

Financial Statements of

**MENNONITE BENEVOLENT SOCIETY -
MENNO HOSPITAL**

Year ended March 31, 2015



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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 Mennonite Benevolent Society - Menno Hospital, which comprise the statement of financial position as at March 31, 2015, 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 statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2015, and its results of operations, changes in net assets (deficiency) and its cash flows for the year then ended, 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.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Accountants

May 28, 2015

Abbotsford, British Columbia

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Financial Position

March 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Current assets:		
Cash (note 3)	\$ 222,734	\$ 247,774
Accounts receivable (note 4)	177,266	164,192
Prepaid expenses	1,983	7,508
Short-term investments (note 5)	251,397	873,902
Inventory	71,481	75,549
	<u>724,861</u>	<u>1,368,925</u>
Investments (note 5)	-	144,981
Capital assets (note 6)	1,219,574	1,384,810
	<u>\$ 1,944,435</u>	<u>\$ 2,898,716</u>

Liabilities and Deficiency

Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 471,067	\$ 559,913
Accrued wages and benefits payable	516,156	444,948
Loan payable, Menno Home, a related party	-	500,000
Vacation pay payable	352,288	362,858
Unearned income - patients	24,084	24,217
Current portion of sick and severance allowance (note 8)	105,284	128,572
	<u>1,468,879</u>	<u>2,020,508</u>
Sick and severance allowance (note 8)	972,315	943,152
Deferred capital contributions (note 9)	936,550	1,148,733
Net assets (deficiency):		
Invested in capital assets (note 10(a))	344,991	301,888
Internally restricted (note 11)	68,616	68,616
Unrestricted	<u>(1,846,916)</u>	<u>(1,584,181)</u>
	<u>(1,433,309)</u>	<u>(1,213,677)</u>
	<u>\$ 1,944,435</u>	<u>\$ 2,898,716</u>

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, 2015, with comparative information for 2014

	2015	2014
Revenue:		
Fraser Health Authority operating grant	\$ 9,944,534	\$ 9,945,072
Resident user charges	1,773,846	1,743,098
Interest and other income	40,808	44,060
	<u>11,759,188</u>	<u>11,732,230</u>
Expenses:		
Salaries and wages	7,707,596	7,807,940
Employee benefits	2,322,943	2,365,598
Medical supplies and services	452,671	504,807
Dietary supplies and services	411,347	394,480
Utilities	198,923	195,878
Contract services	176,285	256,095
Rent (note 12)	173,000	173,000
Repairs and maintenance	143,121	123,160
Office and administration	97,448	94,917
Housekeeping supplies and services	52,236	52,457
Linen, laundry supplies and services	44,219	40,659
Professional fees	24,684	36,441
Recreation activities	21,194	19,014
Security and miscellaneous	10,342	8,834
Association membership fees and accreditation	712	3,584
	<u>11,836,721</u>	<u>12,076,864</u>
Deficiency of revenue over expenses before the undernoted	(77,533)	(344,634)
Other revenue (expenses):		
Amortization of deferred capital contributions (note 9)	214,453	213,609
Amortization of capital assets	(288,588)	(275,116)
Sick and severance allowance	(126,281)	(123,368)
	<u>(200,416)</u>	<u>(184,875)</u>
Deficiency of revenue over expenses	<u>\$ (277,949)</u>	<u>\$ (529,509)</u>

See accompanying notes to financial statements.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Changes in Net Assets (Deficiency)

Year ended March 31, 2015, with comparative information for 2014

	Invested in capital assets (note 10)	Internally restricted (note 11)	Unrestricted	2015 Total	2014 Total
Net assets (deficiency), beginning of year	\$ 301,888	\$ 68,616	\$(1,584,181)	\$(1,213,677)	\$ (899,852)
Employee future benefits remeasurement and transition adjustments (notes 2 and 8)	-	-	58,317	58,317	215,684
Deficiency of revenue over expenses (note 10(b))	(74,135)	-	(203,814)	(277,949)	(529,509)
Net change in invested in capital assets (note 10(b))	117,238	-	(117,238)	-	-
Net assets (deficiency) end of year	\$ 344,991	\$ 68,616	\$(1,846,916)	\$(1,433,309)	\$(1,213,677)

See accompanying notes to financial statements.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Cash Flows

Year ended March 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (277,949)	\$ (529,509)
Item not involving cash:		
Amortization of capital assets	288,588	275,116
Sick and severance allowance	126,281	123,368
Amortization of deferred capital contributions	(214,453)	(213,609)
Change in non-cash operating working capital:		
Accounts receivable	(13,074)	3,932
Prepaid expenses	5,525	6,704
Inventory	4,068	13,169
Accounts payable and accrued liabilities	(88,846)	(66,515)
Accrued wages and benefits payable	71,208	49,063
Loan payable, Menno Home	(500,000)	500,000
Vacation pay payable	(10,570)	15,477
Unearned income-patients	(133)	1,216
Sick and severance allowance payouts	(62,089)	(37,361)
	(671,444)	141,051
Financing:		
Deferred capital contributions received	2,270	31,619
Investments:		
Purchase of capital assets	(123,352)	(102,057)
Decrease (increase) in investments	767,486	(22,087)
	644,134	(124,144)
Increase (decrease) in cash position	(25,040)	48,526
Cash position, beginning of year	247,774	199,248
Cash position, end of year	\$ 222,734	\$ 247,774

See accompanying notes to financial statements.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Notes to Financial Statements

Year ended March 31, 2015

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 and for building and renovation projects.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian 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, if any.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2015

1. Significant accounting policies (continued):

(c) Capital assets (continued):

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

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

(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.

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, 2015, and the next required valuation will be as of March 31, 2016.

(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.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2015

1. Significant accounting policies (continued):

(f) 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 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, the carrying amount of capital assets, 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 its 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.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2015

2. Adoption of new accounting policy:

Effective April 1, 2014, the Hospital adopted CPA Canada Handbook Accounting Part III Section 3463, *Reporting Employee Future Benefits by Not-for-Profit Organizations*.

Under the new standard, the actuarial gains and losses and past service costs are no longer deferred and amortized over future periods. The full actuarial liability net of assets is recorded in the Statement of Financial Position, the annual benefit cost is recorded in the Statement of Operations and the change in unamortized gains and losses is recognized on the Statement of Changes in Net Assets. In addition, interest cost and expected rate of return on plan assets are replaced with a net interest amount that is calculated by applying the discount rate used to calculate the net defined benefit obligation.

The Hospital implemented the new standard retrospectively. The impact is as follows:

Statement of Financial Position:

March 31, 2014	As previously presented	Restatement	As restated
Sick and severance allowance	\$ 1,285,028	\$ (213,304)	\$ 1,071,724

Statement of Operations:

For the year ended March 31, 2014	As previously presented	Restatement	As restated
Sick and severance allowance	\$ 120,988	\$ 2,380	\$ 123,368

Statement of Changes in Net Assets:

For the year ended March 31, 2014	As previously presented	Restatement	As restated
Remeasurement and transitional adjustments	\$ -	\$ 215,684	\$ 215,684

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2015

3. Cash:

The Hospital's cash is held in a cash management account which earns interest at prime minus 2.05% to 1.15%.

4. Accounts receivable:

	2015	2014
Menno Home, a related party (note 12)	\$ 57,671	\$ 55,104
GST receivable	48,329	34,037
Residents	25,643	33,255
Other	21,977	21,188
MBS Corporate, a related party (note 12)	16,091	12,207
Menno Housing, a related party (note 12)	13,440	14,286
	183,151	170,077
Less allowance for doubtful accounts	(5,885)	(5,885)
	\$ 177,266	\$ 164,192

5. Investments:

	2015	2014
Term deposits	\$ 148,243	\$ 1,006,866
Marketable securities	103,154	-
Cash balance	-	12,017
Less: current portion of investments	(251,397)	(873,902)
	\$ -	\$ 144,981

Term deposits accrue interest at 2.25% (2014 - ranging from 1.75% - 2.8%) and mature on October 22, 2015.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2015

6. Capital assets:

			2015	2014
	Cost	Accumulated amortization	Net book value	Net book value
Building	\$ 9,283,507	\$ 8,503,131	\$ 780,376	\$ 955,808
Major equipment	2,497,153	2,300,767	196,386	183,033
Minor equipment	2,245,967	2,003,155	242,812	245,969
	\$ 14,026,627	\$ 12,807,053	\$ 1,219,574	\$ 1,384,810

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

7. Accounts payable and accrued liabilities:

	2015	2014
Trade payables	\$ 249,429	\$ 165,824
Fraser Health Authority	76,403	83,387
Government remittances, payroll taxes	69,592	70,721
MBS Corporate, a related party (note 12)	58,293	128,824
Other	15,646	109,488
Menno Home, a related party (note 12)	1,704	1,669
	\$ 471,067	\$ 559,913

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2015

8. Sick and severance allowance:

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

	2015	2014
Opening balance	\$ 1,071,724	\$ 1,201,401
Adjustment on transition (note 2)	(58,317)	(215,684)
Pension expense	126,281	123,368
Actual benefits paid	(62,089)	(37,361)
	<u>\$ 1,077,599</u>	<u>\$ 1,071,724</u>

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

	2015	2014
Sick leave benefits	\$ 386,347	\$ 388,339
Severance benefits	691,252	683,385
	1,077,599	1,071,724
Less current portion	(105,284)	(128,572)
Long-term portion	<u>\$ 972,315</u>	<u>\$ 943,152</u>

The sick and severance allowance liability of \$1,077,599 (2014 - \$1,071,724) is unfunded at March 31, 2015.

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, 2015 is approximately \$488,000 (2014 - \$438,000).

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

	2015	2014
Deficiency - operating, end of year	\$ (1,846,916)	\$ (1,584,181)
Less: Sick and severance allowance - long-term portion	972,315	943,152
Unrestricted deficiency - operating	<u>\$ (874,601)</u>	<u>\$ (641,029)</u>

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2015

9. 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.

	2015	2014
Balance, beginning of year	\$ 1,148,733	\$ 1,330,723
Less amounts amortized to revenue	(214,453)	(213,609)
	934,280	1,117,114
Capital expenditure grants and donations received	2,270	31,619
	\$ 936,550	\$ 1,148,733

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

	2015	2014
Unamortized deferred capital contributions	\$ 874,583	\$ 1,082,922
Unspent private donations	61,967	65,811
Balance, end of year	\$ 936,550	\$ 1,148,733

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2015

10. Invested in capital assets:

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

	2015	2014
Capital assets - net book value	\$ 1,219,574	\$ 1,384,810
Amounts financed by unamortized deferred contributions	(874,583)	(1,082,922)
	<u>\$ 344,991</u>	<u>\$ 301,888</u>

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

	2015	2014
Deficiency of revenue over expenses:		
Amortization of deferred capital contributions	\$ 214,453	\$ 213,609
Amortization of capital assets	(288,588)	(275,116)
	<u>\$ (74,135)</u>	<u>\$ (61,507)</u>
Net change in investment in capital assets:		
Capital assets acquired	\$ 123,352	\$ 102,057
Amount funded by deferred contributions	(6,114)	(56,485)
	<u>\$ 117,238</u>	<u>\$ 45,572</u>

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2015

11. 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.

12. Related party transactions:

During the year, the Hospital paid rent for land of \$173,000 (2014 - \$173,000) 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.

The purchase of supplies and some management wages are centralized in the Hospital and MBS Corporate respectively and are allocated out to the various divisions within the Mennonite Benevolent Society.

13. 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 2014.

(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.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2015

14. Pension plans:

The Hospital and its employees contribute to the Municipal Pension Plan (the Plan), a jointly trustee 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 182,000 active members and approximately 75,000 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 \$583,235 (2014 - \$554,404) for employer contributions to the Municipal Pension Plan.