Financial Statements of

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

And Independent Auditors' Report thereon

Year ended March 31, 2023

KPMG LLP
32575 Simon Avenue
Abbotsford BC V2T 4W6
Canada
Telephone (604) 854-2200
Fax (604) 853-2756

INDEPENDENT AUDITORS' REPORT

To the Members of Mennonite Benevolent Society

Opinion

We have audited the accompanying financial statements of Mennonite Benevolent Society – Menno Hospital (the "Entity"), which comprise:

- the statement of financial position as at March 31, 2023
- the statement of operations for the year then ended
- the statement of changes in net deficiency 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

(hereinafter referred to as the "financial statements").

In our opinion, the financial statements, present fairly, in all material respects, the financial position of the Entity as at March 31, 2023, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to note 2 to the financial statements which describes the applicable financial reporting framework.

The financial statements are prepared to meet the information needs of the Board of Directors of the Mennonite Benevolent Society. As a result, the financial statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our 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 auditors' report that includes our 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 the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We 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 our 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 audit 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.

- 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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity 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.

- 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 we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Abbotsford, Canada

May 16, 2023

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Financial Position

March 31, 2023, with comparative information for 2022

		2023		2022
Assets				
Current assets:				
Cash and term deposits (note 3)	$	775,657	$	1,220,991
Restricted cash and term deposits (note 3)		68,616		68,616
Accounts receivable (note 4)		497,819		196,107
Prepaid expenses		92,833		90,517
Inventory		149,964		137,774
		1,584,889		1,714,005
Capital assets (note 5)		1,243,030		1,056,759
	$	2,827,919	$	2,770,764
Liabilities and Net Deficiency				
Current liabilities:				
Accounts payable and accrued liabilities (note 6)	$	1,034,385	$	1,143,579
Accrued wages and benefits payable		579,820		279,156
Vacation pay payable		318,459		343,423
Unearned revenue		1,043,092		798,417
Current portion of sick and severance allowance (note 7)		67,710		108,829
		3,043,466		2,673,404
Sick and severance allowance (note 7)		577,371		547,483
Deferred capital contributions (note 8)		1,016,481		538,002
		4,637,318		3,758,889
Net assets (deficiency):				
Invested in capital assets (note 9)		665,299		518,757
Internally restricted (note 10)		68,616		68,616
Unrestricted		(2,543,314)		(1,575,498)
		(1,809,399)		(988,125)
Related party transactions (note 11)				
Contingencies (note 14)				
	$	2,827,919	$	2,770,764

See accompanying notes to financial statements.

On behalf of the Board:

Director Carol Dyck Director

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Operations

Year ended March 31, 2023, with comparative information for 2022

		2023		2022
Revenue:				
Fraser Health Authority operating grant	$	12,333,446	$	12,387,490
Resident user charges		2,242,510		2,167,018
Interest and other income (note 11)		85,486		129,150
		14,661,442		14,683,658
Expenses:				
Salaries and wages		7,758,439		7,275,070
Contract services		2,757,660		2,679,694
Employee benefits		2,346,623		2,166,814
Medical supplies and services		671,051		593,113
Dietary supplies and services		612,483		508,186
Repairs and maintenance		350,254		302,800
Utilities		236,063		230,097
Rent (note 11)		173,000		173,000
Office and administration		147,601		127,353
Housekeeping supplies and services		81,872		58,160
Laundry supplies and services		77,486		50,641
Professional fees		31,053		27,136
Recreation activities		20,712		14,871
Security and miscellaneous		13,551		12,068
Association membership fees and accreditation		6,851		3,838
		15,284,699		14,222,841
Excess (deficiency) of revenue over expenses before the undernoted		(623,257)		460,817
Other income (expenses):				
Amortization of deferred capital contributions		84,937		72,773
Amortization of capital assets		(224,986)		(189,867)
Sick and severance allowance		(75,700)		(70,800)
		(215,749)		(187,894)
Excess (deficiency) of revenue over expenses	$	(839,006)	$	272,923

See accompanying notes to financial statements.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Changes in Net Assets (Deficiency)

Year ended March 31, 2023, with comparative information for 2022

	Invested in capital assets	Internally restricted	Unrestricted	2023 Total	2022 Total
	(note 9)	(note 10)			
Net assets (deficiency), beginning of year	$ 518,757	$ 68,616	$ (1,575,498)	$ (988,125)	$ (1,243,448)
Employee future benefits remeasurement (note 7)	-	-	17,732	17,732	(17,600)
Excess (deficiency) of revenue over expenses	(140,049)	-	(698,957)	(839,006)	272,923
Change in net assets invested in capital assets	286,591	-	(286,591)	-	-
Net assets (deficiency), end of year	$ 665,299	$ 68,616	$ (2,543,314)	$ (1,809,399)	$ (988,125)

See accompanying notes to financial statements.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Cash Flows

Year ended March 31, 2023, with comparative information for 2022

	2023	2022
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	$ (839,006)	$ 272,923
Items not involving cash:		
Amortization of capital assets	224,986	189,867
Sick and severance allowance	75,700	70,800
Amortization of deferred capital contributions	(84,937)	(72,773)
	(623,257)	460,817
Changes in non-cash operating working capital:		
Accounts receivable	(301,712)	(103,979)
Prepaid expenses	(2,316)	(23,547)
Inventory	(12,190)	(23,569)
Accounts payable and accrued liabilities	(109,194)	329,685
Accrued wages and benefits payable	300,664	(221,733)
Vacation pay payable	(24,964)	8,994
Unearned revenue	244,675	68,966
Sick and severance allowance payouts	(69,199)	(57,410)
	(597,493)	438,224
Investing:		
Purchase of capital assets	(411,257)	(497,475)
Financing:		
Deferred capital contributions received	563,416	399,434
Change in cash and term deposits	(445,334)	340,183
Cash and term deposits, beginning of year	1,289,607	949,424
Cash and term deposits, end of year	$ 844,273	$ 1,289,607
Cash and term deposits consist of:		
Cash and term deposits	$ 775,657	$ 1,220,991
Restricted cash and term deposits	68,616	68,616
	$ 844,273	$ 1,289,607

See accompanying notes to financial statements.

1. Nature of operations:

The mission of Menno Place is to reflect God's love by providing facilities and services that express our commitment to excellent resident and family-centred care and enable residents to live with hope and dignity.

Established in 1953, Mennonite Benevolent Society (the “Society”) operates Menno Place, a multi-site campus of long-term care, assisted living, and independent living. The Society is incorporated under the Societies Act (British Columbia) and as such, is a not-for-profit organization. The Society is a registered charity under the Income Tax Act (Canada) and, accordingly, is not subject to income taxes under section 149 of the Canadian Income Tax Act..

Menno Hospital (the "Hospital") operates as a separate division of the Society and provides long-term care to 151 residents under contract with the Fraser Health Authority ("FHA"). The Hospital is dependent on FHA to provide sufficient funding for operations, and assistance for replacement of basic equipment and renovation projects. In 2022, the Hospital received a renewal of its Accredited Standing with Accreditation Canada, meaning the Hospital meets or exceeds the most rigorous requirements of the accreditation program.

Menno Corporate ("Corporate"), a separate division within the Society has committed to support Hospital for a minimum period of one year from the date of the financial statements in order for Housing to continue its operations and discharge its financial obligations in the normal course of business. Management believes that the support of Corporate will mitigate the adverse conditions and events that may raise doubt about the validity of the going concern assumption used in preparing these financial statements.

2. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations to meet the information needs of the Board of Directors (the "Board") of the Society and include the following significant accounting policies:

(a) Cash and term deposits:

Cash and term deposits are made up of cash on hand and funds on deposit readily redeemable with maturity dates ranging from ninety days to one year from the time of acquisition.

2. Significant accounting policies (continued):

(b) Inventory:

Inventory, consisting of supplies, is recorded at the lower of cost and replacement cost. Cost includes purchase, conversion and other costs incurred in bringing the inventories to their present location and condition.

(c) Capital assets:

Purchased capital assets are recorded at historical cost, less accumulated amortization. Contributed assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized.

Amortization is provided using the declining balance method using the following rates:

Asset	Rate
Building	5%
Major equipment	10%
Minor equipment	10 - 30%
Computer equipment	25%

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that either the full or partial amount of the asset no longer has long-term service potential to the Hospital. If such conditions exist, an impairment loss is measured at the amount by which either the full or partial carrying amount of the asset exceeds its residual value.

2. Significant accounting policies (continued):

(d) Revenue recognition:

The Hospital follows the deferral method of accounting for contributions, which includes government grants and donations.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are recorded as revenue in the year in which the related expenses are incurred. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related asset.

Revenue from other sources such as resident fees and interest are recognized when earned and collection is reasonably assured.

2. Significant accounting policies (continued):

(e) Sick and severance:

The Hospital has a defined benefit sick and severance plan covering its employees. The benefits are based on years of service and average salary.

All remeasurements, defined as actuarial gains or losses arising on remeasuring the accrued benefit obligation, plus the impact of settlements, curtailments and past service costs, are recognized immediately in the fiscal period in which they arise. Remeasurements are recognized directly in net assets in the Statement of Financial Position and not in the Statement of Operations. The recorded liability on the balance sheet equals the accrued benefit obligation for the benefits.

Ongoing annual expense will include only service cost for the year, with interest applied to the service cost and interest cost equal to interest on the opening accrued benefit obligation.

All measurements are performed at the financial statement date. The most recent actuarial valuation of the benefit plans for funding purposes was as of March 31, 2023, and the next required valuation will be as of March 31, 2024.

(f) Employee future benefits:

The Hospital and its employees make contributions to the Municipal Pension Plan (the “Plan”) which is a multi-employer jointly trusteed plan. This Plan is a defined benefit plan, providing a pension on retirement based on the member’s age at retirement, length of service and highest earnings averaged over five years. Inflation adjustments are contingent upon available funding. As the assets and liabilities of the Plan are not segregated by entity, the Plan is accounted for as a defined contribution plan and contributions made by the Hospital to the Plan are expensed as incurred.

2. Significant accounting policies (continued):

(g) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(h) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Hospital has elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Hospital determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Hospital expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

3. Cash and term deposits:

		2023		2022
Cash	$	431,104	$	880,691
Term deposits		413,169		408,916
	$	844,273	$	1,289,607

The term deposits bear interest at rates ranging from 0.05% to 1.02% (2022 - 0.87%).

Restricted cash and term deposits are comprised of the following:

		2023		2022
Internally restricted	$	68,616	$	68,616
Restricted cash and term deposits		68,616		68,616
Unrestricted cash and term deposits		775,657		1,220,991
	$	844,273	$	1,289,607

4. Accounts receivable:

		2023		2022
Fraser Health Authority	$	264,508	$	74,052
Accounts receivable		172,299		31,012
GST receivable		33,854		30,443
Menno Housing, a related party (note 11)		9,114		28,312
Residents fee receivable		9,064		12,117
Menno Corporate, a related party (note 11)		8,980		15,069
Menno Home, a related party (note 11)		-		5,102
	$	497,819	$	196,107

There are no allowances for doubtful accounts as at March 31, 2023 (2022 - nil).

5. Capital assets:

			2023	2022
	Cost	Accumulated amortization	Net book value	Net book value
Building	$ 9,283,507	$ 9,237,438	$ 46,069	$ 60,517
Major equipment	3,387,549	2,756,535	631,014	448,866
Minor equipment	3,019,332	2,498,466	520,866	525,789
Computer equipment	87,994	42,913	45,081	21,587
	$ 15,778,382	$ 14,535,352	$ 1,243,030	$ 1,056,759

Certain of the above assets are pledged as security for a mortgage held by Menno Corporate, a related party.

6. Accounts payable and accrued liabilities:

	2023	2022
Trade payables	$ 468,578	$ 810,545
Other	166,062	127,275
Government remittances	146,370	130,877
Menno Home, a related party (note 11)	129,285	-
Fraser Health Authority	124,090	74,882
	$ 1,034,385	$ 1,143,579

7. Sick and severance allowance:

The continuity of the Hospital's employee benefit liability, which is equal to the actuarial obligation, is as follows:

	2023	2022
Opening balance	$ 656,312	$ 625,322
Pension expense	75,700	70,800
Actuarial (gain) loss	(17,732)	17,600
Actual benefits paid	(69,199)	(57,410)
	$ 645,081	$ 656,312

The accumulated benefit obligation for sick and severance allowance benefits is as follows:

	2023	2022
Sick leave benefits	$ 214,640	$ 235,914
Severance benefits	430,441	420,398
	645,081	656,312
Less current portion	67,710	108,829
Long-term portion	$ 577,371	$ 547,483

The sick and severance allowance liability of $645,081 (2022 - $656,312) is unfunded at March 31, 2023.

The portion of the sick and severance allowance liability that relates to employees who have qualified for the sick and severance allowance as at March 31, 2023 is approximately $286,600 (2022 - $266,000).

8. Deferred capital contributions:

Deferred capital contributions represent both the unamortized value of capital assets donated to Corporate and contributions received for the acquisition of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations. The changes in deferred capital contributions for the year are as follows:

	Balance beginning of year	Current contributions received	Amounts amortized in the year	Balance end of the year
Building	$ 21,382	$ -	$ 8,508	$ 12,874
Major equipment	28,002	108,424	14,343	122,083
Minor equipment	488,618	454,992	62,086	881,524
	$ 538,002	$ 563,416	$ 84,937	$ 1,016,481

The deferred capital contribution balance at March 31, 2023 includes unspent contributions for the acquisition of capital assets of $438,750 (2022 - $294,093).

9. Invested in capital assets:

(a) Invested in capital assets is calculated as follows:

	2023	2022
Capital assets	$ 1,243,030	$ 1,056,759
Amounts financed by deferred capital contributions	(577,731)	(538,002)
	$ 665,299	$ 518,757

(b) Deficiency of revenue over expenses in capital assets:

	2023	2022
Amortization of deferred capital contributions	$ 84,937	$ 72,773
Amortization of capital assets	(224,986)	(189,867)
	$ (140,049)	$ (117,094)

9. Invested in capital assets (continued):

(c) Change in net assets invested in capital assets:

	2023	2022
Purchase of capital assets	$ 411,257	$ 497,475
Amount funded by deferred capital contributions	(124,666)	(399,434)
	$ 286,591	$ 98,041

10. Internally restricted net assets:

The Board has internally restricted $68,616 (2022 - $68,616) of the Hospital's net assets for the future building repairs. These internally restricted net assets are not available for other purposes without the approval of the Board.

11. Related party transactions:

During the year, the Hospital entered into transactions with other divisions within the Society. These transactions occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Hospital paid rent for land of $173,000 (2022 - $173,000) to Menno Corporate and received a donation of $39,234 (2022 - $14,901) from Menno Corporate. Additionally, the purchase of supplies and management wages are centralized in the Hospital and Menno Corporate, respectively, and are allocated out to the various divisions within the Society.

12. Disclosure of employee, contractor, and director remuneration:

The Societies Act (British Columbia) requires the disclosure of remuneration paid by the Society to employees and contractors whose remuneration was at least $75,000, and any amounts of remuneration paid by the Society to directors.

12. Disclosure of employee, contractor, and director remuneration (continued):

For the fiscal year ended March 31, 2023, the Society paid total remuneration of $14,138,578 (2022 - $10,932,713) to 152 (2022 - 115) employees and contractors for services, each of whom received total annual remuneration of $75,000 or greater. Included in remuneration is the cost of salaries and premiums for employment insurance, Canada pension plan, workers compensation, benefits including medical, dental, life insurance, long-term disability and pension.

No remuneration was paid to any members of the Board.

13. Pension plans:

Menno Hospital and its employees contribute to the Municipal Pension Plan (a jointly trusteed pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2021, the plan has about 227,000 active members and approximately 118,000 retired members.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2021, indicated a $3,761 million funding surplus for basic pension benefits on a going concern basis.

Menno Hospital paid $449,745 (2022 - $434,016) for employer contributions to the plan in fiscal 2023.

The next valuation will be as at December 31, 2024, with results available in 2025.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

14. Contingencies:

In accordance with Hospital's operating agreement with the Fraser Health Authority, the Hospital is required to maintain compliance with certain staffing requirements, known as Hours Per Resident Day ("HPRD"), and compliance is subject to the Fraser Health Authority's formal review. Based on management's assessment, the funding received under HPRD are compliant with the relevant metrics used by the Fraser Health Authority to assess any clawbacks. As the outcome of FHA's reviews are indeterminable, adjustments to funding resulting from the reviews will be recorded in the period the amount becomes known and determinable.

15. Financial risks:

(a) Liquidity risk:

Liquidity risk is the risk that the Hospital will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Hospital manages its liquidity risk by monitoring its operating requirements. The Hospital prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to the accounts receivable. The Hospital assesses, on a continuous basis, accounts receivable and provides for amounts, if any, that are not collectible in the allowance for doubtful accounts.

(c) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fixed-interest and non-interest bearing financial instruments are subject to changes in fair value, while floating rate financial instruments are subject to fluctuations in cash flows. The Hospital is exposed to cash flow risk as a result of variable interest rates on cash which bear interest at the prime rate plus / minus a margin.

There have been no changes to the risk exposures outlined above from the prior year.