PEMBROKE REGIONAL HOSPITAL INC.

FINANCIAL STATEMENTS

MARCH 31, 2016

PEMBROKE REGIONAL HOSPITAL INC.

TABLE OF CONTENTS

MANAGEMENT REPORT

Management's Responsibility for the Financial Statements

The accompanying financial statements of Pembroke Regional Hospital Inc. (the "Hospital") for the year ended March 31, 2016 are the responsibility of the Hospital's management and have been prepared in accordance with Canadian public sector accounting standards. The accounting policies followed by the Hospital are included in the summary of significant accounting policies outlined in Note 3 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Hospital's management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Resource and Audit Committee of the Board of Directors meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to the Resource and Audit Committee's and the Board of Directors' approval of the financial statements.

The financial statements have been audited by Marcil Lavallée, Chartered Professional Accountants, Licensed Public Accountants, independent external auditors appointed by the Hospital. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Hospital's financial statements.

Pierre Noel
President & Chief Executive Officer
Pembroke Regional Hospital Inc.

John Wren
Senior Vice President
Finance & Corporate Services
Pembroke Regional Hospital Inc.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Pembroke Regional Hospital Inc.

We have audited the accompanying financial statements of Pembroke Regional Hospital Inc., which comprise the statement of financial position as at March 31, 2016 and the statements of operations and changes in net assets, remeasurement gains and losses and cash flows for the year then ended, as well as 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 public sector accounting standards, 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.

Auditor's 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 the auditor's 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, the auditor considers 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 Pembroke Regional Hospital Inc. as at March 31, 2016 and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Marcil Lavallée.

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario
May 25, 2016

PEMBROKE REGIONAL HOSPITAL INC.

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31, 2016

	2016	2015
REVENUE		
Patient care	**$ 79,995,583**	$ 79,877,547
Other income and recoveries	**3,427,529**	3,857,909
Amortization of deferred contributions (Note 9)	**1,096,426**	984,684
	84,519,538	84,720,140
EXPENSES		
Salaries, employee benefits and medical staff remuneration	**60,474,115**	60,223,320
Purchased services	**2,503,747**	2,538,019
Medical and surgical supplies	**2,462,923**	2,431,209
Drugs and medical gases	**1,735,153**	1,653,840
Other supplies and expenses	**14,175,273**	14,451,922
Gain (loss) on disposal of capital assets	**13,529**	(6,487)
Amortization of capital assets	**3,713,213**	3,655,926
	85,077,953	84,947,749
DEFICIENCY OF REVENUE OVER EXPENSES	**(558,415)**	(227,609)
BALANCE, BEGINNING OF YEAR	**13,309,457**	13,537,066
BALANCE, END OF YEAR	**$ 12,751,042**	$ 13,309,457

PEMBROKE REGIONAL HOSPITAL INC.

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

FOR THE YEAR ENDED MARCH 31, 2016

		2016		2015
ACCUMULATED REMEASUREMENT LOSSES, BEGINNING OF YEAR	**$**	**-**	$	(11,955)
Unrealized gains on derivative financial instrument		**-**		11,955
ACCUMULATED REMEASUREMENT LOSSES, END OF YEAR	**$**	**-**	$	-

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2016

	2016	2015 (restated) (Note 2)
ASSETS		
CURRENT ASSETS		
Cash	**$ 27,736**	$ 2,070,961
Accounts receivable (Note 4)	**3,544,010**	3,232,557
Receivable from government entities	**1,076,934**	999,832
Inventories	**550,434**	591,972
Prepaid expenses	**826,452**	837,805
	6,025,566	7,733,127
CAPITAL ASSETS (Note 5)	**75,884,686**	73,658,933
	$ 81,910,252	$ 81,392,060
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	**$ 203,463**	$ -
Demand loans (Note 6)	**21,582,654**	21,359,996
Accounts payable and accrued liabilities	**9,493,120**	11,049,644
	31,279,237	32,409,640
EMPLOYEE FUTURE BENEFITS LIABILITY (Note 7)	**5,165,890**	4,976,749
LONG-TERM DEBT (Note 8)	**2,739,824**	2,686,102
DEFERRED CONTRIBUTIONS (Note 9)	**29,974,259**	28,010,112
	37,879,973	35,672,963
	69,159,210	68,082,603
NET ASSETS		
Unrestricted net assets	**12,751,042**	13,309,457
	$ 81,910,252	$ 81,392,060

Contractual obligations (Note 13) *and Contingencies* (Note 14)

ON BEHALF OF THE BOARD

_______________, Director _______________, Director

PEMBROKE REGIONAL HOSPITAL INC.

STATEMENT OF CASH FLOWS

	2016	2015 (restated) (Note 2)
OPERATING ACTIVITIES		
Deficiency of revenue over expenses	**$ (558,415)**	$ (227,609)
Adjustments for:		
Interest on note payable	**53,722**	-
Amortization of deferred contributions	**(1,155,034)**	(1,444,171)
Amortization of capital assets	**3,713,213**	3,655,926
(Gain) loss on disposal of capital assets	**13,529**	(6,487)
Unrealized gains on derivative financial instrument	**-**	(11,955)
Net increase in employee future benefits liability	**189,141**	70,609
	2,256,156	2,036,313
Changes in non-cash working capital items:		
Accounts receivable	**(311,453)**	766,920
Receivable from government entities	**(77,102)**	79,761
Inventories	**41,538**	(25,524)
Prepaid expenses	**11,353**	(15,128)
Accounts payable and accrued liabilities	**(1,556,524)**	1,197,819
	363,968	4,040,161
CAPITAL ACTIVITIES		
Acquisition of capital assets	**(5,974,258)**	(27,783,271)
Proceeds from disposal of capital assets	**21,763**	6,487
	(5,952,495)	(27,776,784)
INVESTING ACTIVITY		
Change in fair market value of derivative financial instrument	**-**	11,955
FINANCING ACTIVITIES		
Net change in demand loans	**222,658**	20,558,038
Contributions received and deferred	**3,119,181**	1,452,073
Proceeds from long-term debt	**-**	2,686,102
	3,341,839	24,696,213
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,246,688)**	971,545
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**2,070,961**	1,099,416
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ (175,727)**	$ 2,070,961

Cash and cash equivalents consist of cash and bank indebtedness.

1. PURPOSE OF THE ORGANIZATION

The Pembroke Regional Hospital Inc. (the Hospital) is incorporated without share capital under the Canada Not-for-profit Corporations Act. The Hospital is a registered charity under the Income Tax Act and, as such, is exempt from income tax.

The Mission of the Hospital is as follows:

“We are a regional community hospital committed to delivering a wide range of quality health services. Following Catholic traditions, we will meet the physical, emotional and spiritual needs of all.”

As a community hospital, the Hospital provides inpatient services such as obstetrics, surgery, medicine, and emergency. Outpatient services include day surgery, medical day care, community adult mental health and a comprehensive ambulatory clinic staffed by local specialists as well as visiting specialists. Obstetrical services are also provided to outlying areas such as Barry’s Bay and Deep River, in addition to a regional mental health program and a county-wide rehabilitation program.

2. RESTATEMENT OF PRIOR PERIOD

The financial statements as at March 31, 2015 have been restated to reclassify under current liabilities a loan that was classified as long-term debt as of March 31, 2015 based on the information available at that time. The information obtained in fiscal 2016 demonstrated that this financial instrument was a demand loan. Accordingly, the loan is callable at any time. This modification resulted in an increase in the current liabilities by $21,359,996 and a corresponding decrease in the long-term debt. This modification had no impact on the deficiency of revenue over expenses for the year ended March 31, 2015.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations (PSAS-GNFPO) and include the following significant accounting policies:

Use of estimates

The preparation of financial statements in compliance with the PSAS-GNFPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the periods covered. The main estimates included in the financial statements relate to the net realizable value of inventory, the impairment of financial assets, the useful life of capital assets and the valuation of the employee future benefits liability.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Measurement of financial instruments

The Hospital initially measures its financial assets and financial liabilities at fair value, except for certain non-arm's length transactions.

The Hospital subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of remeasurement gains and losses.

Financial assets measured at amortized cost include cash, accounts receivable and receivable from government entities.

Financial liabilities measured at amortized cost include bank indebtedness, bank loan, accounts payable and accrued liabilities and long-term debt.

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. The Hospital determines whether a significant adverse change has occurred in the expected timing or amount of future cash flows from the financial asset. If this is the case, the carrying amount of the asset is reduced directly to the higher of the present value of the cash flows expected to be generated by holding the asset, and the amount that could be realized by selling the asset at the balance sheet date. The amount of the write-down is recognized in operations. The previously recognized impairment loss may be reversed to the extent of the improvement, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in operations.

Transaction costs

The Hospital recognizes its transaction costs in operations in the period incurred. However, transaction costs related to financial instruments subsequently measured at amortized cost reduce the carrying amount of the financial asset or liability and are accounted for in the statement of operations using the straight-line method.

Revenue recognition

Under the Health Insurance Act and Regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long-Term Care. Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period. These financial statements reflect funding arrangements approved by the Ministry with respect to the year ended March 31, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Some of the Hospital's operational financing is part of certain programs managed by the Local Health Integrated Network (LHIN) and other funding agencies. The final operating revenue under these programs can only be determined once the financial reports and statistics of the Hospital have been reviewed by the funding agencies. Any adjustment required to these revenues following the funding agencies' review would be recorded in the year they are determined.

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

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.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Where a portion of a restricted contribution relates to a future period, it is deferred and recognized in the subsequent period. Contributions restricted for the purchase of capital assets are deferred and amortized as revenue in the statement of operations at a rate corresponding with the amortization rate for the related capital assets.

Unrestricted investment income is recognized as revenue when earned.

Revenue from patient services, preferred accommodation, and other services are recognized when the goods are sold or the service is provided and when collection is reasonably assured.

Contributed services

A substantial number of volunteers contribute a significant amount of their time each year. Due to the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined using the average cost basis for some departments and the first-in, first-out basis for other departments.

Capital assets

Capital assets purchased by the Hospital are recorded at cost. Contributed capital assets are recorded at fair value at the date of the contribution, if determinable. Minor equipment replacements are expensed in the year of replacement. Construction in progress is not amortized until the project is complete and the asset is utilized.

The cost of renovations to the Hospital buildings, which significantly increase their useful lives and capacities, is included as part of the cost of the related capital assets. Renovation costs to adapt the Hospital buildings to changing operating conditions or to maintain normal operating efficiency are expensed as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets (continued)

Amortization is calculated on a straight-line basis over the assets' estimated useful lives for periods varying from 3 to 50 years.

Land improvements	10 years
Buildings and additions	10 to 50 years
Equipment and furnishings	3 to 25 years

Write-down of capital assets

When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to residual value, if any. The excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations.

Employee future benefits

The Hospital accrues its obligation under employee benefits plans and the related costs. The cost of retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and based on management's best estimate of salary escalation, retirement ages of employees and expected health care costs. As a result, the present value of expected future payments for post-employment benefits are included in the statement of financial position and the costs are included in the statement of operations in salaries, wages and employee benefits. The actuarial gains and losses are amortized over the expected average remaining service life (EARSL) of the employees.

The Hospital is a member of the Hospitals of Ontario Pension Plan, a multi-employer defined benefit plan. For this plan, the Hospital has adopted defined contributions accounting standards as there is not sufficient information available to apply defined benefit accounting standards. The Hospital expenses the cost of the plan for the services rendered during the year, the amortization of past service costs and the interest costs related to future employer contributions to the plan for employees' past service costs.

Cash and cash equivalents

The Organization's policy is to present bank balances under cash and cash equivalents, including bank overdrafts with balances that can fluctuate from being positive to overdrawn.

4. ACCOUNTS RECEIVABLE

	2016	2015
Insurers and patients	**$ 1,843,363**	$ 1,522,690
Other	**2,124,528**	2,127,675
	3,967,891	3,650,365
Less: allowance for doubtful accounts	**(423,881)**	(417,808)
	$ 3,544,010	$ 3,232,557

5. CAPITAL ASSETS

	Cost	**Accumulated Amortization**	**2016**
Construction in progress	**$ 1,295,631**	**$ -**	**$ 1,295,631**
Land and improvements	**1,282,147**	**260,712**	**1,021,435**
Buildings and additions	**77,090,536**	**12,375,534**	**64,715,002**
Equipment and furnishings	**31,466,129**	**22,613,511**	**8,852,618**
	$ 111,134,443	**$ 35,249,757**	**$ 75,884,686**

	Cost	Accumulated Amortization	2015
Construction in progress	$ 2,786,072	$ -	$ 2,786,072
Land and improvements	1,282,147	260,712	1,021,435
Buildings and additions	73,271,156	10,952,262	62,318,894
Equipment and furnishings	28,597,616	21,065,084	7,532,532
	$ 105,936,991	$ 32,278,058	$ 73,658,933

6. DEMAND LOANS

	2016	2015 (restated) (Note 2)
Demand loan which consist of an unsecured overdraft protection with interest payable monthly at prime rate less 0.5% per annum, renewable annually. The total approved overdraft protection is $5,000,000	**$ 1,112,662**	$ -
Demand loan – interest calculated monthly based on cost of funds plus 0.25%, payable in monthly instalments of $74,167 in principal plus interest	**20,469,992**	21,359,996
	$ 21,582,654	$ 21,359,996

7. EMPLOYEE FUTURE BENEFITS

The Hospital offers its employees health, dental and other benefits and continues to offer these benefits after their retirement through an unfunded defined benefit plan. An independent actuarial valuation of the post-retirement benefits for employees was prepared as at March 31, 2016. The accrued benefit obligation related to these employee future benefits is based on the actuarial valuation dated March 31, 2016. Information regarding these benefits is presented as follows:

	2016	2015
Reconciliation of accrued benefit obligation:		
Accrued benefit obligation, beginning of year	**$ 4,931,712**	$ 4,223,472
Current service cost	**245,506**	176,777
Interest on accrued benefit obligation	**162,338**	182,097
Experience losses	**49,054**	580,955
Benefits paid during the year	**(229,096)**	(231,589)
Accrued benefit obligation, end of year	**5,159,514**	4,931,712
Accrued benefit liability, end of year	**5,165,890**	4,976,749
	$ (6,376)	$ (45,037)
Represented by:		
Unamortized actuarial losses	**$ 132,198**	$ 93,537
EORLA transferred employees remaining liability [1]	**(138,574)**	(138,574)
	$ (6,376)	$ (45,037)
Reconciliation of current year expense:		
Current service cost	**$ 245,506**	$ 176,777
Amortization of actuarial losses (gains)	**10,393**	(56,676)
Interest on accrued benefit obligation	**162,338**	182,097
	$ 418,237	$ 302,198
Reconciliation of accrued benefit liability:		
Accrued benefit liability, beginning of year	**$ 4,976,749**	$ 4,906,140
Expense for the period	**418,237**	302,198
Benefits paid during the year	**(229,096)**	(231,589)
Accrued benefit liability, end of year	**$ 5,165,890**	$ 4,976,749

7. EMPLOYEE FUTURE BENEFITS (continued)

Actuarial assumptions:

The actuarial cost method used for the valuation is the projected benefit method prorated on services.

	2016	2015
Discount rate on accrued benefit obligation	**3.76%**	3.31%
Health cost increases	**8.5% decreasing by 0.5 to 4.5%**	8.5% decreasing by 0.5 to 4.5%
Dental cost increases	**4%**	4%
Retirement age	**Earlier of age 60 or 57 with 30 years of service or in 6 months if eligible**	Earlier of age 60 or 57 with 30 years of service or in 6 months if eligible
Unamortized actuarial gains and losses	**Amortized over 8.7 years**	Amortized over 8.7 years

(1) Effective April 1, 2012, a group of employees transferred to the Eastern Ontario Regional Laboratory Association (EORLA). As at the date of transfer, an accrued benefit liability related to these individuals remained under the responsibility of the Hospital up to a maximum amount of $138,574. This amount could be reduced in the future if certain life events occur. This amount is included in the Hospital's accrued benefit liability.

8. LONG-TERM DEBT

	2016	2015 (restated) (Note 2)
Note payable to the Grey Sisters of the Immaculate Conception, 2.0%, maturing March 31, 2035, interest only until March 31, 2020, repayable in fifteen annual instalments of $197,712, principal plus interest, between March 31, 2021 and March 31, 2035	**$ 2,739,824**	$ 2,686,102

Long-term debt principal repayments over the next five years are as follows:

2017	$ -
2018	$ -
2019	$ -
2020	$ -
2021	$ 197,712

9. DEFERRED CONTRIBUTIONS

Deferred contributions related to capital assets represent the unamortized amount of contributions received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations at a rate corresponding to the amortization rate of the related capital assets.

	2016	2015
Buildings and additions	**$ 27,275,507**	$ 25,131,911
Equipment and furnishings	**2,518,735**	2,679,768
Related to other expenditures	**180,017**	198,433
	$ 29,974,259	$ 28,010,112

Deferred contributions related to other expenditures represent contributions received for specific expenses which have not yet been incurred at year-end.

Changes in deferred contributions balances for the year are as follows:

	2016	2015
Balance, beginning of year	**$ 28,010,112**	$ 28,002,210
Contributions received during the year	**3,119,181**	1,452,073
Amount related to other expenditures amortized to revenue	**(58,608)**	(459,487)
Amount related to capital assets amortized to revenue	**(1,096,426)**	(984,684)
Balance, end of year	**$ 29,974,259**	$ 28,010,112

10. PENSION PLAN

Employees of the Hospital are entitled to participation in the Hospitals of Ontario Pension Plan, which is a multi-employer final average pay contributory pension plan. All full-time employees that have reached six months of continuous service must adhere to the Plan. It is offered on a voluntary basis to part-time employees. The cost of the contributions paid by the Hospital and expensed for the year ended March 31, 2016 amounts to $3,308,239 (2015: $3,239,352). This amount is included in salaries, employee benefits and medical staff remuneration in the statement of operations.

11. ECONOMIC INTERESTS

The following transactions are in the normal course of business and are measured at their exchange amounts.

Eastern Ontario Regional Laboratory Association (EORLA)

Pembroke Regional Hospital Inc. is one of sixteen acute care hospital facilities which participate in the integrated hospital laboratory network called EORLA, which became operational on April 1, 2012. Pembroke Regional Hospital Inc. has representation on EORLA's Board of Directors, which consists of eleven members.

EORLA has entered into a long-term service agreement with Pembroke Regional Hospital Inc. to provide laboratory services to the Hospital, and an occupancy agreement whereby the Hospital agrees to provide EORLA for space within its facilities for the provision of laboratory services. The agreements are in effect for 10 years, with no escape clause for the first five years.

During the year, Pembroke Regional Hospital Inc. billed EORLA for services and supplies in the amount of $143,618 (2015: $229,781), and made payments to EORLA in the amount of $4,502,184 (2015: $4,388,056).

Champlain Health Supply Services (CHSS)

CHSS was established to provide sourcing, procurement and logistics services to member hospitals within the Champlain Local Health Integration Network, with the goal of reducing the amount that member hospitals pay for such services. Pembroke Regional Hospital Inc. is one of six founding members and has one voting member on the Board of Directors.

CHSS has entered into a membership agreement with the Hospital to provide procurement services. Member hospitals pay assessment fees to CHSS and are indirectly responsible as members to cover the operating costs of CHSS annually through the funding formula. During the year, Pembroke Regional Hospital Inc. paid $113,474 (2015: $144,623) in membership fees to CHSS.

Catholic Health Corporation of Ontario

Sponsorship of Pembroke Regional Hospital Inc. is provided by the Catholic Health Corporation of Ontario. The Catholic Health Corporation of Ontario ensures that operational and land use decisions of the Hospital conform to the philosophy and mission of the Hospital as specified in its By-laws.

Pembroke Regional Hospital Auxiliary

The Hospital and Pembroke Regional Hospital Auxiliary, although under separate and independent governance, share common goals for the future vision of healthcare in the community. With this comes a collaboration of efforts and an effect on each party's ultimate decisions.

Donations revenue recorded include $210,500 (2015: $130,000) of which $151,500 has been received during the year from the Pembroke Regional Hospital Auxiliary and $59,000 is receivable at year end.

11. ECONOMIC INTERESTS (continued)

Pembroke Regional Hospital Foundation

The Hospital and Pembroke Regional Hospital Foundation, although under separate and independent governance, share common goals for the future vision of healthcare in the community. With this comes a collaboration of efforts and an effect on each party's ultimate decisions.

Donations recorded during the year amount to $2,341,013 (2015: $1,165,719) of which $ 2,307,356 has been received during the year from the Pembroke Regional Hospital Foundation and $33,657 is receivable at year end. Most of these donations were for the acquisition of capital assets. Accordingly, the donation revenue is being recognized yearly at the same rate as the capital assets are being amortized.

12. RISK MANAGEMENT

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Hospital's main credit risks relate to its accounts receivable. The Hospital provides credit to its clients in the normal course of its operations.

The Hospital establishes allowances for doubtful accounts while keeping in mind the specific credit risk of clients, their historic tendencies and economic situation. Approximately 37% of the total accounts receivable is to be received from insurers and patients, 21% from Ontario government, and 42% from other organizations. The Hospital considers that no significant risk arises from that situation.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Hospital is exposed to this risk mainly in respect of its accounts payable and long-term debt. The Hospital's ability to meet obligations depends on the receipt of funds from its patient care services, the provincial government and other sources.

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. The Hospital is exposed to interest risk on its fixed and floating interest rate financial instruments. Fixed-rate instruments subject the Hospital to a fair value risk while the floating-rate instruments subject it to a cash flow risk. The Hospital no longer uses derivative financial instruments to alter the effects of this risk.

For the Hospital's long-term debt bearing a fixed interest rate, the risk exposure is minimal.

For the Hospital's long-term debt and bank loan bearing variable interest rates, the Hospital's interest risk exposure is function of the changes of the underlying variable. However, a variation of 1% of the variable would not have a significant effect on the net earnings and financial position of the Hospital.

13. CONTRACTUAL OBLIGATIONS

The Hospital is committed under long-term leases and contracts for various service and maintenance agreements to make payments over the next five years estimated as follow:

2017	$ 7,905,796
2018	$ 7,431,730
2019	$ 5,099,962
2020	$ 4,991,731
2021	$ 4,692,892

Eastern Ontario Regional Laboratory Association (EORLA)

As described in Note 11, the Hospital has entered into a long-term service agreement with EORLA for its laboratory services. The agreement is in effect for 10 years, with no escape clause for the first five years. EORLA has assumed all liabilities related to laboratory services effective April 1, 2012 and bills each member hospital semi-monthly for their share of laboratory costs incurred.

Grey Sisters of the Immaculate Conception

Specified land and buildings owned by the Grey Sisters of the Immaculate Conception have been leased under long-term agreements to the Hospital for nominal annual amounts. The Hospital is responsible for all occupancy costs including leasehold improvements. One of the agreements expired March 31, 2016. The renewal is currently under review. Management believes it will be renewed under similar conditions.

Marianhill Inc.

Pembroke Regional Hospital Inc. has contracted Marianhill Inc. for the provision of services and the operation of twenty-one complex continuing care hospital beds. The agreement expires on August 31, 2016 and is to be reviewed every five years. Payments to Marianhill Inc. during the year amount to $2,094,648 (2015: $2,094,648).

14. CONTINGENCIES

The Hospital is involved in litigation matters involving outstanding claims against the Hospital. In the opinion of the Hospital the insurance coverage is adequate to meet any judgement which might be rendered against the Hospital and accordingly no provision has been made in the financial statements.

The Hospital is also involved in employee related grievances and litigation matters, which the outcome is not determinable at this time. Any liability or payments resulting from these matters will be recognized in the year when the outcome is reasonably determinable and the amounts involved can be estimated.

14. CONTINGENCIES (continued)

A group of hospitals, including the Pembroke Regional Hospital Inc., have formed the Healthcare Insurance Reciprocal of Canada (HIROC). HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts, which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces and territories where it is licensed. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the year in which they were a subscriber. No such assessments have been made to March 31, 2016.

15. COMPARATIVE FIGURES

Certain comparative figures related to capital assets have been reclassified to conform with the financial statement presentation adopted for the current year.