

Financial Statements

Provincial Drug Distribution Program

March 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Provincial Drug Distribution Program

We have audited the accompanying financial statements of the **Provincial Drug Distribution Program** ["PDDP"], which comprise the statement of financial position as at March 31, 2011 and the statements of fund balances, revenue and expenditures and cash flows for the year then ended, and 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 generally accepted accounting principles, 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 the auditors' 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 auditors consider 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, these financial statements present fairly, in all material respects, the financial position of the PDDP as at March 31, 2011 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 10, 2011.

Chartered accountants

Provincial Drug Distribution Program

STATEMENT OF FINANCIAL POSITION

As at March 31

[in thousands]

	2011	2010
	\$	\$
ASSETS		
Current		
Cash	1,413	2,211
Accounts receivable <i>[notes 3 and 6]</i>	7,170	8,803
Rebates receivable	939	866
Inventories	4,797	3,967
Total current assets	14,319	15,847
Restricted cash <i>[note 5]</i>	400	400
	14,719	16,247
LIABILITIES AND FUND BALANCES		
Current		
Accounts payable and accrued liabilities	3,706	5,444
Due to Capital District Health Authority	1,613	1,280
Customer rebates <i>[note 5]</i>	1,025	1,238
Total current liabilities	6,344	7,962
Restricted liabilities <i>[note 5]</i>	400	400
Total liabilities	6,744	8,362
Fund balances		
Operating Fund	634	544
Contribution from Province of Nova Scotia <i>[note 4]</i>	7,341	7,341
	7,378	8,906

See accompanying notes

On behalf of the Board:

Director

Provincial Drug Distribution Program

STATEMENT OF FUND BALANCES

Year ended March 31
[in thousands]

	2011	2010
	\$	\$
OPERATING FUND		
Balance, beginning of year	544	558
Net revenues over expenditures (expenditures over revenues)	90	(14)
Balance, end of year	634	544

See accompanying notes

Provincial Drug Distribution Program

STATEMENT OF REVENUES AND EXPENDITURES

Year ended March 31

[in thousands]

	2011	2010
	\$	\$
OPERATING		
Revenues <i>[Schedule A]</i>	80,975	79,446
Expenditures <i>[Schedule B]</i>	80,885	79,460
Net revenues over expenditures		
(expenditures over revenues)	90	(14)

See accompanying notes

Provincial Drug Distribution Program

STATEMENT OF CASH FLOWS

Year ended March 31

[in thousands]

	2011	2010
	\$	\$
OPERATING ACTIVITIES		
Net revenues over expenditures (expenditures over revenues)	90	(14)
Changes in non-cash working capital items	(888)	(334)
Cash used in operating activities	(798)	(348)
 Cash and restricted cash, beginning of year	 2,611	 2,959
Cash and restricted cash, end of year	1,813	2,611
 Cash and restricted cash is comprised of the following:		
Cash	1,413	2,211
Restricted cash [note 5]	400	400
	1,813	2,611

See accompanying notes

SCHEDULE OF REVENUES

Year ended March 31
[in thousands]

	2011	2010
	\$	\$
Drugs	82,970	81,232
Co-marketing	428	463
Department of Health	250	255
Other	194	370
Customer rebates	(2,819)	(2,874)
	81,023	79,446

See accompanying notes

SCHEDULE OF EXPENDITURES

Year ended March 31

[in thousands]

	2011	2010
	\$	\$
Drugs	82,603	80,817
Compensation	704	737
Other	159	49
Co-marketing allocated to DHAs	174	463
Fees	98	255
Travel	11	7
Plant maintenance supplies	3	6
Vendor rebates	(2,819)	(2,874)
	80,933	79,460

See accompanying notes

Provincial Drug Distribution Program

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

[in thousands]

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; however, as only the Operating Fund is currently in use, the Statement of Financial Position is not presented by Fund.

The Operating Fund comprises the non-capital operating assets, liabilities, revenues and expenditures of PDDP related to the distribution of drugs.

The Capital Fund comprises the capital assets, net of accumulated amortization, 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 during 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.

Inventories

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

Provincial Drug Distribution Program

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March 31, 2011

[in thousands]

3. ACCOUNTS RECEIVABLE

	2011 \$	2010 \$
Customer receivables	6,787	8,667
Outdated drugs receivable	383	136
	<u>7,170</u>	<u>8,803</u>

4. CONTRIBUTION FROM PROVINCE OF NOVA SCOTIA

As at April 1, 1997, the cumulative difference between receipts and disbursements was recognized as a contribution from the Province of Nova Scotia.

5. 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 and the Department of Health and Wellness ["DHW"]. 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 annual Medbuy distributions for each member:

	2011		2010	
	Rebates \$	Co-marketing \$	Rebates \$	Co-marketing \$
DHA #1	46	16	73	—
DHA #2	58	17	126	—
DHA #3	65	22	143	—
DHA #4	51	18	91	—
DHA #5	32	8	84	—
DHA #6	44	15	108	—
DHA #7	50	17	87	—
DHA #8	211	71	397	—
DHA #9	418	270	1,093	—
IWK	35	18	67	—
DHW	1,388	—	1,256	—
	<u>2,398</u>	<u>472</u>	<u>3,525</u>	<u>—</u>

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March 31, 2011

[in thousands]

6. FINANCIAL INSTRUMENTS

Fair value

The PDDP's primary financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities. 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 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

The 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. The PDDP's financial instruments are not subject to foreign exchange or other price risk.

Credit risk

The PDDP is exposed to credit risk with respect to its accounts receivable. The 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, 2011 and 2010 was nil.

The aging of accounts receivable was as follows:

	2011	2010
	\$	\$
Current	6,782	8,016
61 – 90 days	66	570
91 days and over	322	217

Liquidity risk

The PDDP has contractual obligations and financial liabilities and therefore is exposed to liquidity risk. The PDDP 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.

Provincial Drug Distribution Program

NOTES TO FINANCIAL STATEMENTS

March 31, 2011
[in thousands]

7. 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 events with adverse 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, 2011, PDDP has met its objective of having sufficient liquid resources to meet its current obligations.