Financial Statements of

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

And Independent Auditors' Report thereon

Year ended March 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Members of Mennonite Benevolent Society

Opinion

We have audited the accompanying financial statements of Mennonite Benevolent Society – Menno Hospital (the "Entity"), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of operations for the year then ended
- the statement of changes in net deficiency for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the financial statements, present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Emphasis of Matter

We draw attention to note 2 to the financial statements which describes the applicable financial reporting framework.

The financial statements are prepared to meet the information needs of the Board of Directors of the Mennonite Benevolent Society. As a result, the financial statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Abbotsford, Canada
May 14, 2020

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Financial Position

March 31, 2020, with comparative information for 2019

		2020		2019
Assets				
Current assets:				
Cash and term deposits (note 3)	$	707,284	$	693,695
Restricted cash and term deposits (note 3)		68,616		68,616
Accounts receivable (note 4)		78,756		78,462
Prepaid expenses		70,257		54,445
Inventory		77,564		75,124
		1,002,477		970,342
Capital assets (note 5)		762,613		832,566
	$	1,765,090	$	1,802,908
Liabilities and Net Deficiency				
Current liabilities:				
Accounts payable and accrued liabilities (note 6)	$	880,440	$	993,210
Accrued wages and benefits payable		404,109		330,814
Vacation pay payable		295,609		282,677
Unearned revenue		442,000		429,431
Current portion of sick and severance allowance (note 7)		73,254		94,623
		2,095,412		2,130,755
Sick and severance allowance (note 7)		530,213		487,869
Deferred capital contributions (note 8)		251,339		319,319
		2,876,964		2,937,943
Net assets (deficiency):				
Invested in capital assets (note 9)		511,274		513,247
Internally restricted (note 10)		68,616		68,616
Unrestricted		(1,691,764)		(1,716,898)
		(1,111,874)		(1,135,035)
Related party transactions (note 11)				
Contingencies (note 14)				
	$	1,765,090	$	1,802,908

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, 2020, with comparative information for 2019

	2020	2019
Revenue:		
Fraser Health Authority operating grant	$ 10,958,038	$ 10,370,650
Resident user charges	2,101,496	2,057,431
Interest and other income	55,224	48,370
	13,114,758	12,476,451
Expenses:		
Salaries and wages	6,641,714	6,373,883
Contract services	2,376,801	2,290,891
Employee benefits	2,022,306	1,864,615
Medical supplies and services	520,071	484,814
Dietary supplies and services	487,605	452,114
Utilities	216,970	278,495
Repairs and maintenance	189,011	178,364
Rent (note 11)	173,000	173,000
Office and administration	121,990	117,406
Housekeeping supplies and services	63,674	56,719
Laundry supplies and services	30,707	36,216
Professional fees	19,497	21,746
Recreation activities	17,956	17,882
Security and miscellaneous	8,814	7,396
Association membership fees and accreditation	1,394	1,819
	12,891,510	12,355,360
Excess of revenue over expenses before the undernoted	223,248	121,091
Other revenue (expenses):		
Amortization of deferred capital contributions	105,394	139,702
Amortization of capital assets	(194,860)	(186,863)
Sick and severance allowance	(133,421)	(110,067)
	(222,887)	(157,228)
Excess (deficiency) of revenue over expenses	$ 361	$ (36,137)

See accompanying notes to financial statements.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Changes in Net Deficiency

Year ended March 31, 2020, with comparative information for 2019

	Invested in capital assets (note 9)	Internally restricted (note 10)	Unrestricted	2020 Total	2019 Total
Net assets (deficiency), beginning of year	$ 513,247	$ 68,616	$(1,716,898)	$(1,135,035)	$(1,412,425)
Employee future benefits remeasurement (note 7)	-	-	22,800	22,800	313,527
Excess (deficiency) of revenue over expenses	(89,466)	-	89,827	361	(36,137)
Change in net assets invested in capital assets	87,493	-	(87,493)	-	-
Net assets (deficiency), end of year	$ 511,274	$ 68,616	$(1,691,764)	$(1,111,874)	$(1,135,035)

See accompanying notes to financial statements.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Cash Flows

Year ended March 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	$ 361	$ (36,137)
Items not involving cash:		
Amortization of capital assets	194,860	186,863
Sick and severance allowance	133,421	110,067
Amortization of deferred capital contributions	(105,394)	(139,702)
Transfer of deferred capital contributions	-	(1,410)
	223,248	119,681
Changes in non-cash operating working capital:		
Accounts receivable	(294)	25,869
Prepaid expenses	(15,812)	4,398
Inventory	(2,440)	7,423
Accounts payable and accrued liabilities	(112,770)	302,609
Accrued wages and benefits payable	73,295	54,131
Vacation pay payable	12,932	22,733
Unearned income	12,569	27,264
Sick and severance allowance	(89,646)	(84,623)
	101,082	479,485
Financing:		
Deferred capital contributions received	37,414	96,285
Investing:		
Purchase of capital assets	(124,907)	(261,895)
Increase in cash and term deposits	13,589	313,875
Cash and term deposits, beginning of year	762,311	448,436
Cash and term deposits, end of year	$ 775,900	$ 762,311
Cash consists of:		
Cash and term deposits	$ 707,284	$ 693,695
Restricted cash and term deposits	68,616	68,616
	$ 775,900	$ 762,311

See accompanying notes to financial statements.

1. Nature of operations:

Mennonite Benevolent Society (the “Society”) operates Menno Place, a multi-site campus of long-term care, assisted living, and independent living. The Society is incorporated under the Societies Act (British Columbia) and is classified as a tax exempt not-for-profit organization and as a charity under the Income Tax Act (Canada) and, accordingly, is not subject to income taxes.

Menno Hospital (the "Hospital") operates as a separate division of the Society and provides long-term care under contract with the Fraser Health Authority ("FHA"). The Hospital is dependent on FHA to provide sufficient funding for operations, and assistance for replacement of basic equipment and renovation projects.

2. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations to meet the information needs of the Board of Directors (the "Board") of the Society and include the following significant accounting policies:

(a) Revenue recognition:

The Hospital follows the deferral method of accounting for contributions, which includes government grants and donations.

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. Externally restricted contributions are recorded 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 asset.

Revenue from other sources such as resident fees and interest are recognized when earned and collection is reasonably assured.

2. Significant accounting policies (continued):

(b) Cash and term deposits:

Cash and term deposits are made up of cash on hand and funds on deposit readily redeemable with maturity dates ranging from ninety days to one year from the time of acquisition.

(c) Inventory:

Inventory, consisting of supplies, is recorded at the lower of cost and replacement cost. Cost includes purchase, conversion and other costs incurred in bringing the inventories to their present location and condition.

(d) Capital assets:

Purchased capital assets are recorded at historical cost, less accumulated amortization. Contributed 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.

Amortization is provided using the declining balance method using the following rates:

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

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that either the full or partial amount of the asset no longer has long-term service potential to the Society. If such conditions exist, an impairment loss is measured at the amount by which either the full or partial carrying amount of the asset exceeds its residual value.

2. Significant accounting policies (continued):

(e) 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, 2020, and the next required valuation will be as of March 31, 2021.

(f) Employee future benefits:

The Hospital and its employees make contributions to the Municipal Pension Plan (the "Plan") which is a multi-employer joint trusteed plan. This Plan is a defined benefit plan, providing a pension on retirement based on the member's age at retirement, length of service and highest earnings averaged over five years. Inflation adjustments are contingent upon available funding. As the assets and liabilities of the Plan are not segregated by entity, the Plan is accounted for as a defined contribution plan and contributions made by the Hospital to the Plan are expensed as incurred.

2. Significant accounting policies (continued):

(g) 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 areas requiring the use of management estimates include the determination of useful lives of capital assets for purposes of amortization, the allocation of expenses, valuation of accounts receivable and accrued liabilities, and provisions for contingencies. Actual results could differ from those estimates.

(h) 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 any such financial instruments 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.

3. Cash and term deposits:

		2020		2019
Cash	$	306,422	$	693,695
Term deposit		400,862		-
	$	707,284	$	693,695

The term deposit bears interest at 1.21%.

Restricted cash and term deposits are comprised of the following:

		2020		2019
Internally restricted	$	68,616	$	68,616
Restricted cash and term deposits		68,616		68,616
Unrestricted cash and term deposits		638,668		625,079
	$	707,284	$	693,695

4. Accounts receivable:

		2020		2019
GST receivable	$	21,548	$	20,663
Menno Corporate, a related party (note 11)		18,379		-
Menno Housing, a related party (note 11)		14,978		-
Residents fee receivable		12,915		11,737
Accounts receivable		10,936		46,062
	$	78,756	$	78,462

There are no allowances for doubtful accounts.

5. Capital assets:

	Cost	Accumulated amortization	2020 Net book value	2019 Net book value
Building	$ 9,283,507	$ 9,133,300	$ 150,207	$ 225,373
Major equipment	2,870,424	2,533,513	336,911	317,352
Minor equipment	2,547,281	2,271,786	275,495	289,841
	$ 14,701,212	$ 13,938,599	$ 762,613	$ 832,566

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

6. Accounts payable and accrued liabilities:

	2020	2019
Trade payables	$ 398,712	$ 419,332
Menno Home, a related party (note 11)	181,498	270,872
Other	152,183	84,767
Fraser Health Authority	79,503	85,410
Government remittances	68,544	65,358
Menno Corporate, a related party (note 11)	-	41,394
Menno Housing, a related party (note 11)	-	26,077
	$ 880,440	$ 993,210

7. Sick and severance allowance:

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

	2020	2019
Opening balance	$ 582,492	$ 870,575
Pension expense	133,421	110,067
Actuarial losses	(22,800)	(313,527)
Actual benefits paid	(89,646)	(84,623)
	$ 603,467	$ 582,492

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

	2020	2019
Sick leave benefits	$ 215,625	$ 229,036
Severance benefits	387,842	353,456
	603,467	582,492
Less current portion	(73,254)	(94,623)
Long-term portion	$ 530,213	$ 487,869

The sick and severance allowance liability of $603,467 (2019 - $582,492) is unfunded at March 31, 2020.

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, 2020 is approximately $223,000 (2019 - $233,000).

8. Deferred capital contributions:

Deferred capital contributions represent both the unamortized value of capital assets donated to Corporate and contributions received for the acquisition of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations. The changes in deferred capital contributions for the year are as follows:

	Balance beginning of year	Current contributions received	Amounts amortized in the year	Balance end of the year
Building	$ 162,934	$ -	$ 66,712	$ 96,222
Major equipment	13,613	-	8,977	4,636
Minor equipment	142,772	37,414	29,705	150,481
	$ 319,319	$ 37,414	$ 105,394	$ 251,339

9. Invested in capital assets:

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

	2020	2019
Capital assets	$ 762,613	$ 832,566
Amounts financed by deferred capital contributions	(251,339)	(319,319)
	$ 511,274	$ 513,247

(b) Deficiency of revenue over expenses in capital assets:

	2020	2019
Amortization of deferred capital contributions	$ 105,394	$ 139,702
Amortization of capital assets	(194,860)	(186,863)
	$ (89,466)	$ (47,161)

9. Invested in capital assets (continued):

(c) Change in net assets invested in capital assets:

	2020	2019
Purchase of capital assets	$ 124,907	$ 261,895
Amount funded by deferred capital contributions	(37,414)	(89,755)
Other	-	1,410
	$ 87,493	$ 173,550

10. Internally restricted net assets:

The Board has internally restricted $68,616 (2019 - $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.

11. Related party transactions:

During the year, the Hospital entered into transactions with other divisions within the Society. These transactions occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Hospital paid rent for land of $173,000 (2019 - $173,000) to Menno Corporate. Additionally, the purchase of supplies and management wages are centralized in the Hospital and Menno Corporate, respectively, and are allocated out to the various divisions within the Society.

12. Disclosure of employee, contractor, and director remuneration:

The Societies Act (British Columbia) requires the disclosure of remuneration paid by the Society to employees and contractors whose remuneration was at least $75,000, and any amounts of remuneration paid by the Society to directors.

12. Disclosure of employee, contractor, and director remuneration (continued):

For the fiscal year ended March 31, 2020, the Society paid total remuneration of $1,101,408 (2019 - $1,052,542) to 10 employees and contractors for services, each of whom received total annual remuneration of $75,000 or greater. Included in remuneration is the cost of salaries and premiums for employment insurance, Canada pension plan, workers compensation, benefits including medical, dental, life insurance, long-term disability and pension.

No remuneration of $75,000 or greater was paid to any members of the Board.

13. Pension plans:

Hospital and its employees contribute to the Municipal Pension Plan (a jointly trusteed pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2018, the plan has about 205,000 active members and approximately 101,000 retired members.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry- age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2018, indicated a $2,866 million funding surplus for basic pension benefits on a going concern basis.

Hospital paid $446,683 (2019 - $453,066) for employer contributions to the Plan in fiscal 2020.

The next valuation will be as at December 31, 2021, with results available in 2022.

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, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

14. Contingencies:

In accordance with Hospital's operating agreements with the Fraser Health Authority, the Hospital is required to maintain compliance with certain staffing requirements, known as Hours Per Resident Day ("HPRD"), and compliance is subject to the Fraser Health Authority's formal review. Based on management's assessment, the funding received under HPRD are compliant with the relevant metrics used by the Fraser Health Authority to assess any clawbacks. As the outcome of FHA's reviews are indeterminable, adjustments to funding resulting from the reviews will be recorded in the period the amount becomes known and determinable.

15. 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.

(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.

(c) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fixed-interest and non-interest bearing financial instruments are subject to changes in fair value, while floating rate financial instruments are subject to fluctuations in cash flows. The 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.

There have been no changes to the risk exposures from the prior year.

16. Comparative figures:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

17. Impact of COVID-19:

On March 11, 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. This situation presents uncertainty over the Society's future cash flows, and may have a significant impact on the Society's future operations. Potential impacts on the Society's business could include future increases in expenses and delays in completing capital projects. At the time of approval of these financial statements, the Society has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic:

- Temporary decline in investments
- Closure of buildings to the public
- Mandatory working from home requirements for those able to do so

As the situation is dynamic and the ultimate duration and magnitude of the impact on the economy are not known, an estimate of the financial effect on the Society is not practicable at this time.