

Shalem Society for Senior Citizens' Care

Auditor's Report and Financial Statements

December 31, 2016

Independent Auditor's Report

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

I have audited the accompanying financial statements of **Shalem Society for Senior Citizens' Care**, which comprise the statement of financial position as at December 31, 2016 and the statements of operations and change 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of **Shalem Society for Senior Citizens' Care** as at December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other Matter

The financial statements for the year ended December 31, 2015 were audited by another firm of Chartered Accountants who expressed an unqualified opinion on April 27, 2016.

Calgary, Alberta
March 10, 2017

Chartered Accountant

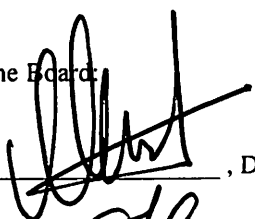
Shalem Society for Senior Citizens' Care

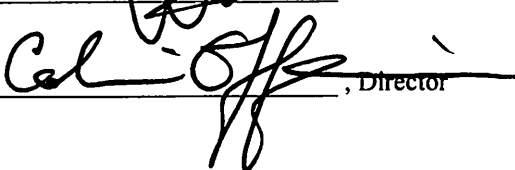
Statement of Financial Position

December 31, 2016

	<u>2016</u>	<u>2015</u>
Assets		
Current		
Cash (note 3)	\$1,291,304	\$863,026
Term deposits maturing within one year (note 3)	89,608	216,915
Accounts receivable	5,284	78,924
Prepaid expenses	58,306	67,194
	<u>1,444,502</u>	<u>1,226,059</u>
Non-current		
Long-term receivable (note 4)	29,513	31,502
Property and equipment (note 5)	12,769,887	13,170,003
	<u>\$14,243,902</u>	<u>\$14,427,564</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$144,631	\$154,954
Deposits	53,611	69,584
Bank loan (note 6)	-	1,000,000
Current portion of mortgage payable (note 6)	-	102,478
	<u>198,242</u>	<u>1,327,016</u>
Non-current		
Liability for life leases (note 7)	8,705,985	8,729,525
Deferred capital contributions (note 8)	6,030,706	4,894,436
	<u>14,736,691</u>	<u>13,623,961</u>
Excess of liabilities over assets		
Net assets	<u>(691,031)</u>	<u>(523,413)</u>
	<u>\$14,243,902</u>	<u>\$14,427,564</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, 2016

	2016	2015
Revenue		
Rent and cost recoveries	\$1,668,097	\$1,481,915
Amortization of deferred capital contributions	163,730	129,368
Dining room	71,597	66,717
CMHC subsidy	33,377	44,502
Donations	14,961	47,907
Interest	10,728	10,019
Life lease	8,833	57,913
Memberships	5,670	1,525
	<u>1,976,993</u>	<u>1,839,866</u>
Expenses		
Direct		
Food services	459,084	354,168
Housekeeping	134,891	130,698
Recreation	54,880	40,511
Facilities and operations		
Amortization	440,874	440,886
Utilities	278,948	244,616
Repairs and maintenance	236,068	378,894
Property taxes	75,429	50,361
Insurance	39,331	25,687
Administration		
Salaries and benefits	310,824	338,986
Professional fees	47,591	75,952
Office and other	43,410	63,561
Interest on long-term debt	23,281	46,069
	<u>2,144,611</u>	<u>2,190,389</u>
Deficiency of revenue over expenses	(167,618)	(350,523)
Net assets, start of year	(523,413)	(172,890)
Net assets, end of year	<u>\$(691,031)</u>	<u>\$(523,413)</u>

Shalem Society for Senior Citizens' Care

Statement of Cash Flows

Year ended December 31, 2016

	2016	2015
Operating activities		
Rent and other income	\$1,863,363	\$1,603,889
Operating expenses	(1,735,666)	(1,807,035)
Deposits received (repaid), net	(15,973)	12,404
	<u>111,724</u>	<u>(190,742)</u>
Investing activities		
Purchase of capital assets	(40,758)	(37,364)
	<u>(40,758)</u>	<u>(37,364)</u>
Financing activities		
Term deposits redeemed (placed)	127,307	(155,080)
Repayments on note receivable	1,989	1,858
Alberta Seniors and Housing grant	1,300,000	-
Life leases sold	720,450	1,756,476
Life leases purchased	(689,956)	(1,305,094)
Bank loan repaid	(1,000,000)	-
Mortgage repaid	(102,478)	(134,150)
	<u>357,312</u>	<u>164,010</u>
Increase (decrease) in cash	428,278	(64,096)
Cash, start of year	863,026	927,122
Cash, end of year	<u>\$1,291,304</u>	<u>\$863,026</u>

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2016

1. Organization:

Shalem Society for Senior Citizens' Care (the Society) is incorporated under the Societies Act of Alberta to enhance the well-being, both physical and spiritual, of senior citizens. The Society offers 43 supported independent living (Shalem Haven) and 50 subsidized independent living (Shalem Manor) suites for rent, and, under life leases, 50 larger suites (Shalem Court). The three projects form a campus allowing residents to age in place.

The Society owns all the units, subject to the rights of the life lessees, in Shalem Court, a condominium.

As a not-for-profit organization the Society is not taxed and no provision for income taxes has been made in these financial statements. The Society may claim one half of the Goods and Services Tax it pays and, as a registered charity, issues tax receipts for donations received.

2. Significant accounting policies:

The Society has an elected Board of Directors who had these financial statements prepared in accordance with Canadian accounting standards for not-for-profit organizations within reasonable limits of materiality using the accounting policies summarized below.

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

i. Revenue recognition:

Rent and cost recoveries are recorded as income on the first day of each month. Interest is accrued daily. Dining room receipts and unrestricted donations are recorded as income when received. Donations restricted as to their use are deferred and recognized as revenue when the related expenses are incurred.

Donations and grants externally restricted for the construction or purchase of property or equipment are recorded as deferred capital contributions and recognized as revenue as the property or equipment is amortized.

Life lease revenue is recognized as income upon the receipt of the life lease proceeds.

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

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2016

2. Significant accounting policies (continued):

iii. Contributed services:

Volunteers carry out many activities for the Society. As the fair value of contributed services cannot be easily determined, they are not recorded in these financial statements.

iv. Cash and term deposits:

Cash comprises daily interest accounts. Term deposits are guaranteed investment certificates.

v. Financial instruments:

Financial assets and liabilities are initially recorded at fair value. Subsequently, the Society measures term deposits, accounts receivable, accounts payable and the bank loans 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, term deposits and credit facilities:

The cash balance has been reduced by the amounts drawn on the lines of credit - \$45,821 on December 31, 2016 and \$582,795 on December 31, 2015.

The Society has two lines of credit of \$500,000 each; the first to provide working capital and the second to fund life lease buy-backs. These lines of credit bear interest at the Bank's prime rate (2.70% at December 31, 2016) plus 1.50% and are secured by a mortgage on the Shalem Haven property (carrying value \$7,478,617 at December 31, 2016) and by a General Security Agreement on all assets of the Society.

Cash includes \$69,584 (\$53,611) restricted for the repayment of deposits. Included in the term deposits is one for \$63,814 which has been pledged as security for a letter of credit in the amount of \$49,700.

4. Long-term receivable:

This is a note receivable from a resident bearing interest at 6.85%; repayable in blended monthly instalments of \$340 to its maturity in December 2026.

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2016

5. Property and equipment:

	2016			2015
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$767,400	\$ -	\$767,400	\$767,400
Land improvements	446,051	143,069	302,982	320,824
Buildings	15,912,194	4,340,586	11,571,608	11,922,815
Equipment	562,329	434,432	127,897	158,964
	\$17,687,974	\$4,918,087	\$12,769,887	\$13,170,003

6. Bank loan and mortgage payable:

The bank loan with a December 31, 2015 balance of \$1,000,000, secured by a mortgage on Shalem Haven with interest at prime plus 1.50% and the CMHC mortgage on Shalem Manor with interest at 1.80% and blended monthly instalments of \$11,454 were paid off in the year.

7. Liability for life leases:

The Society enters into life lease arrangements for Shalem Court units whereby the lessee may sell the life lease back to the Society, at 90 days notice, for 92.50% (95% for older sales) of the original sale price. New sales are effected at the assessed value for property tax purposes. The Society recognizes gross income of 7.50% upon each sale.

Life lease transactions in the year are summarized as:

	2016		2015	
	Units	Liability	Units	Liability
Balance, start of year		\$8,729,525		\$8,384,752
Life leases bought back	4	(689,956)	9	(1,305,094)
New life lease sales	3	666,416	9	1,649,867
Balance, end of year		\$8,705,985		\$8,729,525
Gross income		\$54,034		\$106,609
Renovation and legal costs		(45,201)		(48,696)
		\$8,833		\$57,913

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2016

8. Deferred capital contributions:

Contributions received to assist in the construction of Shalem Haven have been recorded as deferred capital contributions which are then amortized and recorded as income over 40 years, the same rate as the Shalem Haven building is being amortized.

	<u>2016</u>	<u>2015</u>
Balance, start of year	\$4,894,436	\$5,023,805
Alberta Seniors and Housing grant	1,300,000	-
Amortized in year	(163,730)	(129,369)
Balance, end of year	<u><u>\$6,030,706</u></u>	<u><u>\$4,894,436</u></u>

9. 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 and term deposits	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.

Of the \$1,380,912 in cash and term deposits on December 31, 2016, \$200,000 was insured by the Canada Deposit Insurance Corporation. The credit risk in collecting rents is managed by screening tenants and by timely response to late payments.

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2016

9. Financial instrument risk management (continued):

Liquidity risk:

Liquidity risk is the risk that the Society will not be able to meet its cash requirements as they come due or be able to liquidate its assets in a timely manner at reasonable prices.

Liquidity risk is managed by the preparation of annual budgets, setting rents and cost recoveries sufficient to pay annual expenses on a timely basis and, through the use of daily interest bank accounts earning a return while maintaining liquidity.

The Society has arranged lines of credit for working capital and for funding life lease buy-backs.

10. Capital disclosures:

The Society defines capital as its net assets. The balance is maintained at levels sufficient to withstand unexpected financial events in order to maintain stability.

11. Comparative figures:

The comparative figures for 2015 have been reclassified to conform to the current year's presentation.