

Shalem Society for Senior Citizens' Care

Auditor's Report and Financial Statements

December 31, 2018

Independent Auditor's Report

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

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, 2018 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, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at December 31, 2018, 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 Opinion

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.

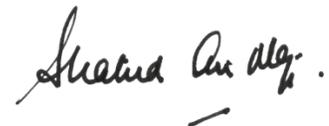
Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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
March 12, 2019



Chartered Professional Accountant,
Chartered Accountant

Shalem Society for Senior Citizens' Care

Statement of Financial Position

December 31, 2018

	<u>2018</u>	<u>2017</u>
Assets		
Current		
Cash (note 3)	\$1,809,476	\$1,978,137
Accounts receivable	29,991	20,194
Prepaid expenses	33,001	41,492
	<u>1,872,468</u>	<u>2,039,823</u>
Non-current		
Long term receivable (note 4)	25,104	27,384
Property and equipment (note 5)	12,113,955	12,425,167
	<u>12,139,059</u>	<u>12,452,551</u>
	<u>\$14,011,527</u>	<u>\$14,492,374</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$234,139	\$93,741
Deposits	74,996	75,024
	<u>309,135</u>	<u>168,765</u>
Non-current		
Liability for life leases (note 6)	8,868,910	9,220,716
Deferred capital contributions (note 7)	5,850,246	5,958,141
	<u>14,719,156</u>	<u>15,178,857</u>
	<u>15,028,291</u>	<u>15,347,622</u>
Deficiency of assets over liabilities	<u>(1,016,764)</u>	<u>(855,248)</u>
	<u>\$14,011,527</u>	<u>\$14,492,374</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, 2018

	2018	2017
Revenue		
Rent and cost recoveries	\$1,832,343	\$1,833,605
Amortization of deferred capital contributions	166,730	163,730
Dining room	98,642	72,435
Donations	27,768	22,271
Interest	14,328	13,252
Memberships	6,983	9,037
Life lease, net of renovations of \$87,250	(26,837)	30,687
	2,119,957	2,145,017
Expenses		
Direct		
Food services	404,565	423,867
Resident services	147,564	-
Housekeeping	132,021	163,066
Recreation	50,639	56,410
Facilities and operations		
Amortization	446,399	443,556
Repairs and maintenance	309,740	345,717
Utilities	308,589	302,947
Property taxes	71,018	114,560
Insurance	63,735	35,567
Administration		
Salaries and benefits	271,621	345,377
Office and other	56,089	56,306
Professional fees	19,493	21,861
	2,281,473	2,309,234
Deficiency of revenue over expenses	(161,516)	(164,217)
Deficiency of assets over liabilities, start of year	(855,248)	(691,031)
Deficiency of assets over liabilities, end of year	\$(1,016,764)	\$(855,248)

Shalem Society for Senior Citizens' Care

Statement of Cash Flows

Year ended December 31, 2018

	2018	2017
Operating activities		
Rent and other income	\$1,883,017	\$1,891,038
Operating expenses	(1,811,614)	(1,923,689)
	71,403	(32,651)
Investing activities		
Building renovations	(135,186)	(50,000)
	(135,186)	(50,000)
Financing activities		
Investments redeemed	-	40,772
Deposits received, net	-	21,413
Repayments on note receivable	2,280	2,129
Alberta Seniors and Housing grant	58,835	91,165
Life leases sold	805,500	1,323,651
Life leases purchased	(971,493)	(709,646)
	(104,878)	769,484
Increase (decrease) in cash	(168,661)	686,833
Cash, start of year	1,978,137	1,291,304
Cash, end of year	\$1,809,476	\$1,978,137

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2018

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 one half of the Goods and Services Tax 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 cost recoveries	in the month to which they relate;
Dining room	as collected;
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 lease arrangements	upon the closing of the life lease arrangement.

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2018

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 \$74,996 (2017 - \$75,024) restricted for the repayment of deposits.

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 \$7,072,523) and by a General Security Agreement on all assets of the Society. At December 31, 2018 these lines were undrawn.

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, 2018

5. Property and equipment:

	2018			2017
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$767,400	\$ -	\$767,400	\$767,400
Land improvements	494,886	181,683	313,203	332,999
Buildings	16,097,381	5,120,282	10,977,099	11,232,693
Equipment	562,330	506,077	56,253	92,075
	\$17,921,997	\$5,808,042	\$12,113,955	\$12,425,167

6. Liability for life leases:

The Society sells life lease arrangements on Shalem Court units at a price based on 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.

While the Society is liable to buy back life leases at any time it is unlikely that the purchase of a material number of units will be required in the next year.

Life lease transactions in the year were:

	2018		2017	
	Units	Liability	Units	Liability
Balance, start of year		\$9,220,716		\$8,705,985
Life leases bought back	7	(1,096,894)	4	(709,645)
New life lease sales	4	745,088	6	1,224,376
Balance, end of year		\$8,868,910		\$9,220,716
Gross income		\$60,413		\$99,274
Renovation and legal costs		(87,250)		(68,587)
		\$(26,837)		\$30,687

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2018

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.

	<u>2018</u>	<u>2017</u>
Balance, start of year	\$5,958,141	\$6,030,706
Received in the year, Alberta Social Housing Corporation	58,836	91,165
	<u>6,016,977</u>	<u>6,121,871</u>
Amortized in year	(166,730)	(163,730)
Balance, end of year	<u><u>\$5,850,247</u></u>	<u><u>\$5,958,141</u></u>

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 \$1,809,476 in cash on December 31, 2018, \$100,000 was insured by the Canada Deposit Insurance Corporation. The credit risk in collecting rents is managed by screening tenants and by a timely response to late payments.

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2018

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, earn a return while maintaining liquidity.

The Society maintains adequate cash balances to perform scheduled major repairs and to buy back life leases and has arranged lines of credit for additional liquidity.

9. Capital disclosures:

The Society defines capital as the deficiency of assets over liabilities. The Society's programs are priced to recover their cash costs and nearly all of the total costs with a view to preserving capital, withstanding unexpected financial events and maintaining stability.