

Financial Statements

Provincial Drug Distribution Program
March 31, 2009

AUDITORS' REPORT

To the Board of Directors of the
Provincial Drug Distribution Program

We have audited the statement of financial position of the **Provincial Drug Distribution Program** ("PDDP") as at March 31, 2009 and the statements of fund balances, revenues and expenditures and cash flows for the year then ended. These financial statements are the responsibility of PDDP's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of PDDP as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Halifax, Canada
June 15, 2009

Chartered Accountants

Provincial Drug Distribution Program

STATEMENT OF FINANCIAL POSITION

As at March 31
(in thousands)

| | Operating Fund \$ | Capital Fund \$ | Total 2009 \$ | Total 2008 \$ |
|--|-------------------------|-----------------------|---------------------|---------------------|
| ASSETS | | | | |
| Current | | | | |
| Cash | 2,559 | — | 2,559 | 2,080 |
| Accounts receivable [notes 3 and 9] | 7,318 | — | 7,318 | 7,385 |
| Receivable from Medbuy | 519 | — | 519 | 334 |
| Due from Capital District Health Authority | 314 | — | 314 | — |
| Inventories [note 5] | 4,235 | — | 4,235 | 3,480 |
| Total current assets | 14,945 | — | 14,945 | 13,279 |
| Restricted cash [note 8] | 400 | — | 400 | 200 |
| Capital assets [note 6] | — | — | — | 23 |
| | 15,345 | — | 15,345 | 13,502 |
| LIABILITIES AND FUND BALANCES | | | | |
| Current | | | | |
| Accounts payable and accrued liabilities | 4,988 | — | 4,988 | 4,112 |
| Due to Capital District Health Authority | — | — | — | 824 |
| Customer rebates [note 8] | 2,058 | — | 2,058 | 434 |
| Total current liabilities | 7,046 | — | 7,046 | 5,370 |
| Due to Province of Nova Scotia [note 4] | 7,341 | — | 7,341 | 7,341 |
| Restricted liabilities [note 8] | 400 | — | 400 | 200 |
| Total liabilities | 14,787 | — | 14,787 | 12,911 |
| Fund balances | | | | |
| Operating fund | 558 | — | 558 | 568 |
| Net assets | — | — | — | 23 |
| | 15,345 | — | 15,345 | 13,502 |

See accompanying notes

On behalf of the Board:

Director

Director

Provincial Drug Distribution Program

STATEMENT OF FUND BALANCES

Year ended March 31
(in thousands)

| | 2009 | 2008 |
|---|-------------|-------------|
| | \$ | \$ |
| OPERATING FUND | | |
| Balance, beginning of year | 568 | 431 |
| Net (expenditures over revenues) revenues over expenditures | (10) | 137 |
| Balance, end of year | 558 | 568 |
| CAPITAL FUND | | |
| Balance, beginning of year | 23 | 44 |
| Amortization | (23) | (21) |
| Balance, end of year | — | 23 |

See accompanying notes

Provincial Drug Distribution Program

STATEMENT OF REVENUES AND EXPENDITURES

Year ended March 31
(in thousands)

| | 2009 | 2008 |
|--|---------------|-------------|
| | \$ | \$ |
| OPERATING | | |
| Revenues <i>[Schedule A]</i> | 76,464 | 73,920 |
| Expenditures <i>[Schedule B]</i> | 76,474 | 73,783 |
| Net (expenditures over revenues) revenues over expenditures | (10) | 137 |

See accompanying schedules

Provincial Drug Distribution Program

STATEMENT OF CASH FLOWS

Year ended March 31
(in thousands)

| | 2009 | 2008 |
|---|--------------|-------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Net (expenditures over revenues) revenues over expenditures | (10) | 137 |
| Items not requiring cash | | |
| Amortization | 23 | 21 |
| Amortization of Capital Fund | (23) | (21) |
| Changes in non-cash working capital items | 689 | (758) |
| Cash provided by (used in) operating activities | 679 | (621) |
| Cash, beginning of year | 2,280 | 2,901 |
| Cash, end of year | 2,959 | 2,280 |

See accompanying notes

Provincial Drug Distribution Program

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

1. NATURE OF ORGANIZATION

The Provincial Drug Distribution Program ("PDDP") is a non-taxable, not-for-profit organization, which is the responsibility of the Minister of Health and a board of directors. Effective April 1, 1998, the District Health Authorities ("DHAs") and non-designated organizations ("NDOs") agreed to purchase all of their drug requirements through PDDP. Sales are made to hospitals at cost and to nursing homes at cost plus a markup of 10%. The Capital District Health Authority administers the program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Fund accounting

PDDP maintains its financial statements on a fund accounting basis. Separate funds have been established to distinguish operating activities from capital activities.

The operating fund contains the non-capital operating assets, liabilities, revenues and expenditures of PDDP related to the distribution of drugs.

The capital fund contains the capital assets, net of accumulated depreciation, and related capital funding, net of accumulated amortization.

Revenue recognition

PDDP uses the deferral method of accounting for contributions and revenue recognition. Revenue is recognized in the period in which the related expenses are incurred.

Operating costs

These financial statements do not include certain expenses which are absorbed by the Capital District Health Authority.

Capital assets

Capital assets are valued at cost and are amortized on a straight-line basis over the useful life of each asset.

Inventories

Inventories are valued at the lower of cost and net realizable value, with cost determined on a first-in, first-out basis.

Provincial Drug Distribution Program

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments

PDDP's primary financial instruments consist of current receivables and payables. The differences between the carrying values and the fair market values of the primary financial instruments are not material due to the short-term maturities and the credit terms of those instruments. The amount due to Province of Nova Scotia and the long-term portion of customer rebates are carried at historical cost because they are not marketable financial liabilities and no terms of interest or repayment are established.

Changes in accounting policy

Financial instruments

Effective April 1, 2008, PDDP adopted the recommendations of Canadian Institute of Chartered Accountants ("CICA") 3862, *Financial Instruments – Disclosures*, and CICA 3863, *Financial Instruments – Presentation*. These recommendations enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks. The adoption of these new recommendations required additional disclosures, which are provided in note 9.

Capital disclosures

Effective April 1, 2009, PDDP adopted the recommendations of CICA 1535, *Capital Disclosures*, which require the disclosure of qualitative and quantitative information that enables users of the financial statements to evaluate the organization's objectives, policies and processes for managing capital. The adoption of these recommendations required additional disclosures, which are provided in note 10.

Future accounting policy changes

Financial statement presentation

The CICA has issued revisions to the 4400 series and certain other sections to amend or improve certain parts of the CICA Handbook that relate to not-for-profit organizations. With respect to presentation, these changes include making the disclosure of net assets invested in capital assets optional; making CICA 1540, *Cash Flow Statements*, applicable to not-for-profit organizations; and requiring the reporting of revenues and expenses on a gross basis in the statement of operations unless not required by other guidance. A new section, CICA 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations*, was included in the revision which requires certain disclosures when fundraising and general support expenses are allocated to other functions. These changes in accounting policies must be adopted by years beginning on or after January 1, 2009, with earlier adoption permitted. Management is assessing the impact of these revisions and the timing for their adoption.

Provincial Drug Distribution Program

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial statement concepts

In February 2008, the Accounting Standards Board amended CICA 1000, *Financial Statement Concepts*, to clarify that assets not meeting the definition of an asset or the recognition criteria are not permitted to be recognized on the balance sheet.

The amendments are effective for financial statements for fiscal years beginning on or after October 1, 2008. PDDP is examining its current approach to recognizing costs as assets and will implement these standards effective April 1, 2009 retroactively with restatement of the prior year. The impact of implementing these amendments on PDDP's financial statements is currently not known.

3. ACCOUNTS RECEIVABLE

| | 2009 | 2008 |
|---------------------------|--------------|--------------|
| | \$ | \$ |
| <i>(in thousands)</i> | | |
| Customer receivables | 7,237 | 7,236 |
| Outdated drugs receivable | 81 | 149 |
| | <u>7,318</u> | <u>7,385</u> |

4. DUE TO PROVINCE OF NOVA SCOTIA

As at April 1, 1997, the cumulative difference between receipts and disbursements was recognized as a liability to the Province at year-end. Payment terms for this liability are not specified.

5. INVENTORIES

Included in custodial inventory in the current year is inventory at no cost held for the Department of Health.

Provincial Drug Distribution Program

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

6. CAPITAL ASSETS

| | 2009 | | 2008 | |
|--------------------------------|------------|-----------------------------------|------------|-----------------------------------|
| | Cost \$ | Accumulated amortization \$ | Cost \$ | Accumulated amortization \$ |
| <i>(in thousands)</i> | | | | |
| Equipment | 230 | 230 | 230 | 207 |
| Less: accumulated amortization | 230 | | 207 | |
| | — | | 23 | |

7. COMPARATIVE FIGURES

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the current year financial statements.

Provincial Drug Distribution Program

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

8. MEDBUY REBATES AND CO-MARKETING REBATES

PDDP is a member of a national purchasing organization called Medbuy. Medbuy distributes both rebates and co-marketing monies on a quarterly basis to PDDP. PDDP then distributes these rebates and co-marketing monies to each DHA. A certain balance is maintained and held for long-term needs, based on annual board decisions which is shown on the Statement of Financial Position as restricted cash and restricted liabilities. The following shows distributions by year:

| <i>(in thousands)</i> | 2009 | | 2008 | |
|-----------------------|--------------------|--------------------|--------------------|--------------------|
| | <i>(unaudited)</i> | | <i>(unaudited)</i> | |
| | Rebates \$ | Co-marketing \$ | Rebates \$ | Co-marketing \$ |
| DHA #1 | 35 | 9 | 47 | 18 |
| DHA #2 | 52 | 10 | 71 | 21 |
| DHA #3 | 43 | 14 | 59 | 31 |
| DHA #4 | 30 | 9 | 44 | 20 |
| DHA #5 | 24 | 5 | 32 | 13 |
| DHA #6 | 27 | 8 | 33 | 17 |
| DHA #7 | 23 | 9 | 41 | 16 |
| DHA #8 | 141 | 37 | 181 | 92 |
| DHA #9 | 283 | 146 | 534 | 356 |
| IWK | 15 | 10 | 35 | 27 |
| DOH | — | 12 | — | — |
| | 673 | 269 | 1,077 | 611 |

9. FINANCIAL INSTRUMENTS

Fair value

PDDP's primary financial instruments consist of current receivables and payables. The differences between the carrying values and the fair market values of the primary financial instruments are not material due to the short-term maturities and the credit terms of those instruments. The amount due to Province of Nova Scotia and the long-term portion of customer rebates are carried at historical cost because they are not marketable financial liabilities and no terms of interest or repayment are established.

Risk management

PDDP is exposed to a number of risks as a result of the financial instruments on its statement of financial position that can affect its operating performance. These risks include credit risk and liquidity risk. Capital Health's financial instruments are not subject to foreign exchange or other price risk.

Provincial Drug Distribution Program

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

9. FINANCIAL INSTRUMENTS (CONT'D)

Credit risk

PDDP is exposed to credit risk with respect to its accounts receivable. PDDP has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintains provisions for potential credit losses that are assessed on an ongoing basis. The allowance for doubtful accounts at March 31, 2009 was nil (2008 - nil).

The aging of accounts receivable was as follows:

| | 2009 | 2008 |
|-----------------------|-------|-------|
| | \$ | \$ |
| <i>(in thousands)</i> | | |
| Current | 7,232 | 7,121 |
| 61 – 90 days | 25 | 214 |
| 90 – 120 days | 61 | 50 |

As at March 31, 2009, three customers represent 80% of the accounts receivable balance.

Liquidity risk

PDDP has contractual obligations and financial liabilities and therefore is exposed to liquidity risk. Capital Health manages its liquidity risk by maintaining adequate cash and credit facilities, by updating and reviewing multi-year cash flow projections on a regular and as-needed basis and by matching its long-term financing arrangements with its cash flow needs.

10. CAPITAL MANAGEMENT

In managing capital, PDDP focuses on liquid resources available for operations. PDDP's objective is to have sufficient liquid resources to continue operating despite adverse events with financial consequences and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at March 31, 2009, PDDP has met its objective of having sufficient liquid resources to meet its current obligations.

SCHEDULE OF REVENUES

Year ended March 31
(in thousands)

| | Operating Fund | Capital Fund | Total 2009 | Total 2008 |
|------------------------------|---------------------------|-------------------------|-----------------------|-----------------------|
| | \$ | \$ | \$ | \$ |
| Drugs | 77,682 | — | 77,682 | 74,549 |
| Customer rebates | (2,474) | — | (2,474) | (1,872) |
| Co-marketing | 649 | — | 649 | 642 |
| Other | 357 | — | 357 | 351 |
| Department of Health | 250 | — | 250 | 250 |
| Amortization of capital fund | — | 23 | 23 | 21 |
| | 76,464 | 23 | 76,487 | 73,941 |

SCHEDULE OF EXPENDITURES

Year ended March 31
(in thousands)

| | Operating Fund \$ | Capital Fund \$ | Total 2009 \$ | Total 2008 \$ |
|-----------------------------------|-------------------------|-----------------------|---------------------|---------------------|
| Drugs | 77,213 | — | 77,213 | 74,118 |
| Vendor rebates | (2,474) | — | (2,474) | (1,872) |
| Compensation | 691 | — | 691 | 644 |
| Co-marketing allocated to DHAs | 649 | — | 649 | 642 |
| Fees | 302 | — | 302 | 205 |
| Other | 68 | — | 68 | 29 |
| Amortization | — | 23 | 23 | 21 |
| Plant maintenance supplies | 15 | — | 15 | 9 |
| Travel | 10 | — | 10 | 8 |
| | 76,474 | 23 | 76,497 | 73,804 |