

Shalem Society for Senior Citizens' Care

Auditor's Report and Financial Statements

December 31, 2021

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, 2021, 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, 2021**;
- the statement of operations for the year then ended;
- the statement of changes 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
March 11, 2022

Shahid Naqi Professional Corporation

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Chartered Professional Accountant

Shalem Society for Senior Citizens' Care

Statement of Financial Position

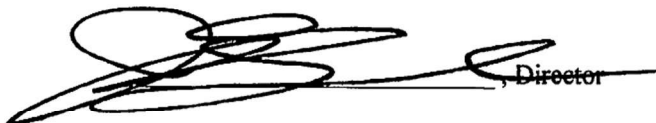
December 31, 2021

	2021	2020
<u>Assets</u>		
Current		
Cash (note 3)	\$148,411	\$285,203
Amounts due from residents	27,352	11,229
Goods and Services Tax recoverable	9,162	25,270
Prepaid expenses	49,252	37,615
	234,177	359,317
Non-current		
Property and equipment (note 4)	13,045,920	13,516,728
	\$13,280,097	\$13,876,045
<u>Liabilities</u>		
Current		
Operating loan (note 3)	\$100,000	\$50,000
Accounts payable and accrued liabilities	110,552	97,777
Security deposits	53,543	49,510
Mortgage principal due within the next twelve months (note 5)	13,664	13,208
	277,759	210,495
Non-current		
Mortgage payable (note 5)	464,565	478,233
Life lease obligation (note 6)	8,559,439	9,041,028
Deferred capital contributions (note 7)	5,529,455	5,694,238
	14,553,459	15,213,499
	14,831,218	15,423,994
<u>Deficiency of assets over liabilities</u>		
Unrestricted	(1,820,365)	(1,547,949)
Reserve	269,244	-
	(1,551,121)	(1,547,949)
	\$13,280,097	\$13,876,045

Approved by the Board:



, Director



, Director

Shalem Society for Senior Citizens' Care**Statement of Operations**

Year ended December 31, 2021

	2021	2020
Revenue		
Rent and occupancy costs	\$1,789,659	\$1,669,817
Dining room, cable, parking and laundry	232,703	249,241
Amortization of deferred capital contributions	181,173	180,080
Government grants: renovations \$22,000 and COVID support \$103,484	125,484	-
Donations	113,049	34,207
Life lease	112,860	79,770
Interest and other	6,748	8,827
Memberships	6,661	7,733
	2,568,337	2,229,675
Expenses		
Programs and services		
Food services	450,699	446,872
Resident services and programs	390,753	349,868
Facilities and operations		
Amortization	484,579	425,310
Utilities and property taxes	406,491	386,822
Building and grounds	224,842	300,514
Life lease - suite turnover costs, Court \$55,075 (2020 - \$31,151)	71,363	57,601
Insurance	69,764	64,558
Administration	431,542	469,269
Professional fees	24,976	26,171
Mortgage interest	16,500	11,574
	2,571,509	2,538,559
Deficiency of revenue over expenses	\$(3,172)	\$(308,884)

Shalem Society for Senior Citizens' Care**Statement of Changes in Deficiency of Assets over Liabilities**

Year ended December 31, 2021

	2021			2020		
	Unrestricted	Reserve	Total	Unrestricted	Reserve	Total
Balance, start of year	\$(1,547,949)	\$ -	\$(1,547,949)	\$(1,239,065)	\$ -	\$(1,239,065)
Deficiency of revenue over expenses	(3,172)	-	(3,172)	(308,884)	-	(308,884)
Transfer to reserve fund	(269,244)	269,244	-	-	-	-
Balance, end of year	\$(1,820,365)	\$269,244	\$(1,551,121)	\$(1,547,949)	\$ -	\$(1,547,949)

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

Year ended December 31, 2021

	2021	2020
Operating activities		
Deficiency of revenue over expenses	\$(3,172)	\$(308,884)
Non-cash items		
Amortization	484,579	425,310
Amortization of deferred capital contributions	(181,173)	(180,080)
Life lease income	(112,860)	(79,770)
	187,374	(143,424)
Changes in working capital		
Accounts receivable and Goods and Services Taxes recoverable	(15)	89,082
Prepaid expenses	(11,637)	(2,817)
Accounts payable and security deposits	16,808	(24,455)
	192,530	(81,614)
Investing activity		
Building renovations	(13,771)	(403,589)
	(13,771)	(403,589)
Financing activities		
Operating loan	50,000	(255,852)
Mortgage proceeds	-	500,000
Mortgage repaid	(13,212)	(8,559)
Donations for building renovations	16,390	58,537
Life leases sold	1,128,500	919,790
Life leases purchased	(1,497,229)	(808,177)
	(315,551)	405,739
Decrease in cash	(136,792)	(79,464)
Cash, start of year	285,203	364,667
Cash, end of year	\$148,411	\$285,203

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2021

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 through the general economic uncertainty possibly leading to lower occupancy and increased operating costs. The extent and duration of the uncertainty 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 and grants	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, 2021

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 \$53,543 (2020 - \$49,510) held for security deposits.

The Society has a \$1,500,000 limit on its operating loan, which bears interest at prime plus 0.25% and is secured by a mortgage on Shalem Manor (carrying value \$1,337,535) and by a General Security Agreement on all assets. At year-end, \$100,000 (2020 - \$50,000) of the operating loan was drawn.

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2021

4. Property and equipment:

	2021		2020
	Cost	Accumulated Amortization	Net Book Value
Land	\$767,400	\$ -	\$767,400
Land improvements	494,886	241,069	253,817
Buildings	18,340,179	6,424,546	11,915,633
Equipment and furniture	532,092	423,022	109,070
	\$20,134,557	\$7,088,637	\$13,045,920

5. Mortgage payable:

	2021	2020
Mortgage secured by a General Security Agreement conveying a floating charge on all assets and a mortgage on Shalem Court (carrying value of \$4,846,391); interest at 3.40%, blended monthly payments of \$2,476.		
Balance, start of year	\$491,441	\$ -
Borrowed	-	500,000
Repaid	(13,212)	(8,559)
	478,229	491,441
Less scheduled cash repayments in next fiscal year	(13,664)	(13,208)
Balance, end of year	\$464,565	\$478,233

The Society is in compliance with the covenants required by its agreement with the lender.

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2021

6. Life lease obligation:

The Society sells life leases on the 50 Shalem Court units allowing the lessee and surviving spouse life-long occupancy. The lessee also pays the applicable operating costs and may, upon 90 days' notice, require the Society to end the lease for 92.5% (95% for older leases) of the original price. Units bought back are offered under a new life lease at a price based on estimated fair market value.

Leases sold after 2020 will be repurchased for 90% where the occupancy is less than five years. To offset the higher refurbishment costs of longer occupancy the buyback price is 87.5% for occupancy of between five and ten years and 85% for those longer than ten years.

The Society recognizes income of 10% of the selling price upon the closing of the life-lease. If the buyback price is less than 90% the difference will be recognized as income at the time of buyback.

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:

	2021		2020	
	Units	Obligation	Units	Obligation
Balance, start of year	49	\$9,041,028	48	\$8,962,375
Life leases bought back	(8)	(1,497,229)	(4)	(808,177)
New life lease sales	6	1,015,640	5	886,830
Balance, end of year	47	\$8,559,439	49	\$9,041,028

Gross income	\$112,860	\$79,770
Renovation and legal costs	(55,075)	(31,151)
	\$57,785	\$48,619

Shalem Society for Senior Citizens' Care

Notes to Financial Statements

December 31, 2021

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.

	2021	2020
Balance, start of year	\$5,694,238	\$5,815,781
Donations received in the year	16,390	58,537
	5,710,628	5,874,318
Amortized in year	(181,173)	(180,080)
Balance, end of year	\$5,529,455	\$5,694,238

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 \$148,411 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.