

IOOF Seniors Homes Inc.
Consolidated Financial Statements
For the year ended December 31, 2016

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Independent Auditor's Report

To the Members and Board of Directors of IOOF Seniors Homes Inc.

We have audited the accompanying consolidated financial statements of IOOF Seniors Homes Inc., which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of revenues and expenses, net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Basis for Qualified Opinion

As described in note 2 to the consolidated financial statements, the Corporation accounts for the Home and Manor operations and the Heritage Place operations using accounting policies prescribed by Canada Mortgage and Housing Corporation and the Ministry of Health and Long-Term Care respectively. These accounting policies include policies related to capital assets, amortization and reserve fund transactions which are not in accordance with Canadian accounting standards for not-for-profit organizations. The effects on the consolidated financial statements of these departures from Canadian accounting standards for not-for-profit organizations are not practicable to determine.



Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of IOOF Seniors Homes Inc. as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Barrie, Ontario
April 27, 2017

IOOF Seniors Homes Inc.
Consolidated Statement of Financial Position

December 31	2016	2015
Assets		
Current Assets		
Cash (note 3)	\$ 1,779,994	\$ 1,172,736
Accounts receivable and prepaid expenses	481,732	458,023
	<u>2,261,726</u>	<u>1,630,759</u>
Capital Assets, at cost less accumulated amortization (note 5)	<u>42,006,146</u>	<u>43,327,669</u>
Restricted Cash and Investments (note 4)		
Externally restricted reserve funds (note 11)	937,094	854,533
Life lease reserve fund (note 14)	1,966,691	1,881,580
	<u>2,903,785</u>	<u>2,736,113</u>
	<u>\$ 47,171,657</u>	<u>\$ 47,694,541</u>
Liabilities and Net Assets		
Current Liabilities		
Demand loan (note 7)	\$ 150,000	\$ 300,000
Accounts payable and accrued expenses (note 8)	2,441,855	2,133,881
Due to Ministry of Health and Long-Term Care (note 22)	177,721	222,694
Current portion of mortgages payable (note 12)	709,957	5,324,638
	<u>3,479,533</u>	<u>7,981,213</u>
Mortgages Payable (note 12)	<u>12,105,204</u>	<u>8,252,861</u>
Deferred Contributions		
Deferred grants related to capital assets (note 6)	294,265	292,583
Deferred life lease contributions (note 14)	23,125,132	23,626,017
Deferred capital contributions related to home redevelopment (note 9)	1,386,806	1,420,633
	<u>24,806,203</u>	<u>25,339,233</u>
Replacement Reserve Funds		
Externally restricted reserve funds (note 11)	<u>937,094</u>	<u>854,533</u>
Commitments (note 20)		
Net Assets		
Internally restricted reserve funds		
Invested in capital assets (note 16)	6,201,471	5,992,514
Home redevelopment fund (note 19)	967,391	645,391
Unrestricted net assets (deficit)	<u>(1,325,239)</u>	<u>(1,371,204)</u>
	<u>5,843,623</u>	<u>5,266,701</u>
	<u>\$ 47,171,657</u>	<u>\$ 47,694,541</u>

On behalf of the Board:

_____ Director

_____ Director

**IOOF Seniors Homes Inc.
Consolidated Statement of Net Assets**

December 31	2016		2015	
	Home Redevelopment Fund (note 19)	Invested In Capital Assets (note 16)	Unrestricted	Total
	Total	Total	Total	Total
Balance, beginning of year	\$ 645,391	\$ 5,992,514	\$ (1,371,204)	\$ 5,266,701
Excess of revenues over expenses (expenses over revenues) for the year	-	(885,306)	1,462,228	576,922
Net change in investment in capital assets	-	1,094,263	(1,094,263)	-
Interfund transfers	322,000	-	(322,000)	-
Balance, end of year	\$ 967,391	\$ 6,201,471	\$ (1,325,239)	\$ 5,843,623
	\$ 967,391	\$ 6,201,471	\$ (1,325,239)	\$ 5,843,623
				\$ 5,266,701

IOOF Seniors Homes Inc.
Consolidated Statement of Revenues and Expenses

For the year ended December 31

2016 2015

	Home	Housing	Support Services	Corporate	Total	Total
Revenues						
Subsidies						
Ministry of Health and Long-Term Care						
Operating - current year	\$ 9,821,836	\$ 473,158	\$ 690,147	\$ -	\$ 10,985,141	\$ 10,834,475
- prior years	(85,660)	-	(3,409)	-	(89,069)	(223,053)
Canada Mortgage and Housing Corporation						
Operating	47,231	21,220	-	-	68,451	68,451
Client revenue	3,884,683	2,437,080	606,862	236,933	7,165,558	7,498,990
Other revenue						
Miscellaneous	183,791	452,032	20,477	219,962	876,262	183,882
Amortization of deferred revenue	60,108	596,512	-	-	656,620	655,109
Trust funds (note 10)	110,000	-	-	-	110,000	122,902
Donations	-	-	-	280,596	280,596	833,025
Total revenues	14,021,989	3,980,002	1,314,077	737,491	20,053,559	19,973,781
Expenses						
Salaries and benefits	9,600,426	730,602	677,368	1,095,935	12,104,331	11,358,401
Supplies and other consumables	1,076,177	92,052	13,060	27,064	1,208,353	1,238,512
Buildings and property	660,519	957,566	19,349	15,650	1,653,084	1,518,015
Interest costs - long-term	465,529	223,299	-	-	688,828	790,738
Interest costs - short term	-	1,474	-	-	1,474	2,192
Amortization	666,237	855,308	-	20,385	1,541,930	1,503,074
Replacement reserves	126,086	45,732	-	-	171,818	169,510
Property taxes	-	540,855	-	-	540,855	530,792
Other expenses	603,952	214,014	308,722	410,455	1,537,143	1,634,621
Fundraising expenses	-	-	-	28,821	28,821	92,060
Corporate allocation (note 21)	735,420	405,580	259,000	(1,400,000)	-	-
Total expenses	13,934,346	4,066,482	1,277,499	198,310	19,476,637	18,837,915
Excess of revenues over expenses (expenses over revenues) for the year	\$ 87,643	\$ (86,480)	\$ 36,578	\$ 539,181	\$ 576,922	\$ 1,135,866

The accompanying notes are an integral part of these consolidated financial statements.

IOOF Seniors Homes Inc.
Consolidated Statement of Cash Flows

For the year ended December 31	2016	2015
Cash flows from operating activities		
Excess of revenues over expenses for the year	\$ 576,922	\$ 1,135,866
Adjusted for charges not requiring a current cash payment		
Amortization expense	1,541,930	1,503,074
Amortization of deferred grants related to capital assets	(36,801)	(35,288)
Amortization of deferred life lease contributions	(585,996)	(585,996)
Amortization of deferred capital contributions related to home redevelopment	(33,827)	(33,823)
	<u>1,462,228</u>	<u>1,983,833</u>
Net increase (decrease) in cash from changes in non-cash working capital balances related to operations		
Accounts receivable and prepaid expenses	(23,709)	(39,173)
Accounts payable and accrued expenses	307,975	209,995
Amount due to/from Ministry of Health and Long-Term Care	(44,973)	136,198
	<u>1,701,521</u>	<u>2,290,853</u>
Cash flows from investing activities		
Additions to capital assets	<u>(220,408)</u>	<u>(357,879)</u>
Cash flows from financing activities		
Decrease in demand loan	(150,000)	(300,000)
Increase in life lease contributions	-	178,732
Decrease in mortgages payable	(762,338)	(706,988)
Increase in deferred grants related to capital assets	38,483	39,113
	<u>(873,855)</u>	<u>(789,143)</u>
Increase in cash during the year	607,258	1,143,831
Cash, beginning of the year	<u>1,172,736</u>	<u>28,905</u>
Cash, end of the year	<u>\$ 1,779,994</u>	<u>\$ 1,172,736</u>

IOOF Seniors Homes Inc.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

1. Significant Accounting Policies

Nature and Purpose of Organization

IOOF Seniors Homes Inc. is incorporated under the laws of Ontario as a corporation without share capital and is a registered charity under the Charities Accounting Act and The Charitable Gifts Act.

IOOF Seniors Homes Inc. maintains a home for the aged operating under the Charitable Institutions Act and provides 20 independent living apartments funded through an agreement with Canada Mortgage and Housing Corporation. In addition, the corporation operates an 80 unit, geared to income seniors housing apartment complex, funded through an agreement with the Ministry of Municipal Affairs and Housing and provides support services to residents within that project through a service agreement with the Ministry of Health and Long-Term Care. The corporation also operates a life lease operation known as the Terraces at Heritage Square.

Basis of Accounting

These consolidated financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.

Consolidated Financial Statements

The consolidated financial statements include the financial activities of IOOF Seniors Homes Inc. and New Care I.O.O.F. Seniors Home. All transactions between these entities have been eliminated. IOOF Seniors Homes Inc. is the sole member of New Care I.O.O.F. Seniors Home. New Care I.O.O.F. Seniors Home is incorporated under the laws of Ontario as a corporation without share capital and is a registered charity under the Charities Accounting Act and The Charitable Gifts Act. Its principal business is the rental of real estate to IOOF Seniors Homes Inc.

Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The principal estimates used in the preparation of these consolidated financial statements are the estimated useful lives of capital assets and the amounts due to/from the Ministry of Health and Long-Term Care. Actual results could differ from management's best estimates as additional information becomes available in the future.

IOOF Seniors Homes Inc.
Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

1. Significant Accounting Policies (continued)

Capital Assets

Home and Manor

The amount reported as land for the Home and Manor represents assets transferred or purchased from the Grand Lodge of Ontario Independent Order of Odd Fellows which previously operated the Home for the Aged now maintained by the corporation.

The Home and Manor building was constructed under an agreement with Canada Mortgage and Housing Corporation (CMHC) and has been recorded as an asset to meet the requirements of CMHC. Of the total building cost, \$4,059,346 was funded by a CMHC insured mortgage. In accordance with CMHC policy, amortization is being provided on this amount using the sinking fund method over a period of 35 years whereby the annual provision is equal to the reduction in mortgage principal for the year.

Capital assets financed by the Home and Manor replacement reserve fund are charged against that fund.

Prior to January 1, 2010, all other capital expenses related to the Home and Manor were charged to the statement of operations in the year incurred.

Effective January 1, 2010, in accordance with policies prescribed by the Ministry of Health and Long-Term Care, all other capital expenses related to the Home and Manor are to follow the policies set out below for Other Capital Assets.

Heritage Place

The Heritage Place building was constructed under an agreement with the Ontario Ministry of Municipal Affairs and Housing, and has been recorded as an asset to meet the requirements of the Ministry. Of the total building cost, \$8,075,200 was funded by a CMHC insured mortgage. In accordance with Ministry policy, amortization is being provided on this amount using the sinking fund method over a period of 35 years whereby the annual provision is equal to the reduction in mortgage principal for the year.

Capital assets financed by the Heritage Place replacement reserve fund are charged against that fund.

Prior to January 1, 2010, all other capital expenses related to Heritage Place were charged to the statement of operations in the year incurred.

Effective January 1, 2010, in accordance with policies prescribed by the Ministry of Health and Long-Term Care, all other capital expenses related to Heritage Place are to follow the policies set out below for Other Capital Assets.

IOOF Seniors Homes Inc.
Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

1. Significant Accounting Policies (continued)

**Capital Assets
(continued)**

Other Capital Assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Amortization based on the estimated useful life of the asset is calculated as follows:

Home and Manor	
Furniture and equipment	10 year straight-line
Home redevelopment	
Building	50 year straight-line
Furniture and equipment	10 year straight-line
Heritage Place	
Furniture and equipment	3-10 year straight-line
The Terraces	
Building	50 year straight-line
Furniture and fixtures	10 year straight-line

Revenue Recognition

The corporation follows the deferral method of accounting for contributions which includes grants and government subsidies.

Operating revenues, including grants and subsidies, are recorded as revenue in the period to which they relate. Revenue earned but not received at the end of an accounting period is accrued. Where a portion of revenue relates to a future period, it is deferred and recognized in that future period.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. The related expenses are recognized as they are incurred.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

Deferred Contributions

Deferred grants related to capital assets and deferred capital contributions related to The Terraces are recognized as revenue in the same manner as the related capital expenses are amortized to expense. Deferred contributions set aside in The Terraces reserve fund are recognized as revenue in the year in which the related expenses are recognized.

Replacement Reserve Funds

The replacement reserve accounts are funded by an annual charge against operations.

Residents' Trust Fund

The residents' trust fund and its related operations are not included in these consolidated financial statements.

IOOF Seniors Homes Inc.
Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

1. Significant Accounting Policies (continued)

Income Taxes	The corporation is not subject to federal or provincial income taxes pursuant to exemptions accorded to registered charities in the income tax legislation.
Impairment of Long Lived Assets	In the event that facts and circumstances indicate that the corporation's long lived assets may be impaired, an evaluation of recoverability would be performed. Such an evaluation entails comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write down to market value or discounted cash flow value is required. The corporation considers that no circumstances exist that would require such an evaluation.
Financial Instruments	Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, equities traded in an active market and derivatives are reported at fair value, with any unrealized gains and losses reported in operations or the statements of replacement reserve fund or subsidy surplus fund, as appropriate. In addition, all bonds and guaranteed investment certificates have been designated to be in the fair value category, with gains and losses reported in operations or the the statements of replacement reserve fund or subsidy surplus fund, as appropriate. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items remeasured at fair value at each statement of financial position date and charged to the financial instrument for those measured at amortized cost.
Allocation of Expenses	The corporation operates three separate divisions: Home, Housing and Support Services. The costs of each division include the expenses as detailed in the consolidated statement of revenues and expenses. The corporation also incurs a number of general and administrative expenses that are common to the administration of the organization and each of its divisions. The corporation allocates certain general and administration expenses to the three divisions on a pro rata basis based on budgeted amounts.

IOOF Seniors Homes Inc.
Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

2. Departures from Accounting Standards for Not-for-Profit Organizations

The corporation accounts for the Home and Manor operations and the Heritage Place operations using accounting policies prescribed by Canada Mortgage and Housing Corporation and the Ministry of Health and Long-Term Care respectively. These accounting policies are not in accordance with Canadian accounting standards for not-for-profit organizations as follows:

a) Capital Assets

All capital assets purchased after the initial construction of the Home and Manor and Heritage Place and prior to January 1, 2010 are either charged to the statement of operations in the year of expense or are charged to the respective replacement reserve fund (see below).

b) Amortization

Amortization of the Home and Manor and the Heritage Place buildings, furniture and equipment which were financed by CMHC mortgages are amortized over 35 years in an amount equal to the annual principal reduction of the related mortgage.

c) Replacement Reserve Funds

The replacement reserve funds are funded by an annual charge against operations. Capital expenses related to the replacement of the initially constructed capital assets are charged to the replacement reserve fund.

IOOF Seniors Homes Inc.
Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. Cash

The corporation's bank accounts are held at two chartered banks. The bank accounts earn interest at a variable rate dependant on the monthly minimum balances.

4. Restricted Cash and Investments

The corporation's restricted bank accounts are held at a chartered bank. The bank accounts earn interest at a variable rate dependant on the monthly minimum balance.

Restricted cash and investments include the following:

	2016		2015	
	Market	Cost	Market	Cost
Cash	\$ 1,260,346	\$ 1,260,346	\$ 1,107,115	\$ 1,107,115
Scotia Money Market Fund, 4,528 units (2015 - 4,266 units)	45,284	45,284	42,658	42,650
Scotia Canadian Income Fund M, 29,623 units (2015 - 29,129 units)	399,155	408,985	401,847	401,850
Scotia Private Canadian Corporate Bond Pool M, 39,188 units (2015- 38,598 units)	422,837	424,364	416,048	417,960
Scotia Private Short-Mid Government Bond Pool M, 29,378 units (2015 - 28,861 units)	306,961	311,247	306,663	305,746
Scotia Floating Rate Income Fund M, 15,653 units (2015 - 15,344 units)	154,184	153,141	150,372	150,102
Scotia Short Term Bond Fund M, 32,241 units (2015 - 31,651 units)	315,018	317,268	311,410	311,458
	<u>\$ 2,903,785</u>	<u>\$ 2,920,635</u>	<u>\$ 2,736,113</u>	<u>\$ 2,736,881</u>

The units have no fixed maturity dates and are generally not exposed to interest rate risk. The fair value of the units is based on quoted market prices. Dividends are generally received quarterly, semi-annually or annually. The corporation has recognized an unrealized loss in the amount of \$16,081 (2015 - \$768) related to the change in the fair value of the investments during the year.

IOOF Seniors Homes Inc.
Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

5. Capital Assets

	2016		2015	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
a) Home and Manor				
Land	\$ 572,734	\$ -	\$ 572,734	\$ -
Building	4,420,200	3,977,387	4,420,200	3,737,207
Home redevelopment				
Building	16,634,425	2,991,025	16,634,425	2,658,325
Furniture and equipment	290,664	261,766	290,664	232,666
Furniture and equipment	1,176,751	385,756	956,344	268,081
	<u>23,094,774</u>	<u>7,615,934</u>	<u>22,874,367</u>	<u>6,896,279</u>
b) Heritage Place				
Land	347,410	-	347,410	-
Building	8,302,834	3,530,768	8,302,834	3,278,977
Furniture and equipment	199,492	124,491	199,492	99,817
	<u>8,849,736</u>	<u>3,655,259</u>	<u>8,849,736</u>	<u>3,378,794</u>
c) The Terraces				
Land	1,642,300	-	1,642,300	-
Building	27,286,352	7,595,823	27,286,352	7,050,013
Furniture and fixtures	257,358	257,358	257,358	257,358
	<u>29,186,010</u>	<u>7,853,181</u>	<u>29,186,010</u>	<u>7,307,371</u>
	<u>\$ 61,130,520</u>	<u>\$ 19,124,374</u>	<u>\$ 60,910,113</u>	<u>\$ 17,582,444</u>
Net Book Value		<u>\$ 42,006,146</u>		<u>\$ 43,327,669</u>

6. Deferred Grants Related to Capital Assets

Deferred capital contributions related to capital assets represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of revenues and expenses.

	2016	2015
Balance, beginning of year	\$ 292,583	\$ 288,758
Grants received	38,483	39,113
Amounts amortized to revenue	(36,801)	(35,288)
Balance, end of year	<u>\$ 294,265</u>	<u>\$ 292,583</u>

IOOF Seniors Homes Inc.
Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

7. Demand Loan

	2016	2015
Capital Redevelopment - Scotiabank	\$ 150,000	\$ 300,000

In connection with the construction of the home redevelopment project, the corporation entered into a financing agreement with Scotiabank for a demand loan of \$2,350,000. Interest is payable monthly at the bank's prime rate plus 0.25%. Subsequent to year end the balance of \$150,000 was paid in full.

The corporation has pledged certain trust funds of which it is the beneficiary, as security for the demand loan. See note 10.

8. Accounts Payable and Accrued Expenses

	2016	2015
Trade payables and accrued expenses	\$ 2,069,028	\$ 1,923,355
Government remittances payable	285,865	125,985
Last months' rent deposits	86,962	84,541
	\$ 2,441,855	\$ 2,133,881

9. Deferred Capital Contributions Related to Home Redevelopment

This balance represents amounts received which use is restricted for the home redevelopment project. These amounts will be amortized as revenue at the same rate as the corresponding capital assets are amortized.

	2016	2015
Balance, beginning of year	\$ 1,420,633	\$ 1,454,456
Less amounts amortized to revenue	(33,827)	(33,823)
Balance, end of year	\$ 1,386,806	\$ 1,420,633

IOOF Seniors Homes Inc.
Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

10. Trust Funds

The corporation is an interest beneficiary to certain funds held in trust by Scotia Trust as corporate trustee to be administered in accordance with the Trustee Act for the Province of Ontario. The corporation received \$110,000 in 2016 (2015 - \$122,902) which has been reported as revenue.

Under an order issued by the the Superior Court of Justice, in accordance with Section 13 of the Charities Accounting Act, the corporation has pledged these trust funds as security for the demand loan set out in note 7.

11. Externally Restricted Reserve Funds

a) Home and Manor

Under the terms of the agreement with Canada Mortgage and Housing Corporation (CMHC), the replacement reserve fund is required to be credited in the amount of \$30,000 annually. These funds, along with accumulated interest, must be held in a separate bank account and/or invested only in accounts or investments insured by the Canada Deposit Insurance Corporation or as may be otherwise approved by CMHC from time to time. The funds in the account may only be used as approved by CMHC. Withdrawals are charged to interest first and then principal. As at December 31, 2016, the replacement reserve fund has been fully funded.

b) Home Redevelopment

Under the terms of the certificate of insurance issued by CMHC for the mortgage with Sun Life Assurance Company of Canada (Sun Life) to finance the Home redevelopment addition, the replacement reserve fund is required to be credited annually by a minimum amount equal to 5% of the annual accommodation subsidy from the Ministry of Health and Long-Term Care for the redevelopment addition. These funds, along with accumulated interest, must be held in a separate bank account and/or invested only in securities acceptable to Sun Life. The funds in the account may only be used as approved by Sun Life. As at December 31, 2016, the replacement reserve fund has been fully funded.

c) Heritage Place

Under the terms of the agreement with the Ministry of Health and Long-Term Care (the "Ministry"), the replacement reserve fund is required to be credited monthly by an amount determined by the Ministry annually. These funds, along with accumulated interest, must be held in a separate bank account and/or invested only in Government of Canada Bonds or such other investments as may be acceptable to the Ministry. The funds in the account may only be used to fund capital expenses as defined by the Ministry. As at December 31, 2016, the replacement reserve fund has been fully funded.

IOOF Seniors Homes Inc.
Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

11. Externally Restricted Reserve Funds (continued)

	2016	2015
Home and Manor Replacement Reserve Fund		
Balance, beginning of year	\$ 25,895	\$ 100,772
One-time supportive housing program funding	-	7,600
Appropriation from operations	41,102	30,000
Interest earned during the year	1,705	843
Expenses during the year	(38,483)	(113,320)
Balance, end of year	\$ 30,219	\$ 25,895
Represented by:		
Principal	\$ 30,219	\$ 25,895
Interest	-	-
	\$ 30,219	\$ 25,895
Home Redevelopment Replacement Reserve Fund		
Balance, beginning of year	\$ 622,868	\$ 527,472
Allocation of rental revenue for the year	95,266	93,782
Interest earned during the year	1,138	1,614
Balance, end of year	\$ 719,272	\$ 622,868
Represented by:		
Principal	\$ 700,731	\$ 605,465
Interest	18,541	17,403
	\$ 719,272	\$ 622,868
Heritage Place Replacement Reserve Fund		
Balance, beginning of year	\$ 205,770	\$ 394,096
One-time supportive housing program funding	-	30,600
Appropriation from operations	35,732	45,700
Interest earned during the year	3,622	3,299
Expenses during the year	(57,520)	(267,925)
Balance, end of year	\$ 187,603	\$ 205,770
Total Externally Restricted Reserve Funds	\$ 937,094	\$ 854,533

IOOF Seniors Homes Inc.
Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

12. Mortgages Payable

	2016	2015
Sun Life Assurance Company of Canada, payable \$61,338 monthly, principal and interest at 5.67%, maturing April 1, 2029, secured by the Home redevelopment addition and a guarantee of the corporation	\$ 8,150,882	\$ 8,421,858
MCAP, payable \$36,665 monthly, principal and interest at 2.70%, maturing September 1, 2026, secured by Heritage Place land and building	4,562,296	-
Royal Bank of Canada, payable \$20,551 monthly, principal and interest at 3.05%, maturing May 1, 2017, secured by Home and Manor land and building	101,983	341,554
TD Canada Trust, payable \$43,340 monthly, principal and interest at 5.75%, maturing August 1, 2016, secured by Heritage Place land and building	-	4,814,087
	12,815,161	13,577,499
Less current portion due within one year	(709,957)	(5,324,638)
	\$ 12,105,204	\$ 8,252,861

Principal repayments for the next five fiscal years and thereafter are as follows:

	Sun Life	MCAP	Royal Bank
December 31, 2017	\$ 286,558	\$ 321,416	\$ 101,983
December 31, 2018	303,036	330,153	-
December 31, 2019	320,462	339,127	-
December 31, 2020	338,890	348,346	-
December 31, 2021	357,377	357,815	-
Thereafter	6,544,559	2,865,439	-
	\$ 8,150,882	\$ 4,562,296	\$ 101,983

13. Mortgage and Rent Subsidy

The corporation has entered into an agreement with Canada Mortgage and Housing Corporation (CMHC) whereby CMHC will provide grants to offset the mortgage interest and provide assistance to tenants eligible for subsidy. Under the terms of the agreement, the corporation receives funds in the amount of \$5,704 (2015 - \$5,704) per month.

IOOF Seniors Homes Inc.
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14. Deferred Life Lease Contributions

Capital Contributions

This balance represents lump sum payments received from residents related to Life Lease Agreements. Payments made by residents are based on the cost of the dwelling and provide the resident with the exclusive right to occupy that specific unit for life. In addition, the resident, or their estate, has the right to transfer the unit to another purchaser at market value. These amounts will be amortized as revenue at the same rate as the corresponding capital assets are amortized. The change in the balance for the year is as follows:

	2016	2015
Balance, beginning of year	\$ 21,744,437	\$ 22,151,701
Sale of life lease unit	-	178,732
Less amount amortized to revenue	(585,996)	(585,996)
Balance, end of year	\$ 21,158,441	\$ 21,744,437

Reserve Fund

Under the terms of the Life Lease Agreements an amount is to be set aside in a reserve fund for future major repairs and replacement of common areas and facilities. The amount to be set aside is not to be less than 15% of the annual life lease occupancy charges. The change in the reserve fund for the year is as follows:

Balance, beginning of year	\$ 1,881,580	\$ 1,624,731
Allocation of occupancy charges for the year	218,395	257,063
Interest earned during the year	11,763	13,600
Expenses during the year	(145,047)	(13,814)
Balance, end of year	\$ 1,966,691	\$ 1,881,580
 Total deferred life lease contributions	 \$ 23,125,132	 \$ 23,626,017

15. Ministry Funding/Economic Dependence

The corporation received 55% (2015 - 54%) of its revenue from the Ministry of Health and Long-Term Care.

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16. Investment in Capital Assets

	2016	2015
(a) Investment in capital assets is calculated as follows:		
Capital assets	\$ 42,006,146	\$ 43,327,669
Amounts financed by restricted contributions:		
Demand loans related to capital assets	(150,000)	(300,000)
Long-term debt related to capital assets	(12,815,161)	(13,577,499)
Deferred contributions related to capital assets	(21,452,708)	(22,037,023)
Deferred capital contributions related to home redevelopment	(1,386,806)	(1,420,633)
	\$ 6,201,471	\$ 5,992,514
(b) Changes in net assets invested in capital assets are calculated as follows:		
Excess of expenses over revenues:		
Amortization of capital assets	\$ (1,541,930)	\$ (1,503,074)
Amortization of deferred grants related to capital assets	36,801	35,288
Amortization of deferred life lease contributions	585,996	585,996
Amortization of deferred capital contributions related to home redevelopment	33,827	33,823
	\$ (885,306)	\$ (847,967)
Net change in investment in capital assets		
Additions to capital assets	\$ 220,408	\$ 357,879
Decrease in demand loans related to capital assets	150,000	300,000
Increase in deferred life lease deposits	-	(178,732)
Decrease in long-term debt related to capital assets	762,338	706,987
Increase in deferred grants related to capital assets	(38,483)	(39,113)
	\$ 1,094,263	\$ 1,147,021

17. Pension Agreement

Effective April 1, 2013, under the collective agreement between the corporation and the Christian Labour Association of Canada (CLAC), the corporation makes contributions to the CLAC Pension Plan, which is a multi-employer plan, on behalf of 185 members of its staff. This plan is a defined contribution plan which specifies the amount of the contributions to the plan.

The amount contributed to the pension plan for 2016 was \$180,918 (2015 - \$181,407) and is included as an expense in the statement of revenues and expenses.

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18. Financial Instrument Risk

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The corporation is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the value of its short-term deposits and demand loan. As described in note 12, the mortgages payable bear interest at fixed rates resulting in minimal long-term interest rate risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The corporation is also exposed to credit risk arising from non-collection of its accounts receivable. Credit risk is the risk that the counterparty to the transaction will not pay. The corporation's accounts receivable are made up of a large number of small balances from residents of the facility and government agencies. The corporation is also exposed to credit risk as its cash are all held at major financial institutions and are in excess of the amount insured by agencies of the federal government.

Liquidity Risk

Liquidity risk is the risk that the corporation encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the corporation will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value, which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from the demand loan, accounts payable and accrued expenses and mortgages payable.

There has been no changes to the corporation's financial instrument risk exposure from the prior year.

19. Internally Restricted Home Redevelopment Fund

The Board of Directors has established a Home Redevelopment Fund to fund future major repairs and capital expenses related to the Home. Use of these funds is subject to the approval of the Board of Directors. During the year the Board approved the transfer of \$322,000 (2015 - \$316,641) to this fund.

20. Commitments

The corporation leases telephone and communications equipment for a monthly fee of \$5,650 plus HST. This lease has an expiry date of September 1, 2020.

Subsequent to year end the corporation entered into a contract for payroll services. The estimated monthly fee is \$2,280 plus HST which is variable depending on use and the dollar amount processed.

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21. Allocation of Expenses

Expenses have been allocated to various divisions as follows:

	Home	Housing	Support Services	2016 Total
Salaries and benefits	\$ 504,262	\$ 278,098	\$ 177,591	\$ 959,951
Other	231,158	127,482	81,409	440,049
	\$ 735,420	\$ 405,580	\$ 259,000	\$ 1,400,000
	Home	Housing	Support Services	2015 Total
Salaries and benefits	\$ 530,197	\$ 283,547	\$ 197,118	\$ 1,010,862
Purchased services	76,349	40,831	28,385	145,565
Other	125,815	67,285	46,776	239,876
	\$ 732,361	\$ 391,663	\$ 272,279	\$ 1,396,303

22. Contingent Liability

Ministry of Health and Long-Term Care Funding

The corporation receives funding from the Ministry of Health and Long-Term Care to assist with the operating expenses of the Home, Community Support and Heritage Place. The amount of funding provided to the corporation is subject to final review and approval by the Ministry.

As at the date of these consolidated financial statements, funding for the period January 1, 2015 to December 31, 2016 has not been subject to this review process for the Home operation. In addition, funding for the period January 1, 2016 to December 31, 2016 has not been subject to this review process for the Heritage Place operation. Funding for the period April 1, 2016 to March 31, 2017 has not been subject to this review process for Community Support Services.

During the year, the Ministry of Health and Long-Term Care completed its review process of the funding for the Home operation for the period January 1, 2014 to December 31, 2014. As a result of that review, an amount of \$104,232 was determined to be payable for this period and is included in due to Ministry of Health and Long-Term Care as at December 31, 2016.

Related to the Home, an amount of \$NIL (2015 - \$49,529) has been recorded as due to the Ministry of Health and Long-Term Care for the period January 1, 2016 to December 31, 2016. An amount of \$20,551 (2015 - \$NIL) has been recorded as due to the Ministry for the above noted period for Heritage Place. Any adjustments required as a result of this review process will be accounted for at the time of determination.