

**Shalem Society for Senior Citizens' Care**

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Auditor's Report and Financial Statements

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December 31, 2017

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## **Independent Auditor's Report**

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**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, 2017 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, 2017, 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.

Calgary, Alberta  
April 11, 2018



Chartered Accountant

## Shalem Society for Senior Citizens' Care

### Statement of Financial Position

December 31, 2017

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current</b>		
Cash (note 3)	\$1,978,137	\$1,291,304
Term deposits, maturing within one year	-	89,608
Accounts receivable	20,194	5,284
Prepaid expenses	41,492	58,306
	<u>2,039,823</u>	<u>1,444,502</u>
<b>Non-current</b>		
Long term receivable (note 4)	27,384	29,513
Property and equipment (note 5)	12,425,167	12,769,887
	<u>\$14,492,374</u>	<u>\$14,243,902</u>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$93,741	\$144,631
Deposits	75,024	53,611
	<u>168,765</u>	<u>198,242</u>
<b>Non-current</b>		
Liability for life leases (note 6)	9,220,716	8,705,985
Deferred capital contributions (note 7)	5,958,141	6,030,706
	<u>15,178,857</u>	<u>14,736,691</u>
<b>Deficiency of assets over liabilities</b>		
Net assets	(855,248)	(691,031)
	<u>\$14,492,374</u>	<u>\$14,243,902</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, 2017

	<b>2017</b>	<b>2016</b>
<b>Revenue</b>		
Rent and cost recoveries	\$1,833,605	\$1,668,097
Amortization of deferred capital contributions	163,730	163,730
Dining room	72,435	71,597
Life lease	30,687	8,833
Donations	22,271	14,961
Interest	13,252	10,728
Memberships	9,037	5,670
CMHC subsidy	-	33,377
	<b>2,145,017</b>	<b>1,976,993</b>
<b>Expenses</b>		
<b>Direct</b>		
Food services	423,867	459,084
Housekeeping	163,066	134,891
Recreation	56,410	54,880
<b>Facilities and operations</b>		
Amortization	443,556	440,874
Repairs and maintenance	345,717	236,068
Utilities	302,947	278,948
Property taxes	114,560	75,429
Insurance	35,567	39,331
<b>Administration</b>		
Salaries and benefits	345,377	310,824
Office and other	56,306	43,410
Professional fees	21,861	47,591
<b>Interest on long-term debt</b>	-	23,281
	<b>2,309,234</b>	<b>2,144,611</b>
<b>Deficiency of revenue over expenses</b>	<b>(164,217)</b>	<b>(167,618)</b>
Net assets, start of year	(691,031)	(523,413)
<b>Net assets, end of year</b>	<b>\$(855,248)</b>	<b>\$(691,031)</b>

## Shalem Society for Senior Citizens' Care

### Statement of Cash Flows

Year ended December 31, 2017

	<u>2017</u>	<u>2016</u>
<b>Operating activities</b>		
Rent and other income	\$1,891,038	\$1,863,363
Operating expenses	(1,923,689)	(1,735,666)
	<u>(32,651)</u>	<u>127,697</u>
<b>Investing activities</b>		
Building renovations	(50,000)	(40,758)
	<u>(50,000)</u>	<u>(40,758)</u>
<b>Financing activities</b>		
Investments redeemed	40,772	127,307
Deposits received (repaid), net	21,413	(15,973)
Repayments on note receivable	2,129	1,989
Alberta Seniors and Housing grant	91,165	1,300,000
Life leases sold	1,323,651	720,450
Life leases purchased	(709,646)	(689,956)
Bank loan and mortgage repaid	-	(1,102,478)
	<u>769,484</u>	<u>341,339</u>
<b>Increase in cash</b>	686,833	428,278
<b>Cash, start of year</b>	1,291,304	863,026
<b>Cash, end of year</b>	<u><u>\$1,978,137</u></u>	<u><u>\$1,291,304</u></u>

# Shalem Society for Senior Citizens' Care

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## Notes to Financial Statements

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December 31, 2017

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**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.

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

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### Notes to Financial Statements

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December 31, 2017

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**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:**

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:**

The Society has two lines of credit of \$500,000 each, for working capital needs and for life lease buy-backs, which bear interest at prime plus 1.50% and are secured by a mortgage on Shalem Haven (carrying value \$7,275,570) and by a General Security Agreement on all assets of the Society. At December 31, 2017 these lines were undrawn.

Cash includes \$75,024 (2016 - \$53,611) restricted for the repayment of deposits.

**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, 2017

#### 5. Property and equipment:

	2017			2016
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$767,400	\$ -	\$767,400	\$767,400
Land improvements	494,886	161,887	332,999	302,982
Buildings	15,962,194	4,729,501	11,232,693	11,571,608
Equipment	562,329	470,254	92,075	127,897
	<b>\$17,786,809</b>	<b>\$5,361,642</b>	<b>\$12,425,167</b>	<b>\$12,769,887</b>

#### 6. Liability for life leases:

The Society sells life lease arrangements on Shalem Court units at the assessed value for property taxes. The purchaser then occupies the unit, paying only the operating costs and property taxes for that unit and may, upon 90 days' notice, sell the unit back to the Society for 92.5% (95% for older sales) of their purchase price. The Society recognizes income, before expenses, of 7.50% upon each sale.

Life lease transactions in the year were:

	2017		2016	
	Units	Liability	Units	Liability
Balance, start of year		\$8,705,985		\$8,729,525
Life leases bought back	4	(709,645)	4	(689,956)
New life lease sales	6	1,224,376	3	666,416
<b>Balance, end of year</b>		<b>\$9,220,716</b>		<b>\$8,705,985</b>
Gross income		\$99,274		\$54,034
Renovation and legal costs		(68,587)		(45,201)
		<b>\$30,687</b>		<b>\$8,833</b>

## Shalem Society for Senior Citizens' Care

### Notes to Financial Statements

December 31, 2017

#### 7. **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.

In the year, a grant was received for windows replacement which will be amortized to income upon the completion of the project.

	<u>2017</u>	<u>2016</u>
<b>Balance, start of year</b>	\$6,030,706	\$4,894,436
Alberta Seniors and Housing grant	-	1,300,000
	<u>6,030,706</u>	<u>6,194,436</u>
Amortized in year	<b>(163,730)</b>	<b>(163,730)</b>
Alberta Social Housing Corporation	91,165	-
<b>Balance, end of year</b>	<b><u>\$5,958,141</u></b>	<b><u>\$6,030,706</u></b>

#### 8. **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.

Of the Society's \$1,978,137 in cash on December 31, 2017, \$100,000 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.

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### Notes to Financial Statements

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**8. 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.

**9. 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.