

Shalem Society for Senior Citizens' Care

Auditor's Report and Financial Statements

December 31, 2020

Independent Auditor's Report

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

Qualified Opinion

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 **Shalem Society for Senior Citizens' Care (the Society)** as at December 31, 2020, 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.

I have audited

The Society's financial statements comprise:

- the statement of financial position as at **December 31, 2020**;
- the statement of operations and change in deficiency of assets over liabilities for the year then ended;
- the statement of cash flows for the year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

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

Independence

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.

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 25, 2021

Shahid Naqi Professional Corporation

Shahid Naqi Professional Corporation
Chartered Professional Accountant

Shalem Society for Senior Citizens' Care

Statement of Financial Position

December 31, 2020

	2020	2019
<u>Assets</u>		
Current		
Cash (note 3)	\$285,203	\$364,667
Amounts due from residents	11,229	14,501
Goods and Services Tax recoverable	25,270	111,080
Prepaid expenses	37,615	34,798
	359,317	525,046
Non-current		
Property and equipment (note 4)	13,516,728	13,538,449
	\$13,876,045	\$14,063,495
<u>Liabilities</u>		
Current		
Operating loan (note 3)	\$50,000	\$305,852
Accounts payable and accrued liabilities	97,777	163,052
Security deposits	49,510	55,500
Mortgage principal due within the next twelve months (note 5)	13,208	-
	210,495	524,404
Non-current		
Mortgage payable (note 5)	478,233	-
Life lease obligation (note 6)	9,041,028	8,962,375
Deferred capital contributions (note 7)	5,694,238	5,815,781
	15,213,499	14,778,156
	15,423,994	15,302,560
Deficiency of assets over liabilities	(1,547,949)	(1,239,065)
	\$13,876,045	\$14,063,495

Approved by the Board:

, Director

, Director

Shalem Society for Senior Citizens' Care**Statement of Operations and Change in Deficiency of Assets Over Liabilities**

Year ended December 31, 2020

	2020	2019
Revenue		
Rent and occupancy costs	\$1,669,817	\$1,709,898
Dining room, cable, parking and laundry	249,241	243,165
Amortization of deferred capital contributions	180,080	176,178
Life lease	79,770	79,988
Donations, unrestricted	34,207	21,590
Interest and other	8,827	8,600
Memberships	7,733	5,947
	2,229,675	2,245,366
Expenses		
Program		
Food services	446,872	416,212
Resident services	349,868	338,541
Facilities and operations		
Amortization	425,310	472,482
Utilities	310,989	329,423
Building and grounds	300,514	301,764
Property taxes	75,833	71,281
Insurance	64,558	61,302
Suite turnover costs, Court \$31,151 (2019 - \$62,488)	57,601	71,802
Administration		
Salaries and benefits	230,021	195,009
Employee benefits and payroll processing	148,878	124,890
Office and other	90,370	70,908
Professional fees	26,171	14,053
Mortgage interest	11,574	-
	2,538,559	2,467,667
Deficiency of revenue over expenses	(308,884)	(222,301)
Deficiency of assets over liabilities, start of year	(1,239,065)	(1,016,764)
Deficiency of assets over liabilities, end of year	\$(1,547,949)	\$(1,239,065)

Shalem Society for Senior Citizens' Care**Statement of Cash Flows**

Year ended December 31, 2020

	2020	2019
Operating activities		
Deficiency of revenue over expenses	\$(308,884)	\$(222,301)
Non-cash items		
Amortization	425,310	472,482
Amortization of deferred capital contributions	(180,080)	(176,178)
Life lease income	(79,770)	(79,988)
	(143,424)	(5,985)
Changes in working capital		
Amounts due from residents	3,272	(4,418)
Goods and Services Tax recoverable	85,810	(91,172)
Prepaid expenses	(2,817)	(1,797)
Accounts payable and accrued liabilities	(18,465)	33,073
Security deposits	(5,990)	1,744
	(81,614)	(68,555)
Investing activity		
Building renovations	(403,589)	(1,896,976)
	(403,589)	(1,896,976)
Financing activities		
Operating loan	(255,852)	305,852
Mortgage proceeds	500,000	-
Donations for building renovations	58,537	141,713
Repayments on mortgage payable	(8,559)	-
Repayment of note receivable	-	25,104
Life leases sold	919,790	1,066,500
Life leases purchased	(808,177)	(1,018,447)
	405,739	520,722
Decrease in cash	(79,464)	(1,444,809)
Cash, start of year	364,667	1,809,476
Cash, end of year	\$285,203	\$364,667

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2020

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 a community of residential, social and dining facilities and offers rental accommodation in 43 licensed supportive 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 of the Goods and Services Tax it pays and, as a registered charity, issue tax receipts for donations received.

The Society is exposed to increased risk due to the COVID-19 pandemic principally through the general economic uncertainty possibly leading to lower occupancy and rents and to increased operating costs. The extent of the uncertainty and its duration cannot be quantified and may persist after the subsidence of the pandemic.

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, 2020

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 activities of the Society depend upon volunteers donating their time; as determining the fair value of the time donated is difficult, it is not recognized in these financial statements.

iv. Cash:

Cash comprises daily interest bank accounts.

v. Financial instruments:

Financial assets and liabilities are initially recorded at fair value and subsequently, at each year-end, accounts receivable and accounts payable are measured at amortized cost. The carrying costs of the financial assets and liabilities approximate their fair value due to the short terms to maturity.

3. Cash and operating loan:

Cash includes \$49,510 (2019 - \$55,500) held for security deposits.

The Society has a \$1,500,000 limit on its operating loan, which bears interest at prime minus 0.75% and is secured by a mortgage on Shalem Manor (carrying value \$1,389,656) and by a General Security Agreement on all assets. At year-end, \$50,000 (2019 - \$305,852) of the operating loan was drawn.

Shalem Society for Senior Citizens' Care**Notes to Financial Statements**

December 31, 2020

4. Property and equipment:

			2020	2019
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$767,400	\$ -	\$767,400	\$767,400
Land improvements	494,886	221,274	273,612	293,408
Buildings	18,340,179	5,977,584	12,362,595	12,401,369
Equipment	620,096	506,975	113,121	76,272
	\$20,222,561	\$6,705,833	\$13,516,728	\$13,538,449

5. Mortgage payable:

	2020
Mortgage secured by a General Security Agreement conveying a floating charge on all assets and a mortgage on Shalem Manor (carrying value of \$1,389,656); interest at 3.40%, blended monthly payments of \$2,476.	
Balance, start of year	\$ -
Borrowed	500,000
Repaid	(8,559)
	491,441
Less scheduled principal repayments in next fiscal year	(13,208)
Balance, end of year	\$478,233

The Society is not in compliance with the debt service ratio required under its agreement with the lender and complies with the required debt to equity ratio if deferred capital contributions (which are non-repayable assistance) are defined as equity.

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2020

6. Life lease obligation:

The 50 Shalem Court units are under life lease arrangements whereby the purchaser or surviving spouse may reside in the unit for life paying the applicable operating costs and, upon 90 days' notice, require the Society to end the lease and repay 92.5% (95% for older leases) of the original purchase price. The vacant unit is then offered under a new life lease at a price based on the property tax assessment.

Sales of future life leases will be repurchased for 90% of the selling price instead of the present 92.5% with the Society recognizing 10% (7.5%) as income on each sale.

It is anticipated that a similar number of life leases will be bought back in the next year as in previous years.

Life lease transactions in the year were:

	2020		2019	
	Units	Obligation	Units	Obligation
Balance, start of year	48	\$8,962,375	47	\$8,868,910
Life leases bought back	(4)	(808,177)	(5)	(893,048)
New life lease sales	5	886,830	6	986,513
Balance, end of year	49	\$9,041,028	48	\$8,962,375
Gross income		\$79,770		\$79,988
Renovation and legal costs		(31,151)		(62,488)
		\$48,619		\$17,500

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2020

7. 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.

	2020	2019
Balance, start of year	\$5,815,781	\$5,850,246
Donations received in the year	58,537	141,713
	5,874,318	5,991,959
Amortized in year	(180,080)	(176,178)
Balance, end of year	\$5,694,238	\$5,815,781

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.

The Society's year end cash of \$285,203 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. 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.