

ONTARIO REAL ESTATE ASSOCIATION
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

Independent Auditor's Report	Page 1
Balance Sheet	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Notes to the Financial Statements	6 to 13



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ONTARIO REAL ESTATE ASSOCIATION

We have audited the accompanying financial statements of Ontario Real Estate Association, which comprise the balance sheet as at December 31, 2016 and the statements of operations, changes in 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 Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 Ontario Real Estate Association as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Report on Other Legal and Regulatory Requirements

In accordance with the Corporations Act (Ontario), we report that the Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Clarke Henning LLP

Toronto, Ontario
February 13, 2017

CHARTERED ACCOUNTANTS
Licensed Public Accountants

ONTARIO REAL ESTATE ASSOCIATION

BALANCE SHEET

AS AT DECEMBER 31, 2016

	Operating Fund	Designated Reserves	Total	
			2016	2015
ASSETS				
Current assets				
Cash at bank and brokers	\$ 473,728	\$ 212,573	\$ 686,301	\$ 1,197,376
Short term investments (<i>notes 2 and 10(b)</i>)	3,085,000	4,610,595	7,695,595	3,708,874
Accounts receivable and prepaid expenses	1,349,818	257,551	1,607,369	1,560,624
Inventories	933,400	-	933,400	1,507,269
	5,841,946	5,080,719	10,922,665	7,974,143
Long term assets				
Deferred course development costs	2,603,443	-	2,603,443	781,175
Investments (<i>notes 2 and 10(b)</i>)	4,186,586	14,597,583	18,784,169	17,432,431
Property and equipment (<i>note 4</i>)	8,904,097	-	8,904,097	8,658,841
	15,694,126	14,597,583	30,291,709	26,872,447
	21,536,072	19,678,302	41,214,374	34,846,590
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	3,526,568	-	3,526,568	2,999,442
Deferred revenue	3,391,287	-	3,391,287	2,369,201
	6,917,855	-	6,917,855	5,368,643
NET ASSETS				
Designated reserves (<i>note 5</i>)	-	19,678,302	19,678,302	8,934,907
Invested in property and equipment	8,904,097	-	8,904,097	8,658,841
Net assets available	5,714,120	-	5,714,120	11,884,199
	14,618,217	19,678,302	34,296,519	29,477,947
	\$ 21,536,072	\$ 19,678,302	\$ 41,214,374	\$ 34,846,590

Approved on behalf of the Board:



_____, Director



_____, Director

ONTARIO REAL ESTATE ASSOCIATION

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2016

	Operating Fund			Designated Reserves	Total	
	Member Services	OREA Real Estate College	Sub-Total		2016	2015
Revenues						
Membership dues	\$ 7,584,348	\$ -	\$ 7,584,348	\$ -	\$ 7,584,348	\$ 7,125,470
Initiation fees	1,504,400	-	1,504,400	-	1,504,400	1,277,400
Annual conference	112,822	-	112,822	-	112,822	125,809
Leadership courses	39,987	-	39,987	-	39,987	43,272
Leadership events/forums	14,360	-	14,360	-	14,360	16,160
Emerge conferences & YPN Events	103,433	-	103,433	-	103,433	136,392
Affinity program fees	175,326	-	175,326	-	175,326	102,147
Education revenues (notes 3 and 8)	-	38,466,937	38,466,937	-	38,466,937	29,180,810
Standard forms	247,616	-	247,616	-	247,616	283,380
Resale materials	5,075	-	5,075	-	5,075	10,646
Investment income	251,640	-	251,640	302,161	553,801	520,018
	10,039,007	38,466,937	48,505,944	302,161	48,808,105	38,821,504
Expenses						
Annual conference	309,416	-	309,416	-	309,416	307,225
Leadership courses	77,051	-	77,051	-	77,051	64,189
Leadership events/forums	319,456	-	319,456	-	319,456	317,953
Emerge conferences & YPN Events	165,616	-	165,616	-	165,616	240,567
Education expenses (notes 3 and 8)	-	22,479,518	22,479,518	-	22,479,518	15,430,925
Standard forms	127,433	-	127,433	-	127,433	166,913
Resale materials	4,548	-	4,548	-	4,548	15,091
Communication	410,303	-	410,303	-	410,303	391,911
REALTOR® Value Ad Campaign	-	-	-	-	-	1,758,828
Government relations	678,895	-	678,895	-	678,895	627,751
Member engagement	83,700	-	83,700	-	83,700	77,942
Legal	567,447	156,361	723,808	-	723,808	533,458
Marketing	212,486	124,277	336,763	-	336,763	305,921
Salaries and benefits (note 7)	4,778,248	7,149,928	11,928,176	-	11,928,176	10,699,840
Governance and representation	681,814	423,750	1,105,564	-	1,105,564	1,082,569
Credit card fees on dues collections	176,850	-	176,850	-	176,850	140,525
Operation expenses						
Occupancy	352,091	1,056,273	1,408,364	-	1,408,364	1,281,880
Administrative	445,653	1,336,959	1,782,612	-	1,782,612	2,370,503
Equipment depreciation	148,424	445,270	593,694	-	593,694	642,196
Designated reserves projects	-	-	-	1,144,766	1,144,766	653,568
Ontario REALTORS Care Foundation (note 9)						
Contribution to administration costs	-	-	-	29,000	29,000	29,000
Affinity fees	104,000	-	104,000	-	104,000	104,000
	9,643,431	33,172,336	42,815,767	1,173,766	43,989,533	37,242,755
Excess (deficiency) of revenues over expenses for the year						
	\$ 395,576	\$ 5,294,601	\$ 5,690,177	\$ (871,605)	\$ 4,818,572	\$ 1,578,749

ONTARIO REAL ESTATE ASSOCIATION

STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2016

	Operating Fund				Total	
	Invested In Property and Equipment	Net Assets Available	Sub-Total	Designated Reserves	2016	2015
Balance - at beginning of year	\$ 8,658,841	\$ 11,884,199	\$ 20,543,040	\$ 8,934,907	\$ 29,477,947	\$ 27,899,198
Excess (deficiency) of revenues over expenses for the year	-	5,690,177	5,690,177	(871,605)	4,818,572	1,578,749
	8,658,841	17,574,376	26,233,217	8,063,302	34,296,519	29,477,947
Interfund transfers						
Contingency reserve fund	-	(1,046,000)	(1,046,000)	1,046,000	-	-
Course development reserve fund	-	568,000	568,000	(568,000)	-	-
Technology reserve fund	-	(910,000)	(910,000)	910,000	-	-
Dues stabilization reserve fund	-	(1,496,000)	(1,496,000)	1,496,000	-	-
Building reserve fund	-	62,000	62,000	(62,000)	-	-
Political action reserve fund	-	(3,000,000)	(3,000,000)	3,000,000	-	-
Legal defence reserve fund	-	(500,000)	(500,000)	500,000	-	-
College contingency reserve fund	-	(5,293,000)	(5,293,000)	5,293,000	-	-
Interfund transfers representing:						
Depreciation	(1,068,082)	1,068,082	-	-	-	-
Purchase of property and equipment, net	1,313,338	(1,313,338)	-	-	-	-
	245,256	(245,256)	-	-	-	-
Balance - at end of year	\$ 8,904,097	\$ 5,714,120	\$ 14,618,217	\$ 19,678,302	\$ 34,296,519	\$ 29,477,947

ONTARIO REAL ESTATE ASSOCIATION

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Designated Reserves	Total	
			2016	2015
Cash flows from operating activities				
Cash received from dues and initiation fees	\$ 9,061,013	\$ -	\$ 9,061,013	\$ 8,289,358
Cash received from education activities	39,548,227	-	39,548,227	29,386,998
Cash received from other activities	712,419	-	712,419	743,366
Interest received	322,927	188,863	511,790	490,372
Cash paid to suppliers and employees	(37,899,064)	(1,202,019)	(39,101,083)	(34,346,904)
	11,745,522	(1,013,156)	10,732,366	4,563,190
Cash flows from financing and investing activities				
Interfund transfers	(11,615,000)	11,615,000	-	-
Sale (purchase) of investments, net	6,099,837	(7,451,575)	(1,351,738)	(1,383,709)
Purchase of property and equipment, net	(1,313,338)	-	(1,313,338)	(730,427)
Course development costs incurred	(4,591,644)	-	(4,591,644)	(1,373,107)
	(11,420,145)	4,163,425	(7,256,720)	(3,487,243)
Change in cash and cash equivalents	325,377	3,150,269	3,475,646	1,075,947
Cash and cash equivalents - at beginning of year	3,233,351	1,672,899	4,906,250	3,830,303
Cash and cash equivalents - at end of year	3,558,728	4,823,168	8,381,896	4,906,250
Cash and cash equivalents is represented by:				
Cash at bank and brokers	473,728	212,573	686,301	1,197,376
Short term investments	3,085,000	4,610,595	7,695,595	3,708,874
	\$ 3,558,728	\$ 4,823,168	\$ 8,381,896	\$ 4,906,250

ONTARIO REAL ESTATE ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

The mission of the Ontario Real Estate Association (the "Association") is to help Ontario REALTORS®, brokerages and associations succeed. The Association is a not-for-profit organization, incorporated without share capital under the laws of Ontario and, as such, is generally exempt from income tax.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared using Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

Basis of Presentation

Operating Fund

The operating fund reflects the day-to-day activities of the Association, segregated between member services and OREA Real Estate College.

Designated Reserves

The Association's Board of Directors has internally restricted net assets that are to be used for specific purposes approved by the Board.

Financial Assets and Liabilities

The Association initially measures its financial assets and liabilities at fair value. The Association subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets and liabilities measured at amortized cost include cash at bank and brokers, short term and long term investments, accounts receivable and accounts payable and accrued liabilities.

Short and Long Term Investments

Short and long term investments are comprised of guaranteed investment certificates and government and corporate bonds. The Association's investment practice is to hold debt type instruments to maturity. These investments are recorded at amortized cost in the financial statements.

Inventories

Inventories are recorded at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Cost includes direct materials only. Net realizable value is determined by reference to selling price less cost to sell.

Deferred Course Development Costs

Course development costs are recorded at cost less accumulated amortization. Amortization is provided on a straight line basis at rates of 50% to 100% per annum. If there is an indication that these costs may be impaired, an impairment test is performed that compares carrying amount to net recoverable amount. There were no impairment indicators in 2016.

ONTARIO REAL ESTATE ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives on a straight line basis at the following annual rates:

Building	-	2.5%
Building improvements	-	10%
Parking lot	-	20%
Office furniture and equipment	-	10% to 50%
Computer software and programming	-	50%

The above rates are reviewed annually to ensure they are appropriate. Any changes are adjusted for on a prospective basis. If there is an indication that the assets may be impaired, an impairment test is performed that compares carrying amount to net recoverable amount. There were no impairment indicators in 2016.

Revenue Recognition

Membership Dues

Revenue from membership dues recorded in the financial statements is based on membership information provided by the member boards and is recognized as revenue in the fiscal year in which it is due.

Initiation Fees

Initiation fees are recognized as revenue in the year the individual becomes a member of the Association.

Education

Revenue is recognized when courses are presented. Fees received in the current year, applicable to a subsequent year are deferred and will be recognized as revenue in the year to which they pertain.

Resale Materials

Revenue is recognized when the items are shipped.

Investment Income

Investment income is comprised of interest and realized gains and losses from investment transactions. Interest income is recorded when earned. Realized gains and losses are recognized when the transactions occur.

Other Revenues

All other revenues are recognized as revenue when the event takes place or as earned.

Allocation of Expenses

Expenses are allocated directly to Member Services and OREA Real Estate College activities wherever possible. Salaries and benefits are allocated based on time spent by staff members on different departmental activities. Other shared operating costs are allocated 25% (25% in 2015) to Member Services and 75% (75% in 2015) to OREA Real Estate College activities.

ONTARIO REAL ESTATE ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of the Association's financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year.

Key areas of estimation where management has made difficult, complex or subjective judgements, often as a result of matters that are uncertain, include, among others, inventory obsolescence, useful lives for depreciation and amortization of property and equipment and course development costs and other assets and liabilities valuation. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

2. INVESTMENTS

Details of investments are as follows:

	2016		2015	
	Amortized Cost	Effective Yield (%)	Amortized Cost	Effective Yield (%)
Short-term				
Guaranteed investment certificates and corporate bonds with maturity of less than 1 year	\$ 7,695,595	1.55	\$ 3,708,874	2.01
Long-term				
Guaranteed investment certificates and corporate bonds 1 - 5 years	18,784,169	2.41	17,432,431	2.33
	\$ 26,479,764		\$ 21,141,305	

Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the Association's activities and operations. Investments are primarily exposed to interest rate and price risks. The Association has formal policies and procedures for investment transactions. Investments are generally limited to corporate bonds, treasury bills, deposit notes and guaranteed investment certificates and investments are made on the advice of portfolio managers.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rate will affect the value of fixed income securities held by the Association. The value of fixed income investments will generally rise if interest rates fall and decrease if interest rates rise. The Association is exposed to interest rate risk on its fixed rate investments.

Price Risk

The Association is exposed to price risk, which is the potential loss that the Association may incur with respect to the changes in the fair value of investments. The fair value of investments will fluctuate because of changes in market price whether those changes are caused by factors specific to the individual investments, or its issuers or factors affecting all investments traded in the market.

ONTARIO REAL ESTATE ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

3. EDUCATION SERVICES AGREEMENT

The Association is a nominee appointed by Real Estate Council of Ontario ("RECO") to provide educational programs required for registration under the Real Estate and Business Broker's Act. The contract will expire on December 31, 2020. As per the agreement, a Revised Program was introduced on April 1, 2016 ("Effective Date").

For the period from January 1, 2016 to March 31, 2016, RECO Fee payments were:

- (a) \$50,000 on February 1, 2016;
- (b) 5% of all course revenues, education material sales and other net revenues of the OREA Real Estate College actually received by it in respect of the Program.

Commencing on the Revised Program Effective Date, the Association is committed for the following payments:

- (a) \$42 per enrolment, minus reimbursements, for student contracts for vocational programs signed in respect of the Revised Program, to be paid quarterly; and
- (b) \$32 per enrolment, minus reimbursements, for student contracts for vocational programs signed in respect of the Program, to be paid quarterly.

4. PROPERTY AND EQUIPMENT

Details of property and equipment are as follows:

	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Net Book Value</i>	
			<i>2016</i>	<i>2015</i>
Land	\$ 435,250	\$ -	\$ 435,250	\$ 435,250
Parking lot	495,215	290,764	204,451	178,791
Building	9,242,351	2,790,579	6,451,772	6,660,596
Building improvements	1,678,421	645,231	1,033,190	632,136
Office furniture	931,252	666,355	264,897	315,627
Equipment	1,703,593	1,311,393	392,200	358,915
Computer software and programming costs	868,664	746,327	122,337	77,526
	\$ 15,354,746	\$ 6,450,649	\$ 8,904,097	\$ 8,658,841

The statement of operations includes depreciation expense of \$1,068,082 (\$1,015,429 in 2015) and amortization of course development costs of \$2,769,376 (\$779,022 in 2015).

ONTARIO REAL ESTATE ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

5. DESIGNATED RESERVES

Designated reserves are net assets internally restricted by the Board of Directors to be used for specific purposes. The details of these reserves are as follows:

	<i>2016</i>	<i>2015</i>
Building reserve	\$ 450,583	\$ 503,962
Contingency and special projects reserve	3,500,838	3,126,004
Course development reserve	4,000,007	4,464,004
Dues stabilization reserve	1,800,934	264,267
Technology reserve	1,501,473	576,670
Political action reserve fund	2,629,230	-
Legal defence reserve fund	500,205	-
College contingency reserve fund	5,295,032	-
	\$ 19,678,302	\$ 8,934,907

Building Reserve Fund

The building reserve fund is a Board-designated fund that was established in June 2003 for the specific purpose of maintenance of the property owned by the Association at 99 Duncan Mill Road in Don Mills. Contributions are transferred from the unrestricted net assets of the Association to the building reserve fund.

Contingency and Special Projects Reserve Fund

The contingency and special projects reserve fund is a Board-designated fund that was established in 1984 for the specific purpose of meeting unanticipated needs of the Association. It is to be used for unexpected emergencies and to fund special, non-recurring, one-time projects. Contributions are transferred from the unrestricted net assets of the Association to the contingency and special project reserve fund.

Course Development Reserve Fund

The course development reserve fund is a Board-designated fund established in September 2002 for the specific purpose of investments in course development. Contributions are transferred from the unrestricted net assets of the Association to the course development reserve fund.

Dues Stabilization Reserve Fund

The dues stabilization reserve fund is a Board-designated fund that was established in December 2002 for the specific purpose of stabilizing dues revenues. Contributions are transferred from the unrestricted net assets of the Association to the dues stabilization reserve fund.

Technology Reserve Fund

The technology reserve fund is a Board-designated fund that was established in September 2002 for the specific purpose of investments in technology. Contributions are transferred from the unrestricted net assets of the Association to the technology reserve fund.

ONTARIO REAL ESTATE ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

5. DESIGNATED RESERVES (continued)

Political Action Reserve Fund

The political action reserve fund is a Board-designated fund that was established in March 2016 for the specific purposes outlined as follows:

- To support a regulatory and legislative environment in Ontario that is favourable to REALTORS® and to real estate;
- To promote REALTORS® as professional, engaged and valued stakeholders among key decision makers; and
- To respond to provincial and/or municipal issues which impact the affordability of property and/or the business of real estate.

Contributions are transferred from the unrestricted net assets of the Association to the political action reserve fund.

Legal Defence Reserve Fund

The legal defence reserve fund is a Board-designated fund that was established in December 2016 for the specific purposes outlined as follows:

- To fund applications made by member boards under the 'OREA legal assistance plan';
- To fund any litigation matters for which OREA must defend against or initiate; and
- To fund significant special projects of a legal nature.

Contributions are transferred from the unrestricted net assets of the Association to the legal defence reserve fund.

College Contingency Reserve Fund

The College contingency reserve fund is a Board-designated fund that was established in December 2016 for the specific purpose of meeting the costs and obligations related to college activities. The Board of Directors approved that the College surplus for 2016 be transferred to the College contingency reserve fund.

6. OBLIGATIONS UNDER OPERATING LEASES

The Association is committed to annual rental payments for its education centre (excluding operating costs) and equipment leases as follows:

Year ending December 31,	2017	\$	66,000
	2018		10,000
	2019		6,000

7. PENSION PLAN

Certain employees of the Association are members of the Association's pension plan which is a defined contribution (money purchase) plan. Pension expense for the year 2016 amounted to \$529,483 (\$486,652 in 2015).

ONTARIO REAL ESTATE ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

8. OREA REAL ESTATE COLLEGE EDUCATION REVENUES AND EXPENSES

	2016		2015	
	Revenues	Expenses	Revenues	Expenses
Registration	\$ 29,835,348	\$ 11,732,457	\$ 22,747,059	\$ 8,857,643
Voluntary Professional Development	13,800	-	25,560	-
Resale materials -education	8,617,789	6,533,737	6,408,191	4,583,606
Promotion and development	-	1,487,315	-	1,252,008
Amortization - course development	-	2,726,009	-	737,668
	\$ 38,466,937	\$ 22,479,518	\$ 29,180,810	\$ 15,430,925

9. RELATED PARTY TRANSACTIONS

The Association is related to the Ontario REALTORS Care® Foundation (the "Foundation") in that the voting members of both organizations are the same. The following summarizes the related party transactions with the Foundation:

	2016	2015
Statement of Operations		
Administration services fee received from the Foundation	\$ 10,000	\$ 10,000
Contribution made towards administrative expenses of the Foundation	133,000	133,000

In addition to the above contribution, the Association provides use of certain office space and facilities, staff and operating expenses at no further cost to the Foundation.

10. CREDIT FACILITIES

The Association has the following credit facilities:

(a) Line of Credit

The Association has an unsecured overdraft loan facility to a maximum of \$100,000. Any advances on this facility bear interest at bank prime rate plus one half percent and the interest is payable monthly. There were no advances at December 31, 2016 (\$NIL at December 31, 2015).

(b) Irrevocable Letter of Credit

The Association has issued an irrevocable letter of credit to an aggregate amount of up to \$507,000 covering the security pursuant to the Private Career College's Act and regulations made under the Act. Any advances on this letter of credit bear interest at bank prime rate plus 0.75% and the interest is payable monthly. There were no advances at December 31, 2016 (\$NIL at December 31, 2015).

The letter of credit is secured by a Collateral Agency Agreement constituting a first ranking security interest in the Association's contingency fund investment account with BMO Nesbitt Burns. Cash and investments at market value in this account at December 31, 2016 amounted to \$3,501,000 (December 31, 2015 - \$3,126,000). The letter of credit will expire on October 6, 2017 with an automatic annual extension with 60 days notice.

ONTARIO REAL ESTATE ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

11. FINANCIAL INSTRUMENTS AND RISK EXPOSURE

The Association is exposed to various risks through its financial instruments. The following analysis provides a measure of the Association's risk exposure at the balance sheet date.

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 Association's main credit risks relate to accounts receivable. The Association mitigates credit risk by performing credit checks and imposing credit limits. Management has included adequate provision for doubtful accounts receivable in these financial statements.

Liquidity Risk

Liquidity risk is the risk that the Association will encounter difficulty in meeting obligations associated with financial liabilities. The Association is exposed to this risks mainly in respect of its accounts payable and accrued liabilities and lease commitments. The Association expects to meet these obligations as they come due by generating sufficient cash flow from operations.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk. The Association is not exposed to currency risk. Interest rate and price risks are disclosed in note 2.

12. GUARANTEES

The Association has indemnified its past, present and future directors, officers and volunteers against expenses (including legal expenses), judgments and any amounts actually or reasonably incurred by them in connection with any action, suit or proceeding, subject to certain restrictions, in which they are sued as a result of their involvement with the Association, if they acted honestly and in good faith with a best interest of the Association. The nature of the indemnity prevents the Association from reasonably estimating the maximum exposure. The Association has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits and actions.

In the normal course of business, the Association has entered into agreements that include indemnities in favour of third parties, either express or implied, such as in service contracts, leasing agreements, sales and purchase contracts, etc. In these agreements, the Association agrees to indemnify the counterparties in certain circumstances against losses or liabilities arising from the acts or omissions of the Association. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

13. LITIGATION

The Association is party to legal proceedings which arise from normal operating activities. Actual liabilities with respect to these actions and proceedings can not be determined, but management believes that any potential liability will not materially affect the Association's financial position.