Financial Statements of

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Year ended March 31, 2018

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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, 2018, 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 Mennonite Bennevolent Society - Menno Hospital as at March 31, 2018, 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.

Emphasis of Matter

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 Professional Accountants

May 17, 2018

Abbotsford, Canada

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Financial Position

March 31, 2018, with comparative information for 2017

		2018		2017
Assets				
Current assets:				
Cash (note 2)	$	448,436	$	483,879
Accounts receivable (note 3)		104,331		162,700
Prepaid expenses		58,843		59,416
Short-term investments		-		101,694
Inventory		82,547		74,952
		694,157		882,641
Capital assets (note 4)		757,534		887,799
	$	1,451,691	$	1,770,440
Liabilities and Deficiency				
Current liabilities:				
Accounts payable and accrued liabilities (note 5)	$	690,601	$	808,647
Accrued wages and benefits payable		276,683		317,372
Vacation pay payable		259,944		283,119
Unearned income		402,167		401,283
Current portion of sick and severance allowance (note 6)		121,964		115,435
		1,751,359		1,925,856
Sick and severance allowance (note 6)		748,611		781,443
Deferred capital contributions (note 7)		364,146		574,635
Net assets (deficiency):				
Invested in capital assets (note 8(a))		394,799		349,778
Internally restricted (note 9)		68,616		68,616
Unrestricted		(1,875,840)		(1,929,888)
		(1,412,425)		(1,511,494)
	$	1,451,691	$	1,770,440

See accompanying notes to financial statements.

On behalf of the Board:

Hans K ____________ Director ____________ Director

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Operations

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Fraser Health Authority operating grant	$ 10,207,662	$ 10,168,153
Resident user charges	1,981,440	1,854,139
Interest and other income	57,971	29,604
	12,247,073	12,051,896
Expenses:		
Salaries and wages	6,196,556	6,061,278
Contract services	2,229,646	2,199,453
Employee benefits	1,834,635	1,812,898
Medical supplies and services	455,437	483,675
Dietary supplies and services	450,848	438,655
Utilities	226,864	236,209
Repairs and maintenance	196,059	171,739
Rent (note 10)	173,000	173,000
Office and administration	147,312	135,120
Housekeeping supplies and services	51,088	50,176
Laundry supplies and services	40,623	48,346
Professional fees	35,607	21,890
Recreation activities	19,637	27,810
Security and miscellaneous	9,149	9,331
Association membership fees and accreditation	253	265
	12,066,714	11,869,845
Excess of revenue over expenses before the undernoted	180,359	182,051
Other revenue (expenses):		
Amortization of deferred capital contributions (note 7)	175,286	168,757
Amortization of capital assets	(255,402)	(231,882)
Sick and severance allowance	(108,381)	(107,817)
	(188,497)	(170,942)
Excess (deficiency) of revenue over expenses	$ (8,138)	$ 11,109

See accompanying notes to financial statements.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Changes in Net Assets (Deficiency)

Year ended March 31, 2018, with comparative information for 2017

	Invested in capital assets (note 8)	Internally restricted (note 9)	Unrestricted	2018 Total	2017 Total
Net assets (deficiency), beginning of year	$ 349,778	$ 68,616	$(1,929,888)	$(1,511,494)	$(1,548,224)
Employee future benefits remeasurement (note 7)	-	-	107,207	107,207	25,621
Excess (deficiency) of revenue over expenses (note 8(b))	(80,116)	-	71,978	(8,138)	11,109
Net change in invested in capital assets (note 8(b))	125,137	-	(125,137)	-	-
Net assets (deficiency) end of year	$ 394,799	$ 68,616	$(1,875,840)	$(1,412,425)	$(1,511,494)

See accompanying notes to financial statements.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	$ (8,138)	$ 11,109
Items not involving cash:		
Amortization of capital assets	255,402	231,882
Sick and severance allowance	108,381	107,817
Amortization of deferred capital contributions	(175,286)	(168,757)
Transfer of deferred capital contributions	(35,203)	(10,573)
Changes in non-cash operating working capital:		
Accounts receivable	58,369	(97,964)
Prepaid expenses	573	(17,500)
Inventory	(7,595)	5,234
Accounts payable and accrued liabilities	(118,046)	(61,192)
Accrued wages and benefits payable	(40,689)	(150,814)
Vacation pay payable	(23,175)	(9,127)
Unearned income	884	390,166
Sick and severance allowance payouts	(27,477)	(109,816)
	(12,000)	120,465
Investments:		
Purchase of capital assets	(125,137)	(88,819)
Decrease in investments	101,694	139,379
	(23,443)	50,560
Increase (decrease) in cash	(35,443)	171,025
Cash, beginning of year	483,879	312,854
Cash, end of year	$ 448,436	$ 483,879

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 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, resident user charges 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. Interest and other income are recognized as revenue when earned.

(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.

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, 2018, and the next required valuation will be as of March 31, 2019.

(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 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 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 rates ranging from 0% to 0.86% (2017 - prime minus 2.05% to 1.15%).

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Notes to Financial Statements (continued)

Year ended March 31, 2018

3. Accounts receivable:

		2018		2017
Menno Home, a related party (note 10)	$	45,387	$	62,194
GST receivable		21,757		37,825
Menno Housing, a related party (note 10)		18,285		20,930
Residents		14,782		30,111
Other		10,005		9,936
MBS Corporate, a related party (note 10)		-		7,589
		110,216		168,585
Less allowance for doubtful accounts		(5,885)		(5,885)
	$	104,331	$	162,700

4. Capital assets:

						2018		2017
		Cost		Accumulated amortization		Net book value		Net book value
Building	$	9,283,507	$	8,980,960	$	302,547	$	456,676
Major equipment		2,541,666		2,418,989		122,677		161,957
Minor equipment		2,489,236		2,156,926		332,310		269,166
	$	14,314,409	$	13,556,875	$	757,534	$	887,799

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

5. Accounts payable and accrued liabilities:

		2018		2017
Trade payables	$	351,166	$	346,563
Menno Home, a related party (note 10)		100,000		200,000
Other		88,744		100,201
Fraser Health Authority		79,944		103,252
Government remittances, payroll taxes		62,831		58,631
MBS Corporate, a related party (note 10)		7,916		-
	$	690,601	$	808,647

6. Sick and severance allowance:

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

	2018	2017
Opening balance	$ 896,878	$ 924,497
Pension expense	108,381	107,817
Actuarial gains to net assets	(107,207)	(25,621)
Actual benefits paid	(27,477)	(109,815)
	$ 870,575	$ 896,878

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

	2018	2017
Sick leave benefits	$ 305,170	$ 315,745
Severance benefits	565,405	581,133
	870,575	896,878
Less current portion	(121,964)	(115,435)
Long-term portion	$ 748,611	$ 781,443

The sick and severance allowance liability of $870,575 (2017 - $896,878) is unfunded at March 31, 2018.

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, 2018 is approximately $450,000 (2017 - $375,000).

7. 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.

	2018	2017
Balance, beginning of year	$ 574,635	$ 753,965
Less amounts amortized to revenue	(175,286)	(168,757)
	399,349	585,208
Contributions transferred to operations	(35,203)	(10,573)
	$ 364,146	$ 574,635

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

	2018	2017
Unamortized deferred capital contributions	$ 362,735	$ 538,021
Unspent deferred capital contributions (from private donors)	1,411	36,614
Balance, end of year	$ 364,146	$ 574,635

8. Invested in capital assets:

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

		2018		2017
Capital assets - net book value	$	757,534	$	887,799
Amounts financed by unamortized deferred contributions		(362,735)		(538,021)
	$	394,799	$	349,778

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

		2018		2017
Deficiency of revenue over expenses:				
Amortization of deferred capital contributions	$	175,286	$	168,757
Amortization of capital assets		(255,402)		(231,882)
	$	(80,116)	$	(63,125)
Net change in investment in capital assets:				
Capital assets acquired	$	125,137	$	88,819
Amount funded by deferred contributions		-		(11,159)
	$	125,137	$	77,660

9. Internally restricted net assets:

The Board of Directors has internally restricted $68,616 (2017 - $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.

10. Related party transactions:

During the year, the Hospital paid rent for land of $173,000 (2017 - $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 four divisions of the Society are Housing, MBS Corporate, Hospital and Home.

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.

11. Director, employee and contractor compensation:

For the year ending 2018, the Society paid total remuneration of $1,059,531 (2017 - $1,029,045) to ten employees and contractors for services, each of whom received total annual remuneration of $75,000 or greater.

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 2017.

(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.

12. Financial risks (continued):

(c) Interest rate risk:

Hospital is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed rate instruments subject Hospital to fair value risk while the floating rate instruments subject it to cash flow risk. 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.

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. As at December 31, 2016 the Plan has about 193,000 active members and approximately 90,000 retired members. Active members include approximately 121 employees of the Hospital (2017 - 121).

The most recent actuarial valuation as at December 31, 2015 indicated a $2,224 million funding surplus for basic benefits on a going concern basis. The next valuation is as at December 31, 2018 with results available in 2019.

Employers participating in the Plan record their pension expense as the amount of employer contributions made during the 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.

During fiscal 2017 the employer contributions made by Hospital to the Plan of $449,799 (2017 - $428,307) were expensed during the year.