

Financial Statements of

**MENNONITE BENEVOLENT SOCIETY  
MENNO HOSPITAL**

Year ended March 31, 2012



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## INDEPENDENT AUDITORS' REPORT

To the Members of the Mennonite Benevolent Society

We have audited the accompanying financial statements of Mennonite Benevolent Society - Menno Hospital (the "Hospital") which comprise the statement of financial position as at March 31, 2012 and the statements of operations, net assets and cash flows for the year then ended, and notes comprising 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 generally accepted accounting principles, 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated 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 our 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, we consider 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 Hospital'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.

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

May 24, 2012

Abbotsford, British Columbia

# THE MENNONITE BENEVOLENT SOCIETY MENNO HOSPITAL

Statement of Financial Position

March 31, 2012, with comparative figures for 2011

	2012	2011
<b>Assets</b>		
Current assets:		
Cash (Note 3)	\$ 492,952	\$ 895,755
Accounts receivable (Note 10)	179,313	58,289
Inventory	80,747	86,223
Prepaid expenses	24,320	13,943
	<u>777,332</u>	<u>1,054,210</u>
Investments	1,270,111	950,296
Building and equipment (Note 5)	1,709,540	2,149,780
	<u>\$ 3,756,983</u>	<u>\$ 4,154,286</u>

## Liabilities, Deferred Contributions and Deficiency

Current liabilities:		
Accounts payable and accrued liabilities (Note 10)	\$ 689,368	\$ 611,622
Accrued wages and benefits payable	375,531	421,666
Vacation payable	319,522	300,365
Unearned income - patients	8,832	11,478
Current portion of sick and severance allowance (Note 6)	117,074	234,736
	<u>1,510,327</u>	<u>1,579,867</u>
Sick and severance allowance (Note 6)	1,112,014	984,124
Deferred capital contributions (Note 7)	1,526,694	1,893,208
Net assets (deficiency):		
Invested in building and equipment (Note 8(a))	318,242	290,263
Internally restricted (Note 9)	68,616	68,616
Operating unrestricted	(778,910)	(661,792)
	<u>(392,052)</u>	<u>(302,913)</u>
	<u>\$ 3,756,983</u>	<u>\$ 4,154,286</u>

On behalf of the Board:

 Director

 Director

See accompanying notes to financial statements.

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

### Statement of Operations

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
<b>Revenue:</b>		
Fraser Health Authority operating grant	\$ 10,103,129	\$ 9,687,684
Resident user charges	1,639,246	1,644,608
Interest and other income	59,003	54,425
Room differential charges	-	397,257
	<u>11,801,378</u>	<u>11,783,974</u>
<b>Expenses:</b>		
Salaries and wages	7,655,888	7,640,264
Employee benefits	2,283,258	2,264,142
Medical supplies and services	453,713	472,750
Dietary supplies and services	419,712	440,698
Contract services	226,938	199,896
Rent (Note 10)	200,000	200,000
Utilities	180,821	186,669
Repairs and maintenance	136,894	147,811
Office and administration	96,551	154,101
Housekeeping supplies and services	40,755	40,775
Linen, laundry supplies and services	34,123	37,323
Professional fees	32,297	24,667
Recreation	14,931	8,071
Security and miscellaneous	9,802	8,049
Association membership fees and accreditation	2,977	1,673
Bad debts	40	3,223
	<u>11,788,700</u>	<u>11,830,112</u>
Excess (deficiency) of revenue over expenses before the undernoted	12,678	(46,138)
<b>Other revenue (expenses):</b>		
Amortization of deferred contributions related to building and equipment (Note 7)	529,791	643,567
Amortization of building and equipment	(555,608)	(713,037)
Sick and severance allowance	(76,000)	(100,946)
	<u>(101,817)</u>	<u>(170,416)</u>
Deficiency of revenue over expenses	<u>\$ (89,139)</u>	<u>\$ (216,554)</u>

See accompanying notes to financial statements.

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Statement of Changes in Net Assets (Deficiency)

Year ended March 31, 2012, with comparative figures for 2011

	Invested in building and equipment (Note 8)	Internally restricted (Note 9)	Unrestricted	2012 Total	2011 Total
Balance, beginning of year	\$ 290,263	\$ 68,616	\$ (661,792)	\$ (302,913)	\$ (86,359)
Deficiency of revenue over expenses	(25,817)	-	(63,322)	(89,139)	(216,554)
Net change in investment in building and equipment	53,796	-	(53,796)	-	-
<b>Balance, end of year</b>	<b>\$ 318,242</b>	<b>\$ 68,616</b>	<b>\$ (778,910)</b>	<b>\$ (392,052)</b>	<b>\$ (302,913)</b>

See accompanying notes to financial statements.

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

### Statement of Cash Flows

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (89,139)	\$ (216,554)
Items not involving cash:		
Amortization of building and equipment	555,608	713,037
Amortization of deferred contributions related to building and equipment	(529,791)	(643,567)
Sick and severance allowance	76,000	100,946
Sick and severance allowance payouts	(65,772)	(95,695)
Changes in non-cash operating working capital:		
Accounts receivable	(121,024)	116,475
Inventory	5,476	14,914
Prepaid expenses	(10,377)	(1,542)
Accounts payable and accrued liabilities	77,746	305,614
Accrued wages and benefits payable	(46,135)	31,760
Vacation pay payable	19,157	(12,577)
Unearned income - patients	(2,646)	2,998
	<u>(130,897)</u>	<u>315,809</u>
Financing:		
Deferred capital contributions received	163,277	89,431
Investments:		
Purchase of equipment	(115,368)	(165,288)
Increase in investments	(319,815)	(22,811)
	<u>(435,183)</u>	<u>(188,099)</u>
Increase (decrease) in cash	(402,803)	217,141
Cash, beginning of year	895,755	678,614
Cash, end of year	<u>\$ 492,952</u>	<u>\$ 895,755</u>

See accompanying notes to financial statements.

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Notes to Financial Statements

Year ended March 31, 2012

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### General:

Menno Hospital (the "Hospital") operates as a separate entity within The Mennonite Benevolent Society and provides residential complex care under contract with the Fraser Health Authority.

The Hospital is dependent on the Fraser Health Authority (funded by the Ministry of Health Services) to provide sufficient funding for operations, for replacement of essential medical and basic hospital services equipment and for building and renovation projects.

### 1. Significant accounting policies:

(a) Basis of presentation:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(b) Revenue recognition:

The Hospital follows the deferral method of accounting for contributions, which includes government grants and donations. Externally restricted contributions are recognized 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 capital assets. 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.

(c) Inventory:

Inventory consisting of supplies is recorded at the lower of cost (purchase price) and replacement cost.

(d) Building and equipment:

Purchased building and equipment are recorded at cost. Contributed building and equipment 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.

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2012

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### 1. Significant accounting policies (continued):

(d) Building and equipment (continued):

Building and equipment are amortized on a straight-line basis at the following annual rates:

Buildings	5%
Furniture and equipment	10%

If it is determined that the net carrying amounts of a capital asset exceeds its long-term service potential, the capital asset is written down to its residual value, if any.

(e) Sick and severance allowance:

Under the terms of the Hospital's union contracts, employees with ten years of service and having reached a certain age are entitled to receive special payments upon retirement (or other circumstances specified in the collective agreement). These payments are based upon accumulated sick leave credits and entitlements for each year of service. The liability for amounts which may become payable to retiring employees have been estimated by actuarial valuation as at March 31, 2012.

(f) Income taxes:

The Hospital is exempt from federal and provincial income taxes.

(g) Employee future benefits:

The Hospital is a member of a multi-employer pension plan and applies defined contribution plan accounting and, accordingly, contributions are expensed.

(h) Use of estimates:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.



# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2012

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### 1. Significant accounting policies (continued):

(i) Financial instruments:

Financial assets and liabilities have been designated to be classified as follows:

- (i) Cash and investments as held-for-trading, being measured at fair value.
- (ii) Accounts receivable as loans and receivables, which are measured at amortized cost.
- (iii) Accounts payable and accrued liabilities, accrued wages and benefits payable, vacation pay payable and sick and severance allowance and long-term debt as other financial liabilities, which are measured at amortized cost.

### 2. Future changes in accounting standards:

The Hospital is currently classified as a not-for-profit organization. The Accounting Standards Board ("AcSB") has approved new accounting standards for non-government controlled not-for-profit organizations (NPOs). These accounting standards provide NPOs the option of adopting International Financial Reporting Standards or Accounting Standards for Not-For-Profit Organizations, supplemented by Accounting Standards for Private Enterprises (ASPE), where required. NPOs must adopt one of these two accounting frameworks for fiscal years beginning on or after January 1, 2012. The Hospital intends to adopt Accounting Standards for Not-For-Profit Organizations, supplemented by ASPE. The Hospital is in the process of assessing the impact of the new standards.

### 3. Cash:

The Hospital's cash is held in a cash management account which earns interest at prime minus 2.05%.

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2012

#### 4. Investments:

	2012	2011
Marketable securities	\$ 291,385	\$ -
CCS 2.25% GIC, \$225,000 face value, matures October 21, 2014 with interest paid at maturity	227,241	-
CCS 2.8% GIC, \$221,865 face value, matures October 21, 2014 with interest paid on maturity	224,615	224,612
Bank of Nova Scotia 6% bond, \$142,000 face value, matures October 3, 2013 with interest paid semi-annually on April 3 and October 3	154,488	156,840
AGF 2.61% GIC, \$125,000 face value, matures October 15, 2012 with interest paid on maturity	126,506	126,502
CWB 1.84% GIC, \$100,000 face value, matures December 31, 2012 with interest paid on maturity	100,468	-
AGF 2.26% GIC, \$84,000 face value, matures March 23, 2015 with interest paid at maturity	84,052	-
TD Mortgage 1.82% GIC, \$56,000 face value, matures December 31, 2012 with interest paid at maturity	56,259	-
Cash balance	5,097	3,275
AGF 2.06% GIC	-	201,896
CIBC 4.35% bond	-	155,212
CCS 2.00% GIC	-	81,959
	\$ 1,270,111	\$ 950,296

The above investments are recorded at their fair value at March 31, 2012 and at March 31, 2011.

\$850,000 of the investment portfolio is temporarily pledged as security in conjunction with the Phase 5 construction financing in MBS Corporate. This restriction will be removed when the covenant requirements have been met which is anticipated to occur in September 2014.

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2012

### 5. Building and equipment:

			2012	2011
	Cost	Accumulated amortization	Net book value	Net book value
Building	\$ 9,283,507	\$ 7,972,628	\$ 1,310,879	\$ 1,764,225
Major equipment	2,381,074	2,143,056	238,018	256,378
Minor equipment	2,014,199	1,853,556	160,643	129,177
	\$ 13,678,780	\$ 11,969,240	\$ 1,709,540	\$ 2,149,780

Certain of the above assets are pledged as security for a mortgage held by MBS Corporate.

### 6. Sick and severance allowance:

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

	2012	2011
Sick leave benefits	\$ 485,713	\$ 481,671
Severance benefits	743,375	737,189
	1,229,088	1,218,860
Less current portion	(117,074)	(234,736)
Long-term portion	\$ 1,112,014	\$ 984,124

The sick and severance allowance liability of \$1,229,088 (2011 - \$1,218,860) is unfunded at March 31, 2012.

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, 2012 is approximately \$900,000 (2011 - \$582,000).

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2012

### 6. Sick and severance allowance (continued):

Determination of unrestricted deficiency - operating after excluding sick and severance allowance - long-term portion:

	2012	2011
Deficiency - operating, end of year	\$ (778,910)	\$ (661,792)
Less: Sick and severance allowance - long-term portion	1,112,014	984,124
<b>Unrestricted net assets - operating</b>	<b>\$ 333,104</b>	<b>\$ 322,332</b>

### 7. Deferred capital contributions:

Deferred capital contributions related to building and equipment represent the unamortized amount and unspent amount of donations and grants received for the purchase of building and equipment. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2012	2011
Balance, beginning of year	\$ 1,893,208	\$ 2,447,344
Less amounts amortized to revenue	(529,791)	(643,567)
	1,363,417	1,803,777
Capital expenditure grants and donations received	163,277	89,431
	<b>\$ 1,526,694</b>	<b>\$ 1,893,208</b>

The balance of unamortized capital contributions related to building and equipment consists of the following:

	2012	2011
Unamortized capital contributions used to purchase building and equipment	\$ 1,391,298	\$ 1,859,517
Unspent capital grants	7,742	16,236
Unspent private donations	127,654	17,455
	<b>\$ 1,526,694</b>	<b>\$ 1,893,208</b>

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2012

### 8. Invested in building and equipment:

(a) Investment in building and equipment is calculated as follows:

	2012	2011
Building and equipment - net book value	\$ 1,709,540	\$ 2,149,780
Amounts financed by unamortized deferred contributions	(1,391,298)	(1,859,517)
	<u>\$ 318,242</u>	<u>\$ 290,263</u>

(b) Change in net assets invested in building and equipment is calculated as follows:

	2012	2011
Excess (deficiency) of revenue over expenses:		
Amortization of deferred contributions related to building and equipment	\$ 529,791	\$ 643,567
Amortization of building and equipment	(555,608)	(713,037)
	<u>\$ (25,817)</u>	<u>\$ (69,470)</u>
Net change in investment in building and equipment:		
Equipment acquired	\$ 115,368	\$ 165,288
Amount funded by deferred contributions	(61,572)	(89,687)
	<u>\$ 53,796</u>	<u>\$ 75,601</u>

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2012

### 9. Internally restricted:

The Board of Directors has internally restricted \$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 of Directors.

	2011	2010
Balance, beginning of year	\$ 68,616	\$ 61,674
Transfer from deficiency - operating	-	36,942
Expenditures incurred	-	(30,000)
Balance, end of year	\$ 68,616	\$ 68,616

### 10. Related party transactions:

During the year, the Hospital paid rent for land of \$200,000 (2011 - \$200,000) to MBS Corporate, a separate entity within Mennonite Benevolent Society. This transaction was in the normal course of operations and was measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

Included in accounts receivable is \$66,145 (2011 - \$45,315) receivable from Menno Home and \$7,677 (2011 - \$10,090) from Menno Housing and included in accounts payable is \$134,530 (2011 - \$128,841) payable to MBS Corporate.

### 11. Fair value of financial assets and financial liabilities:

The fair value of the Hospital's cash, accounts receivable, accounts payable and accrued liabilities, accrued wages, and vacation payable approximate their carrying amounts.

The fair value of the sick and severance allowance is the present value of a future liability as estimated by an actuary and adjusted for payouts which approximates its carrying value.

The fair value of the investments at March 31, 2012 is \$1,270,111 (2011 - \$950,296).

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2012

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### 12. Capital management:

The Hospital's objective when managing capital is to fund its operations and building and equipment additions. Hospital manages the capital structure making adjustments based on available government funding and economic conditions. Currently the Hospital's strategy is to monitor expenditures to preserve capital in accordance with budget funding.

### 13. Comparative figures:

Certain of the 2011 comparative figures have been reclassified.

### 14. Pension plans:

The Hospital and its employees contribute to the Municipal Pension Plan, jointly trustee pension plans. The board of trustees for this plan represent plan members and employers and are responsible for the management of the pension plan including investment of the assets and administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are defined. The Municipal Pension Plan has about 173,000 active members, with approximately 5,600 from colleges.

The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2009 indicated a \$1,024,000,000 deficit for basic pension benefits. The next valuation will be as at December 31, 2012 with results available in 2013. The actuary does not attribute portions of the unfunded liability to individual employers. The Hospital paid and expensed \$517,292 (2011 - \$472,182) for employer contributions to the Municipal plan.