Financial Statements of

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Year ended March 31, 2016

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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, 2016, 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, 2016, 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.

KPMG LLP

Chartered Professional Accountants

May 26, 2016

Abbotsford, Canada

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Financial Position

March 31, 2016, with comparative information for 2015

		2016		2015
Assets				
Current assets:				
Cash (note 2)	$	312,854	$	222,734
Accounts receivable (note 3)		64,736		177,266
Prepaid expenses		41,916		1,983
Short-term investments (note 4)		241,073		251,397
Inventory		80,186		71,481
		740,765		724,861
Capital assets (note 5)		1,030,862		1,219,574
	$	1,771,627	$	1,944,435
Liabilities and Deficiency				
Current liabilities:				
Accounts payable and accrued liabilities (note 6)	$	869,840	$	471,067
Accrued wages and benefits payable		468,186		516,156
Vacation pay payable		292,246		352,288
Unearned income - patients		11,117		24,084
Current portion of sick and severance allowance (note 7)		145,838		105,284
		1,787,227		1,468,879
Sick and severance allowance (note 7)		778,659		972,315
Deferred capital contributions (note 8)		753,965		936,550
Net assets (deficiency):				
Invested in capital assets (note 9(a))		335,243		344,991
Internally restricted (note 10)		68,616		68,616
Unrestricted		(1,952,083)		(1,846,916)
		(1,548,224)		(1,433,309)
	$	1,771,627	$	1,944,435

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, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Fraser Health Authority operating grant	$ 10,049,076	$ 9,944,534
Resident user charges	1,803,976	1,773,846
Interest and other income	27,984	40,808
	11,881,036	11,759,188
Expenses:		
Salaries and wages	7,520,637	7,707,596
Employee benefits	2,230,586	2,322,943
Medical supplies and services	439,913	452,671
Dietary supplies and services	437,023	411,347
Utilities	208,169	198,923
Contract services	494,445	176,285
Rent (note 11)	173,000	173,000
Repairs and maintenance	145,696	143,121
Office and administration	109,837	97,448
Housekeeping supplies and services	45,482	52,236
Linen, laundry supplies and services	49,045	44,219
Professional fees	31,257	24,684
Recreation activities	19,172	21,194
Security and miscellaneous	9,213	10,342
Association membership fees and accreditation	655	712
	11,914,130	11,836,721
Deficiency of revenue over expenses before the undernoted	(33,094)	(77,533)
Other revenue (expenses):		
Amortization of deferred capital contributions (note 8)	187,046	214,453
Amortization of capital assets	(262,539)	(288,588)
Sick and severance allowance	(116,471)	(126,281)
	(191,964)	(200,416)
Deficiency of revenue over expenses	$ (225,058)	$ (277,949)

See accompanying notes to financial statements.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Changes in Net Assets (Deficiency)

Year ended March 31, 2016, with comparative information for 2015

	Invested in capital assets (note 9)	Internally restricted (note 10)	Unrestricted	2016 Total	2015 Total
Net assets (deficiency), beginning of year	$ 344,991	$ 68,616	$(1,846,916)	$(1,433,309)	$(1,213,677)
Employee future benefits remeasurement (note 7)	-	-	110,143	110,143	58,317
Deficiency of revenue over expenses (note 9(b))	(75,493)	-	(149,565)	(225,058)	(277,949)
Net change in invested in capital assets (note 9(b))	65,745	-	(65,745)	-	-
Net assets (deficiency) end of year	$ 335,243	$ 68,616	$(1,952,083)	$(1,548,224)	$(1,433,309)

See accompanying notes to financial statements.

MENNONITE BENEVOLENT SOCIETY - MENNO HOSPITAL

Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	$ (225,058)	$ (277,949)
Items not involving cash:		
Amortization of capital assets	262,539	288,588
Sick and severance allowance	116,471	126,281
Amortization of deferred capital contributions	(187,046)	(214,453)
Changes in non-cash operating working capital:		
Accounts receivable	112,530	(13,074)
Prepaid expenses	(39,933)	5,525
Inventory	(8,705)	4,068
Accounts payable and accrued liabilities	398,773	(88,846)
Accrued wages and benefits payable	(47,970)	71,208
Loan payable, Menno Home	-	(500,000)
Vacation pay payable	(60,042)	(10,570)
Unearned income-patients	(12,967)	(133)
Sick and severance allowance payouts	(159,430)	(62,089)
	149,162	(671,444)
Financing:		
Deferred capital contributions received	4,461	2,270
Investments:		
Purchase of capital assets	(73,827)	(123,352)
Decrease in investments	10,324	767,486
	(63,503)	644,134
Increase (decrease) in cash	90,120	(25,040)
Cash, beginning of year	222,734	247,774
Cash, end of year	$ 312,854	$ 222,734

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 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.

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, 2016, and the next required valuation will be as of March 31, 2017.

(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 prime minus 2.05% to 1.15%.

3. Accounts receivable:

		2016		2015
GST receivable	$	36,949	$	48,329
Residents		12,439		25,643
Other		10,116		21,977
Menno Housing, a related party (note 11)		9,436		13,440
MBS Corporate, a related party (note 11)		1,681		16,091
Menno Home, a related party (note 11)		-		57,671
		70,621		183,151
Less allowance for doubtful accounts		(5,885)		(5,885)
	$	64,736	$	177,266

4. Short-term investments:

		2016		2015
Term deposits	$	141,417	$	148,243
Marketable securities		99,656		103,154
Cash balance		-		-
	$	241,073	$	251,397

Term deposits accrue interest at 1.65% (2015 - 2.25%) and mature on October 24, 2016.

5. Capital assets:

			2016	2015
	Cost	Accumulated amortization	Net book value	Net book value
Building	$ 9,283,507	$ 8,672,434	$ 611,073	$ 780,375
Major equipment	2,520,669	2,351,617	169,052	196,386
Minor equipment	2,296,278	2,045,541	250,737	242,813
	$ 14,100,454	$ 13,069,592	$ 1,030,862	$ 1,219,574

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

6. Accounts payable and accrued liabilities:

	2016	2015
Trade payables	$ 405,919	$ 249,429
Fraser Health Authority	160,342	76,403
Menno Home, a related party (note 11)	150,703	1,704
Other	85,194	15,746
Government remittances, payroll taxes	67,682	69,492
MBS Corporate, a related party (note 11)	-	58,293
	$ 869,840	$ 471,067

7. Sick and severance allowance:

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

	2016	2015
Opening balance	$ 1,077,599	$ 1,071,724
Adjustment on transition	-	(58,317)
Pension expense	116,471	126,281
Actuarial gains to net assets	(110,143)	-
Actual benefits paid	(159,430)	(62,089)
	$ 924,497	$ 1,077,599

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

	2016	2015
Sick leave benefits	$ 327,570	$ 386,347
Severance benefits	596,927	691,252
	924,497	1,077,599
Less current portion	(145,838)	(105,284)
Long-term portion	$ 778,659	$ 972,315

The sick and severance allowance liability of $924,497 (2015 - $1,077,599) is unfunded at March 31, 2016.

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, 2016 is approximately $363,000 (2015 - $448,000).

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

	2016	2015
Deficiency - operating, end of year	$ (1,952,083)	$ (1,846,916)
Less: Sick and severance allowance - long-term portion	778,658	972,315
Unrestricted deficiency - operating	$ (1,173,425)	$ (874,601)

8. Deferred capital contributions:

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

	2016	2015
Balance, beginning of year	$ 936,550	$ 1,148,733
Less amounts amortized to revenue	(187,046)	(214,453)
	749,504	934,280
Capital expenditure grants and donations received	4,461	2,270
	$ 753,965	$ 936,550

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

	2016	2015
Unamortized deferred capital contributions	$ 695,619	$ 874,583
Unspent private donations	58,346	61,967
Balance, end of year	$ 753,965	$ 936,550

9. Invested in capital assets:

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

	2016	2015
Capital assets - net book value	$ 1,030,862	$ 1,219,574
Amounts financed by unamortized deferred contributions	(695,619)	(874,583)
	$ 335,243	$ 344,991

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

	2016	2015
Deficiency of revenue over expenses:		
Amortization of deferred capital contributions	$ 187,046	$ 214,453
Amortization of capital assets	(262,539)	(288,588)
	$ (75,493)	$ (74,135)
Net change in investment in capital assets:		
Capital assets acquired	$ 73,827	$ 123,352
Amount funded by deferred contributions	(8,082)	(6,114)
	$ 65,745	$ 117,238

10. Internally restricted net assets:

The Board of Directors has internally restricted $68,616 of the Hospital's net assets for the future building repairs. These internally restricted net assets are not available for other purposes without the approval of the Board of Directors.

11. Related party transactions:

During the year, the Hospital paid rent for land of $173,000 (2015 - $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.

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 2015.

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to the accounts receivable. The Hospital assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts.

13. Pension plans:

The Hospital and its employees contribute to the Municipal Pension Plan (the Plan), a jointly trusteed pension plan. The board of trustees, representing Plan members and employers, is responsible for administering 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 185,000 active members and approximately 80,000 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.

For the year ended march 31, 2016 the Hospital paid and expensed $558,963 (2015 - $583,325) for employer contributions to the Municipal Pension Plan.