</b>	71,027,370
	<b>26 Total liabilities.</b> Add lines 17 through 25 . . . . .	217,158,578	<b>26</b>	241,775,311
<b>Net Assets or Fund Balances</b>	<b>Organizations that follow SFAS 117 (ASC 958), check here</b> <input type="checkbox"/> <b>and complete lines 27 through 29, and lines 33 and 34.</b>			
	<b>27</b> Unrestricted net assets . . . . .		<b>27</b>	
	<b>28</b> Temporarily restricted net assets . . . . .		<b>28</b>	
	<b>29</b> Permanently restricted net assets . . . . .		<b>29</b>	
	<b>Organizations that do not follow SFAS 117 (ASC 958), check here</b> <input type="checkbox"/> <b>and complete lines 30 through 34.</b>			
	<b>30</b> Capital stock or trust principal, or current funds . . . . .		<b>30</b>	
	<b>31</b> Paid-in or capital surplus, or land, building, or equipment fund . . . . .		<b>31</b>	
	<b>32</b> Retained earnings, endowment, accumulated income, or other funds . . . . .	160,499,383	<b>32</b>	185,718,166
<b>33</b> Total net assets or fund balances . . . . .	160,499,383	<b>33</b>	185,718,166	
<b>34</b> Total liabilities and net assets/fund balances . . . . .	377,657,961	<b>34</b>	429,836,447	

**Part XI Reconciliation of Net Assets**

Check if Schedule O contains a response to any question in this Part XI

<b>1</b>	Total revenue (must equal Part VIII, column (A), line 12)	<b>1</b>	<b>50,910,688</b>
<b>2</b>	Total expenses (must equal Part IX, column (A), line 25)	<b>2</b>	<b>39,247,942</b>
<b>3</b>	Revenue less expenses. Subtract line 2 from line 1	<b>3</b>	<b>11,662,747</b>
<b>4</b>	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	<b>4</b>	<b>160,499,383</b>
<b>5</b>	Net unrealized gains (losses) on investments	<b>5</b>	<b>10,985,696</b>
<b>6</b>	Donated services and use of facilities	<b>6</b>	
<b>7</b>	Investment expenses	<b>7</b>	
<b>8</b>	Prior period adjustments	<b>8</b>	
<b>9</b>	Other changes in net assets or fund balances (explain in Schedule O)	<b>9</b>	<b>2,570,340</b>
<b>10</b>	Net assets or fund balances at end of year. Combine lines 3 through 9 (must equal Part X, line 33, column (B))	<b>10</b>	<b>185,718,166</b>

**Part XII Financial Statements and Reporting**

Check if Schedule O contains a response to any question in this Part XII

	Yes	No
<b>1</b> Accounting method used to prepare the Form 990: <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O.		
<b>2a</b> Were the organization's financial statements compiled or reviewed by an independent accountant? If "Yes," check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both. <input type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis		<input checked="" type="checkbox"/>
<b>b</b> Were the organization's financial statements audited by an independent accountant? If "Yes," check a box below to indicate whether the financial statements for the year were audited on a separate basis, consolidated basis, or both: <input checked="" type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis	<input checked="" type="checkbox"/>	
<b>c</b> If "Yes" to line 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O.	<input checked="" type="checkbox"/>	
<b>3a</b> As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?		<input checked="" type="checkbox"/>
<b>b</b> If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits		

**SCHEDULE D  
(Form 990)**

Department of the Treasury  
Internal Revenue Service

**Supplemental Financial Statements**

▶ **Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b.**  
▶ **Attach to Form 990. ▶ See separate instructions.**

OMB No 1545-0047

**2012**

**Open to Public Inspection**

Name of the organization <b>Tarion Warranty Corporation</b>	Employer identification number <b>98-0197825</b>
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**Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts.** Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

	(a) Donor advised funds	(b) Funds and other accounts
1 Total number at end of year . . . . .		
2 Aggregate contributions to (during year) . . . . .		
3 Aggregate grants from (during year) . . . . .		
4 Aggregate value at end of year . . . . .		

5 Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? . . . . .  **Yes**  **No**

6 Did the organization inform all grantees, donors, and donor advisors in writing that grant funds can be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit? . . . . .  **Yes**  **No**

**Part II Conservation Easements.** Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1 Purpose(s) of conservation easements held by the organization (check all that apply).  
 Preservation of land for public use (e.g., recreation or education)  Preservation of an historically important land area  
 Protection of natural habitat  Preservation of a certified historic structure  
 Preservation of open space

2 Complete lines 2a through 2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year.

	Held at the End of the Tax Year
a Total number of conservation easements . . . . .	<b>2a</b>
b Total acreage restricted by conservation easements . . . . .	<b>2b</b>
c Number of conservation easements on a certified historic structure included in (a) . . . . .	<b>2c</b>
d Number of conservation easements included in (c) acquired after 8/17/06, and not on a historic structure listed in the National Register . . . . .	<b>2d</b>

3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax year ▶ \_\_\_\_\_

4 Number of states where property subject to conservation easement is located ▶ \_\_\_\_\_

5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds? . . . . .  **Yes**  **No**

6 Staff and volunteer hours devoted to monitoring, inspecting, and enforcing conservation easements during the year ▶ \_\_\_\_\_

7 Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ▶ \$ \_\_\_\_\_

8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and section 170(h)(4)(B)(ii)? . . . . .  **Yes**  **No**

9 In Part XIII, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements.

**Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets.** Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a If the organization elected, as permitted under SFAS 116 (ASC 958), not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide, in Part XIII, the text of the footnote to its financial statements that describes these items

b If the organization elected, as permitted under SFAS 116 (ASC 958), to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items:

(i) Revenues included in Form 990, Part VIII, line 1 . . . . . ▶ \$ \_\_\_\_\_

(ii) Assets included in Form 990, Part X . . . . . ▶ \$ \_\_\_\_\_

2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 (ASC 958) relating to these items:

a Revenues included in Form 990, Part VIII, line 1 . . . . . ▶ \$ \_\_\_\_\_

b Assets included in Form 990, Part X . . . . . ▶ \$ \_\_\_\_\_

**Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets (continued)**

- 3** Using the organization's acquisition, accession, and other records, check any of the following that are a significant use of its collection items (check all that apply):
- a**  Public exhibition
  - b**  Scholarly research
  - c**  Preservation for future generations
  - d**  Loan or exchange programs
  - e**  Other .....
- 4** Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIII.
- 5** During the year, did the organization solicit or receive donations of art, historical treasures, or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection?  Yes  No

**Part IV Escrow and Custodial Arrangements.** Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

- 1a** Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X?  Yes  No
- b** If "Yes," explain the arrangement in Part XIII and complete the following table:
- |  | Amount    |
|--|-----------|
| <b>c</b> Beginning balance             | <b>1c</b> |
| <b>d</b> Additions during the year     | <b>1d</b> |
| <b>e</b> Distributions during the year | <b>1e</b> |
| <b>f</b> Ending balance                | <b>1f</b> |
- 2a** Did the organization include an amount on Form 990, Part X, line 21?  Yes  No
- b** If "Yes," explain the arrangement in Part XIII. Check here if the explanation has been provided in Part XIII

**Part V Endowment Funds.** Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a) Current year	(b) Prior year	(c) Two years back	(d) Three years back	(e) Four years back
<b>1a</b> Beginning of year balance					
<b>b</b> Contributions					
<b>c</b> Net investment earnings, gains, and losses					
<b>d</b> Grants or scholarships					
<b>e</b> Other expenditures for facilities and programs					
<b>f</b> Administrative expenses					
<b>g</b> End of year balance					

- 2** Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as:
- a** Board designated or quasi-endowment  %
  - b** Permanent endowment  %
  - c** Temporarily restricted endowment  %
- The percentages in lines 2a, 2b, and 2c should equal 100%.
- 3a** Are there endowment funds not in the possession of the organization that are held and administered for the organization by:
- |  | Yes           | No |
|--|---------------|----|
| <b>(i)</b> unrelated organizations   | <b>3a(i)</b>  |    |
| <b>(ii)</b> related organizations  | <b>3a(ii)</b> |    |
| <b>b</b> If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R? | <b>3b</b>     |    |
- 4** Describe in Part XIII the intended uses of the organization's endowment funds.

**Part VI Land, Buildings, and Equipment.** See Form 990, Part X, line 10.

Description of property	(a) Cost or other basis (investment)	(b) Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
<b>1a</b> Land				
<b>b</b> Buildings				
<b>c</b> Leasehold improvements		2,439,236	851,415	1,587,821
<b>d</b> Equipment		3,992,952	2,550,676	1,442,276
<b>e</b> Other		1,445,914	1,127,542	318,372
<b>Total.</b> Add lines 1a through 1e. (Column (d) must equal Form 990, Part X, column (B), line 10(c).)				3,348,469

**Part VII Investments—Other Securities.** See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives . . . . .		
(2) Closely-held equity interests . . . . .		
(3) Other . . . . .		
(A) . . . . .		
(B) . . . . .		
(C) . . . . .		
(D) . . . . .		
(E) . . . . .		
(F) . . . . .		
(G) . . . . .		
(H) . . . . .		
(I) . . . . .		
<b>Total.</b> (Column (b) must equal Form 990, Part X, col. (B) line 12) ▶		

**Part VIII Investments—Program Related.** See Form 990, Part X, line 13.

(a) Description of investment type	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1)		
(2)		
(3)		
(4)		
(5)		
(6)		
(7)		
(8)		
(9)		
(10)		
<b>Total.</b> (Column (b) must equal Form 990, Part X, col. (B) line 13) ▶		

**Part IX Other Assets.** See Form 990, Part X, line 15.

(a) Description	(b) Book value
(1)	
(2)	
(3)	
(4)	
(5)	
(6)	
(7)	
(8)	
(9)	
(10)	
<b>Total.</b> (Column (b) must equal Form 990, Part X, col. (B) line 15.) ▶	

**Part X Other Liabilities.** See Form 990, Part X, line 25.

1. (a) Description of liability	(b) Book value
(1) Federal income taxes	
(2) <b>Warranty Claim Liability</b>	<b>23,760,232</b>
(3) <b>Funds Held as Security from Builders</b>	<b>41,243,027</b>
(4) <b>Employee Future Benefits Liabilities</b>	<b>6,024,111</b>
(5)	
(6)	
(7)	
(8)	
(9)	
(10)	
(11)	
<b>Total.</b> (Column (b) must equal Form 990, Part X, col. (B) line 25) ▶	<b>71,027,370</b>

2. FIN 48 (ASC 740) Footnote. In Part XIII, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC 740). Check here if the text of the footnote has been provided in Part XIII . . . . .

<b>Part XI Reconciliation of Revenue per Audited Financial Statements With Revenue per Return</b>					
<b>1</b>	Total revenue, gains, and other support per audited financial statements . . . . .			<b>1</b>	<b>60,865,600</b>
<b>2</b>	Amounts included on line 1 but not on Form 990, Part VIII, line 12:				
<b>a</b>	Net unrealized gains on investments . . . . .	<b>2a</b>	10,985,696		
<b>b</b>	Donated services and use of facilities . . . . .	<b>2b</b>			
<b>c</b>	Recoveries of prior year grants . . . . .	<b>2c</b>			
<b>d</b>	Other (Describe in Part XIII.) . . . . .	<b>2d</b>			
<b>e</b>	Add lines <b>2a</b> through <b>2d</b> . . . . .			<b>2e</b>	<b>10,985,696</b>
<b>3</b>	Subtract line <b>2e</b> from line <b>1</b> . . . . .			<b>3</b>	<b>49,879,904</b>
<b>4</b>	Amounts included on Form 990, Part VIII, line 12, but not on line 1:				
<b>a</b>	Investment expenses not included on Form 990, Part VIII, line 7b . . . . .	<b>4a</b>	1,030,784		
<b>b</b>	Other (Describe in Part XIII.) . . . . .	<b>4b</b>			
<b>c</b>	Add lines <b>4a</b> and <b>4b</b> . . . . .			<b>4c</b>	<b>1,030,784</b>
<b>5</b>	Total revenue. Add lines <b>3</b> and <b>4c</b> . (This must equal Form 990, Part I, line 12.) . . . . .			<b>5</b>	<b>50,910,688</b>

<b>Part XII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return</b>					
<b>1</b>	Total expenses and losses per audited financial statements . . . . .			<b>1</b>	<b>38,217,158</b>
<b>2</b>	Amounts included on line 1 but not on Form 990, Part IX, line 25:				
<b>a</b>	Donated services and use of facilities . . . . .	<b>2a</b>			
<b>b</b>	Prior year adjustments . . . . .	<b>2b</b>			
<b>c</b>	Other losses . . . . .	<b>2c</b>			
<b>d</b>	Other (Describe in Part XIII.) . . . . .	<b>2d</b>			
<b>e</b>	Add lines <b>2a</b> through <b>2d</b> . . . . .			<b>2e</b>	
<b>3</b>	Subtract line <b>2e</b> from line <b>1</b> . . . . .			<b>3</b>	<b>38,217,158</b>
<b>4</b>	Amounts included on Form 990, Part IX, line 25, but not on line 1:				
<b>a</b>	Investment expenses not included on Form 990, Part VIII, line 7b . . . . .	<b>4a</b>	1,030,784		
<b>b</b>	Other (Describe in Part XIII.) . . . . .	<b>4b</b>			
<b>c</b>	Add lines <b>4a</b> and <b>4b</b> . . . . .			<b>4c</b>	<b>1,030,784</b>
<b>5</b>	Total expenses. Add lines <b>3</b> and <b>4c</b> . (This must equal Form 990, Part I, line 18.) . . . . .			<b>5</b>	<b>39,247,942</b>

**Part XIII Supplemental Information**

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9; Part III, lines 1a and 4; Part IV, lines 1b and 2b; Part V, line 4; Part X, line 2; Part XI, lines 2d and 4b; and Part XII, lines 2d and 4b. Also complete this part to provide any additional information.

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**SCHEDULE F  
(Form 990)**

**Statement of Activities Outside the United States**

OMB No 1545-0047

**2012**

**Open to Public Inspection**

Department of the Treasury  
Internal Revenue Service

▶ Complete if the organization answered "Yes" to Form 990,  
Part IV, line 14b, 15, or 16.

▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization

Employer identification number

Tarion Warranty Corporation

98-0197825

**Part I** General Information on Activities Outside the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 14b.

**1 For grantmakers.** Does the organization maintain records to substantiate the amount of its grants and other assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance?  Yes  No

**2 For grantmakers.** Describe in Part V the organization's procedures for monitoring the use of its grants and other assistance outside the United States.

**3 Activities per Region.** (The following Part I, line 3 table can be duplicated if additional space is needed.)

(a) Region	(b) Number of offices in the region	(c) Number of employees, agents, and independent contractors in region	(d) Activities conducted in region (by type) (e.g., fundraising, program services, investments, grants to recipients located in the region)	(e) If activity listed in (d) is a program service, describe specific type of service(s) in region	(f) Total expenditures for and investments in region
(1) Ontario, Canada	3	139	Program Services	New Home Warranty	23,091,270
(2) Ontario, Canada		80	Supporting Service	office support	16,156,672
(3) Ontario, Canada			Investments		402,476,926
(4)					
(5)					
(6)					
(7)					
(8)					
(9)					
(10)					
(11)					
(12)					
(13)					
(14)					
(15)					
(16)					
(17)					
<b>3a</b> Sub-total . . . . .	3	219			39,247,942
<b>b</b> Total from continuation sheets to Part I . . . . .					
<b>c Totals</b> (add lines 3a and 3b)		219			39,247,942



**Part II** **Grants and Other Assistance to Organizations or Entities Outside the United States.** Complete if the organization answered "Yes" to Form 990, Part IV, line 15, for any recipient who received more than \$5,000. Part II can be duplicated if additional space is needed.

1	(a) Name of organization	(b) IRS code section and EIN (if applicable)	(c) Region	(d) Purpose of grant	(e) Amount of cash grant	(f) Manner of cash disbursement	(g) Amount of non-cash assistance	(h) Description of non-cash assistance	(i) Method of valuation (book, FMV, appraisal, other)
(1)									
(2)									
(3)									
(4)									
(5)									
(6)									
(7)									
(8)									
(9)									
(10)									
(11)									
(12)									
(13)									
(14)									
(15)									
(16)									

- 2 Enter total number of recipient organizations listed above that are recognized as charities by the foreign country, recognized as tax-exempt by the IRS, or for which the grantee or counsel has provided a section 501(c)(3) equivalency letter . . . . . ▶
- 3 Enter total number of other organizations or entities . . . . . ▶

**Part III** **Grants and Other Assistance to Individuals Outside the United States.** Complete if the organization answered "Yes" to Form 990, Part IV, line 16.  
 Part III can be duplicated if additional space is needed.

(a) Type of grant or assistance	(b) Region	(c) Number of recipients	(d) Amount of cash grant	(e) Manner of cash disbursement	(f) Amount of non-cash assistance	(g) Description of non-cash assistance	(h) Method of valuation (book, FMV, appraisal, other)
(1)							
(2)							
(3)							
(4)							
(5)							
(6)							
(7)							
(8)							
(9)							
(10)							
(11)							
(12)							
(13)							
(14)							
(15)							
(16)							
(17)							
(18)							

**Part IV Foreign Forms**

- 1 Was the organization a U.S. transferor of property to a foreign corporation during the tax year? *If "Yes," the organization may be required to file Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation (see Instructions for Form 926)* . . . . .  Yes  No
  
- 2 Did the organization have an interest in a foreign trust during the tax year? *If "Yes," the organization may be required to file Form 3520, Annual Return to Report Transactions with Foreign Trusts and Receipt of Certain Foreign Gifts, and/or Form 3520-A, Annual Information Return of Foreign Trust With a U.S. Owner (see Instructions for Forms 3520 and 3520-A)* . . . . .  Yes  No
  
- 3 Did the organization have an ownership interest in a foreign corporation during the tax year? *If "Yes," the organization may be required to file Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations (see Instructions for Form 5471)* . . . . .  Yes  No
  
- 4 Was the organization a direct or indirect shareholder of a passive foreign investment company or a qualified electing fund during the tax year? *If "Yes," the organization may be required to file Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund. (see Instructions for Form 8621)* . . . . .  Yes  No
  
- 5 Did the organization have an ownership interest in a foreign partnership during the tax year? *If "Yes," the organization may be required to file Form 8865, Return of U.S. Persons With Respect To Certain Foreign Partnerships. (see Instructions for Form 8865)* . . . . .  Yes  No
  
- 6 Did the organization have any operations in or related to any boycotting countries during the tax year? *If "Yes," the organization may be required to file Form 5713, International Boycott Report (see Instructions for Form 5713)* . . . . .  Yes  No

**SCHEDULE J  
(Form 990)**

Department of the Treasury  
Internal Revenue Service

**Compensation Information**  
For certain Officers, Directors, Trustees, Key Employees, and Highest  
Compensated Employees  
▶ Complete if the organization answered "Yes" to Form 990,  
Part IV, line 23.  
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

**2012**

**Open to Public  
Inspection**

Name of the organization

Tarion Warranty Corporation

Employer identification number

98-0197825

**Part I Questions Regarding Compensation**

**1a** Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a. Complete Part III to provide any relevant information regarding these items.

- |  |   |
|--|---|
| <input type="checkbox"/> First-class or charter travel             | <input type="checkbox"/> Housing allowance or residence for personal use          |
| <input type="checkbox"/> Travel for companions                     | <input type="checkbox"/> Payments for business use of personal residence          |
| <input type="checkbox"/> Tax indemnification and gross-up payments | <input checked="" type="checkbox"/> Health or social club dues or initiation fees |
| <input type="checkbox"/> Discretionary spending account            | <input type="checkbox"/> Personal services (e.g., maid, chauffeur, chef)          |

**b** If any of the boxes on line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all of the expenses described above? If "No," complete Part III to explain . . . . .

**2** Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a? . . . . .

**3** Indicate which, if any, of the following the filing organization used to establish the compensation of the organization's CEO/Executive Director. Check all that apply. Do not check any boxes for methods used by a related organization to establish compensation of the CEO/Executive Director, but explain in Part III

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Compensation committee   | <input checked="" type="checkbox"/> Written employment contract                     |
| <input type="checkbox"/> Independent compensation consultant | <input checked="" type="checkbox"/> Compensation survey or study                    |
| <input type="checkbox"/> Form 990 of other organizations     | <input checked="" type="checkbox"/> Approval by the board or compensation committee |

**4** During the year, did any person listed in Form 990, Part VII, Section A, line 1a, with respect to the filing organization or a related organization:

- a** Receive a severance payment or change-of-control payment? . . . . .
- b** Participate in, or receive payment from, a supplemental nonqualified retirement plan? . . . . .
- c** Participate in, or receive payment from, an equity-based compensation arrangement? . . . . .
- If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III.

**Only section 501(c)(3) and 501(c)(4) organizations must complete lines 5-9.**

**5** For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of:

- a** The organization? . . . . .
- b** Any related organization? . . . . .
- If "Yes" to line 5a or 5b, describe in Part III.

**6** For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of:

- a** The organization? . . . . .
- b** Any related organization? . . . . .
- If "Yes" to line 6a or 6b, describe in Part III.

**7** For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III . . . . .

**8** Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regulations section 53.4958-4(a)(3)? If "Yes," describe in Part III . . . . .

**9** If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53.4958-6(c)? . . . . .

	Yes	No
1a		
1b	✓	
2	✓	
3		
4a		✓
4b	✓	
4c		✓
5a		✓
5b		✓
6a		✓
6b		✓
7		✓
8		✓
9		

**Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees.** Use duplicate copies if additional space is needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions, on row (ii). Do not list any individuals that are not listed on Form 990, Part VII.

**Note.** The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, applicable column (D) and (E) amounts for that individual.

(A) Name and Title		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported as deferred in prior Form 990
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
See Note 4 for list of 15 Names 1 over \$150,000	(i)							
	(ii)							
2	(i)							
	(ii)							
3	(i)							
	(ii)							
4	(i)							
	(ii)							
5	(i)							
	(ii)							
6	(i)							
	(ii)							
7	(i)							
	(ii)							
8	(i)							
	(ii)							
9	(i)							
	(ii)							
10	(i)							
	(ii)							
11	(i)							
	(ii)							
12	(i)							
	(ii)							
13	(i)							
	(ii)							
14	(i)							
	(ii)							
15	(i)							
	(ii)							
16	(i)							
	(ii)							

**Part III Supplemental Information**

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II. Also complete this part for any additional information.

Director no longer with Tarion in 2012:

Robert Finnigan, Dick Brouwer

Over \$150,000 Compensation from 2011 no longer with Tarion in 2012:

nil for 2012

4b)

Howard Bogach: Of \$60,939 in retirement compensation, \$37,105 is SERP

David Guiney: Of \$38,632 in retirement compensation, \$14,797 is SERP

Timothy Schumacher: Of \$30,839 in retirement compensation, \$7,005 is SERP

Edmond Lee: Of \$24,064 in retirement compensation, \$229 is SERP

John Becevello: Of \$28,740 in retirement compensation, \$4,905 is SERP

Mike Cote: Of \$29,573 in retirement compensation, \$5,739 is SERP

Bill Wallace: Of \$27,940 in retirement compensation, \$4,106 is SERP

Peter Balasubramanian: Of \$26,361 in retirement compensation, \$2,526 is SERP

**SCHEDULE L**  
**(Form 990 or 990-EZ)**

Department of the Treasury  
Internal Revenue Service

**Transactions With Interested Persons**

▶ Complete if the organization answered  
"Yes" on Form 990, Part IV, line 25a, 25b, 26, 27, 28a, 28b, or 28c,  
or Form 990-EZ, Part V, line 38a or 40b.  
▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

**2012**

**Open To Public Inspection**

Name of the organization

Tarion War

Employer identification number

98-0197825

**Part I Excess Benefit Transactions** (section 501(c)(3) and section 501(c)(4) organizations only).

Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b.

1	(a) Name of disqualified person	(b) Relationship between disqualified person and organization	(c) Description of transaction	(d) Corrected?	
				Yes	No
(1)					
(2)					
(3)					
(4)					
(5)					
(6)					

- 2 Enter the amount of tax incurred by the organization managers or disqualified persons during the year under section 4958 . . . . . ▶ \$ \_\_\_\_\_
- 3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization . . . . . ▶ \$ \_\_\_\_\_

**Part II Loans to and/or From Interested Persons.**

Complete if the organization answered "Yes" on Form 990-EZ, Part V, line 38a or Form 990, Part IV, line 26; or if the organization reported an amount on Form 990, Part X, line 5, 6, or 22.

1	(a) Name of interested person	(b) Relationship with organization	(c) Purpose of loan	(d) Loan to or from the organization?		(e) Original principal amount	(f) Balance due	(g) In default?		(h) Approved by board or committee?		(i) Written agreement?	
				To	From			Yes	No	Yes	No	Yes	No
				(1)									
(2)													
(3)													
(4)													
(5)													
(6)													
(7)													
(8)													
(9)													
(10)													
<b>Total</b> . . . . . ▶							\$						

**Part III Grants or Assistance Benefiting Interested Persons.**

Complete if the organization answered "Yes" on Form 990, Part IV, line 27.

1	(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of assistance	(d) Type of assistance	(e) Purpose of assistance
(1)					
(2)					
(3)					
(4)					
(5)					
(6)					
(7)					
(8)					
(9)					
(10)					

**Part IV Business Transactions Involving Interested Persons.**

Complete if the organization answered "Yes" on Form 990, Part IV, line 28a, 28b, or 28c

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) Mark Basciano, Mountainview Homes	Tarion Board Member	140,754	Home Enrolment Fee		✓
(2) Robert Cooper, Alterra Group of Co	Tarion Board Member	271,972	Home Enrolment Fee		✓
(3) Brian K. Johnston, Mattamy Homes	Tarion Board Member	2,095,741	Home Enrolment Fee		✓
(4) Government of Ontario		280,000	Oversight fee to the gov't		✓
(5)					
(6)					
(7)					
(8)					
(9)					
(10)					

**Part V Supplemental Information**

Complete this part to provide additional information for responses to questions on Schedule L (see instructions).

**Enrolment Fee:** In the ordinary course of business, the Corporation provides a broad range of services to home owners and

builders based on its mandate to administer the Act. Accordingly, the Corporation may enter into transactions with

builders related with the Corporation's Board of Directors through a relationship of principal, director, officer, and/or

guarantor. Transactions between related parties are made at normal market prices.

**Government oversight fee:** The corporation pays an oversight fee to the Government of Ontario for each calendar year.

The fee is calculated based on the estimated number of enrolments by home purchasers in the Act during the fiscal year

of the Government of Ontario (April 1 to March 31) at five dollars per annum. In 2012, The Corporation incurred a fee

of \$280K.



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**Note 1**

Tarion Warranty Corporation  
EIN 980197825  
Form 990  
Tax Year Ended Dec 31, 2012

**Foreign Currency Translation Rates:**

a. All income statement figures are translated from Canadian dollars using the monthly averages for the 12 month period comprising the tax year (2012: 0.99936; 2011: 0.98926)

b. All balance sheet figure are translated from Canadian dollars using the closing exchange rate as of Dec 31, 2012 (2012: 0.9949, 2011: 1.0170)

Note 2

Tarion Warranty Corporation  
 EIN: 98-0197825  
 IRS 990 - 2012  
 Part VII-A - List of Officers, Directors, Trustees & Key Employees

Conversion Rate (avg 2012) 0.9994

<u>Name &amp; Title</u>	<u>Avg hrs /wk</u>	<u>Attendance Record to Meetings</u>	<u>Position</u>	<u>Total (US\$) Column D Reportable compensation from the organization</u>
1 Harry Herskowitz Board of Directors, (voting rights)	n/a	(15/15 attendance)	Director/Officer	45,777
2 Brian Johnston Board of Directors, (voting rights)	n/a	(12/21 attendance)	Director	24,077
3 Daniel Gabriele Board of Directors, (voting rights) effective Apr/12	n/a	(9/9 attendance)	Director	17,448
4 Robert Cooper Board of Directors, (voting rights)	n/a	(15/16 attendance)	Director	29,543
5 Peter Saturno Board of Directors, (voting rights)	n/a	(12/19 attendance)	Director	19,558
6 Deborah Brown Board of Directors, (voting rights)	n/a	(18/20 attendance)	Director	-
7 Frank Giannone Board of Directors, (voting rights)	n/a	(18/18 attendance)	Director	28,855
8 Christopher Spiteri Board of Directors, (voting rights)	n/a	(21/21 attendance)	Director	27,066
9 Michael Lio Board of Directors, (voting rights)	n/a	(22/22 attendance)	Director	28,029
10 Mark Bsciano Board of Directors, (voting rights)	n/a	(17/19 attendance)	Director	26,207
11 Lynn Peterson Board of Directors, (voting rights)	n/a	(14/14 attendance)	Director	21,763
12 Harold Levy Board of Directors, (voting rights)	n/a	(15/16 attendance)	Director	23,276
13 Peter Oakes Board of Directors, (voting rights)	n/a	(16/17 attendance)	Director	25,924
14 Lea Ray Board of Directors, (no voting rights)	n/a	(16/17 attendance)	Director	24,719
15 Ross (Sandy) Ewen Board of Directors, (voting rights)	n/a	(17/17 attendance)	Director	24,927
16 Leith Moore Board of Directors, (no voting rights) effective Oct/12	n/a	(3/4 attendance)	Director	4,415
17 Howard Bogach President, CEO, Registrar, (voting rights)	37.5	(32/32 attendance)	Director/Officer	685,539
18 Robert Finnigan Board of Directors, (no voting rights)	n/a	(2/2 attendance) left 6/30/12	Director (former)	9,631
19 Dick Brouwer Board of Directors, (voting rights)	n/a	(4/4 attendance) left 4/19/12	Director (former)	6,523
20 David Guiney Senior Vice President, Operations, (Deputy Registrar)	37.5	n/a	Officer	481,581
21 Timothy Schumacher Vice President & General Counsel, (Deputy Registrar)	37.5	n/a	Officer	387,167
22 Edmond Lee Vice President, Finance, CFO (Deputy Registrar)	37.5	n/a	Officer	304,949
23 Lesley Ross Deputy Corporate Secretary	37.5	n/a	Officer	104,904
24 John Becevello Vice President, L & U	37.5	n/a	Officer	329,244
25 Mike Cote Senior Advisor, Operations & Deputy Registrar, Operations	37.5	n/a	Officer	253,920
26 Bill Wallace Vice President, Information Systems	37.5	n/a	Key Employee	320,683
27 Eileen Holden Vice President, Human Resources	37.5	n/a	Key Employee	260,545
28 Suzanne Tiffin Vice President, Channel Strategy, Contact Centre	37.5	n/a	Key Employee	242,057
29 Peter Balasubramanian Vice President, Claims	37.5	n/a	Officer	332,432
30 Karen Mortfield Vice President, Stakeholders Relations	37.5	n/a	Key Employee	101,383
31 Girish Sharma Director L&U	37.5	n/a	Highest Comp	162,615
32 John Linney Director Contact Center	37.5	n/a	Highest Comp	163,774
33 John Hynes	37.5	n/a	Highest Comp	176,709
34 Adil Darr	37.5	n/a	Highest Comp	165,072
35 Kevin Brodie	37.5	n/a	Highest Comp	163,655
				2012 5,023,967

**Tarion Warranty Corporation**  
**Consolidated Summary Investment Listing**  
**As at December 31, 2012**  
**(Market Values using Bid Prices)**

	CANADIAN DOLLAR		US DOLLAR	
	Quantity	Market Value	Quantity	Market Value
<b>Fixed Income Category</b>				
<b>Bonds</b>				
Federal Gov	73,296,000	79,589,881	73,296,000	79,997,871
Provincial Gov	21,495,000	22,578,796	21,495,000	22,694,538
<b>Total Government Issued Bonds</b>	<b>94,791,000</b>	<b>102,168,677</b>	<b>94,791,000</b>	<b>102,692,409</b>
Financial Institution Bonds	105,355,000	111,129,559	105,355,000	111,699,225
Corporate Bonds (other than Utilities)	17,091,000	18,556,220	17,091,000	18,651,341
Corporate Utility's Bonds	23,560,000	26,766,597	23,560,000	26,903,806
<b>Total Canadian Bonds</b>	<b>240,797,000</b>	<b>258,621,053</b>	<b>240,797,000</b>	<b>259,946,781</b>
<b>Short Term Securities</b>				
(CANADIAN ISSUED NOTES IN CDNS\$)	13,025,411	17,734,771	13,025,411	17,825,682
(CANADIAN ISSUED NOTES IN US\$)	353,960	3,524,383	353,960	3,524,383
<b>Total Short Term Securities</b>	<b>13,379,371</b>	<b>21,259,153</b>	<b>13,379,371</b>	<b>21,350,065</b>
Accrued Interest				0
<b>TOTAL FIXED INCOME</b>		<b>279,880,206.00</b>		<b>281,296,846</b>
<b>Equity Portfolio</b>				
<i>(Quantity = No. of Shares or Units)</i>				
<b>DOMESTIC Stock (CAD Denominated)</b>				
AGRIUM	7,100	702,900	7,100	706,503
ATCO LTD CLASS 1 NON-VTG	11,905	955,733	11,905	960,633
ARC RESOURCES	32,470	788,047	32,470	792,087
BCE INC	28,565	1,216,869	28,565	1,223,107
BANK OF NOVA SCOTIA	122,545	7,041,436	122,545	7,077,531
BONAVISTA	34,225	505,161	34,225	507,751
BAYTEX	7,500	321,300	7,500	322,947
CAE	63,617	639,987	63,617	643,268
CAMECO CORP COMMON	82,360	1,613,432	82,360	1,621,703
CIBC	29,300	2,342,828	29,300	2,354,838
CANADIAN NATL RAILWAY CO	45,505	4,108,646	45,505	4,129,708
CANADIAN NATL RESOURCES	130,525	3,734,320	130,525	3,753,463
CANADIAN PACIFIC	14,100	1,420,857	14,100	1,428,141
CANADIAN TIRE LTD CL A	36,935	2,559,226	36,935	2,572,345
CANADIAN UTILITIES	575	41,205	575	41,416
CANFOR CORP	22,019	364,635	22,019	366,504
CENOVUS	105,028	3,496,382	105,028	3,514,305
COGECO CABLE	9,162	347,790	9,162	349,572
ENBRIDGE INC	46,655	2,006,165	46,655	2,016,449
ENCANA	110,073	2,157,431	110,073	2,168,490
ENSIGN ENERGY	44,900	687,419	44,900	690,943
FINNING	27,800	682,768	27,800	686,268
GREAT-WEST LIFECO INC	135,710	3,295,039	135,710	3,311,930
IGM FINANCIAL	13,100	544,829	13,100	547,622
IMPERIAL OIL LTD	23,961	1,023,854	23,961	1,029,102
INDUSTRIAL ALLIANCE	12,893	403,938	12,893	406,008
INMET	5,300	392,200	5,300	394,210
JEAN COUTU GRP(PJC)	26,234	380,655	26,234	382,607
LOBLAW COMPANIES LTD	33,776	1,413,867	33,776	1,421,115
MAGNA	39,500	1,954,855	39,500	1,964,876
MANULIFE FINANCIAL CORP	268,124	3,614,311	268,124	3,632,838
METRO INC	49,760	3,146,325	49,760	3,162,453
MOLSON INC	33,300	1,398,600	33,300	1,405,769
NEXEN INC COMMON	26,020	691,351	26,020	694,895
ONEX	12,700	531,495	12,700	534,220
OPEN TEXT	13,200	729,960	13,200	733,702
POTASH CORP OF SASK INC	84,790	3,417,037	84,790	3,434,553
POWER FINANCIAL CORP COM	26,175	711,960	26,175	715,610
QUEBECOR INC CL B	44,550	1,721,412	44,550	1,730,236
ROGERS COMMUN CL B	100,355	4,530,025	100,355	4,553,246
ROYAL BANK	117,655	7,035,769	117,655	7,071,835
SNC-LAVALIN GROUP INC	77,000	3,100,790	77,000	3,116,685
SHAW COMMUNICATIONS INC	56,825	1,296,178	56,825	1,302,823
SHOPPERS DRUG MART	62,210	2,656,989	62,210	2,670,609

Conversion at Dec 31, 2012

0.9949

SUNCOR	60,340	1,973,118	60,340	1,983,232
TALISMAN ENERGY INC	224,125	2,514,683	224,125	2,527,573
TECK RESOURCES	18,000	648,900	18,000	652,226
TELUS CORP	56,080	3,644,032	56,080	3,662,712
TELUS CORP (Non VTG)	2,800	180,852	2,800	181,779
THOMSON CORP COMMON	78,095	2,246,793	78,095	2,258,311
TIM HORTONS	18,649	909,885	18,649	914,549
TORONTO-DOMINION BANK	97,600	8,164,240	97,600	8,206,091
TRANSCANADA CORP	30,821	1,447,662	30,821	1,455,083
WEST FRASER TIMBER CO LTD	16,421	1,149,634	16,421	1,155,527
WESTON LTD	7,250	511,560	7,250	514,182
JF SPECIAL EQUITY FUND	243,817	4,198,825	243,817	4,220,349
<b>TOTAL DOMESTIC Stock</b>	<b>3,130,000</b>	<b>109,316,160</b>	<b>3,130,000</b>	<b>109,876,530</b>
<b>FOREIGN Stock (CAD Denominated)</b>				
BEUTEL GOODMAN POOLED FUNDS	808,067	9,871,179	808,067	9,921,780
<b>FOREIGN Stock (US Denominated)</b>				
ABBOT LABS INC	1,440	94,319	1,440	94,319
ALLERGAN	1,095	100,423	1,095	100,423
AUTOMATIC DATA	2,295	129,255	2,295	129,255
BANK OF NEW YORK CO	3,251	83,549	3,251	83,549
BB & T	2,930	85,293	2,930	85,293
BECTON DICKENSON	1,195	93,425	1,195	93,425
BORG WARNER	1,015	72,664	1,015	72,664
CVS CORP	2,335	112,827	2,335	112,827
CHEVRON COMMON	1,190	128,687	1,190	128,687
COCA COLA	2,900	105,125	2,900	105,125
COLGATE PALMOLIVE	1,665	174,058	1,665	174,058
DAVITA INC	905	99,994	905	99,994
DOLLAR TREE	2,250	90,226	2,250	90,226
EMERSON ELECTRONIC	2,480	129,878	2,480	129,878
EOG RESOURCES	980	118,188	980	118,188
EXXON MOBIL	1,015	87,716	1,015	87,716
FISERV INC COM	2,065	163,155	2,065	163,155
GENERAL ELECTRIC	5,735	120,149	5,735	120,149
HALLIBURTON	1,570	54,197	1,570	54,197
IBM	825	158,028	825	158,028
JP MORGAN CHASE	2,545	111,802	2,545	111,802
JOHNSON & JOHNSON	2,310	161,630	2,310	161,630
KIMBERLY-CLARK CORP	620	52,322	620	52,322
LINCOLN NATIONAL CORP	2,310	59,807	2,310	59,807
M&T BANK	905	89,043	905	89,043
METLIFE	3,570	117,595	3,570	117,595
NIKE	1,660	85,491	1,660	85,491
ORACLE	3,795	126,450	3,795	126,450
PEPISCO	1,520	103,527	1,520	103,527
PFIZER INC COM	5,230	131,162	5,230	131,162
PHILIP MORRIS	1,895	158,440	1,895	158,440
QEP RESOURCES	1,420	42,955	1,420	42,955
QUEST	1,390	80,245	1,390	80,245
PROCTER & GAMBLE	1,980	134,046	1,980	134,046
SCHLUMBERGER	590	40,886	590	40,886
SCRIPPS NETWORK	1,375	78,664	1,375	78,664
SPECTRA	1,760	48,188	1,760	48,188
3M COMPANY	1,235	114,670	1,235	114,670
TEXAS INSTRUMENTS	3,640	112,329	3,640	112,329
TIME WARNER CABLE INC	1,574	152,977	1,574	152,977
TRANSOCEAN	875	38,859	875	38,859
US BANCORP	4,225	134,948	4,225	134,948
VERISK ANALYTICS	2,735	139,403	2,735	139,403
WALGREEN CO	3,030	112,141	3,030	112,141
WELLS FARGO	3,613	123,275	3,613	123,275
JF INT'L EQUITY FUND	231,404	5,195,672	231,404	5,195,672
<b>Total US Denominated Stock (in US\$)</b>	<b>326,342</b>	<b>9,947,682</b>	<b>326,342</b>	<b>9,947,682</b>
Premium @ 1 017 (Q4)		-50,733		0
Unrealized Exchange on USD				
<b>Total US Denominated Stock (in CAD\$)</b>	<b>326,342</b>	<b>9,896,949</b>	<b>326,342</b>	<b>9,947,682</b>
<b>TOTAL FOREIGN Stock (in CAD\$)</b>		<b>19,768,128</b>		<b>19,869,462</b>
Dividend Receivables		564,577		567,471
<b>TOTAL STOCK PORTFOLIO</b>		<b>129,648,865</b>		<b>130,313,463</b>
<b>TOTAL INVESTMENT PORTFOLIO</b>		<b>409,529,071</b>		<b>411,610,309</b>

(Source: Q4 Investment 2012.xls)

Note 4

Tarion Warranty Corporation  
 EIN: 98-0197825  
 Schedule J (IRS 990) - 2012  
 Part VII-A - List of Officers, Directors, Trustees & Key Employees Over \$150,000

0.9994

Name & Title	Total (US\$)	USD BASE	USD BONUS	USD OTHER	USD PENSION	(SERP USD) ***
	<E>	<B-I>	<B-II>	<B-III>	<C>	part of <C>
1 Howard Bogach President, CEO, Registrar, (voting rights)	685,539	375,289 00	234,100 00	15,210 00	60,939 00	37,105 00
2 David Guiney Senior Vice President, Operations, (Deputy Registrar)	481,581	290,174 00	139,065 00	13,710 00	38,632 00	14,797 00
3 Timothy Schumacher Vice President & General Counsel, (Deputy Registrar)	387,167	253,597 00	89,057 00	13,674 00	30,839 00	7,005 00
4 Edmond Lee Vice President, Finance, CFO (Deputy Registrar)	304,949	197,799 00	69,577 00	13,510 00	24,064 00	229 00
5 John Becevello Vice President, L & U	329,244	212,793 00	74,603 00	13,109 00	28,740 00	4,905 00
6 Mike Cote Senior Advisor, Operations & Deputy Registrar, Operations	253,920	157,194 00	54,043 00	13,109 00	29,573 00	5,739 00
7 Bill Wallace Vice President, Information Systems	320,683	206,949 00	72,451 00	13,343 00	27,940 00	4,106 00
8 Eileen Holden Vice President, Human Resources	260,545	166,710 00	58,251 00	13,088 00	22,496 00	-
9 Suzanne Tiffin Vice President, Channel Strategy, Contact Centre	242,057	153,972 00	54,161 00	13,109 00	20,813 00	-
10 Peter Balasubramanian Vice President, Stakeholders Relations	332,432	220,132 00	72,764 00	13,176 00	26,361 00	2,526 00
11 Girish Sharma Director L&U	162,615	131,884 00	22,566 00	2,890 00	5,275 00	0
12 John Lunney Director Contact Center	163,774	131,589 00	22,718 00	2,887 00	6,579 00	0
13 John Hynes Director, Application Development	176,709	140,765 00	26,003 00	2,903 00	7,038 00	0
14 Adil Darr Director, Underwriting	165,072	132,810 00	22,724 00	2,898 00	6,640 00	0
15 Kevin Brodie Director, Warranty Services	163,655	132,154 00	23,292 00	2,923 00	5,286 00	0

\*\*\* Included in column <C> USD Pension is SERP For Example, of the \$60,939 in Howard Bogach's pension, \$37,105 is SERP



# **Tarion Warranty Corporation**

**Financial Statements  
December 31, 2012**

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# Tarion Warranty Corporation

December 31, 2012

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## Independent Auditor's Report

To the Directors of Tarion Warranty Corporation

We have audited the accompanying financial statements of Tarion Warranty Corporation, which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive results of operations, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

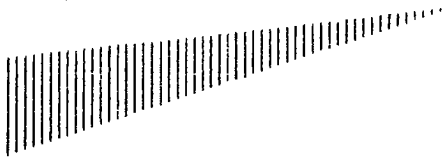
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Tarion Warranty Corporation as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
April 25, 2013





**ERNST & YOUNG**

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## ACTUARY'S REPORT

To the Directors of **Tarion Warranty Corporation**:

I have valued the warranty liabilities of **Tarion Warranty Corporation** for its Statement of Financial Position as at December 31, 2012 and their change in the Statement of Comprehensive Results of Operations for the year ended December 31, 2012 in accordance with accepted actuarial practice in Canada, including the selection of appropriate assumptions and methods.

In my opinion, the amount of these warranty liabilities makes appropriate provision for all warranty obligations, and the financial statements fairly present the results of the valuation.

Liam McFarlane  
Fellow, Canadian Institute of Actuaries

April 25, 2013

# TARION WARRANTY CORPORATION

## Statement of financial position

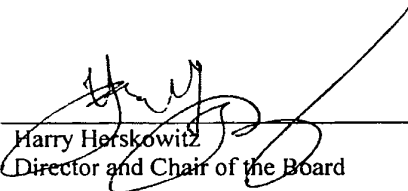
as at December 31, 2012

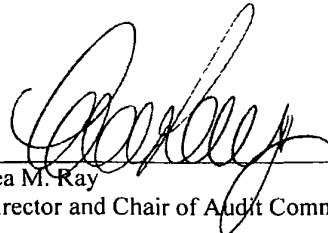
(SCAD thousands)

	Notes	2012	2011
<b>ASSETS</b>			
Equipment and leaseholds	4	\$ 3,331	\$ 3,734
Intangible assets	5	3,693	3,005
Trade and other receivables from vendors and builders	6	4,932	4,063
Prepaid expenses and other assets	7	1,082	389
Investments	8	409,529	370,346
Cash and cash equivalents	9	2,764	2,527
<b>TOTAL ASSETS</b>		<b>\$ 425,331</b>	<b>\$ 384,064</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Equity</i>		\$ 184,789	\$ 163,214
<i>Liabilities</i>			
Employee future benefits liabilities	10	5,993	4,356
Warranty liabilities	11	183,981	165,124
Funds held as security	12	41,033	40,901
Lease obligations and inducements	13	2,479	2,829
Accounts payable and accrued liabilities	14	7,056	7,640
<b>Total liabilities</b>		<b>240,542</b>	<b>220,850</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>\$ 425,331</b>	<b>\$ 384,064</b>

See accompanying notes to financial statements.

Approved by the Board of Directors

  
 Harry Herskowitz  
 Director and Chair of the Board

  
 Lea M. Ray  
 Director and Chair of Audit Committee

# TARION WARRANTY CORPORATION

## Statement of comprehensive results of operations

for the year ended December 31, 2012

(\$CAD thousands)

	Notes	2012	2011
<b>REVENUE</b>			
Home enrolment fees earned		\$ 33,607	\$ 31,822
Builders' registration and renewal fees		3,165	3,286
Investment results			
Investment income	15	24,474	13,142
Investment management fees		(1,030)	(985)
Other revenue		612	717
		<b>60,828</b>	<b>47,982</b>
<b>EXPENSES</b>			
Net claims incurred	11	191	1,010
Salaries and benefits		23,790	23,376
General and administrative		11,013	10,943
Depreciation and amortization	4, 5	2,690	2,098
Interest expense	16	510	496
		<b>38,194</b>	<b>37,923</b>
<b>EXCESS OF REVENUE OVER EXPENSES</b>		<b>22,634</b>	<b>10,059</b>
<b>OTHER COMPREHENSIVE RESULTS OF OPERATIONS</b>			
Actuarial losses for employee future benefits	10	(1,059)	(321)
<b>TOTAL COMPREHENSIVE RESULTS OF OPERATIONS FOR THE YEAR</b>		<b>\$ 21,575</b>	<b>\$ 9,738</b>

See accompanying notes to financial statements.

## TARION WARRANTY CORPORATION

### Statement of changes in equity

for the year ended December 31, 2012

(\$CAD thousands)

	2012	2011
Surplus		
Beginning of year	\$ 164,486	\$ 154,427
Excess of revenue over expenses for the year	22,634	10,059
End of year	187,120	164,486
Accumulated actuarial losses for employee future benefits		
Beginning of the year	(1,272)	(951)
Change during the year	(1,059)	(321)
End of year	(2,331)	(1,272)
<b>TOTAL EQUITY, END OF YEAR</b>	<b>\$ 184,789</b>	<b>\$ 163,214</b>

See accompanying notes to financial statements.

# TARION WARRANTY CORPORATION

## Statement of cash flows

for the year ended December 31, 2012

(\$CAD thousands)

	2012	2011
<b>NET INFLOWS (OUTFLOWS) OF CASH RELATED TO THE FOLLOWING ACTIVITIES</b>		
<b>OPERATING</b>		
Home enrolment fees received	\$ 53,569	\$ 54,397
Builders' registration and renewal fees received	3,165	3,286
Payments to employees for salaries and benefits	(23,160)	(22,872)
Payments to suppliers for general and administrative expenses	(10,960)	(10,550)
Claims payments	(6,985)	(8,423)
Securities receipts from builders, net of releases	120	1,032
Recoveries for claims and conciliation fees	3,844	4,685
Interest expenses	(498)	(474)
Other settlements and fees received	1,759	245
Cash provided by operating activities	<u>20,854</u>	<u>21,326</u>
<b>INVESTING</b>		
Interest received	8,825	9,274
Dividend received	3,550	2,914
Investment management fees	(1,081)	(931)
Proceeds from sale and maturity of investments	288,147	261,415
Purchase of investments	(316,835)	(291,281)
Purchase of equipment and leaseholds	(175)	(105)
Purchase of intangible assets	(2,336)	(1,576)
Cash used in investing activities	<u>(19,905)</u>	<u>(20,290)</u>
<b>FINANCING</b>		
Payment of finance lease liabilities	(712)	(672)
Cash used in financing activities	<u>(712)</u>	<u>(672)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	<b>237</b>	<b>364</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>2,527</b>	<b>2,163</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 2,764</b>	<b>\$ 2,527</b>

See accompanying notes to financial statements.

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# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
(\$CAD thousands)

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## 1. CORPORATION OPERATIONS

Tarion Warranty Corporation (the "Corporation"), domiciled in Ontario, Canada, was designated in 1976 by the Government of Ontario to administer the Ontario New Home Warranties Plan Act (the "Act"). The objectives of the Act include consumer protection, builder regulation and providing consumers and builders with a broad range of services including information and education. The Corporation collects home enrolment and builder registration fees and invests available funds for the purposes of settling warranty claims from homeowners, and providing for investigation, enforcement, and other administrative costs related to its responsibilities in administering the Act. Warranty protection is outlined in the Act and includes providing a warranty to purchasers of new homes in respect of:

- loss of deposit if a builder cannot or will not complete the sale of a home, through no fault of the home buyer;
- specified construction and contractual warranties for defects in work or material; and
- the effects of delays in closing, under certain circumstances.

The Government of Ontario has designated the Corporation as a non-profit organization incorporated without share capital under the Act. The Corporation's equity is not traded in a public market and it represents the retained accumulation of excess of revenue over expenses under the Act. The registered office is located at 5160 Yonge Street, 12<sup>th</sup> Floor, Toronto, Ontario, M2N 6L9.

As a non-profit organization, the Corporation is exempt from income taxes.

The financial statements for the year ended December 31, 2012 were approved by the Corporation's board of directors and authorized for issue on April 25, 2013.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies used in the preparation of these financial statements are described below.

### Equipment and leaseholds

Equipment and leaseholds are recorded at cost less accumulated depreciation, amortization and impairment. The assets' residual values, useful lives and the method of depreciation and amortization are reviewed at each financial year end, and adjusted as necessary on a prospective basis. The depreciation and amortization expense on equipment and leaseholds is disclosed separately in Note 4 to the financial statements and included in the statement of comprehensive results of operations.

Depreciation and amortization are provided at the following rates:

Computer equipment	- straight-line over four years
Furniture and office equipment	- declining balance at 20% a year
Leasehold improvements	- straight-line over the terms of the lease
Computer and office equipment under finance lease	- straight-line over the terms of the leases

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
(\$CAD thousands)

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased property includes buildings, computer and office equipment. There are no renewal terms on building leases but equipment leases include renewal options. These options are based on the fair market value of the equipment and the lease rate available at the time of expiry. The Corporation also has the option to extend leases on a month to month basis making the same payments and this is typically the option taken by the Corporation.

The gain or loss arising on the disposal or retirement of an item of equipment and leaseholds is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive results of operations in Other income. The gain or loss is recognized upon disposal or when no future economic benefits are expected from its use or disposal.

### Intangible assets

Intangible assets consist of software and applications acquired separately and internal software enhancements related to the customization of these software systems and applications. These intangible assets have finite lives and are amortized over their useful economic life. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The amortization expense on intangible assets are disclosed separately in Note 5 to the financial statements and included in the statement of comprehensive results of operations.

Software and applications	- straight-line over three years
Internal software enhancements	- straight-line over three years

### Financial instruments

*IFRS 9 – Financial Instruments* requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

- Financial assets at fair value through profit or loss ("FVTPL")

Cash and cash equivalents, unsettled investment trade receivable, the fixed income portfolio and the equity portfolio are classified as FVTPL. Financial assets at FVTPL are measured initially at fair value with any gains or losses arising on subsequent measurement recognized in the statement of comprehensive results of operations in investment income.

Transaction costs are recognized in the statement of comprehensive results of operations as incurred. Interest income on the fixed income portfolio is included in investment income as earned using the effective interest rate. Dividend income on the equity portfolio investments is recognized as of the declaration date in investment income. The gains and losses from currency translation are recognized in the statement of comprehensive results of operations in investment income.

# TARION WARRANTY CORPORATION

## Notes to financial statements

for the year ended December 31, 2012

(SCAD thousands)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Financial assets at amortized cost

Trade and other receivables from vendors and builders are measured at amortized cost. The carrying value is based on management's best estimate of the recoverable value determined by considering past collection experience, the amount of security held and the existence of guarantees. Impairment is being assessed at the end of each reporting period. Where there is objective evidence that there is impairment in these amounts, the impairment charge is recognized in the statement of comprehensive results of operations in net claims incurred to reduce the carrying value of the financial assets to their recoverable amounts.

- Other financial liabilities

Accounts payable and accrued liabilities, and funds held as security, are measured at amortized cost using the effective interest method.

#### Prepaid expenses and other assets

- Prepaid expenses are measured at historical costs. Prepaid expenses are generally settled within one year.
- Other assets include unsettled investment trade receivable, and properties purchased by the Corporation in its normal course of warranty remediation:
  - Unsettled investment trade receivable relates to investments trades made within three business days of the end of the fiscal year and which is settled immediately after the fiscal year-end. The fair value of unsettled investment trade receivable approximates the carrying amount due to its short-term maturity.
  - In the normal course of business, the Corporation may be required to purchase (take legal title) from a new home owner, an uninhabitable property (land and/or dwelling) so as to settle a warranty claim. The Corporation's intent is to remediate and divest the property, as soon as possible, or in some cases where restoration is not possible to donate the sites to local governments for parks or green-space. The most significant portion of the asset relates to the value of the land. These assets are generally purchased at their fair value and recorded as other assets. The gain or loss realized, if any, between the fair value on acquisition and the final sale price, is recorded as part of net gain on disposal of other assets. These assets are expected to be recovered more than one year after the statement of financial position date.

#### Cash and Cash Equivalents

Cash and cash equivalents comprises cash on hand and at the bank, any short-term deposits with a maturity of up to three months on the date of purchase and any bank overdrafts payable on demand. There are no restrictions or limitations to the use of the cash and cash equivalents.



# TARION WARRANTY CORPORATION

## Notes to financial statements

for the year ended December 31, 2012

(\$CAD thousands)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Employee future benefits

In addition to participating in a government managed employee benefit plan, the Corporation has the following employee benefit plans:

- A pension plan consisting of a fully vested and closed defined benefit pension plan, and an active defined contribution plan where employees become vested after two years of employment; and
- A post-employment pension and medical benefits plan for employees.

The costs of pension and other post-employment benefits earned by employees are actuarially determined using the projected unit credit valuation method. This takes into account management's best estimates of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains and losses are recognized as part of other comprehensive income in the period they occur.

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The defined benefit asset or liability comprises the net present value of the defined benefit obligation less past service costs not yet amortized and less the fair value of the plan assets, out of which obligations are to be settled. Plan assets are held in a trust and are not available to creditors of the Corporation, nor can they be paid directly to the Corporation. Fair value is based on market price information. The value of any asset recognized is restricted to the sum that can be used to reduce future contributions to the plan.

The Corporation's contributions to the defined contribution pension plan are expensed in the statement of comprehensive results of operations in the year to which they relate and are included as part of salaries and benefits expenses.

#### Warranty liabilities

Warranty claims liabilities include estimates of costs for claims reported and in process, and provisions for claims incurred but not yet reported at the statement of financial position date where it is anticipated that costs will be incurred by the Corporation.

The warranty period spans seven years and significant periods of time can elapse between the incurrence of claims liabilities and their settlement. Accordingly, the estimation of the liabilities involves significant measurement uncertainty.

The liabilities are discounted to reflect the investment income expected to be earned over the period between the incurrence and settlement of claims. The discount rate reflects the expected future yield from the fixed interest investments. Provisions for adverse deviation are added to allow for the inherent measurement uncertainty that arises because actual investment yields may differ from the discount rate; because the actual settlements may occur at amounts that differ from expected settlement amounts; and because the timing of settlements may differ from expected timing.

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
(\$CAD thousands)

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Claims incurred include claims recoveries and changes in the provisions for claims reported and in process and for claims incurred but not yet reported.

Claims recoveries include amounts recovered from builders on claims incurred during the current year or in previous years and changes in the estimate of amounts recoverable from builders on outstanding warranty claims liabilities. Estimated amounts recoverable from builders are presented on the statement of financial position as an asset of the Corporation.

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Corporation. All other leases are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Assets held under finance leases are initially recognized as assets of the Corporation at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in the statement of comprehensive results of operations.

Assets under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

### Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as a separate asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. Expenses related to any provision are presented in the statement of comprehensive results of operations net of any reimbursement.

### Revenue recognition

- *Home enrolment fees earned and builders' registration and renewal fees*

Home enrolment fees are remitted by builders during the year. These fees are deferred and taken into revenue as earned based on the expected claims experience over the warranty period. The deferred portion of home enrolment fees is included in warranty liabilities. If claims experience indicates that

# TARION WARRANTY CORPORATION

## Notes to financial statements

for the year ended December 31, 2012

(\$CAD thousands)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

home enrolment fees collected will not be sufficient to discharge related liabilities, a provision for premium deficiency is included in the warranty liabilities.

Builders' registration fees are recorded as revenue upon registration and renewal fees are recorded as revenue in the year in which they are due.

Other revenue comprises of various administration fees charged for services generally related to the handling of claims and licensing and underwriting. These fees are recorded as earned.

#### Interest expense

Interest paid is recognized in the statement of comprehensive results of operations as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing liability.

#### Impairment of non-financial assets

The Corporation assesses at each reporting date whether there is any indication that an asset may be impaired. The Corporation reviews and considers both internal and external sources of information that indicate any events or changes in circumstances causing the carrying amount of the non-financial assets not be recoverable.

An impairment loss is recognized for the amount by which the carrying amount of the cash generating unit exceeds its recoverable amount, which is the higher of the cash generating unit's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive results of operations.

#### Currency translation

The Corporation's financial statements are presented in Canadian dollars, the functional currency of the Corporation and the currency of the primary economic environment in which the Corporation operates. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the period-end rate. The translation impact is recorded in the statement of comprehensive results of operations in the period in which they arise. Exchange gains or losses on financial assets at fair value through profit or loss are reported as part of investment income in the statement of comprehensive results of operations. Revenue and expense items in a foreign currency are translated into Canadian dollars at the transaction date rate.

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
(\$CAD thousands)

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Future accounting changes

#### *IFRS 4 – Insurance Contracts*

In July 2010, the IASB issued an exposure draft proposing changes to the accounting standards for insurance contracts. The proposal would require an insurer to measure its insurance liabilities using a model that focuses on the amount, timing and uncertainty of future cash flows associated with fulfilling its insurance contracts. A re-exposure draft is expected to be issued by the IASB in Q2 2013, and the final standard is expected to be issued in 2014 with a proposed effective date of January 1, 2018. As the standard is still evolving and not expected to be finalized for a few years, management continues to monitor the developments in this area and will develop a plan to evaluate the impact on the Corporation's financial statements once the final standard is issued.

#### *IFRS 9 – Financial Instruments*

The Corporation early adopted IFRS 9 effective January 1, 2011 which required all financial assets to be classified on initial recognition at amortized cost or FVTPL. In November 2012, the IASB published for public comment an exposure draft of proposed limited amendments to IFRS 9. As the standard is further revised, management will assess the impact of such changes on the Corporation's financial statements and adjust the financial statements accordingly.

#### *IFRS 13 – Fair Value Measurement*

In May 2012, the IASB released a new version of *IFRS 13 – Fair Value Measurement*. The standard includes increased disclosure requirements regarding information about Level 3 fair value measurements. The standard becomes effective for financial years beginning on or after January 1, 2013. The Corporation has reviewed the new standard and concluded that it will not have a significant impact on its financial statements.

#### *IAS 1 – Presentation of Financial Statements*

Effective January 1, 2013, the Corporation will adopt the guidance in the amended IAS 1: *Presentation of Financial Statements*. The amended standard includes requirements that Other Comprehensive Income be classified by nature and grouped between those items that will be reclassified subsequently to profit or loss (when specific conditions are met) and those that will not be reclassified. Other amendments include changes to overall financial statement presentation. The Corporation has reviewed the amended standard and concluded that it will not have a significant impact on its financial statements.

#### *IAS 17 – Leases*

The IASB will issue a second exposure draft on the proposed accounting model for leases. The impact of adoption of the proposed changes will be determined by the Corporation once the final lease standard is issued, which has yet to be determined by the IASB.

# TARION WARRANTY CORPORATION

## Notes to financial statements

for the year ended December 31, 2012

(\$CAD thousands)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *IAS 18 – Revenue*

The IASB targets to issue the standard within 2013. The impact of adoption of the proposed changes will be determined by the Corporation once the final standard is issued.

#### *IAS 19 – Employee Benefits*

Effective January 1, 2013, the corridor method of recording actuarial gains and losses will be eliminated. This does not impact the Corporation as, effective January 1, 2010, management elected to recognize the actuarial gains and losses immediately in Other comprehensive results of operations upon the adoption of IFRS. The revised standard also introduces the reporting of net interest on net defined benefit liability in the statement of comprehensive results of operations, and requires that past service costs to be recognized immediately. This will result in a \$460 transitional adjustment to the accumulated comprehensive income and equity on January 1, 2013 for the unamortized past service costs of other post-employment medical benefits (“OPEB”). The standard has enhanced the presentation and disclosure requirements of certain items arising from defined benefit plans as well. The Corporation has reviewed the revised standard and concluded that it will not have a significant impact on its financial statements.

### 3. KEY ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements. Actual amounts could differ from those estimates.

#### *Key management judgements*

In the process of applying the Corporation’s accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

- Internally generated software enhancements

Internally generated software enhancements costs are capitalized if, and only if, all of the following criteria are met: (1) the technical feasibility can be demonstrated; (2) management has the intention and ability to complete the intangible asset for use; (3) the intangible asset will generate probable future economic benefits; and (4) expenditures attributable to the intangible asset can be measured reliably.

#### *Key management estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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# TARION WARRANTY CORPORATION

## Notes to financial statements for the year ended December 31, 2012 (SCAD thousands)

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### 3. KEY ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

- Valuation of warranty liabilities

Warranty claims liabilities include estimates of costs for claims reported and in process, and provisions for claims incurred but not yet reported at the statement of financial position date where it is anticipated that costs will be incurred by the Corporation. The amount of claims liabilities equals the present value, at the statement of financial position date, of cash flows on account of claims (and related expenses) incurred before that date. The ultimate cost of outstanding claims is estimated by using actuarial valuation taking into account the Corporation's claims handling practices, actuarial assessments, the judgement of management, difference between actual and expected settlement amounts, historical precedents and trends, prevailing legal, economic, social and regulatory environments and expectations of future developments. Details of the key assumptions used in the estimates are contained in Note 11. The warranty liabilities amounts presented for these claims are stated at the actual amounts expected to be paid directly by the Corporation to settle its obligations which reflect the amounts paid in the normal course of operations.

- Valuation of trade and other receivables from vendors and builders

Trade and other receivables from vendors and builders recorded in the statement of financial position cannot directly be derived from active markets. They are measured at amortized cost less impairment. The carrying value is based on management's best estimate of recoverable value determined by considering past collection experience, financial condition of the builders, security held, legal action sought and judgements awarded. Details of the key assumptions used in the estimates are contained in Note 6.

- Revenue recognition of home enrolment fees earned

Home enrolment fees are deferred and taken into revenue as earned based on the expected claims experience over the warranty period. The deferred portion of home enrolment fees is included in warranty liabilities. The results are subject to significant uncertainty based on the actual claims experience over the warranty period. Details of the key assumptions used in the estimates are contained in Note 11.

- Useful lives of depreciable assets

The Corporation reviews the useful lives of depreciable assets at each reporting date. At December 31, 2012, management assessed that the useful lives reflect the expected use of the assets to the Corporation.

- Employee future benefits

The costs of defined benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Details of the key assumptions used in the estimates are contained in Note 10.

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
(\$CAD thousands)

## 4. EQUIPMENT AND LEASEHOLDS

Equipment and leaseholds consist of the following as at December 31, 2012:

	Computer Equipment	Furniture and office equipment	Leashold improvements	Computer and office equipment under finance lease	Total
<i>At cost</i>					
Balance at January 1, 2012	\$ 1,336	\$ 1,470	\$ 2,415	\$ 3,091	\$ 8,312
Additions	135	29	11	464	639
Disposals	-	-	-	(1,113)	(1,113)
Balance at December 31, 2012	1,471	1,499	2,426	2,442	7,838
<i>Accumulated depreciation</i>					
Balance at January 1, 2012	1,235	1,091	653	1,599	4,578
Depreciation expense	73	79	193	697	1,042
Disposal	-	-	-	(1,113)	(1,113)
Balance at December 31, 2012	1,308	1,170	846	1,183	4,507
<i>Carrying amount</i>					
Balance at December 31, 2012	\$ 163	\$ 329	\$ 1,580	\$ 1,259	\$ 3,331
Balance at December 31, 2011	\$ 101	\$ 379	\$ 1,762	\$ 1,492	\$ 3,734

## 5. INTANGIBLE ASSETS

The Corporation's intangible assets are comprised of externally purchased software and applications and internally developed software enhancements.

	Software and applications	Internal software enhancements	Total
<i>At cost</i>			
Balance at January 1, 2012	\$ 5,397	\$ 2,351	\$ 7,748
Additions	1,686	650	2,336
Disposal	(456)	-	(456)
Balance at December 31, 2012	6,627	3,001	9,628
<i>Accumulated amortization and impairment losses</i>			
Balance at January 1, 2012	3,698	1,045	4,743
Amortization expense	1,078	570	1,648
Disposal	(456)	-	(456)
Balance at December 31, 2012	4,320	1,615	5,935
<i>Carrying amount</i>			
Balance at December 31, 2012	\$ 2,307	\$ 1,386	\$ 3,693
Balance at December 31, 2011	\$ 1,699	\$ 1,306	\$ 3,005

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
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## 5. INTANGIBLE ASSETS (continued)

Development costs recognized as an expense under general and administrative in the statement of comprehensive results of operations during the year amount to \$934 (2011 - \$420).

## 6. TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS

Trade and other receivables from vendors and builders consist of three types of receivables:

- Trade receivables from vendors and builders represent amounts receivable arising from warranty claims that the Corporation has paid out on behalf of vendors and builders during the remediation process. Trade receivables from vendors and builders are measured at amortized cost less impairment. Amounts receivable from registered builders are classified as financial assets. All the amounts are due immediately. Fair value of trade receivables is disclosed in Note 8.
- Amounts recoverable from vendors and builders represent the estimated amounts recoverable from vendors and builders in respect to the outstanding warranty claims recognized under the warranty liabilities. Amounts are invoiced to the vendors and builders only when the Corporation has paid out monies for the claim.
- Other receivables from vendors and builders represent other receivables such as enrolment and/or registration fees.

	2012	2011
Gross trade receivables	\$ 22,527	\$ 22,039
Less: Allowance for impairment	(20,819)	(20,766)
Trade receivables	1,708	1,273
Amounts recoverable from vendors and builders	2,775	2,169
Other receivables from vendors and builders	449	621
	\$ 4,932	\$ 4,063

Before accepting registration for any vendor and builder, the Corporation undergoes an underwriting process that typically includes obtaining an external credit score to assist in assessing the applicant's credit quality, an assessment of the applicant's construction expertise, the applicant's business acumen and where applicable, the merits of the applicant's proposal to construct a building or project. Terms and conditions of registration vary from applicant to applicant but typically include limits on the volume and type of new home construction, and a requirement to provide security and/or indemnitors. Assessments are revisited annually at registration renewal time or earlier if additional risk factors surface

As at December 31, 2012, there are six (2011 – three) vendors and builders each of whom represent more than 5% of the balance of trade receivables net of allowances. However, due to trade receivables being



# TARION WARRANTY CORPORATION

## Notes to financial statements

for the year ended December 31, 2012

(\$CAD thousands)

### 6. TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS (continued)

almost fully reserved, the overall net exposure of the Corporation to these vendors and builders as at December 31, 2012 is only \$808 (2011 - \$375).

As described in Note 12, the Corporation obtains security from builders to minimize its financial losses from future warranty claims. At December 31, 2012 there is \$2,011 (2011 - \$1,503) of cash and non-cash security held associated with the trade and other receivables from vendors and builders.

#### *Unregistered vendors and builders*

Warranty coverage is also available for homes which were built by unregistered builders. However, under the Act, unregistered builders are deemed to be building illegally and are subject to prosecution and are required to indemnify the Corporation for any financial loss the Corporation incurs with respect to the homes the unregistered vendors and builders built. Included in the total trade and other receivables from vendors and builders as at December 31, 2012 are amounts recoverable from unregistered vendors and builders of \$283 (2011 - \$205).

#### *Aging of past due but not impaired*

In assessing the impairment of the Trade and other receivables from vendors and builders, the Corporation individually assesses accounts that are greater than \$50 based on the credit history of the vendor/builder, its financial condition, security held, legal action sought and judgement awarded. For accounts less than \$50, a general recovery rate is applied. The rate used depends on the account status as to whether it is in collection litigation or active collection. The recoverability rates are based on trailing averages. As at December 31, 2012, a 1% change in these rates would have an impact of \$16 (2011 - \$18) to the trade receivables. These rates are recalculated annually and assessed for reasonability.

Actual recovery on these balances may differ if the financial health of the vendor/builder changes, if the guarantors/indemnitors financial situation changes and/or if the court or tribunal's decision differs from that of the Corporation. The objective evidence of impairment for the amounts recoverable from builders includes the Corporation's past collection experience, financial condition of the builders, security held, legal action sought, and judgements awarded.

As at December 31, 2012, the trade and other receivables from vendors and builders includes \$1,271 (2011- \$758) that are greater than 90 days past due but not considered to be impaired. The Corporation considers registered builders who have past due but not impaired balances to be able to pay their debts as they fall due. The Corporation does not hold any collateral over these balances except for cash and non-cash securities as noted above, but does have credit enhancement in the form of indemnities for the balances of which have been reflected in the recoverable amounts.

	2012	2011
1 to 90 Days	\$ 437	\$ 515
91 to 360 Days	282	293
Over 360 Days	989	465
Total Receivables, End of year	\$ 1,708	\$ 1,273

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
(\$CAD thousands)

## 6. TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS (continued)

### *Movement in Trade receivables*

	2012	2011
Gross Trade Receivables		
Beginning of year	\$ 22,039	\$ 34,543
New Bills Issued	6,774	7,036
Write-offs Processed	(2,442)	(14,855)
Recoveries	(3,844)	(4,685)
End of year	22,527	22,039
Allowance for Doubtful Accounts		
Beginning of year	(20,766)	(32,969)
Impairment Losses Recognized (net of recoveries)	(2,495)	(2,652)
Write-offs Processed	2,442	14,855
End of year	\$ (20,819)	\$ (20,766)
Trade Receivables, End of year	\$ 1,708	\$ 1,273

## 7. PREPAID EXPENSES AND OTHER ASSETS

As at December 31, 2012, prepaid expenses were \$246 (2011 – \$289).

Other assets include an unsettled investment trade receivable of \$836 (2011 – Nil) and properties purchased by the Corporation in its normal course of warranty remediation of Nil (2011 – \$100). In 2012, the Corporation sold the properties resulting in a net gain of \$55 (2011 – Nil) which is recognized in other revenue.

## 8. FINANCIAL INSTRUMENTS

### *(a) Fair value*

Fair value represents the amount that would be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Corporation's cash and cash equivalents and investments are measured at fair value. The carrying value for funds held as security and accounts payable and accrued liabilities approximates fair value due to their short-term nature.

The Corporation has classified the fixed income portfolio and the equity portfolio as FVTPL financial assets. Both classes of assets are reported at fair value based on quoted bid prices in active markets on the statement of financial position. The fair values of bonds and equities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at December 31.

The fair value of trade and other receivables from vendors and builders approximates carrying value; there is no external active market for this type of asset and the inputs required to value these are primarily based on the Corporation's assumptions about the credit quality of the vendors and builders, and the availability of

# TARION WARRANTY CORPORATION

## Notes to financial statements

for the year ended December 31, 2012

(SCAD thousands)

### 8. FINANCIAL INSTRUMENTS (continued)

collateral for the receivable. See Note 6 on the valuation methodology used. A discounted cash flow analysis is performed over the expected cash flows to be recovered from the vendors and builders.

The following table discloses the categories of financial instruments as at December 31, 2012:

	2012	2011
	Fair	Fair
	Value	Value
Financial assets measured at fair value through profit or loss (FVTPL)		
Fixed income portfolio:		
Federal, provincial and municipal government bonds	\$ 102,169	\$ 91,147
Financial institution bonds	111,129	105,508
Other corporate bonds	45,323	45,020
Treasury bills and short-term notes	21,259	11,577
	279,880	253,252
Equity portfolio	129,649	117,094
Total investments	409,529	370,346
Unsettled investment trade receivable (note 7)	836	-
Cash and cash equivalents	2,764	2,527
	413,129	372,873
Financial assets measured at amortised cost		
Trade receivables from vendors and builders (note 6)	1,708	1,273
Total financial assets	\$ 414,837	\$ 374,146
Financial liabilities measured at amortized cost		
Funds held as security (note 12)	41,033	40,901
Accounts payable and accrued liabilities (note 14)	7,056	7,640
Total financial liabilities	\$ 48,089	\$ 48,541

#### *Fair value hierarchy*

*IFRS 9 – Financial Instruments* requires classifying of fair value measurements using a three-level fair value hierarchy, described below, for disclosure purposes. Each level reflects the inputs used to measure the fair values of financial assets and financial liabilities:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are based on unobservable market data.

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
(SCAD thousands)

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## 8. FINANCIAL INSTRUMENTS (continued)

The following table presents the financial instruments measured at fair value classified by the fair value hierarchy:

	2012	2011
<b>Level 1 Categorization</b>		
Cash and cash equivalents	\$ 2,764	\$ 2,527
Unsettled investment trades receivable	836	-
Equity portfolio	129,649	117,094
<b>Level 2 Categorization</b>		
Treasury bills / Short Term Notes	21,259	11,577
Bonds	258,621	241,675
<b>Level 3 Categorization</b>		
	-	-
<b>Total</b>	<b>\$ 413,129</b>	<b>\$ 372,873</b>

During the years ended December 31, 2012 and 2011, there were no transfers among Levels 1, 2 and 3.

### (b) Market risk

To manage the risks in the investment portfolio, management regularly monitors the performance of investment managers who are required to operate within specific investment criteria related to credit quality, diversification and to maximize yield within those constraints.

Market risk is comprised of three risks that may impact the fair value of a financial instrument as described below.

- *Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk on its fixed income portfolio and its funds held as security. Details of the Corporation's fixed income portfolio with interest rate exposure as at December 31 are disclosed below:

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
(SCAD thousands)

## 8. FINANCIAL INSTRUMENTS (continued)

2012

### Terms of Maturity (1)

	Due within one year	Due one through five years	Due five through ten years	Due ten through twenty years	Due after twenty years	Total
<b>Government</b>						
Federal	\$ 4,705	\$ 55,122	\$ 3,172	\$ 7,179	\$ 9,097	\$ 79,275
Yield to Maturity (YTM)	1.0%	1.2%	1.6%	1.9%	1.3%	1.3%
Provincial	-	17,708	3,877	733	185	22,503
YTM	-	1.5%	2.5%	3.2%	-	1.8%
Treasury Bills	12,470	-	-	-	-	12,470
YTM	0.9%	-	-	-	-	0.9%
<b>Total Government</b>	<b>17,175</b>	<b>72,830</b>	<b>7,049</b>	<b>7,912</b>	<b>9,282</b>	<b>114,248</b>
YTM (%)	1.0%	1.3%	2.1%	2.0%	1.4%	1.3%
<b>Financial Institutions</b>						
YTM	-	1.8%	2.7%	3.3%	3.7%	2.1%
<b>Other Corporate</b>	<b>4,721</b>	<b>14,964</b>	<b>11,574</b>	<b>1,788</b>	<b>11,762</b>	<b>44,809</b>
YTM	0	2.0%	2.9%	3.0%	4.1%	2.8%
<b>Short-Term Notes</b>	<b>8,779</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,779</b>
YTM	0.5%	-	-	-	-	1.4%
<b>Total Fixed Income</b>	<b>\$ 30,675</b>	<b>\$ 168,653</b>	<b>\$ 34,405</b>	<b>\$ 10,300</b>	<b>\$ 34,066</b>	<b>\$ 278,099</b>
Accrued Interest	1,781	-	-	-	-	1,781
<b>Total Fixed Income with Accrued Interest</b>	<b>\$ 32,456</b>	<b>\$ 168,653</b>	<b>\$ 34,405</b>	<b>\$ 10,300</b>	<b>\$ 34,066</b>	<b>\$ 279,880</b>
YTM	1.0%	1.6%	2.6%	2.3%	3.2%	1.9%

(1) The timing of actual maturities may differ from the contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
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## 8. FINANCIAL INSTRUMENTS (continued)

2011

	<u>Terms of Maturity (1)</u>						Total
	Due within one year	Due one through five years	Due five through ten years	Due ten through twenty years	Due after twenty years		
<b>Government</b>							
Federal	\$ 30,937	\$ 37,589	\$ 706	\$ 5,488	\$ 9,621		\$ 84,341
Yield to Maturity (YTM)	1.1%	1.1%	2.0%	2.4%	2.3%		1.3%
Provincial	-	2,168	4,055	355	-		6,578
YTM	-	1.5%	2.2%	3.3%	-		2.0%
Treasury Bills	4,741	-	-	-	-		4,741
YTM	0.8%	-	-	-	-		0.8%
<b>Total Government</b>	<b>35,678</b>	<b>39,757</b>	<b>4,761</b>	<b>5,843</b>	<b>9,621</b>		<b>95,660</b>
YTM (%)	1.1%	1.1%	2.2%	2.4%	2.3%		1.4%
<b>Financial Institutions</b>							
YTM	-	1.8%	3.1%	4.6%	4.7%		2.3%
<b>Other Corporate</b>							
YTM	-	2.1%	3.3%	4.0%	4.5%		3.1%
<b>Short-term Notes</b>							
YTM	1.4%	-	-	-	-		1.4%
<b>Total Fixed Income</b>	<b>\$ 42,512</b>	<b>\$ 138,569</b>	<b>\$ 31,365</b>	<b>\$ 8,176</b>	<b>\$ 30,821</b>		<b>\$ 251,443</b>
Accrued Interest	1,809						1,809
<b>Total Fixed Income with Accrued Interest</b>	<b>\$ 44,321</b>	<b>\$ 138,569</b>	<b>\$ 31,365</b>	<b>\$ 8,176</b>	<b>\$ 30,821</b>		<b>\$ 253,252</b>
YTM	1.1%	1.7%	3.1%	2.9%	3.9%		2.0%

(1) The timing of actual maturities may differ from the contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
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## 8. FINANCIAL INSTRUMENTS (continued)

- *Equity price risk*

Equity price risk is the risk that the value of a financial instrument will fluctuate due to changes in equity markets. The Corporation is exposed to equity price risk on its equity portfolio. The Corporation's equity portfolio is diversified and invested in well established, active, liquid markets.

	2012		2011	
Financials	\$ 37,112	29%	\$ 32,493	28%
Energy	25,041	19%	23,670	20%
Consumer Staples	13,669	11%	13,543	12%
Consumer Discretionary	11,142	9%	9,886	8%
Industrials	13,621	11%	12,131	10%
Telecommunication	12,931	10%	11,372	10%
Materials	6,597	5%	4,906	4%
Information Technology	2,958	2%	2,113	2%
Health Care	2,494	2%	2,920	2%
Metals & Mining	1,049	1%	1,914	2%
Utilities	2,173	2%	1,611	1%
Service	139	0%	187	0%
Other	723	1%	348	0%
<b>Total:</b>	<b>\$ 129,649</b>	<b>100%</b>	<b>\$ 117,094</b>	<b>100%</b>

- *Foreign currency risk*

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates versus the Canadian dollar. The Corporation is exposed to currency risk on its foreign currency denominated fixed-income and equity investments. As at December 31, 2012, the Corporation had approximately 7.60% (2011 – 9.40%) of the fair value of its equity investments and approximately 1.26% (2011 – 0.32%) of the fair value of its securities with interest rate exposure denominated in U.S. dollars. The Corporation manages its foreign currency exposure by limiting the foreign content in the investment managers' portfolio.

The table below shows the potential impact on the statement of comprehensive results of operations and statement of financial position equity as a result of specific stress scenarios applied to financial assets and financial liabilities (excluding warranty liabilities). The analysis reflects management's view of key sensitivities. The actual results may differ from this sensitivity analysis and the difference could be material.

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
(SCAD thousands)

## 8. FINANCIAL INSTRUMENTS (continued)

The stress scenarios for 2012 are:

- Interest rate risk: a shift of -25/+25 basis points in interest rates for all maturities. Funds held as Securities are credited at floating interest rates (Prime less 2%) and are changed semi-annually to calculate the interest paid on security. The annual interest paid impact on a -25/+25 basis points change in interest rates is disclosed below.
- Equity price risk: an increase/decrease of 10% in equity market prices.
- Foreign currency risk: a strengthening/weakening of 5% in the Canadian dollar relative to the U.S. dollar.

The stress scenarios for 2012 are:

	Carrying amount (\$'000)	Interest Rate Risk		Equity Price Risk		Foreign Exchange Rate Risk	
		-25 BP (\$'000)	+25 BP (\$'000)	-10% (\$'000)	+10% (\$'000)	-5% (\$'000)	+5% (\$'000)
<b>Financial Assets</b>							
FVTPL investments:							
Fixed income portfolio	279,880	3,044	(2,938)				
Equity portfolio	129,649	-	-	(12,908)	12,908	521	(471)
<b>Financial Liabilities</b>							
Funds held as security	39,784	99	(99)				

For the above scenarios, the Corporation has assumed that interest rates, equity prices, and currency moved independently.

### (c) Credit risk

Credit risk arises from the possibility of financial loss occurring as a result of a default by a counterparty on its obligation to the Corporation. Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of cash and cash equivalents, investments and trade and other receivables from vendors and builders. The carrying value of financial assets, including cash and cash equivalents, investments and trade and other receivables from vendors and builders, represents the maximum credit exposure. The Corporation has adopted the following strategies to mitigate this risk:

- The Corporation's investment policies limits the concentration in any one investee or related group of investees, except for financial instruments issued by the Government of Canada for which there is no limit.



# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
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## 8. FINANCIAL INSTRUMENTS (continued)

- The Corporation only deals with counterparties believed to be creditworthy and actively monitors credit exposure, requiring minimum credit ratings of A for debt securities at the time an investment is purchased. At December 31, 2012, 98.7% (2011 – 99.2%) of the debt securities have a rating of A or better, and 1.3% (2011 – 0.8%) of the debt securities have a rating of BBB.
- Cash and cash equivalents and investments are placed with governments, well-capitalized financial institutions and other creditworthy counterparties.
- The Corporation assesses the builders' risk profile, including their financial position, during the registration and renewal processes. Based on the assessment, a builder may be licensed and as disclosed in Note 12, security is obtained in the form of cash, letters of credit, and other guarantees from the builder in order to reduce the risk of financial loss related to future warranty claims from homeowners.

### *(d) Liquidity risk*

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to daily cash requirements from settlement of claims, operating expenses and cash security releases. The settlement of claims have no fixed terms and is dependent on the timing of the repair work involved and the cash security release has no fixed terms and is contingent upon fulfilment of certain requirements (see Note 12). Liquidity risk is considered low as a significant percentage of the investment portfolio is traded in an active market and can be readily disposed of. The Corporation also has a \$3,000 (2011 – \$3,000) line of credit it can draw on of which the amount outstanding at December 31, 2012 is Nil (2011 – Nil).

## 9. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents include cash at the bank and on hand and investments in short-term deposits with a maturity of up to three months on the date of purchase, net of outstanding bank overdrafts. At December 31, 2012, cash and cash equivalents was solely cash at the bank and on hand of \$2,764 (2011 - \$2,527) with no short-term deposits or bank overdrafts payable on demand. There are no restrictions, pledges or limitations to the use of the cash and cash equivalents.

## 10. EMPLOYEE FUTURE BENEFIT PLANS

The Corporation's Pension Plan is comprised of a defined benefit provision ("DB Plan") which is closed to further contributions, and a defined contribution provision ("DC Plan").

In addition, the Corporation provides other post-employment benefits ("OPEB"), primarily health and dental coverage, on an unfunded basis.

### *Defined contribution plan*

The DC Plan is open to all full-time employees of the Corporation, subject to meeting certain eligibility conditions. Under the terms of the DC Plan, employees contribute a percentage of eligible employee earnings

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
(\$CAD thousands)

## 10. EMPLOYEE FUTURE BENEFIT PLANS (continued)

per year. The Corporation makes contributions for each contributing employee in amounts that vary dependent upon the employee's age and the number of years of eligible service.

There also exists a Supplementary Executive Retirement Plan ("SERP") for senior management. The purpose of the SERP is to offset the limitation on contributions otherwise payable under the registered pension plan resulting from the application of the maximum contribution limits specified under the Income Tax Act (Canada). The SERP provides only for benefits in excess of those payable under the Registered Plan.

### *Defined benefit plan and other post-employment benefits*

The DB Plan is fully vested and closed to new employees effective January 1, 1999. Plan participants who elected not to convert to the defined contribution provision retained their DB pensions earned to date. For service subsequent to December 31, 1998, all members of the Pension Plan participate on a defined contribution basis.

The DB Plan and OPEB are subject to periodic actuarial valuations. The Corporation has a December 31 measurement date. A valuation of the accrued pension benefit obligation was performed as at January 1, 2010 and a valuation of the OPEB was performed as of December 31, 2011. The next valuation of the accrued pension benefit obligation is expected to be performed as at January 1, 2013 and the valuation of the OPEB will be performed as at December 31, 2014.

The amounts recognized in the statement of financial position for employee future benefits liabilities at the statement of financial position date are as follows:

	2012			2011		
	DB Plan	OPEB	Total	DB Plan	OPEB	Total
Fair value of pension assets	\$ 4,222	\$ -	\$ 4,222	\$ 4,074	\$ -	\$ 4,074
Present value of the defined benefit obligation	(5,425)	(5,250)	(10,675)	(5,042)	(3,925)	(8,967)
Net defined benefit obligation	(1,203)	(5,250)	(6,453)	(968)	(3,925)	(4,893)
Unamortized past service costs	-	460	460	-	537	537
Accrued liability	\$ (1,203)	\$ (4,790)	\$ (5,993)	\$ (968)	\$ (3,388)	\$ (4,356)
Employer contributions	\$ -	\$ 21	\$ 21	\$ -	\$ 53	\$ 53
Employee contributions	-	-	-	-	-	-
Benefit payments and transfers to other plans	\$ 218	\$ 21	\$ 239	\$ 22	\$ 53	\$ 75

The present value of the SERP obligation as at December 31, 2012 is \$297 (2011 - \$197), which is included in the OPEB amounts in the table above. The benefit payments to the SERP for the year ended December 31, 2012 were \$Nil (2011 - \$35).

For the year ended December 31, 2012, the employer contributions to the DC Plan were \$1,045 (2011 - \$1,014) and the employee contributions to the DC Plan were \$596 (2011 - \$584).

# TARION WARRANTY CORPORATION

## Notes to financial statements

for the year ended December 31, 2012

(\$CAD thousands)

### 10. EMPLOYEE FUTURE BENEFIT PLANS (continued)

#### Historical funding table

The employee benefits amounts for the current and previous years are as follows:

	2012	2011
Fair value of pension assets	\$ 4,222	\$ 4,074
Accrued benefit obligation, pension plan	(5,425)	(5,042)
Deficit	(1,203)	(968)
Accrued benefit obligation, OPEB	(4,954)	(3,728)
Accrued benefit obligation, SERP	(296)	(197)
Net employee benefits obligation reported	\$ (6,453)	\$ (4,893)
Experience adjustments on employee future benefits liabilities	\$ (1,167)	\$ (11)
Experience adjustments on pension assets	\$ 108	\$ (310)

As of December 31, 2012, the current liabilities are \$36 (2011 - \$18) with respect to the OPEB plan. There are no current liabilities with respect to the other plans.

The movements in the present value of accrued benefit obligation are as follows:

	2012			2011		
	DB Plan	OPEB	Total	DB Plan	OPEB	Total
Opening balance	\$ (5,042)	\$ (3,925)	\$ (8,967)	\$ (4,166)	\$ (4,028)	\$ (8,194)
Current service cost	-	(369)	(369)	-	(369)	(369)
Past service cost	-	-	-	-	-	-
Interest costs	(222)	(189)	(411)	(229)	(239)	(468)
Benefit payments	218	21	239	22	53	75
Actuarial gain/loss	(379)	(788)	(1,167)	(669)	658	(11)
Curtailments/settlements	-	-	-	-	-	-
Accrued pension obligation, End of year	\$ (5,425)	\$ (5,250)	\$ (10,675)	\$ (5,042)	\$ (3,925)	\$ (8,967)

The movements in the fair value of plan assets are as follows:

	2012			2011		
	DB Plan	OPEB	Total	DB Plan	OPEB	Total
Opening balance	\$ 4,074	\$ -	\$ 4,074	\$ 4,138	\$ -	\$ 4,138
Contributions by employer	-	21	21	-	53	53
Expected return on plan assets	258	-	258	268	-	268
Actuarial gains/(losses)	108	-	108	(310)	-	(310)
Benefits paid	(218)	(21)	(239)	(22)	(53)	(75)
Curtailments/settlements	-	-	-	-	-	-
Plan assets, end of year	\$ 4,222	\$ -	\$ 4,222	\$ 4,074	\$ -	\$ 4,074

# TARION WARRANTY CORPORATION

## Notes to financial statements

for the year ended December 31, 2012

(\$CAD thousands)

### 10. EMPLOYEE FUTURE BENEFIT PLANS (continued)

The major categories of plan assets at the end of the reporting period for each category are as follows:

	Fair Value of DB Plan Assets	
	2012	2011
Canadian equity securities	35%	35%
International and US equity securities	28%	28%
Bonds	30%	31%
Cash	7%	6%
	100%	100%

The overall expected rate of return on the DB assets for 2012 is 6.50% (2011 - 6.50%) and it is a weighted average of the expected returns of various categories of plan assets held. The actual return on plan assets of the DB Plan was \$366 (2011 - \$(42)).

A discount rate of 4.00% per annum was used for the disclosures at December 31, 2012 for both the DB Plan and OPEB (2011- 4.50% for the DB Plan and 4.75% for the OPEB). Specifically, the discount rate was determined as the single discount rate that would produce the present value of obligations determined by discounting the plans cash flows using Corporate AA spot rates at December 31, 2012.

The amounts recognized in the statement of comprehensive results of operations in respect of the employee benefits liabilities are as follows:

	2012			2011		
	DB Plan	OPEB	Total	DB Plan	OPEB	Total
Current service costs	\$ -	\$ 369	\$ 369	\$ -	\$ 369	\$ 369
Interest costs	222	189	411	229	239	468
Expected return on plan assets	(258)	-	(258)	(268)	-	(268)
Curtailement/settlements	-	-	-	-	-	-
Amortization of past service costs	-	77	77	-	77	77
Net expense	\$ (36)	\$ 635	\$ 599	\$ (39)	\$ 685	\$ 646
Actuarial gains/(losses) charged to Other Comprehensive Income	(271)	(788)	(1,059)	(979)	658	(321)

The net expense for the SERP in 2012 was \$100 (2011 - \$62). The net expense for the DC Plan in 2012 was \$1,045 (2011 - \$1,014).

Service cost is reported as part of the Corporation's total salaries and benefits expense in the statement of comprehensive results of operations.

#### Significant assumptions

The overall expected rate of return on assets is determined based on market expectations prevailing on that date, applicable to the period over which the obligation is to be settled. The expected rate of return of 6.50% was used in 2012 (2011 - 6.50%). The discount rate was determined with reference to market interest rates of AA corporate bond yields.

# TARION WARRANTY CORPORATION

## Notes to financial statements

for the year ended December 31, 2012

(\$CAD thousands)

### 10. EMPLOYEE FUTURE BENEFIT PLANS (continued)

The principal actuarial assumptions used in determining the pension benefit obligation for the Corporation's plans are as follows:

	2012		2011	
	DB Plan	OPEB	DB Plan	OPEB
Expected rate of return on pension assets	6.50%	N/A	6.50%	N/A
Accrued benefit obligation as of December 31				
Discount rate	4.00%	4.00%	4.50%	4.75%
Salary increase	3.50%	N/A	3.50%	N/A
General inflation	2.50%	2.50%	2.50%	2.50%
Benefit cost for the year:				
Discount rate	4.50%	4.75%	5.50%	5.75%
Salary increase	3.50%	N/A	3.50%	N/A
General inflation	2.50%	2.50%	2.50%	2.50%
Assumed health care cost trend rates at December 31				
Initial health care cost trend rate	N/A	7.50%	N/A	8.00%
Cost trend rate declines to	N/A	5.00%	N/A	5.00%
Year that the rate reaches the rate it is assumed to remain at	N/A	2018	N/A	2018

#### *Sensitivity analysis for OPEB*

Assumed health and dental care cost trend rates have a significant effect on the amounts reported for the health and dental care plans. A one-percentage change in assumed health and dental care cost trend rates would have the following impact on the employee future benefits and the related costs for 2012:

2012	Valuation Assumptions	1% change	
		Increase	Decrease
Total of service and interest cost at 4.75% per annum	\$ 459	\$ 157	\$ (111)
Accrued benefit obligation as at December 31, 2012 at 4.00% per annum	\$ 4,954	\$ 1,498	\$ (1,089)

# TARION WARRANTY CORPORATION

Notes to financial statements  
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## 11. WARRANTY LIABILITIES

The determination of the Corporation's warranty liabilities is dependent on the Corporation's claims handling practices, on actuarial assessments, on the judgement of its management, on historical precedents and trends, on prevailing legal, economic, social and regulatory environments and on expectations of future developments. Periodic reviews are performed by management and reviewed by our appointed actuary to assess whether warranty claims liabilities recorded for homes and condominiums, and deferred home enrolment fees are adequate relative to future claims and related administration costs to administer claims.

The following table summarizes the components of the warranty claims liabilities as at December 31:

	2012	2011
Change in provisions, net of reversals	\$ 5,880	\$ 356
Recoveries	(5,689)	654
Net claims incurred for the year	\$ 191	\$ 1,010

	2012	2011
Deferred home enrolment fees, beginning of year	\$ 140,380	\$ 117,805
Fees received	53,569	54,397
Fees earned	(33,607)	(31,822)
Deferred home enrolment fees, end of year	160,342	140,380

Warranty claims liabilities, beginning of the year	24,744	32,811
Change in claims outstanding	6,340	(683)
Changes due to assumptions (such as: risk, inflation & discount rate)	(460)	1,039
Claims paid	(6,985)	(8,423)
Warranty claims liabilities, end of year	23,639	24,744

Warranty liabilities, end of year	\$ 183,981	\$ 165,124
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### *Warranty coverage and policy*

The warranty coverage begins when the home is enrolled, providing deposit protection and compensation for delayed closing and occupancy. Once the new owner takes possession of the home, there are three periods of warranties: one-year, two-year and seven-year warranty, each with different indemnity scopes and limits of settlement covering defects that are prescribed under the Act.

# TARION WARRANTY CORPORATION

## Notes to financial statements

for the year ended December 31, 2012

(\$CAD thousands)

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### 11. WARRANTY LIABILITIES (continued)

#### *Significant warranty claims liability risk and assumptions*

The market in which the Corporation participates is unique. The Corporation is the sole provider for warranty coverage on new homes in the province of Ontario. The Corporation was designated in 1976 by the Government of Ontario to administer the Act. The primary objectives of the Act include consumer protection, builder regulation and homeowner and builder education. An overview of the Corporation's risk management framework and assumptions with regards to the warranty liabilities are summarized below.

#### Insurance risk

As the administrator of the Act, the Corporation is exposed to insurance risk similar to a normal property and casualty insurance company. The insurance risk is the risk of loss arising from defects of new homes if the builders have failed to perform their first and second year warranty obligations to the new homeowners, or the homes have warrantable major structural defects during the three to seven years of the warranty. The Corporation is primarily concerned with the possibility of the warrantable event occurring and the uncertainty of the amount of the resulting claim.

Insurance risks are managed through the Corporation's builder regulation and licensing strategy. Annual licensing assessments are performed on new and existing registered builders to verify that they have the technical experience, customer service capabilities and financial capacity required to build new homes in compliance to the terms and conditions of the Act.

The Corporation also maintains a proactive claims management program to ensure the adequacy of the warranty liabilities and claims:

- Collection of home enrolment fees from builders prior to construction of each home to help discharge the related liabilities;
- Obtains securities in the form of cash, letters of credit and other guarantees from the builders during the registration and renewal process to reduce risk of financial loss related to the claims;
- Experienced claims service representatives work closely with homeowners and builders to assess the adequacy of the claims in accordance to the Act;
- Processes exist to ensure that all claims are captured, reviewed and updated on a timely basis with a realistic assessment of the ultimate settlement costs;
- Engage qualified actuaries annually to review and assess the adequacy of the warranty liability and the provisioning process; and
- The appointed actuary determines assumptions used to measure warranty liabilities in accordance with the process recommended by the Canadian Institute of Actuaries. Management reviews the assumptions recommended by the actuary.

The establishment of warranty liabilities is based on established actuarial practice, management judgement and experience. Actual settlements may also differ significantly from the estimates of these liabilities due to the measurement uncertainty involved in establishing assumptions for such variables as future rates of claim frequency, severity, inflation, the ability of builders to fulfill their obligations to home buyers, recoveries from builders and administrative costs. The Corporation is exposed to the following claims provisioning risks in the process of administering the Act:

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
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## 11. WARRANTY LIABILITIES (continued)

- **Future claims adjustment cost**  
This assumption reflects the costs generally related to claims administration including claims staff salaries, a related share of facilities overhead and rent that are not allocated to individual claim files. An actuarially estimated cost percentage of the future claim cost is applied to the outstanding claims at the end of the reporting period. This assumption is reviewed annually by the Corporation's actuary.
- **Incurred but not reported claims**  
Actual claim settlements may differ from estimated claim settlements. These claims are estimated based on historical patterns of fluctuations in claim estimates and settlements. In general, the longer the period of time between the incidence of loss and the settlement of the related claim, the greater the potential for actual settlement amounts to differ from the recorded estimates. The impact of changes in incurred but not reported claims is set out in the sensitivity analysis on page 36.
- **Adverse deviation**  
The liability has inherent measurement uncertainty that arises because:
  - (i) actual investment returns may differ from the discount rate used in actuarial calculations; and
  - (ii) actual claims settlements may occur for amounts or at times that differ from estimates (claim risk) – this risk of loss can occur due to actual experience differing from the experience assumed. The developments of assumptions for future claims are based on the Corporation's experience and known cases or potential issues. Such assumptions require a significant amount of professional judgement; therefore, actual experience may be materially different than the assumptions made by the Corporation. Home builder payment patterns, renewals, withdrawals and surrender activities, can be influenced by many factors including market and general economic conditions. Their behavior also has an impact on assessing future claims. The impact of changes in adverse deviation is set out in the sensitivity analysis on page 36.

### Recovery risk

In the normal course of managing the warranty program, the Corporation reduces exposure to claims by seeking recovery from builders for certain warranty related issues. The ability to seek recovery does not discharge the Corporation's responsibility to manage warranty issues. Failure by a builder to uphold its obligation could result in legal action by the Corporation. Consequently, allowances are established for amounts deemed uncollectible. This risk is managed by obtaining security from the builders at time of registration or renewal, as disclosed in Note 12, and the Corporation's proactive collection process. The impact of changes in recovery risk is set out in Note 6.

### Credit risk

The Corporation assesses the builders' risk profile including financial health during the registration and renewal processes. Based on the assessment, a builder may be licensed and as disclosed in Note 12, security is obtained in the form of cash, letters of credit, and other guarantees from the builder in order to reduce the risk of financial loss related to future warranty claims from homeowners.



# TARION WARRANTY CORPORATION

## Notes to financial statements

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(\$CAD thousands)

### 11. WARRANTY LIABILITIES (continued)

#### Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with warranty liabilities. The Corporation is exposed to daily cash requirements from settlement of claims, cash security releases and operating expenses. Liquidity risk is considered low as the majority of its investment portfolio are traded in a highly liquid market and can be readily converted to cash. The Corporation also has a \$3,000 line of credit that it can draw on and current cash equivalents of \$2,764 (2011 - \$2,527).

#### Concentration of insurance risk

The Corporation's exposure to concentration of insurance risk is mitigated by the establishment of a diversified portfolio of competent builders through the Corporation's strong regulating and licensing strategy. Builders' registration and renewals are assessed annually. The table below shows the warranty claim liabilities by claim types as at December 31:

	2012	2011
Freehold	\$ 2,084	\$ 3,187
Condominiums		
High-rise	7,504	5,146
Low-rise	101	357
Non-case specific	615	2,259
Total claims	\$ 10,304	\$ 10,949
Impact of changes in assumptions	13,335	13,795
Total warranty provision	\$ 23,639	\$ 24,744

#### Market risk

Market risk is the risk that the fair value or future cash flows of the warranty liabilities will fluctuate because of changes in market prices. This risk is comprised of:

- **Interest rate risk**  
Interest rate risk is the risk that the value of future cash-flows of a financial instrument will fluctuate because of changes in market interest rates. Warranty claims liabilities are discounted to reflect the time value of money over the periods between the statement of financial position date and settlement date based on accepted actuarial practice. The discount rate used is based on market yield of the fixed income portfolio supporting the warranty liabilities. The impact of changes in interest rate is set out in the sensitivity analysis on page 36.
- **Inflation rate**  
The cost to resolve claims are subject to inflationary pressure. The Corporation used the Construction Price Index as the basis of inflationary index, adjusted by expected economic and housing industry implications based on management's past experiences and expertise. The impact of changes in inflation rate is set out in the sensitivity analysis on page 36.

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
(\$CAD thousands)

## 11. WARRANTY LIABILITIES (continued)

### *Sensitivity analysis on warranty claims*

The following table illustrates the assumptions used in developing the adequate warranty claim liability required for the statement of financial position:

	2012	2011
Discount rate	1.9%	2.0%
Inflation rate	2.5%	2.5%
Future claims adjustment costs	29.0%	26.0%
Incurred but not reported claims	\$ 6,000	\$ 6,762
Adverse deviation	\$ 2,681	\$ 2,686
Discount	\$ (74)	\$ (257)

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact to warranty claim liabilities, statement of comprehensive results of operations and equity.

Change in Assumption	Impact on warranty liability		Impact on comprehensive results of operations		Impact on equity	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
Discount rate 1 0%	\$ (505)	\$ 523	\$ 505	\$ (523)	\$ 505	\$ (523)
Inflation rate 1 0%	\$ 367	\$ (360)	\$ (367)	\$ 360	\$ (367)	\$ 360
Future claims adjustment costs 1 0%	\$ 185	\$ (185)	\$ (185)	\$ 185	\$ (185)	\$ 185

### *Maturity profile*

The table below summarizes the maturity profile of the warranty claim liabilities. The maturity profiles are determined based on estimated timing of net cash outflows from the recognized warranty liabilities.

Warranty Liability	Due within one year	Due two through five years	Total
2011	\$ 12,837	\$ 11,907	\$ 24,744
2012	\$ 10,820	\$ 12,819	\$ 23,639

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
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## 11. WARRANTY LIABILITIES (continued)

### *Sensitivity analysis on deferred home enrolment fees*

As home enrolment fees are collected, they are deferred and taken in to revenue over the period of the warranty that the fees cover. The rate at which these fees are recognized in revenue is based on the pattern of incurrence of claim costs over the warranty period, or 'earning pattern'. Shifts in claims patterns affect the earning pattern. The analysis below is performed for reasonably possible movements in the earning pattern with all other assumptions held constant, showing the impact to warranty liabilities, statement of comprehensive results of operations and equity.

	Change in Assumption	Impact on warranty liability		Impact on comprehensive results of operations		Impact on equity	
		Accelerated	Decelerated	Accelerated	Decelerated	Accelerated	Decelerated
Earning Pattern	2.5%	\$ (7,587)	\$ 7,444	\$ 7,587	\$ (7,444)	\$ 7,587	\$ (7,444)

## TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
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### 11. WARRANTY LIABILITIES (continued)

#### Claim history

Claims are classified, managed, analyzed and reserved for based on specific known cases and potential cases and the liability is adjusted for adverse deviation.

The following table illustrates the past experience related to the claims the Corporation has settled:

Estimate of cumulative claims	All Prior Years Claims with Outstanding liability	2007	2008	2009	2010	2011	2012	Total
All Prior Years	73,345							
At end of occurrence year		18,365	29,552	26,646	16,095	6,425	4,955	
One Year Later		16,712	22,426	20,848	12,539	9,058		
Two Years Later		15,832	20,626	19,255	12,752			
Three Years Later		12,360	20,448	19,352				
Four Years Later		12,053	20,476					
Five Years Later		12,129						
<b>CURRENT ESTIMATE OF CUMULATIVE CLAIMS</b>	<b>73,345</b>	<b>12,129</b>	<b>20,476</b>	<b>19,352</b>	<b>12,752</b>	<b>9,058</b>	<b>4,955</b>	<b>152,067</b>
<b>Claims Paid</b>								
All Prior Years	72,805							
At end of occurrence year		5,521	7,833	9,989	5,721	3,628	2,270	
One Year Later		4,083	7,944	6,831	3,505	2,635		
Two Years Later		1,640	3,862	626	1,300			
Three Years Later		572	194	339				
Four Years Later		39	214					
Five Years Later		211						
<b>CUMULATIVE CLAIMS PAID</b>	<b>72,805</b>	<b>12,066</b>	<b>20,047</b>	<b>17,785</b>	<b>10,526</b>	<b>6,263</b>	<b>2,270</b>	<b>141,763</b>
Reconciliation to the statement of financial position								
Current provision before discounting	540	63	429	1,567	2,225	2,795	2,685	10,304
Actuarial reserves								13,409
Discounting								(74)
<b>Present value recognized on the statement of financial position</b>								<b>23,639</b>

# TARION WARRANTY CORPORATION

## Notes to financial statements

for the year ended December 31, 2012

(\$CAD thousands)

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### 12. FUNDS HELD AS SECURITY

The Corporation receives security in the form of cash, letters of credit and other guarantees, from builders in order to reduce the risk of financial loss related to future warranty claims from homeowners. The funds held as security do not have any fixed contractual maturities and are to be returned to the builders or released only upon satisfactory completion of certain requirements, such as there being no or minimal deposit or financial loss risk and the completion of outstanding warranty obligations under the Act, the timing of completion of which cannot be reasonably estimated.

Security received in cash is invested as part of the Corporation's investment portfolio. As at December 31, 2012, the funds held as security of \$41,033 (2011 - \$40,901), presented on the statement of financial position as a liability are the potentially refundable security deposits received in cash, including cumulative accrued interest thereon to December 31, 2012 of \$1,249 (2011 - \$1,238). Letters of credit and other guarantees are available to be drawn upon to settle known claims. Such drawn amounts would reduce the amounts recoverable from builders in the statement of financial position.

During the year, the Corporation incurred interest of \$396 (2011 - \$394) on cash security deposits. Interest is calculated based on Prime less 2%, adjusted every sixth month (generally April and October).

### 13. PROVISIONS, CONTINGENCIES, COMMITMENTS AND GUARANTEES

In the normal course of business, the Corporation is a party to a number of lawsuits as the administrator of the Act.

To the extent that lawsuits relate to disputes of warranty coverage, provisions for loss are included in the warranty liabilities on the statement of financial position. Other lawsuits are at various stages of legal proceedings, the outcome of which are currently not determinable and are not expected to have a significant impact on the Corporation's financial position. Accordingly, no provision for any liability has been made in these financial statements as at December 31, 2012.

In the normal course of operations, the Corporation executes agreements that provide for indemnification to third parties in transactions such as service agreements, leases and purchases of goods. Under these agreements, the Corporation agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Corporation in relation to the agreement. In addition, the Corporation has also agreed to indemnify its directors and certain of its officers and employees in accordance with the Corporation's by-laws.

These indemnification provisions will vary based on the nature and terms of the agreements. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation could be required to pay as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made significant payments under such indemnification agreements. Accordingly, no amounts have been accrued related to these agreements as at December 31, 2012 and 2011.

#### *Operating lease commitments*

The Corporation has entered into commercial leases on premises and other miscellaneous equipment which are recognized and reported as part of general and administrative costs in the statement of

# TARION WARRANTY CORPORATION

Notes to financial statements  
for the year ended December 31, 2012  
(\$CAD thousands)

## 13. PROVISIONS, CONTINGENCIES, COMMITMENTS AND GUARANTEES (continued)

comprehensive results of operations. For 2012, the Corporation recognized minimum lease payments of \$747 (2011 - \$679) in the statement of comprehensive results of operations. These leases have an average life of three years with renewal option included in the miscellaneous equipment contracts. There are no restrictions placed upon the Corporation by entering into these leases. The future minimum annual lease payments under operating lease for the next five years and thereafter as follows:

Operating lease	2012		2011	
	Minimum lease payments		Minimum lease payments	
Within one year	\$	757	\$	754
Between one and five years		3,177		3,078
More than five years		2,716		3,572
Present value of minimum lease payments	\$	6,650	\$	7,404

### Finance lease obligations

The Corporation has leased computers and other office equipment that qualifies as a finance lease. The balance of the finance lease obligations arising from the acquisition of certain computer and office equipment are reported separately on the statement of financial position. The total value of these obligations as at December 31, 2012 is \$1,200 (2011 - \$1,446). Interest expense of \$114 was incurred during 2012 (2011 - \$102) on the leases and is reported in the statement of comprehensive results of operations. These leases have renewal options for either single or multi-years. They may contain purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments and the present value of the net minimum lease payments under the finance leases are as follows:

	2012			2011		
	Minimum lease payments	Present value minimum payments	Minimum lease payments	Present value minimum payments		
Within one year	\$ 788	\$ 688	\$ 683	\$ 604		
Between one and five years	582	512	901	842		
More than five years	-	-	-	-		
	1,370	1,200	1,584	1,446		
Less amounts representing finance charges	170	-	138	-		
Present value of minimum lease payments	\$ 1,200	\$ 1,200	\$ 1,446	\$ 1,446		

### Lease inducements

The Corporation received various forms of lease inducements for its current Corporate offices including reduced rent and leasehold improvements. These lease inducements are amortized over the term of the lease agreements and offset against rent expenses which are included in general and administrative on the statement of comprehensive results of operations. The amortized benefits in December 31, 2012 were \$96 (2011 - \$82).

# TARION WARRANTY CORPORATION

## Notes to financial statements

for the year ended December 31, 2012

(\$CAD thousands)

### 13. PROVISIONS, CONTINGENCIES, COMMITMENTS AND GUARANTEES (continued)

As of December 31, 2012, the total unamortized lease inducements reported on the statement of financial position is \$1,279 (2011 - \$1,383).

### 14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011
Trade and supplier accruals	\$ 1,560	\$ 1,917
Amounts due to vendors and builders	1,310	1,547
Salaries and benefits	3,000	2,949
Deferred revenue	126	106
Other liabilities	1,060	1,121
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 7,056</b>	<b>\$ 7,640</b>
Expected to be settled within one year	\$ 5,746	\$ 6,093
Expected to be settled in more than one year	1,310	1,547
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 7,056</b>	<b>\$ 7,640</b>

### 15. INVESTMENT INCOME

	2012	2011
Change in fair value of fixed income portfolio	\$ 463	\$ 8,073
Interest income from fixed income portfolio	8,802	9,453
Change in fair value of equity portfolio	11,662	(7,430)
Dividends from equity portfolio	3,628	3,032
Foreign exchange (losses) gains	(81)	14
<b>Total investment income</b>	<b>\$ 24,474</b>	<b>\$ 13,142</b>

### 16. INTEREST EXPENSE

	2012	2011
Interest on funds held as security (note 12)	\$ 396	\$ 394
Interest on lease obligations (note 13)	114	102
<b>Total interest expense</b>	<b>\$ 510</b>	<b>\$ 496</b>

### 17. CAPITAL MANAGEMENT

The Corporation's capital consists of the surplus. Although there is no external regulatory requirements imposed on the Corporation's capital, management has adopted a capital management framework modeled after the framework used in the property and casualty insurance industry in Canada and modified to reflect the Corporation's circumstances including its inability to raise capital in traditional ways. This framework

# TARION WARRANTY CORPORATION

## Notes to financial statements for the year ended December 31, 2012 (SCAD thousands)

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### 17. CAPITAL MANAGEMENT (continued)

incorporates the business requirements for sufficient capital throughout the variations of the new home building cycle, including possible losses from a future catastrophic event. It also reflects the relatively high risk profile of the Corporation's warranty operations, including the high level of measurement uncertainty inherent in its warranty liabilities due to the long warranty period of up to seven years and to other factors explained in Note 11. The Corporation is not subject to any externally imposed capital requirements under the Act or otherwise.

In applying the framework, the total equity of the Corporation as at December 31, 2012 and 2011 has been determined by management to be sufficient to cover possible losses from a future catastrophic event as further supported by the annual dynamic capital adequacy testing performed by the Corporation's appointed actuary during the year.

### 18. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Corporation provides a broad range of services to home owners and builders based on its mandate to administer the Act. Accordingly, the Corporation may enter into transactions with builders related with the Corporation's Board of Directors through a relationship of principal, director, officer and/or guarantor.

As at December 31, 2012, there are no collection and litigation account receivables and cash securities recognized due from related parties. Letters of credit and other guarantees lodged by related parties are recognized in the financial statements only to the extent they are expected to be drawn upon to settle known claims. Transactions between related parties are made at normal market prices.

The Corporation pays an oversight fee to the Government of Ontario for each calendar year. The fee is calculated based on the estimated number of enrolments by home purchasers in the Act during the fiscal year of the Government of Ontario (April 1 to March 31) at five dollars per enrolment. The Corporation is required to pay an amount not less than \$200 and not more than \$300 per annum. In 2012, the Corporation incurred a fee of \$280 (2011 - \$254).

#### *Key management personnel compensation*

IAS 24, *Related Party Disclosures*, defines key management personnel as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The key management personnel of the Corporation are members of the board of directors and members of the Corporate leadership team. Key management personnel compensation includes the following expenses:

	2012	2011
Short-term employee benefits	\$ 3,613	\$ 3,618
Board of directors fees	388	407
Post-employment benefits	347	358
	<u>\$ 4,348</u>	<u>\$ 4,383</u>



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# **TARION WARRANTY CORPORATION**

## **Notes to financial statements**

for the year ended December 31, 2012

(SCAD thousands)

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### **19. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified in the financial statements to conform to the current year's presentation. These include the combining of Prepaid expenses of \$289 and Other assets of \$100 as one item in the statement of financial position as the two separate amounts were not material, and the reclassification of \$472 from Other settlements and fees received to Recoveries for claims and conciliation fees in the Statement of cash flows to better reflect the nature of the item.