Financial Statements of

MENNONITE BENEVOLENT SOCIETY
MENNO HOSPITAL

Year ended March 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Members of the Mennonite Benevolent Society

Report on the Financial Statements

We have audited the accompanying financial statements of the Mennonite Benevolent Society - Menno Hospital, which comprise the statement of financial position as at March 31, 2014, the statements of operations, changes in net assets (deficiency) 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 of these financial statements in accordance with the basis of accounting disclosed in note 1, 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 the audit to obtain reasonable assurance about whether the 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 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 entity'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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial position of the Hospital as at March 31, 2014, and its results of operations, changes in net assets (deficiency) and its cash flows for the year then ended are prepared, in all material respects, in accordance with the basis of accounting as disclosed in note 1.

Basis of Accounting

Without modifying our opinion, we draw attention to note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to meet the information needs of the Board of the Mennonite Benevolent Society. As a result, the financial statements may not be suitable for another purpose.

KPMG LLP

Chartered Accountants

May 22, 2014

Abbotsford, British Columbia

MENNONITE BENEVOLENT SOCIETY
MENNO HOSPITAL

Statement of Financial Position

March 31, 2014, with comparative information for March 31, 2013

	2014	2013
Assets		
Current assets:		
Cash (note 2)	$ 247,774	$ 199,248
Short-term investments (note 4)	873,902	151,356
Accounts receivable (note 3)	164,192	168,124
Inventory	75,549	88,718
Prepaid expenses	7,508	14,212
	1,368,925	621,658
Investments (note 4)	144,981	845,440
Capital assets (note 5)	1,384,810	1,557,871
	$ 2,898,716	$ 3,024,969
Liabilities and Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	$ 559,913	$ 626,430
Accrued wages and benefits payable	444,948	395,885
Loan payable, Menno Home (note 11)	500,000	-
Vacation pay payable	362,858	347,381
Unearned income - patients	24,217	23,001
Current portion of sick and severance allowance (note 7)	128,572	78,008
	2,020,508	1,470,705
Sick and severance allowance (note 7)	1,156,456	1,123,393
Deferred capital contributions (note 8)	1,148,733	1,330,723
Net assets (deficiency):		
Invested in capital assets (note 9(a))	301,888	317,823
Internally restricted (note 10)	68,616	68,616
Operating unrestricted	(1,797,485)	(1,286,291)
	(1,426,981)	(899,852)
	$ 2,898,716	$ 3,024,969

See accompanying notes to financial statements.

On behalf of the Board:

__________ Director __________ Director

MENNONITE BENEVOLENT SOCIETY
MENNO HOSPITAL

Statement of Operations

Year ended March 31, 2014, with comparative information for March 31, 2013

	2014	2013
Revenue:		
Fraser Health Authority operating grant	$ 9,945,072	$ 9,815,014
Resident user charges	1,743,098	1,685,623
Interest and other income	44,060	63,599
	11,732,230	11,564,236
Expenses:		
Salaries and wages	7,807,940	7,787,733
Employee benefits	2,365,598	2,332,412
Medical supplies and services	504,807	457,768
Dietary supplies and services	394,480	402,976
Contract services	256,095	196,000
Utilities	195,878	180,426
Rent (note 11)	173,000	200,000
Repairs and maintenance	123,160	154,188
Office and administration	94,917	98,802
Housekeeping supplies and services	52,457	41,063
Linen, laundry supplies and services	40,659	42,959
Professional fees	36,441	20,212
Recreation	19,014	15,915
Security and miscellaneous	8,834	7,974
Association membership fees and accreditation	3,584	2,078
Bad debts	-	1,237
	12,076,864	11,941,743
Deficiency of revenue over expenses before the undernoted	(344,634)	(377,507)
Other revenue (expenses):		
Amortization of deferred capital contributions (note 8)	213,609	224,610
Amortization of capital assets	(275,116)	(277,952)
Sick and severance allowance	(120,988)	(76,951)
	(182,495)	(130,293)
Deficiency of revenue over expenses	$ (527,129)	$ (507,800)

See accompanying notes to financial statements.

MENNONITE BENEVOLENT SOCIETY
MENNO HOSPITAL

Statement of Changes in Net Assets (Deficiency)

Year ended March 31, 2014, with comparative information for March 31, 2013

	Invested in capital assets (note 9)	Internally restricted (note 10)	Unrestricted	2014 Total	2013 Total
Balance, beginning of year	$ 317,823	$ 68,616	$(1,286,291)	$ (899,852)	$ (392,052)
Deficiency of revenue over expenses (note 9(b))	(61,507)	-	(465,622)	(527,129)	(507,800)
Net change in invested in capital assets (note 9(b))	45,572	-	(45,572)	-	-
Net assets (deficiency) end of year	$ 301,888	$ 68,616	$(1,797,485)	$(1,426,981)	$ (899,852)

See accompanying notes to financial statements.

MENNONITE BENEVOLENT SOCIETY
MENNO HOSPITAL

Statement of Cash Flows

Year ended March 31, 2014, with comparative information for March 31, 2013

	2014	2013
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	$ (527,129)	$ (507,800)
Item not involving cash:		
Amortization of capital assets	275,116	277,952
Amortization of deferred capital contributions	(213,609)	(224,610)
Sick and severance allowance	120,988	76,951
Change in non-cash operating working capital:		
Accounts receivable	3,932	11,189
Inventory	13,169	(7,971)
Prepaid expenses	6,704	10,108
Accounts payable and accrued liabilities	(66,515)	(62,938)
Accrued wages and benefits payable	49,063	20,354
Short-term loan payable	500,000	-
Unearned income-patients	1,216	14,169
Vacation pay payable	15,477	27,859
Sick and severance allowance payouts	(37,361)	(104,638)
	141,051	(469,375)
Financing:		
Deferred capital contributions received	31,619	28,639
Investments:		
Purchase of equipment	(102,057)	(126,283)
Decrease (increase) in investments	(22,087)	273,315
	(124,144)	147,032
Increase (decrease) in cash position	48,526	(293,704)
Cash position, beginning of years	199,248	492,952
Cash, end of years	$ 247,774	$ 199,248

See accompanying notes to financial statements.

General:

Mennonite Benevolent Society - Menno Hospital (the "Hospital") is a separate division 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:

The financial statements have been prepared by management in accordance with the accounting standards in CICA Handbook, Part III, Accounting Standards for not-for-profit organizations to meet the information needs of the Board of the Mennonite Benevolent Society. The significant accounting policies are as follows:

(a) 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.

(b) Inventory:

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

(c) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital 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.

When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis using the following annual rates:

Asset	Rate
Building	5%
Minor equipment	10%
Major equipment	10%

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

(d) 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.

The Hospital uses the deferral and amortization approach to account for its defined benefit plan. The Hospital accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the benefits. The actuarial determination of the accrued benefit obligations uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The measurement date of the plan assets and accrued benefit obligation coincides with the Hospital's fiscal year. The most recent actuarial valuation of the benefit plans for funding purposes was as of March 31, 2014, and the next required valuation will be as of March 31, 2015.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period of active employees. The expected average remaining service period of the active employees covered by the plan is 10 years.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

(e) 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.

1. Significant accounting policies (continued):

(f) Use of estimates:

The preparation of the financial statements in accordance with accounting standards for Not-For-Profit standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the valuation of accounts receivable and investments, the carrying amount of capital assets, accounts payable and accrued liabilities and assets and obligations related to employee future benefits. Actual results could differ from those estimates.

(g) 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 it's investments 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 year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

2. Cash:

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

3. Accounts receivable:

		2014		2013
Menno Home, a related party (note 11)	$	55,104	$	65,995
GST receivable		34,037		30,047
Residents		33,255		29,692
Other		21,188		31,457
Menno Housing, a related party (note 11)		14,286		8,434
MBS Corporate, a related party (note 11)		12,207		8,384
		170,077		174,009
Less allowance for doubtful accounts		(5,885)		(5,885)
	$	164,192	$	168,124

4. Investments:

		2014		2013
CCS 2.25% GIC, $225,000 face value, matures October 21, 2014 with interest paid annually	$	227,233	$	227,247
CCS 2.8% GIC, $221,865 face value, matures October 21, 2014 with interest paid annually		224,613		224,630
CCS 1.9% GIC, $155,000 face value, matures October 14, 2014 with interest paid on maturity		156,380		-
Royal Bank 2.25% GIC, $140,406 face value, matures October 22, 2015 with interest paid at maturity		144,981		141,799
CWB 1.9% GIC, $100,000 face value, matures January 7, 2015 with interest paid at maturity		102,340		100,437
AGF 2.26% GIC, $84,000 face value, matures March 23, 2015 with interest paid annually		84,052		84,057
Vancity 1.75% GIC, $67,000 face value, matures January 7, 2015 with interest paid at maturity		67,267		67,270
Bank of Nova Scotia 6% bond		-		149,371
Cash balance		12,017		1,985
Less: current portion of investments		(873,902)		(151,356)
	$	144,981	$	845,440

4. Investments (continued):

The above investments are recorded at their fair value at March 31, 2014 and March 31, 2013.

$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.

5. Capital assets:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Building	$ 9,283,507	$ 8,327,699	$ 955,808	$ 1,130,246
Major equipment	2,430,084	2,247,051	183,033	206,609
Minor equipment	2,193,528	1,947,559	245,969	221,016
	$ 13,907,119	$ 12,522,309	$ 1,384,810	$ 1,557,871

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

6. Accounts payable and accrued liabilities:

	2014	2013
Trade payables	$ 165,824	$ 183,441
MBS Corporate, a related party (note 11)	128,824	208,043
Other	109,488	80,346
Fraser Health Authority	83,387	80,053
Government remittances, payroll taxes	70,721	73,279
Menno Home, a related party (note 11)	1,669	1,268
	$ 559,913	$ 626,430

7. Sick and severance allowance:

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

	2014	2013
Sick leave benefits	$ 507,819	$ 474,772
Severance benefits	777,209	726,629
	1,285,028	1,201,401
Less current portion	(128,572)	(78,008)
Long-term portion	$ 1,156,456	$ 1,123,393

The sick and severance allowance liability of $1,012,957 (2013 - $1,201,401) is unfunded at March 31, 2014.

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, 2014 is approximately $570,000 (2013 - $522,000).

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

	2014	2013
Deficiency - operating, end of year	$ (1,525,417)	$ (1,286,291)
Less: Sick and severance allowance - long-term portion	884,385	1,123,393
Unrestricted deficiency - operating	$ (641,032)	$ (162,898)

8. Deferred capital contributions:

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

	2014	2013
Balance, beginning of year	$ 1,330,723	$ 1,526,694
Less amounts amortized to revenue	(213,609)	(224,610)
	1,117,114	1,302,084
Capital expenditure grants and donations received	31,619	28,639
	$ 1,148,733	$ 1,330,723

The balance of unamortized capital contributions related to capital assets consists of the following:

	2014	2013
Unamortized deferred capital contributions	$ 1,082,922	$ 1,240,048
Unspent private donations	65,811	82,933
Unspent capital grants	-	7,742
Balance, end of year	$ 1,148,733	$ 1,330,723

9. Invested in capital assets:

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

	2014	2013
Capital assets - net book value	$ 1,384,810	$ 1,557,871
Amounts financed by unamortized deferred contributions	(1,082,922)	(1,240,048)
	$ 301,888	$ 317,823

(b) Change in net assets invested in capital assets is calculated as follows:

	2014	2013
Deficiency of revenue over expenses:		
Amortization of deferred capital contributions	$ 213,609	$ 224,610
Amortization of capital assets	(275,116)	(277,952)
	$ (61,507)	$ (53,342)
Net change in investment in capital assets:		
Capital assets acquired	$ 102,057	$ 126,283
Amount funded by deferred contributions	(56,485)	(73,360)
	$ 45,572	$ 52,923

10. Internally restricted net assets:

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.

11. Related party transactions:

During the year, the Hospital paid rent for land of $173,000 (2013 - $200,000) to MBS Corporate, a separate division 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.

In addition, Home transferred to Hospital $nil (2013 - $300,000) of investments to Hospital.

Purchase of supplies and some wages are centralized in Hospital and Corporate respectively and allocated to the various entities within the Mennonite Benevolent Society.

12. 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. There has been no change to the risk exposures from 2013.

(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 any amounts that are not collectible in the allowance for doubtful accounts.

13. Pension plans:

The Hospital and its employees contribute to the Municipal Pension Plan (the Plan), a jointly trusteed pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits provided are based on a formula. The Plan has about 179,000 active members and approximately 71,000 retired members.

The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2012 indicated a $1.370 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015 with results available in 2016. 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 with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to the individual employers participating in the Plan.

The Hospital paid and expensed $554,404 (2013 - $544,249) for employer contributions to the Municipal Pension Plan.