

Shalem Society for Senior Citizens' Care

Auditor's Report and Financial Statements

December 31, 2019

Independent Auditor's Report

To: The Members of Shalem Society for Senior Citizens' Care

Qualified Opinion

I have audited the financial statements of **Shalem Society for Senior Citizens' Care (the Society)**, which comprise the statement of financial position as at December 31, 2019 and the statements of operations and change in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of my report, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at December 31, 2019, 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.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the Society derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, my audit of these revenues was limited to the amounts recorded in the records of the Society and I was not able to determine whether any adjustments might be necessary to donation revenues, deficiency of revenue over expenses, current assets and deficiency of assets over liabilities.

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Society in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the Society'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 Society's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Society to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Calgary, Alberta
May 12, 2020

Shahid Naqi Professional Corporation

Shahid Naqi Professional Corporation
Chartered Professional Accountant

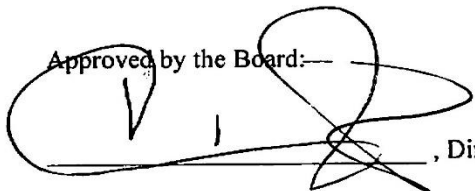
Shalem Society for Senior Citizens' Care

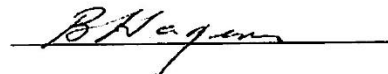
Statement of Financial Position

December 31, 2019

	<u>2019</u>	<u>2018</u>
Assets		
Current		
Cash (note 3)	\$364,667	\$1,809,476
Amounts due from residents	14,501	10,083
Goods and Services Tax recoverable	111,080	19,908
Prepaid expenses	34,798	33,001
	<u>525,046</u>	<u>1,872,468</u>
Non-current		
Long term receivable	-	25,104
Property and equipment (note 4)	13,538,449	12,113,955
	<u>13,538,449</u>	<u>12,139,059</u>
	<u>\$14,063,495</u>	<u>\$14,011,527</u>
 Liabilities		
Current		
Operating loan (note 3)	\$305,852	\$ -
Accounts payable and accrued liabilities	163,052	255,379
Security deposits	55,500	53,756
	<u>524,404</u>	<u>309,135</u>
Non-current		
Liability for life leases (note 5)	8,962,375	8,868,910
Deferred capital contributions (note 6)	5,815,781	5,850,246
	<u>14,778,156</u>	<u>14,719,156</u>
	<u>15,302,560</u>	<u>15,028,291</u>
 Deficiency of assets over liabilities	 (1,239,065)	 (1,016,764)
	<u>\$14,063,495</u>	<u>\$14,011,527</u>

Approved by the Board: _____

 _____, Director

 _____, Director

Shalem Society for Senior Citizens' Care

Statement of Operations and Change in Net Assets

Year ended December 31, 2019

	2019	2018
Revenue		
Rent and occupancy costs	\$1,709,898	\$1,690,583
Dining room, cable, parking and laundry	243,165	240,402
Amortization of deferred capital contributions	176,178	166,730
Life lease	79,988	60,413
Donations	21,590	27,768
Interest and other	8,600	14,328
Memberships	5,947	6,983
	2,245,366	2,207,207
Expenses		
Direct		
Food services	416,212	388,722
Resident services	152,941	138,666
Housekeeping	121,166	124,930
Recreation	64,434	48,137
Facilities and operations		
Amortization	472,482	446,399
Utilities	329,423	308,589
Repairs and maintenance	311,078	305,419
Property taxes	71,281	71,018
Life lease suite refurbishment and legal costs	62,488	87,250
Insurance	61,302	63,735
Administration		
Salaries and benefits	195,009	181,620
Employee benefits and payroll processing	124,890	128,654
Office and other	70,908	56,091
Professional fees	14,053	19,493
	2,467,667	2,368,723
Deficiency of revenue over expenses	(222,301)	(161,516)
Deficiency of assets over liabilities, start of year	(1,016,764)	(855,248)
Deficiency of assets over liabilities, end of year	\$(1,239,065)	\$(1,016,764)

Shalem Society for Senior Citizens' Care

Statement of Cash Flows

Year ended December 31, 2019

	<u>2019</u>	<u>2018</u>
Operating activities		
Deficiency of revenue over expenses	\$(222,301)	\$(161,516)
Non-cash items		
Amortization	472,482	446,399
Amortization of deferred capital contributions	(176,178)	(166,730)
Life lease income	(79,988)	(60,413)
	<u>(5,985)</u>	<u>57,740</u>
Changes in working capital		
Amounts due from residents	(4,418)	(1,856)
Goods and Services Tax recoverable	(91,172)	(7,942)
Prepaid expenses	(1,797)	8,491
Accounts payable and accrued liabilities	33,073	14,998
Security deposits	1,744	(28)
	<u>(68,555)</u>	<u>71,403</u>
Investing activity		
Building renovations	(1,896,976)	(135,186)
	<u>(1,896,976)</u>	<u>(135,186)</u>
Financing activities		
Operating loan	305,852	-
Donations for building renovations	141,713	-
Repayments on note receivable	25,104	2,280
Alberta Seniors and Housing grant	-	58,835
Life leases sold	1,066,500	805,500
Life leases purchased	(1,018,447)	(971,493)
	<u>520,722</u>	<u>(104,878)</u>
Decrease in cash	(1,444,809)	(168,661)
Cash, start of year	1,809,476	1,978,137
Cash, end of year	<u>\$364,667</u>	<u>\$1,809,476</u>

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2019

1. Organization:

Shalem Society for Senior Citizens' Care (the Society) is incorporated under the Societies Act to enhance the physical and spiritual well-being of senior citizens. The Society has developed an aging in place community of residential, social and dining facilities and offers rental accommodation in 43 supported independent living suites (Shalem Haven), 50 subsidized independent living suites (Shalem Manor), and, under life lease arrangements, 50 larger suites (Shalem Court).

As a not-for-profit organization the Society is exempt from income taxes; it may claim a rebate of one half on operating expenses and all on capital expenditures of the Goods and Services Tax that it pays and, as a registered charity, issue tax receipts for donations received.

2. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations using the significant accounting policies summarized below.

The preparation of financial statements under Canadian accounting standards for not-for-profit organizations requires the use of assumptions and estimates affecting the amounts reported. Actual results may differ from these estimates.

i. Revenue recognition:

The Society recognizes revenue as follows:

Rent and occupancy costs	in the month to which they relate;
Dining room	as the service is provided;
Unrestricted donations	when received;
Donations restricted by donors as to their use	when the related expenses are incurred;
Donations and grants restricted to the purchase or construction of property or equipment	recorded as deferred capital contributions and recognized as revenue as the property or equipment is amortized;
Life leases	on the closing of the life lease sale.

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2019

2. Significant accounting policies (continued):

ii. Property and equipment:

These are recorded at cost. Amortization is provided at rates expected to reduce the cost of the asset to its expected salvage value over its estimated useful life as follows:

Furniture and equipment	15 years	straight-line
Buildings and land improvements	20-50 years	straight-line

iii. Contributed services:

The Society benefits from volunteer time and services, the value of these contributions is not recognized in these financial statements.

iv. Cash:

Cash comprises daily interest accounts.

v. Financial instruments:

Financial assets and liabilities are initially recorded at fair value. Subsequently, the Society measures accounts receivable and accounts payable at amortized cost. The carrying costs of the financial assets and liabilities approximate their fair value as they have short terms to maturity.

3. Cash and credit facilities:

Cash includes \$55,500 (2018 - \$74,996) restricted for the repayment of deposits.

The Society has a \$500,000 limit on its operating loan, which bears interest at prime plus 1.50% and is secured by a mortgage on Shalem Haven (carrying value \$6,869,476) and by a General Security Agreement on all its assets.

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2019

4. Property and equipment:

	2019			2018
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$767,400	\$ -	\$767,400	\$767,400
Land improvements	494,886	201,478	293,408	313,203
Buildings	17,936,590	5,535,221	12,401,369	10,977,099
Equipment	620,096	543,824	76,272	56,253
	\$19,818,972	\$6,280,523	\$13,538,449	\$12,113,955

5. Liability for life leases:

Life leases on Shalem Court units are sold for 90% of the value assessed for property taxes, allowing the purchaser or surviving spouse to reside in the unit for life. The resident pays the applicable operating costs and property taxes and may, upon 90 days' notice, sell the unit back to the Society for 92.5% (95% for older leases) of the original purchase price. The Society recognizes income of 7.5% on each sale.

While the Society is liable to buy back life leases upon 90 days' notice it is unlikely, on the basis of past experience, that the purchase of a material number of units will be required in the next year.

Life lease transactions in the year were:

	2019		2018	
	Units	Liability	Units	Liability
Balance, start of year		\$8,868,910		\$9,220,716
Life leases bought back	5	(893,048)	7	(1,096,894)
New life lease sales	6	986,513	4	745,088
Balance, end of year		\$8,962,375		\$8,868,910
Gross income		\$79,988		\$60,413
Renovation and legal costs		(62,488)		(87,250)
		\$17,500		\$(26,837)

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2019

6. Deferred capital contributions:

Assistance received for the construction or renovation of the Society's buildings are recorded as deferred capital contributions and amortized to income at the same rate as that building is being amortized.

	<u>2019</u>	<u>2018</u>
Balance, start of year	\$5,850,246	\$5,958,141
Received in the year:		
Donations	141,713	-
Alberta Social Housing Corporation	-	58,835
	<u>5,991,959</u>	<u>6,016,976</u>
Amortized in year	(176,178)	(166,730)
Balance, end of year	<u><u>\$5,815,781</u></u>	<u><u>\$5,850,246</u></u>

7. Financial instrument risk management:

The Society is exposed to various risks through its financial instruments and manages these risks with the objective of reducing volatility in its cash flows.

The principal risks are:

Cash	Credit risk and interest rate risk
Accounts receivable	Credit risk
Accounts payable	Liquidity risk

Credit risk and interest rate risk:

Credit risk is the possibility that counter parties may default on their financial obligations.

The Society's year end cash of \$364,667 was guaranteed by the Credit Union Deposit Guarantee Corporation. The rent credit risk is managed by screening tenants and by a timely follow up of late payments.

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2019

7. Financial instrument risk management (continued):

Liquidity risk:

The risk that the Society will not be able to meet its cash requirements or be able to liquidate its assets in a timely manner at reasonable prices is managed by preparing annual budgets, setting rents and cost recoveries at levels sufficient to pay expenses on a timely basis.

8. Capital disclosures:

The Society defines capital as the sum of its deficiency of assets over liabilities and its deferred capital contributions and prices its programs to recover their cash costs and nearly all of their total costs so as to preserve its capital and withstand unexpected financial events.