

Financial Statements of

**MENNONITE BENEVOLENT SOCIETY  
MENNO HOSPITAL**

Year ended March 31, 2011



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## INDEPENDENT AUDITORS' REPORT

To the Members of the Mennonite Benevolent Society

We have audited the accompanying financial statements of Menno Hospital (the "Entity") which comprise the balance sheet as at March 31, 2011 and the statements of operations, retained earnings 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 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 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 Entity as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

Chartered Accountants

April 19, 2011  
Abbotsford, British Columbia

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# THE MENNONITE BENEVOLENT SOCIETY MENNO HOSPITAL

Statement of Financial Position

March 31, 2011, with comparative figures for 2010

	2011	2010
<b>Assets</b>		
Current assets:		
Cash (Note 3)	\$ 895,755	\$ 678,614
Short-term investments (Note 4)	950,296	927,485
Accounts receivable (Note 10)	58,289	174,764
Inventory	86,223	101,137
Prepaid expenses	13,943	12,401
	2,004,506	1,894,401
Building and equipment (Note 5)	2,149,780	2,697,530
	\$ 4,154,286	\$ 4,591,931

## Liabilities, Deferred Contributions and Deficiency

Current liabilities:		
Accounts payable and accrued liabilities	\$ 600,567	\$ 306,008
Accrued wages and benefits payable	421,666	389,906
Vacation payable	300,365	312,942
Unearned income - patients	11,478	8,480
Current portion of retirement allowance (Note 6)	234,736	110,638
	1,568,812	1,127,974
Retirement allowance (Note 6)	984,124	1,102,972
Deferred contributions (Note 7)	1,893,208	2,447,344
Deficiency:		
Invested in building and equipment (Note 8(a))	290,263	284,132
Internally restricted (Note 9)	68,616	61,674
Deficiency - operating	(650,737)	(432,165)
	(291,858)	(86,359)
	\$ 4,154,286	\$ 4,591,931

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, 2011, with comparative figures for 2010

	2011	2010
<b>Revenue:</b>		
Fraser Health Authority operating grant	\$ 9,687,684	\$ 9,618,018
Resident user charges	1,644,608	1,728,076
Room differential charges	397,257	418,142
Interest and other income	67,578	76,213
	<u>11,797,127</u>	<u>11,840,449</u>
<b>Expenses:</b>		
Salaries and wages	7,640,264	7,606,760
Employee benefits	2,265,677	2,037,910
Dietary supplies and services	474,459	434,521
Medical supplies and services	460,259	505,856
Rent (Note 10)	200,000	150,000
Utilities	191,612	189,045
Repairs and maintenance	168,012	123,294
Contract services	156,646	135,085
Office and administration	163,562	155,591
Linen, laundry supplies and services	43,515	49,290
Housekeeping supplies and services	39,234	44,685
Professional fees	24,667	22,543
Security and miscellaneous	6,423	7,021
Recreation	4,039	6,694
Bad debts	3,223	-
Association membership fees and accreditation	1,673	6,026
	<u>11,843,265</u>	<u>11,474,321</u>
<b>Excess (deficiency) of revenue over expenses before the undernoted</b>	<b>(46,138)</b>	<b>366,128</b>
<b>Other revenue (expenses):</b>		
Amortization of deferred contributions related to building and equipment (Note 7)	643,567	740,050
Amortization of building and equipment	(713,037)	(796,982)
Retirement allowance	(100,946)	(105,880)
	<u>(170,416)</u>	<u>(162,812)</u>
<b>Excess (deficiency) of revenue over expenses</b>	<b>\$ (216,554)</b>	<b>\$ 203,316</b>

See accompanying notes to financial statements.

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Statement of Changes in Net Assets (Deficiency)

Year ended March 31, 2011, with comparative figures for 2010

	Invested in building and equipment (Note 8)	Internally restricted (Note 9)	Deficiency operating	2011 Total	2010 Total
Balance, beginning of year	\$ 284,132	\$ 61,674	\$ (432,165)	\$ (86,359)	\$ (289,675)
Excess (deficiency) of revenue over expenses	(69,470)	-	(147,084)	(216,554)	203,316
Net change in investment in building and equipment	75,601	-	(75,601)	-	-
Internally restricted funds, net	-	6,942	(6,942)	-	-
<b>Balance, end of year</b>	<b>\$ 290,263</b>	<b>\$ 68,616</b>	<b>\$ (661,792)</b>	<b>\$ (302,913)</b>	<b>\$ (86,359)</b>

Determination of unrestricted deficiency - operating after excluding retirement allowance - long-term portion:

	2011	2010
Deficiency - operating, end of year	\$ (661,792)	\$ (432,165)
Less: Retirement allowance - long-term portion	1,102,972	1,102,972
<b>Unrestricted net assets - operating</b>	<b>\$ 441,180</b>	<b>\$ 670,807</b>

See accompanying notes to financial statements.

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

### Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ (216,554)	\$ 203,316
Items not involving cash:		
Amortization of building and equipment	713,037	796,982
Amortization of deferred contributions related to building and equipment	(643,567)	(740,050)
Retirement allowance	100,946	105,880
Retirement payouts	(95,695)	(93,308)
Changes in non-cash operating working capital:		
Accounts receivable	116,475	(44,639)
Inventory	14,914	(29,323)
Prepaid expenses	(1,542)	3,490
Accounts payable and accrued liabilities	294,559	(145,992)
Accrued wages and benefits payable	31,760	27,734
Vacation pay payable	(12,577)	(15,088)
Unearned income - patients	2,998	(4,226)
	304,754	64,776
Financing:		
Deferred capital contributions received	89,431	63,077
Investments:		
Purchase of equipment	(165,288)	(323,100)
Increase (decrease) in cash and short-term investments	228,897	(195,247)
Cash and short-term investments, beginning of year	1,606,099	1,801,346
Cash and short-term investments, end of year	\$ 1,834,996	\$ 1,606,099

See accompanying notes to financial statements.

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Notes to Financial Statements

Year ended March 31, 2011

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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) General:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and Ministry of Health accounting guidelines.

#### (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 is recorded at the lower of cost 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. 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.

# THE MENNONITE BENEVOLENT SOCIETY MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

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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%
Major equipment	10%
Minor equipment	25% to 30%

### (e) Retirement 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, 2011.

### (f) Income taxes:

The Hospital is exempt from federal and provincial income taxes.

### (g) 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.

### (h) Financial instruments:

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

(i) Cash and short-term 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, retirement allowance and long-term debt as other financial liabilities, which are measured at amortized cost.



# THE MENNONITE BENEVOLENT SOCIETY MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

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## **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 International Financial Reporting Standards. 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, 2011

#### 4. Short-term investments:

	2011	2010
CCS 2.8% GIC, \$221,865 face value, matures October 21, 2014 with interest paid on maturity	\$ 224,612	\$ -
AGF 2.06% GIC, \$200,000 face value, matures October 14, 2011 with interest paid on maturity	201,896	201,896
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	156,840	159,005
CIBC 4.35% bond, \$150,000 face value, matures November 1, 2011 with interest paid semi-annually on May 1 and November 1	155,212	158,486
AGF 2.61% GIC, \$125,000 face value, matures October 15, 2012 with interest paid on maturity	126,502	126,502
CCS 2.00% GIC, \$80,295 face value, matures March 19, 2012 with interest paid on maturity	81,959	80,352
Dundee security cash balance	3,275	1
CCS 1.35% GIC, \$200,000 face value, matures October 14, 2010 with interest paid on maturity	-	201,243
	<b>\$ 950,296</b>	<b>\$ 927,485</b>

The above investments are recorded at their market value at March 31, 2011 and at March 31, 2010.

\$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 March 2012.

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

### 5. Building and equipment:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Building	\$ 9,283,507	\$ 7,519,282	\$ 1,764,225	\$ 2,198,081
Major equipment	2,330,029	2,073,651	256,378	275,053
Minor equipment	1,949,874	1,820,697	129,177	224,396
	<u>\$ 13,563,410</u>	<u>\$ 11,413,630</u>	<u>\$ 2,149,780</u>	<u>\$ 2,697,530</u>

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

### 6. Retirement allowance:

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

	2011	2010
Sick leave benefits	\$ 481,671	\$ 480,906
Severance benefits	737,189	732,704
	<u>1,218,860</u>	<u>1,213,610</u>
Less current portion	234,736	110,638
Long-term portion	<u>\$ 984,124</u>	<u>\$ 1,102,972</u>

The retirement allowance liability of \$1,218,860 (2010 - \$1,213,610) is unfunded at March 31, 2011.

The portion of the retirement allowance liability that relates to employees who have qualified for the retirement allowance as at March 31, 2011 is approximately \$582,000 (2010 - \$398,000).

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

### 7. Deferred 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.

	2011	2010
Balance, beginning of year	\$ 2,447,344	\$ 3,124,317
Less amounts amortized to revenue	(643,567)	(740,050)
	1,803,777	2,384,267
Capital expenditure grants and donations received	89,431	63,077
	\$ 1,893,208	\$ 2,447,344

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

	2011	2010
Unamortized capital contributions used to purchase building and equipment	\$ 1,859,517	\$ 2,413,398
Unspent capital grants	16,236	18,559
Unspent private donations	17,455	15,387
	\$ 1,893,208	\$ 2,447,344

# THE MENNONITE BENEVOLENT SOCIETY

## MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

### 8. Invested in building and equipment:

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

	2011	2010
Building and equipment - net book value	\$ 2,149,780	\$ 2,697,530
Amounts financed by unamortized deferred contributions	(1,859,517)	(2,413,398)
	<u>\$ 290,263</u>	<u>\$ 284,132</u>

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

	2011	2010
Excess (deficiency) of revenue over expenses:		
Amortization of deferred contributions related to building and equipment	\$ 643,567	\$ 740,050
Amortization of building and equipment	(713,037)	(796,982)
	<u>\$ (69,470)</u>	<u>\$ (56,932)</u>
Net change in investment in building and equipment:		
Equipment acquired	\$ 165,288	\$ 323,100
Amount funded by deferred contributions	(89,687)	(146,549)
	<u>\$ 75,601</u>	<u>\$ 176,551</u>

# THE MENNONITE BENEVOLENT SOCIETY MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2011

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## 9. Internally restricted:

The Board of Directors has internally restricted \$68,166 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	\$ 61,674	\$ 44,281
Transfer from deficiency - operating	36,942	117,238
Expenditures incurred	(30,000)	(99,845)
Balance, end of year	\$ 68,616	\$ 61,674

## 10. Related party transactions:

During the year, the Hospital paid rent for land of \$200,000 (2010 - \$150,000) to the MBS Corporate. 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 \$45,315 (2010 - \$65,819) receivable from Menno Home and included in accounts payable is \$128,841 (2010 - \$42,906) payable to MBS Corporate.