CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

CFE CANDIDATE NUMBER:

Common Final Examination
September 14, 2017 – Day 2
(Booklet #1 – Case)

Total examination time: 5 hours.
Further details on the examination can be found on the next page.

GENERAL INSTRUCTIONS BEFORE THE EXAMINATION

1. Fill in your 7-digit candidate number on the booklets and the USB key. The exam booklets and the USB key (or paper response, as instructed) must be submitted before leaving the writing centre. They must NOT BE REMOVED from the writing centre. If these items are not received, the response may not be accepted.
2. Sign the Policy Statement and Agreement Regarding Exam Confidentiality below.
3. Follow the Securexam instructions provided. Instructions must not be removed from the examination centre.

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CANDIDATE NAME (Please print) SIGNATURE

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Examination Details

The examination consists of:

Booklet #1 – Case (this booklet)
Booklet #2 – Rough notes

The case is developed to be four (4) hours. Candidates are allowed **five (5) hours** to respond.

The case should be answered in Securexam. Securexam has an answer tab and a spreadsheet tab to input your response. The main body of your response should be in the answer tab. Only supporting calculations should appear in the spreadsheet tab, **under Sheet 1**. A copy of the financial statements (balance sheet and income statement) from the case have been preloaded into the spreadsheet tab, **after Sheet 1**. The cells in this section are locked. You must copy and paste the financial statements into your **Sheet 1**, where you can then do all your calculations. You are responsible for clearly explaining all your calculations, as outlined in the Securexam tutorial.

Answers or part answers will not be evaluated if they are recorded on anything other than Securexam or the CPA Canada writing paper provided.

The CPA Canada Handbooks and the Income Tax Act, in the form of searchable PDF files, are available within Securexam throughout the entire examination. Securexam provides the standards in effect and tax laws substantively enacted as at December 31, 2016.

A tax shield formula and other relevant tax information are available at the end of this booklet.

Rough-note paper is available in a separate booklet. Rough notes, and any other notations made in the exam booklet, will not be evaluated.

Common Final Examination, September 2017

Chartered Professional Accountants of Canada
277 Wellington Street West
Toronto, Ontario M5V 3H2

Case

Assume the pre-selected role in which you will be formulating your response. Answer all requireds as specifically directed in your role. Within the requireds for each role, candidates are directed to look at specific additional appendices, which are unique to each role. Use only the information you have been directed to refer to.

Information that is shared by all roles is presented in the "Common Information" section. Additional information, customized to each role, is presented in the "Specific Information" section.

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BACKGROUND
COMMON INFORMATION FOR ALL ROLES

Gloria Ferguson founded Ferguson Real Estate Inc. (FRE) in 2000. She was concerned about the waiting lists and quality of affordable public housing in Canada and wanted to help while making a small return. FRE is a private company that owns and manages affordable rental apartment buildings in the cities of Prince Joel and Bluebell. Gloria is a wealthy real estate investor who invested $8 million from an inheritance in exchange for 100,000 common shares in FRE. She is the president and CEO and chair of the board.

Despite its philanthropic mission, FRE is structured as a for-profit entity, and Gloria is not interested in changing this. FRE targets a 3% pre-tax return on sales and a 3% return on equity. To achieve its return, FRE relies on high occupancy, good rent collection, and the efficient operation of its properties. Occasionally, FRE builds its own buildings, and, in those cases, efficient construction contributes to FRE's success on the project.

Since inception, FRE's mission statement has been: *To provide affordable rental apartments.* FRE is currently focused on helping young individuals and families. Recently, its management has been contemplating some new and different projects.

Because she now sits on many charity boards, Gloria has devoted less time to the business recently. However, because there is such a great need for affordable housing, she is still interested in obtaining additional funds for FRE. She is aware that leading economists expect interest rates to rise.

It is now September 16, 2017. FRE has a September 30th year end, follows ASPE, and uses the taxes-payable method to account for its income taxes. Fox & Fanoo, LLP (FF) was re-appointed as the company's external auditors for the September 2017 year end.

Prince Joel and Bluebell are located in the same Canadian province. As a result of industrial plant closures and young residents moving away to get jobs, both cities have aging populations. It is expected that property values in Prince Joel and Bluebell will become stagnant or decline in the near future. Both cities plan to raise their property taxes. The City of Prince Joel's municipal council has specifically expressed concern about the city's finances. Due to both provincial and municipal financial restrictions, there is reduced funding for public or other affordable housing initiatives in both cities, although all levels of government are in favour of such initiatives.

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BACKGROUND (continued)
COMMON INFORMATION FOR ALL ROLES

FRE's Chief Operating Officer, Andy, is an experienced commercial property manager who has been with FRE since its inception in 2000. Gloria met Andy while she was a board member of Halloran Construction Inc. (Halloran) and he was part of its senior management team. Andy maintains an active role on Halloran's board of directors. Reporting to Andy are the VP Administration, the VP Acquisitions, Construction & Maintenance, and the VP Rental Properties.

Gloria recently replaced the controller, who had worked her way up in the organization from a bookkeeper role, with Judy Kong, MBA. Judy is in charge of financial reporting, budgeting, treasury, and taxation. Judy is meeting with the external auditors to discuss the audit, and with members of FRE's finance department to deal with various projects. Appendix I contains business information about FRE, Appendix II covers information specific to FRE's rent-to-own (RTO) program, and Appendix III has information about events in 2017. The 11 months' financial results as at August 31, 2017, are presented in Appendix IV. Additional information, customized to your role, is presented in your role package.

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REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

ASSURANCE REQUIREMENTS

You, CPA, are a senior with Fox & Fanoo, LLP (FF). FF has been engaged by FRE mainly to audit the financial statements for the year ending September 30, 2017.

However, the audit engagement partner explains that, to help the board make some decisions at their next board meeting, your firm has first been asked to perform some analysis on two separate projects: the rent-to-own (RTO) program on Rudd Road and the luxury apartment project, Ole Tower. For the RTO program, Judy would like you to determine whether FRE can meet the board's objective regarding tenant ownership by December 31, 2018, with the current minimum purchase credit requirement of 10%, and then to consider whether the objective would be met if the minimum were reduced to 7.5%. For the Ole Tower project, she asks you to calculate what rent amount to charge in order to generate the target monthly cash flow. The partner has concluded that our firm can perform this additional work; however, this needs to be documented. As a result, the partner has asked you to draft a memo to the file that discusses the relevant independence rules and the potential threats involved with performing the additional work.

Once that analysis is complete, the audit engagement partner asks you to address any accounting issues that you note specific to the events that have occurred in 2017. Judy has also asked FF to review FRE's accounting treatment of the RTO purchase credits, including any forfeited credits to date. Judy is new to the company, is unsure about the current treatment, and wants to understand any potential reporting implications.

The partner then asks you to prepare the audit plan, which should include an assessment of the overall financial statement risk as well as a discussion of materiality. There were no significant audit or accounting issues encountered in the 2016 audit, and an unqualified audit report was issued. The overall financial statement risk for the 2016 engagement was assessed at low. Finally, the partner asks you to develop audit procedures for the accounting issues you identify.

The partner reminds you that Judy is also expecting our firm to provide her with a management letter discussing any control weaknesses identified, along with recommendations to improve these. She feels there are some processes that could be improved and is looking forward to hearing your thoughts on the subject.

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REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

ASSURANCE REQUIREMENTS (continued)

Lastly, the partner has some special reporting issues for you to address with regards to the Carter Apartment funding agreement. The accounting for the grant has already been reviewed, but the partner would like you to determine the reporting options that are available to meet the Declaration requirements. You are also asked to discuss the procedures that could be carried out in relation to the Declaration and to identify any definitions and other issues that may require clarification from the funding ministries in order to perform the work.

In addition to the common appendices (I to IV), information provided in Appendix V (Assurance) is relevant for your analysis.

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REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

FINANCE REQUIREMENTS

You, CPA, are the senior treasury officer, reporting to Judy Kong, the controller of FRE. As Judy is currently short-staffed, she asks you to help her with work unrelated to your day-to-day job.

To help the board make some decisions at their next board meeting, Judy asks for your analysis of two projects: the rent-to-own (RTO) program on Rudd Road and the luxury apartment project, Ole Tower. For the RTO program, she would like you to determine whether FRE can meet the board's objective regarding tenant ownership by December 31, 2018, with the current minimum purchase credit requirement of 10%, and then to consider whether the objective would be met if the minimum were reduced to 7.5%. For the Ole Tower project, Judy asks you to calculate what rent amount to charge in order to generate the target monthly cash flow.

Next, Judy asks you to address any accounting issues that you note specific to the events that have occurred in 2017. Note that FRE has accounted for the RTO program properly for external reporting purposes.

Judy then states that there are a number of other analyses she requires that draw specifically on your treasury expertise. First, she wants a quantitative and qualitative analysis of the townhouse rental proposal on which the property management group has been working. Use 3% for the discount rate and ignore taxes in your analysis. As well, you should assess the underlying assumptions that management has made with respect to the townhouse rental proposal.

Next, Judy wants an evaluation of the company's debt capacity on its existing properties and an analysis of the two new options for debt financing.

She would also like a discussion of the advantages and disadvantages of the two proposed tenant ownership financing options.

In addition, Judy would like you to assess FRE's overall financial position. She also wants you to determine if FRE has met its 3% pre-tax return on sales and 3% return on equity objectives. Next, Judy would like your views on the investment offer received from the Bates Foundation.

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REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

FINANCE REQUIREMENTS (continued)

Finally, Judy would like your opinion on an appropriate weighted average cost of capital (WACC) for FRE, assuming that its current capital structure is its target capital structure. Judy would like you to use the capital asset pricing model (CAPM) to estimate the cost-of-equity portion of the WACC. She would also like you to comment on the various elements you include in the calculation and on the assumptions you make.

In addition to the common appendices (I to IV), information provided in Appendix V (Finance) is relevant for your analysis.

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REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

PERFORMANCE MANAGEMENT REQUIREMENTS

You, CPA, are a senior analyst, reporting to Judy Kong, the controller of FRE.

To help the board make some decisions at their next board meeting, Judy asks for your analysis of two projects: the rent-to-own (RTO) program on Rudd Road and the luxury apartment project, Ole Tower. For the RTO program, she would like you to determine whether FRE can meet the board's objective regarding tenant ownership by December 31, 2018, with the current minimum purchase credit requirement of 10%, and then to consider whether the objective would be met if the minimum were reduced to 7.5%. For the Ole Tower project, Judy asks you to calculate what rent amount to charge in order to generate the target monthly cash flow.

Next, Judy asks you to address any accounting issues that you note specific to the events that have occurred in 2017. Note that FRE has accounted for the RTO program properly for external reporting purposes.

Judy then asks you to do some further analysis. She would like you to identify risks to FRE and recommend ways to mitigate those risks. She then asks you for both a quantitative and a qualitative analysis of the proposal to outsource the maintenance function. While you are looking at staffing, Judy would like you to evaluate the organization's management incentive schemes at the various levels below VP and to suggest better metrics.

Judy thinks that some of FRE's recent activities do not align with the company's mission, and she would like your thoughts on this.

She would also like you to comment on the current mission statement and recommend any improvements with sufficient explanation and support.

Judy has noted that only quarterly income statements are currently provided to the board and management team. She wants you to consider what additional information the accounting team could provide that would help the board and management make better operational and strategic decisions.

Finally, Judy asks for your views on the company's governance structure and for you to provide recommendations for improvement.

In addition to the common appendices (I to IV), information provided in Appendix V (Performance Management) is relevant for your analysis.

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REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

TAXATION REQUIREMENTS

You, CPA, are the tax compliance and planning analyst, reporting to Judy Kong, FRE's controller.

To help the board make some decisions at their next board meeting, Judy asks for your analysis of two projects: the rent-to-own (RTO) program on Rudd Road and the luxury apartment project, Ole Tower. For the RTO program, she would like you to determine whether FRE can meet the board's objective regarding tenant ownership by December 31, 2018, with the current minimum purchase credit requirement of 10%, and then to consider whether the objective would be met if the minimum were reduced to 7.5%. For the Ole Tower project, Judy asks you to calculate what rent amount to charge in order to generate the target monthly cash flow.

Next, Judy asks you to address any accounting issues that you note specific to the events that have occurred in 2017. Note that FRE has accounted for the RTO program properly for external reporting purposes.

Judy then wants you to discuss how Gloria withdraws money from FRE, including a discussion of any benefits she currently receives. Judy wants you to suggest alternatives to the existing cash withdrawal strategy to reduce Gloria's tax liability, taking into account the consequences for FRE.

Judy also requests an analysis of the income tax implications of the investment offer from the Bates Foundation of America (BFA).

Further, Judy would like you to discuss some planning opportunities to ensure FRE consistently minimizes tax after the investment by BFA. Gloria wants to ensure that her personal taxes on any future share dispositions are minimized.

She would also like a discussion of the personal tax implications to Gloria of donating some or all of her shares of FRE to a Canadian registered charity. She asks you not to take into account the tax consequences to the corporation of the donation for now.

Next, Judy would like to know the tax implications of the proposed stock option plan, for both the company and the employees.

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REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

TAXATION REQUIREMENTS (continued)

Judy looked into the 2015 sale of the Ajax property. She thinks FRE forgot to apply subsection 13(21.1) of the *Income Tax Act*. She asks you to determine if this is true. She also noticed another error in the return and would like your advice on how to correct any errors in the 2015 return, and whether there is a deadline for making these corrections.

Judy originally expected that the Welzer property exchange would qualify under the replacement property rules and, therefore, recorded no transaction for tax purposes. However, the tax partner at Fox & Fanoo, LLP reminded her that the property would not qualify as a replacement property because it is rental property. Judy would like you to explain to her the tax implications of the transaction that results.

Finally, she also wants you to discuss the personal and corporate tax consequences of Gloria's planned transfer of the Fish Street property to the company, assuming Gloria sells the property to FRE for exactly $1 million in cash, as proposed. She would then like your advice on any steps that can be taken to minimize the consequences you identify.

In addition to the common appendices (I to IV), information provided in Appendix V (Taxation) is relevant for your analysis.

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APPENDIX I – COMMON BUSINESS INFORMATION

Properties

FRE owns 12 properties, of which some are new and others are over 60 years old. The VP Rental Properties updates a rough estimate of the fair market value of the properties regularly. At August 31, 2017, FRE's property portfolio was as follows:

Name	City	Net Book Value[2]	Estimated Value	Mortgage	Interest Rate[3]	Type	Renewal Date
Rudd Rd (RTO)	Prince Joel	$ 982,800	$ 1,200,000	$ 756,000	2.74%	Variable	Mar 14/19
Blain River	Prince Joel	1,918,379	2,200,000	1,615,300	2.66%	Variable	Dec 31/17
24 Burnt St	Prince Joel	4,533,837	5,900,000	3,750,800	3.22%	Fixed	Sep 30/18
Carter	Prince Joel	3,627,302	4,658,000	2,920,566	1.77%	Variable	Mar 14/19
11 Calue St[1]	Prince Joel	454,283	500,000	151,500	3.25%	Variable	Mar 14/18
Lain Rd[1]	Bluebell	642,522	650,000	196,950	3.14%	Variable	Feb 28/18
Orpington	Bluebell	7,417,580	8,000,000	5,025,000	2.66%	Variable	Jan 1/19
Tangletree	Bluebell	7,743,999	7,800,000	5,693,600	2.78%	Variable	Oct 12/18
Largent	Bluebell	4,539,920	4,200,000	2,583,000	2.66%	Variable	Nov 26/18
Atman	Bluebell	6,400,800	6,500,000	4,173,000	3.44%	Fixed	Dec 31/18
Parker	Bluebell	2,604,844	3,100,000	1,925,100	2.88%	Variable	May 22/21
Totals		**$40,866,266**	**$44,708,000**	**$28,790,816**			
Properties recorded as inventory:							
BOT	Prince Joel	9,256,412	9,520,614	9,066,667	2.94%	Variable	Dec 31/17

[1]11 Calue St and Lain Rd are vacant land that have been purchased for potential future developments.
[2]Cost minus accumulated amortization.
[3]Weighted average borrowing rate is 2.83%.

Companies like FRE typically have high debt-to-equity ratios. Developed properties are financed by either fixed- or variable-rate mortgages from various financial institutions at about 70% of market value and with various renewal terms. Vacant land can generally be financed with a mortgage up to 35% of the fair value of the property. Mortgages are occasionally renewed prior to maturity by incurring a penalty. To date, FRE has not taken any higher-interest-rate second mortgages on its properties.

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APPENDIX I – COMMON (continued)
BUSINESS INFORMATION

The VP Rental Properties sets the unit rates at about 10% to 15% below market. Some tenants are on social assistance, and many are employed in lower-paying occupations. In order to verify their income, prospective and current tenants are sometimes asked to provide their prior-year tax returns, copies of which are kept on file. When tenants' incomes increase, they are asked to move out in order that someone needier may move in, but they are never forced to leave. Disabled tenants get priority treatment from FRE. Occasionally, tenants move from one FRE property to another. For example, two Rudd Road property tenants moved to the Largent property during 2016, as the rent is cheaper without the RTO option.

There are four property managers, who report to the VP Rental Properties. Superintendents report to their respective property manager. Superintendents often live in one of the units of the property they oversee and are the first point of contact for tenants on all matters.

Three years ago, a foundation crack in a property built by Halloran resulted in FRE selling the property at a significant loss.

The company's properties sometimes experience vandalism, which represents a significant cost. The approach to preventing vandalism varies, depending on the different superintendents.

Maintenance costs are increasing for the older buildings. Some properties are heated with oil furnaces, and oil prices have increased recently, with further increases forecasted. As many major equipment purchases are made in the United States, the price of equipment has increased due to the weaker Canadian dollar.

No FRE employees have ever been laid off. Employee turnover has been consistently around 5% per year. Despite being paid salaries slightly below market, employees are generally happy. The company hires individuals who believe in the organization's philanthropic mission and tries to hire tenants who need a job.

Only the employees in the maintenance department are unionized. The company provides a health plan for all employees, including Gloria, covering specified medical and dental costs.

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APPENDIX II – COMMON
RENT-TO-OWN PROGRAM (RTO)

On September 1, 2013, FRE opened the 12-unit Rudd Road Apartment in Prince Joel with a new concept. Of the $1,100 monthly rent, $275 is a purchase credit toward buying the unit. Rent is due on the first day of the month. The rent-to-own (RTO) program is designed to help tenants save for a down payment. All the units have an identical layout.

The purchase conditions are as follows:

1. The unit purchase price is the fair value at the time of purchase.
2. The tenant must accumulate at least 10% of the unit price in purchase credits before purchasing the unit. The tenant must arrange their own mortgage financing for the balance of the purchase.
3. After three consecutive months of unpaid rent, the accumulated purchase credits are applied to the overdue rent, and 50% of the remaining purchase credits are forfeited.
4. If the tenant moves out of the building, they forfeit 50% of the purchase credits. The remainder is refunded.

The board's objective is to have 50% of the units owned by tenants by December 31, 2018. Andy feels the minimum purchase credit requirement may need to be reduced from 10% to 7.5% in order for this objective to be met.

The property manager has prepared the following status report:

Monthly rent:	**$ 1,100**	**Start of program:**	**September 1, 2013**
Purchase credit:	**$ 275**	**Report date:**	**August 31, 2017**

Unit	Start of Current Tenancy	Purchase Date	Purchase Price	Purchase Credits
1	Jan 1, 2016			$5,500
2	Sep 1, 2013	June 30, 2017	$125,000	NA
3	Dec 1, 2015			$5,775
4	Oct 1, 2015			$6,325
5	Aug 1, 2014			$10,175
6	Apr 1, 2016			$4,675
7	Sep 1, 2013			$13,200
8	Oct 1, 2015			$6,325
9	Sep 1, 2013	Aug 31, 2017	$130,000	NA
10	May 1, 2016			$4,400
11	May 1, 2016			$4,400
12	Dec 1, 2014			$9,075

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APPENDIX III – COMMON
2017 EVENTS

Property Values

Judy is concerned about how some valuation issues might affect the accounting for certain properties as a result of some information that has recently come to light:

- Largent – FRE received the latest municipal property tax assessment for the Largent property, which showed an estimated fair value of $4.56 million. FRE will be appealing the property tax assessment based on a more recent report from an external appraiser, which valued the property at $4.2 million. The building generally achieves break-even.
- Tangletree – As the crime rate in the neighbourhood has sky-rocketed, the occupancy rate of the Tangletree property in Bluebell has decreased substantially over the last 15 months. Fearful of becoming victims themselves, many tenants left over the past four months, and these units remain vacant.
- Atman – Five months after Halloran finished building it, a large crack was found in the foundation of the Atman building. The property is still habitable and occupancy is 100%. Andy told the VP Acquisitions, Construction & Maintenance not to investigate the crack, stating it is not a significant problem.

Ole Tower Luxury Apartments

To subsidize FRE's philanthropic rental properties, FRE has decided to build a luxury apartment building, Ole Tower. The land and building for an 18-unit complex will cost $4.105 million. After considering the down payment, the monthly blended mortgage payments will be $18,049, for 20 years. Additional costs to FRE are as follows:

Expense	Cost for the Entire Building	Occurrence	Extra Monthly Costs per Unit Rented
Municipal taxes	$127,255	Annual	None
Natural gas	$4,600	Monthly	$11.51
Electricity	$2,010	Monthly	$46.20
Repairs and maintenance	$28,000	Annual	None

Any future cost increases are assumed to be offset by rent increases. Gloria would like the project to generate net monthly cash flows of $10,000 until the mortgage is repaid in full. She is unsure whether FRE will be able to keep all 18 units occupied on a continuous basis, but expects it will have somewhere between 15 and 18 units occupied at any given time.

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APPENDIX III – COMMON (continued)
2017 EVENTS

Build-Operate-Transfer (BOT) Project

In recent years, the City of Prince Joel has had several disastrous public housing projects, with contractor cost overruns that the City absorbed, as well as construction deficiencies. To avoid such problems on the next public housing project, the mayor and council drafted a detailed contract and put the project up for bids in the summer of 2016. Thinking the project could be profitable and that it would draw on FRE's core strengths while also helping the City, Gloria submitted a bid for a rapid-construction modular housing project.

In October of 2016, FRE was awarded the contract. Construction began immediately. The key points of the 322-page contract are as follows:

- FRE will construct the 72-unit complex according to City specifications and on City land. The property is covered by the City's insurance at all times. Upon completion, the property must pass the City's initial inspection.
- FRE will rent out the units in accordance with the City's low-income housing regulations and will operate the building for a minimum of six months. If FRE complies with the contract terms, the City will cover the operating losses, including interest, up to the closing date.
- On October 31, 2017 (the "closing date"), subject to the City's second and final property inspection, the City will pay the contract price of $9,520,614, take title to the building, and take over its operation from FRE.
- A required post-closing step includes FRE planting trees that, due to the species, must be planted in late November 2017.
- FRE will provide a one-year building warranty.

FRE subcontracted the construction to Halloran. After 17 inspection deficiencies were corrected, at a cost of $74,300, the initial City inspection was passed.

A receivable from the City has been recorded as "other receivable" in the financial statements for the negative cash flow of $184,230 incurred for the first six months of operation (March 1 through August 31, 2017).

The project has proceeded as planned, with just a few costs left to incur. The tree-planting costs and the warranty costs are expected to be $44,000 and $100,000, respectively, resulting in an expected net profit of 1.26%, compared to the budgeted 2.5%.

Gloria hopes some revenue related to the project can be recorded on the September 30, 2017, financial statements. An engineering firm hired to duplicate the City's final inspection has recently reported that the building will pass inspection.

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APPENDIX III – COMMON (continued)
2017 EVENTS

Welzer Property Exchange

On July 1, 2017, Welzer Properties Inc. (Welzer), a non-related party, agreed to exchange its Blain River apartment building in Prince Joel for FRE's Dogwood Road apartment building plus a $200,000 interest-free note payable to Welzer, due in five years. Three weeks ago, an independent appraiser engaged by Welzer appraised the Blain River property at $2.2 million, allocated as $1.4 million for the building and $0.8 million for the land.

The municipal property tax valuation of the Dogwood property was $1.93 million in 2016, and was increased by the City's standard rate of 1.27% in 2017, to $1,954,511. Property values are attributable at 70% to the building and 30% to the land.

FRE recorded the exchange at the cost of the Dogwood property given up, being the $606,771 land cost and the $1,111,608 net book value of the building ($1,684,254 original cost less accumulated amortization of $572,646) plus the $200,000 note payable.

As the rental agreements expire, FRE plans to reduce Blain River rents by 10% to 12% to be consistent with rates for its other properties.

Lawsuit

On August 12, 2017, FRE received a letter indicating that it was named as the defendant in a lawsuit alleging that it had "failed to remove snow and ice" from its Parker property in Bluebell. One of the residents apparently slipped in the parking lot and is not currently able to work. The lawsuit is for a total of $900,000, comprising physiotherapy and other bills totalling $12,000, $388,000 of lost current and future wages, and $500,000 for "pain and suffering." The letter also indicated that the plaintiff may be willing to settle the matter for $400,000 if the money is received prior to September 30, 2017.

FRE has been in contact with its lawyer, who stated she cannot comment on the likely outcome of the lawsuit due to a lack of available information. Additional information regarding the details of the claim is anticipated within the next two weeks.

Financing

The Bates Foundation of America, a large U.S. foundation, has approached Gloria with an offer to invest in FRE. Gloria is considering it. Financing discussions are also taking place with two new non-bank lenders, who will be making decisions based on the year-end financial statements.

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APPENDIX IV – COMMON
DRAFT FINANCIAL STATEMENT EXCERPTS

Ferguson Real Estate Inc.
Balance Sheet
As at

	August 31, 2017	September 30, 2016
Assets		
Cash	$ 1,567,281	$ 401,716
Rent receivable	31,252	17,522
Other receivable	184,230	0
Supplies inventory	26,482	27,842
Prepaid expenses	144,145	147,528
Property inventory	9,256,412	0
	11,209,802	594,608
Land	14,526,123	14,526,123
Property and equipment, net	26,703,156	27,411,582
	$ 52,439,081	$ 42,532,313
Liabilities and shareholder's equity		
Accounts payable and accruals	$ 909,506	$ 637,593
Current portion of mortgages & notes payable	11,309,156	1,767,482
	12,218,662	2,405,075
Mortgages & notes payable	26,748,327	26,895,827
Shareholder's equity		
Common shares	8,000,000	8,000,000
Retained earnings	5,472,092	5,231,411
	13,472,092	13,231,411
	$ 52,439,081	$ 42,532,313

(CONTINUED ON PAGE 19)

APPENDIX IV – COMMON (continued)
DRAFT FINANCIAL STATEMENT EXCERPTS

Ferguson Real Estate Inc.
Statement of Operations

	11-Months Ended August 31, 2017	Year Ended September 30, 2016
Revenues	$ 7,364,878	$ 7,880,000
Expenses		
Property taxes	1,600,823	1,715,168
Utilities	509,712	546,120
General and administrative	2,041,029	2,148,452
Interest expense	981,446	992,242
Repairs and maintenance	1,147,115	1,262,879
Amortization	801,599	898,989
	7,081,724	7,563,850
Income before taxes	283,154	316,150
Income taxes	42,473	47,422
Net income	$ 240,681	$ 268,728

(CONTINUED ON PAGE 20)

ASSURANCE ROLE
ADDITIONAL INFORMATION

(CONTINUED ON PAGE 21)

APPENDIX V
ASSURANCE – ADDITIONAL INFORMATION

Rent Collection

Rents are due on the first of the month and are generally paid by pre-authorized debit withdrawals or cheque. Because of the fees involved, FRE does not allow tenants to use credit cards. In January 2017, in response to tenants having difficulty opening bank accounts, FRE allowed the superintendents to accept cash for rent. The superintendents hold onto the cash collected until they have time to deposit them, which can sometimes be months as they're typically pretty busy. Because of this delay between collection and deposit of cash payments, the property managers don't bother trying to reconcile the monthly rent due to the payments collected since they never match.

Vandalism Repairs

The property managers want to keep the tenants happy by repairing the damage as quickly as possible; therefore, they try not to get in the superintendents' way and just let them take care of it. For easy jobs, the superintendents purchase the necessary tools and materials and do the repairs themselves. For more complicated jobs, superintendents have the authority to hire whomever they feel necessary to do the work. The superintendents cover all of the costs, however significant they may be, and then send an email to their property manager with the amount they're owed. The property manager makes sure they're reimbursed on their next paycheque.

Rent-to-Own (RTO) Purchase Credits

Judy discovered that purchase credits are recorded in the deposit liability account as part of the "Accounts payable and accruals" account. Since the program's inception, four tenants have forfeited a portion of their purchase credits due to unpaid rent, and several other tenants have moved out. The non-refundable portion of these forfeitures has not been accounted for.

Carter Apartment Building Funding

In late 2016, FRE received joint funding from the Ministry of Indigenous and Northern Affairs Canada and the Ministry of Housing for the Carter Apartment Building. The funding included a commercial mortgage guarantee, which enabled a 1.3% interest rate reduction, and grant funding of $200,000. Construction of the apartment building was completed on April 11, 2017, and tenants started moving in on May 1, 2017. Currently, 40 of the 46 apartments are occupied.

(CONTINUED ON PAGE 22)

APPENDIX V (continued)
ASSURANCE – ADDITIONAL INFORMATION

The funding ministries require an independent third party to provide a "Declaration" certifying that the following conditions have been met:

1. The $200,000 must only be used to fund construction of the Carter Apartment Building.

2. Three bids must be obtained for all construction budget items over $100,000, with the contract being awarded to the lowest bidder.

3. After May 1, 2017, occupancy, defined as rented apartments divided by total apartments, must be at least 80%.

4. At least 15% of apartments must be rented by Status First Nation members, as evidenced by a First Nations status card.

5. The grantee's public accounting firm will issue a report by February 15 of each year, indicating that the grantee has complied with the contract conditions for the previous calendar year.

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FINANCE ROLE
ADDITIONAL INFORMATION

(CONTINUED ON PAGE 25)

APPENDIX V
FINANCE – ADDITIONAL INFORMATION

Townhouse Rental

In order to help disadvantaged individuals in the Tangletree community, FRE is considering building its first townhouse rental complex of 20 units.

A $106,000 engineering study is required for the project, $44,000 of which has already been paid. The architect's design fee is expected to be $48,500. The team has found a suitable piece of land, which can be purchased for $390,000. As there are some leaky oil tanks on the property that require remediation, land decontamination will cost an estimated $274,000. Paving the parking lot will cost $140,000, and the per-unit construction cost is estimated at $147,000.

The following per-unit monthly costs have been estimated: building maintenance – $195; lawn and garden maintenance and snow removal – $100; and vandalism repairs – $85. Annual property taxes and utilities are estimated to be 2.21% of land and direct construction costs, including parking lot pavement costs. The parking lot will need repaving every 15 years, at a cost of $68,000.

The team forecasts 90% to 95% occupancy at an initial $1,380 monthly rent and a useful life of 40 to 50 years for the building, with the land annually increasing in value by 1.2%.

Vacant Land

In the last three years, the property acquisition team has purchased vacant land for speculative purposes or for future construction. Vacant land can generally be financed with a 35% mortgage.

Company Financing

FRE has a line of credit from a chartered bank that it occasionally uses, that has an interest rate of prime plus 3.2%. The bank has decided not to renew the line of credit. As they expect businesses to maximize their profits, none of the major banks were enthusiastic about FRE's business model. Therefore, the controller solicited offers for a replacement line of credit and has received the following two proposals.

(CONTINUED ON PAGE 26)

APPENDIX V (continued)
FINANCE – ADDITIONAL INFORMATION

Thedco Inc.

Facility:
- $2 million special line of credit.
- Will finance a maximum of $400,000 based on any two pieces of vacant land at 50% of the appraised value, over and above the special line of credit.

Fees:
- $130,000 setup fee.
- Borrower will cover the lender's legal fees.

Interest rate and security:
- Prime plus 2% for the first two years.
- Prime plus 2.6% in Years 3 through 5.
- Shareholder to provide an $800,000 personal guarantee.

Other terms:
- Cancellable by Thedco, on each anniversary date.

Conditions precedent:
- Personal net worth statement from shareholder.
- Annual audited financial statements, within 90 days of year end, plus quarterly reviewed financial statements.

Kanada Bank Term Summary

Facility:
- $2.2 million line of credit.

Fees:
- No initial fees.
- $40,000 annual renewal fee.

Interest terms and security:
- Prime plus 2.25% for five years.
- After Year 2, option to fix the interest rate at 4%.
- Second mortgages on all building properties owned by FRE.

Other requirements:
- Audited financial statements for the year ended September 30, 2017.
- Annual audited financial statements, within 90 days of year end.
- Cancellable if FRE defaults on any mortgages from any lender.

(CONTINUED ON PAGE 27)

APPENDIX V (continued)
FINANCE – ADDITIONAL INFORMATION

Tenant Financing

To allow more tenants to purchase apartments, FRE is considering two options other than the RTO:

1) In order for high-risk tenants to borrow at a significantly lower interest rate than they would typically obtain, FRE is considering guaranteeing tenants' third-party mortgage financing for up to 25 years. The guarantee is expected to reduce interest rates, on average, from 9% to 4% for these tenants. FRE would charge a yet-to-be-determined setup fee for the guarantee, paperwork would be simple, and the company would have recourse against the tenant if there was a guarantee call.

2) Another option is direct financing for the tenant via a secured mortgage for 95% of the unit value, to be repaid as a mortgage at 5% interest.

Rental Property Companies – Industry Statistics (2017)

Debt-to-equity ratio	4.3:1
Pre-tax income/equity	10.6%
Beta (β)	0.8
Expected return on market	9%
Average revenues	$75 million
Average assets (market value)	$400 million
Current prime rate	2.0%

(CONTINUED ON PAGE 28)

APPENDIX V (continued)
FINANCE – ADDITIONAL INFORMATION

Bates Foundation of America (BFA) Offer

An offer to finance has been received from BFA. This organization has a good reputation for philanthropy in the United States. However, it has recently been involved in controversial funding of genetically modified crops to help food shortages in an emerging-economy country.

The offer letter received from BFA is as follows:

Ms. Gloria Ferguson: September 10, 2017

BFA's board of trustees is intrigued by your innovative approach to social housing.

Here are our proposed terms, with an anticipated closing date of December 31, 2017.

Amount and form of investment:
- The amount will be between $9 million and $10 million Canadian, subject to due diligence procedures.
- New common shares will be issued to BFA.
- After the transaction, BFA will hold 45% of the common shares.

Special clauses and conditions:
A shareholders' agreement will be required, with the following mandatory clauses:
- There will be a maximum of five board seats, and BFA will appoint three of the five seats.
- BFA must approve all new share issues and any dividends.
- No tenants may be evicted without allowing 180 days for alternative dispute resolution.
- FRE must use environmentally safe products in all its operations.
- Within two years of closing, FRE must invest $2 million Canadian in U.S. housing initiatives approved by BFA. If not, the shares will be retractable, for the original amount, by the investor.

Conditions precedent:
- Receipt of audited September 30, 2017, financial statements.
- Due diligence, in a manner to be discussed with FRE.

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PERFORMANCE MANAGEMENT ROLE
ADDITIONAL INFORMATION

(CONTINUED ON PAGE 31)

APPENDIX V
PERFORMANCE MANAGEMENT – ADDITIONAL INFORMATION

Systems

The company uses an off-the-shelf property management accounting system. The accounting department is generally pleased with the system. Although the system has ad hoc reporting capability, management has only been receiving quarterly statements of operations from accounting. One of the property managers has asked for more information to help manage operations, but has not asked for anything specific. At management meetings, Gloria often asks for a status report, and management has only reported on revenue and profit.

Other Activities

In late 2016, FRE received joint funding from the Ministry of Indigenous and Northern Affairs Canada and the Ministry of Housing to build the Carter Apartment. The complex was built specifically to assist Status First Nation members with their housing needs. In 2017, funding was received from the City of Bluebell to upgrade three FRE complexes to better accommodate handicapped tenants. FRE is currently considering whether to build its first townhouse rental complex of 20 units to help disadvantaged individuals in the Tangletree community.

On August 17, 2017, several employees of an FRE contractor were severely injured in a workplace accident at the Orpington property, and this incident received a lot of negative press coverage. Although FRE was found to not be negligent, vacated apartments remain empty.

The property acquisition team has considered purchasing additional vacant land for speculative purposes or for future construction and will finance 35% of the purchase with a mortgage.

The VP Acquisitions, Construction & Maintenance has presented a confidential plan to cut maintenance costs through outsourcing. Outsourcing would eliminate nearly all of the Repairs and Maintenance line on the income statement. Within the Repairs and Maintenance expense are: salaries for the maintenance manager and all his related staff; external contractors; maintenance van costs; and maintenance parts and supplies.

(CONTINUED ON PAGE 32)

APPENDIX V (continued)
PERFORMANCE MANAGEMENT – ADDITIONAL INFORMATION

The main points of the outsourcing plan are as follows:

- Terminate the 11 unionized workers at an average termination cost of $21,300 per employee, as per the terms of the Collective Bargaining Agreement, while retaining the maintenance manager, who is paid $99,960, and his assistant, who is paid $33,930.
- Sell the 12 maintenance vans for about $12,000 each, and other maintenance tools and equipment for an estimated $40,000.
- Issue a request for proposal for all of FRE's maintenance services, with detailed requirements and service levels. The contractor can bill for parts and supplies with a 10% markup on their cost.

The VP Acquisitions, Construction & Maintenance believes that, even with the markup, the cost of the parts and supplies will be less than what FRE currently pays. Three companies have expressed interest in bidding. Two of them have an excellent network of skilled tradespeople.

The VP Acquisitions, Construction & Maintenance believes annual bids will come in at $850,000, but Judy is concerned the bids could come in as high as $1.05 million.

The maintenance department's total cost for fiscal 2017, year to date, included a $48,000 one-time refund for a contract cancellation, plus maintenance parts and supplies of $154,822.

Although strikes by similar unions in nearby cities have become more common in the past 18 months, FRE's unionized employees have never been on strike. These employees are not overly busy and are regularly seen taking long breaks, resulting in repair work taking longer than scheduled. Because the jobs get done eventually and FRE wishes to avoid conflict with the union, FRE has not disciplined these employees.

(CONTINUED ON PAGE 33)

APPENDIX V (continued)
PERFORMANCE MANAGEMENT – ADDITIONAL INFORMATION

Management Incentives

The maintenance manager, property managers, and superintendents are eligible for two different bonuses. If FRE achieves a 3% pre-tax return on sales, the first bonus is equal to 6% of salary.

The following managers are eligible for a second bonus worth 3% of their salary:

- The maintenance manager can earn his second bonus if 12 specific objectives are met. For example, heating or air conditioning failures must be less than six hours in length, and the maintenance manager must hire at least one company tenant. [Because one of the objectives was not achieved, the maintenance manager has not received the second bonus for the past two years.]

- Despite having little control over the rent charged, property managers are expected to run their buildings efficiently and maximize rental revenue. They are rewarded their second bonus based on rent earned in the year versus budgeted rental income.

- There is one superintendent at each building who is responsible for dealing with tenants, such as welcoming new tenants, ensuring that rules are adhered to, dealing with tenant complaints, and making minor repairs. Superintendents earn their second bonus if head office receives no tenant complaints.

During 2017, a property manager was disciplined for moving friends into a unit ahead of those who had been on the waiting list longer than them. FRE does not approve of this practice; however, this manager was still awarded his bonus.

(CONTINUED ON PAGE 34)

APPENDIX V (continued)
PERFORMANCE MANAGEMENT – ADDITIONAL INFORMATION

Board Composition

FRE's board of directors consists of six people, including Gloria. Two are Gloria's friends – one is a retired elementary school teacher and the other has never been employed but sits on a local charity board with Gloria. The other directors are a business lawyer, a retailer who owns three stores in Prince Joel, and Gloria's uncle, a retired assistant fire chief.

The board meets quarterly to discuss customer service and quarterly income statements. The board meets annually to approve the annual financial statements, ensure that fire safety regulations are met, approve new projects that Gloria introduces, and occasionally resolve any legal issues that might arise. As Gloria is the sole shareholder and FRE has been successful to date, the board has yet to question any of Gloria's proposed projects. Also, because actuals have generally been close to projections, discussion of the financial statements has always been brief.

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TAXATION ROLE
ADDITIONAL INFORMATION

(CONTINUED ON PAGE 37)

APPENDIX V
TAXATION – ADDITIONAL INFORMATION

Tax Rate Information

FRE's provincial tax rate is 4% on income eligible for the federal small business deduction and 12% on all other income. In 2016, the company's taxable income was $383,233, and the ending balance in the capital dividend account was $17,500. FRE also had refundable dividend tax on hand (RDTOH) of $5,000 and capital loss carryforwards of $35,000 at the end of its 2016 taxation year. Assume that Gloria's personal provincial tax is equal to 50% of her federal tax.

Background Information on Gloria

Gloria is currently paid a salary of $20,000 per year by the company and takes dividends for the balance of her cash needs. In the 2015 and 2016 calendar years, FRE paid dividends to Gloria of $84,000 and $71,000, respectively. FRE declares and pays dividends each September. The 2017 dividends, if any, are yet to be determined. Gloria currently earns about $80,000 annually in personal net rental income and interest on fixed-income securities.

Gloria does not have any ownership interest in any other corporations. She is 61 years old, is single, and has no dependents.

In 2017, Gloria had significant expenses for knee surgery performed in a private clinic. FRE paid the $48,000 that was not covered by the company's employee health plan. Gloria will need surgery on the other knee in 2018, which will cost approximately the same amount.

FRE recently purchased a car for Gloria to use personally, which cost $41,500, including taxes. As the payroll manager believes the car has a useful life of about 10 years and no residual value, 1/120th of the car's value, representing each month's benefit, is included on Gloria's T4.

Fish Street Property

In 2002, Gloria purchased an apartment building on Fish Street in Prince Joel, for $842,000. The land was included in the purchase price. The land was, and is, valued at 20% of the property's value. Capital improvements to date have been $152,000, consisting of a large addition to the front entrance. At the end of 2016, the UCC of the building was $627,842. Gloria wants to know the tax implications, both to herself and to FRE, of selling the property to the company for $1 million in cash. The market value is $1.4 million, but she wants to give the company a good price.

(CONTINUED ON PAGE 38)

APPENDIX V (continued)
TAXATION – ADDITIONAL INFORMATION

2015 Ajax Property Sale

In 2007, FRE purchased the land for the Ajax property for $804,000. Interest of $11,000 was capitalized on the land before the apartment building was built in the same tax year, at a cost of $2.6 million. No improvements were made to the building after acquisition. In the taxation year ending September 30, 2015, the property was sold to a third party for net proceeds of $2.4 million. At that time, the UCC was $1,840,000. The agreement of purchase and sale allocated 60% of the value to the building and 40% to the land, resulting in the following capital gain and terminal loss:

	Land	Building	Total
Proceeds	$ 960,000	$ 1,440,000	$ 2,400,000
	40%	60%	
Cost/UCC	804,000	1,840,000	
Capitalized interest	11,000	-	
	815,000	1,840,000	
Capital gain/(terminal loss)	$ 145,000	$ (400,000)	
Taxable capital gain added on T2 Schedule 1	$ 72,500		
Terminal loss deducted on T2 Schedule 1		$ 400,000	

In addition to questioning the treatment above, Judy discovered that FRE forgot to add back amortization on Schedule 1 of the tax return for 2015. The 2015 return was assessed by the CRA on August 17, 2016. Judy hopes she can correct both issues at once and wants to know how to do so.

Stock Option Plan

Management has proposed a stock option plan for key employees and is willing to change the terms if necessary. At the date the options are issued, the exercise price will be half of the fair value of the company's shares, divided by the number of outstanding shares. The fair value will be determined as 1.25 times the company's forecasted annual revenue for the subsequent year. Judy believes this is a reasonable valuation method, as it is commonly used for valuing private companies. When they leave the company, employees will forfeit their unexercised stock options.

Welzer Property Exchange

At the time the Dogwood building was exchanged, its UCC was $1,345,829. Judy initially considered the Blain River property received to be a replacement property and, therefore, reported no income tax implications.

(CONTINUED ON PAGE 39)

APPENDIX V (continued)
TAXATION – ADDITIONAL INFORMATION

Bates Foundation of America (BFA) Offer

An offer to finance has been received from BFA. BFA is not a resident of Canada. It has a good reputation for philanthropy in the United States. The offer letter is as follows:

Ms. Gloria Ferguson: September 10, 2017

BFA's board of trustees is intrigued by your innovative approach to social housing.

Here are our proposed terms, with an anticipated closing date of December 31, 2017.

Amount and form of investment:
- The amount will be between $9 million and $10 million Canadian, subject to due diligence procedures.
- New common shares will be issued to BFA from the treasury.
- After the transaction, BFA will hold 45% of the common shares.

Special clauses and conditions:
A shareholders' agreement will be required, with the following mandatory clauses:
- There will be a maximum of five board seats, and BFA will appoint three of the five seats.
- BFA must approve all new share issues and any dividends.
- FRE must use environmentally safe products in all its operations.

Aguila Bates, President
Bates Foundation of America
Pittsburgh, PA, USA

BFA is Proudly American

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End of Exam

(CONTINUED ON PAGE 41)

CPA COMMON FINAL EXAMINATION REFERENCE SCHEDULE

1. PRESENT VALUE OF TAX SHIELD FOR AMORTIZABLE ASSETS

Present Value of Total Tax Shield from CCA for a New Asset

$$= \frac{CTd}{(d+k)}\left(\frac{2+k}{2(1+k)}\right) = \frac{CdT}{(d+k)}\left(\frac{1+0.5k}{1+k}\right)$$

Notation for above formula:

C = net initial investment
T = corporate tax rate
k = discount rate or time value of money
d = maximum rate of capital cost allowance

2. SELECTED PRESCRIBED AUTOMOBILE AMOUNTS

	2016	**2017**
Maximum depreciable cost — Class 10.1	$30,000 + sales tax	$30,000 + sales tax
Maximum monthly deductible lease cost	$800 + sales tax	$800 + sales tax
Maximum monthly deductible interest cost	$300	$300
Operating cost benefit — employee	26¢ per km of personal use	25¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	54¢ per km	54¢ per km
— balance	48¢ per km	48¢ per km

3. INDIVIDUAL FEDERAL INCOME TAX RATES

For 2016

If taxable income is between			Tax on base amount	Tax on excess
$0	and	$45,282	$0	15%
$45,283	and	$90,563	$6,792	20.5%
$90,564	and	$140,388	$16,075	26%
$140,389	and	$200,000	$29,029	29%
$200,001	and	any amount	$46,316	33%

For 2017

If taxable income is between			Tax on base amount	Tax on excess
$0	and	$45,916	$0	15%
$45,917	and	$91,831	$6,887	20.5%
$91,832	and	$142,353	$16,300	26%
$142,354	and	$202,800	$29,436	29%
$202,801	and	any amount	$46,965	33%

(CONTINUED ON PAGE 42)

4. SELECTED INDEXED AMOUNTS FOR PURPOSES OF COMPUTING INCOME TAX

Personal tax credits are a maximum of 15% of the following amounts:

	2016	**2017**
Basic personal amount	$11,474	$11,635
Spouse, common-law partner, or eligible dependant amount	11,474	11,635
Age amount if 65 or over in the year	7,125	7,225
Net income threshold for age amount	35,927	36,430
Canada employment amount	1,161	1,178
Disability amount	8,001	8,113
Infirm dependants 18 & over	6,788	6,883
Net income threshold for infirm dependants 18 & over	6,807	6,902
Adoption expense credit limit	15,453	15,670

Other indexed amounts are as follows:

	2016	**2017**
Medical expense tax credit — 3% of net income ceiling	$2,237	$2,268
Annual TFSA dollar limit	5,500	5,500
RRSP dollar limit	25,370	26,010
Lifetime capital gains exemption on qualified small business corporation shares	824,176	835,716

5. PRESCRIBED INTEREST RATES (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2017	1	1	1	
2016	1	1	1	1
2015	1	1	1	1

This is the rate used for taxable benefits for employees and shareholders, low-interest loans, and other related-party transactions. The rate is 4 percentage points higher for late or deficient income tax payments and unremitted withholdings. The rate is 2 percentage points higher for tax refunds to taxpayers, with the exception of corporations, for which the base rate is used.

(CONCLUDED ON PAGE 43)

6. MAXIMUM CAPITAL COST ALLOWANCE RATES FOR SELECTED CLASSES

Class 1………………………………	4%	for all buildings except those below
Class 1………………………………	6%	for non-residential buildings acquired for first use after March 18, 2007
Class 1………………………………	10%	for manufacturing and processing buildings acquired for first use after March 18, 2007
Class 8………………………………	20%	
Class 10……………………………..	30%	
Class 10.1…………………………...	30%	
Class 12……………………………..	100%	
Class 13……………………………..	Original lease period plus one renewal period (minimum 5 years and maximum 40 years)	
Class 14……………………………..	Length of life of property	
Class 14.1	5%	For property acquired after December 31, 2016
Class 17……………………………..	8%	
Class 29……………………………..	50%	Straight-line
Class 43……………………………..	30%	
Class 44……………………………..	25%	
Class 45……………………………..	45%	
Class 50……………………………..	55%	
Class 53……………………………..	50%	

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