

Financial Statements

Provincial Drug Distribution Program
March 31, 2014



MANAGEMENT'S REPORT

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements and schedule, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Managers [the "Board"] are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews internal financial statements on a regular basis and external audited consolidated financial statements yearly.

The external auditors, Ernst & Young LLP, conduct an independent examination, in accordance with Canadian generally accepted auditing standards, and express their opinion on the financial statements. The external auditors have full and free access to financial management of the Provincial Drug Distribution Program and meet when required.

On behalf of the Provincial Drug Distribution Program:

Amanda Whitewood
Vice-President, Sustainability & Chief
Financial Officer
Capital District Health Authority

Chris Power
President & Chief Executive Officer
Capital District Health Authority

June 26, 2014.



INDEPENDENT AUDITORS' REPORT

To the Board of Managers of:
Provincial Drug Distribution Program

We have audited the accompanying financial statements of the **Provincial Drug Distribution Program**, which comprise the statement of financial position as at March 31, 2014 and the statement of operations, changes in net financial assets 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 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.

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 evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Provincial Drug Distribution Program as at March 31, 2014, and the results of its operations, changes in net financial assets, and its cash flows for the years then ended in accordance with Canadian public sector accounting standards.

Ernst & Young LLP

Halifax, Canada,
June 26, 2014.

Chartered Accountants

Provincial Drug Distribution Program

STATEMENT OF FINANCIAL POSITION

As at March 31,
[in thousands of Canadian dollars]

	2014	2013
	\$	\$
FINANCIAL ASSETS		
Cash	3,452	2,024
Accounts receivable <i>[note 3]</i>	12,533	10,462
HealthPRO dividends receivable <i>[note 5]</i>	1,365	1,082
Inventories held for resale	4,659	5,485
Due from Capital District Health Authority	—	539
	<u>22,009</u>	<u>19,592</u>
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities	9,106	8,722
Due to Capital District Health Authority	1,797	—
Customer rebates	588	806
	<u>11,491</u>	<u>9,528</u>
Net financial assets	<u>10,518</u>	<u>10,064</u>
Accumulated surplus	<u>10,518</u>	<u>10,064</u>

See accompanying notes

On behalf of the Board:

Director

Provincial Drug Distribution Program

STATEMENTS OF OPERATIONS

Year ended March 31,
[in thousands of Canadian dollars]

	Budget	2014	2013
	\$	\$	\$
	<i>[note 9]</i>		
REVENUE			
Drug distribution <i>[schedule A]</i>	91,749	95,105	90,364
	91,749	95,105	90,364
EXPENSES			
Drugs	90,667	93,613	88,054
Compensation	811	751	739
Other	175	193	175
Fees	80	81	78
Travel	6	6	4
Plant maintenance supplies	10	7	7
	91,749	94,651	89,057
Annual surplus	—	454	1,307

See accompanying notes

Provincial Drug Distribution Program

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

Year ended March 31,
[in thousands of Canadian dollars]

	2014	2013
	\$	\$
Annual surplus	454	1,307
Net financial assets, beginning of year	10,064	8,757
Net financial assets, end of year	10,518	10,064

See accompanying notes

Provincial Drug Distribution Program

STATEMENT OF CASH FLOWS

Year ended March 31,
[in thousands of Canadian dollars]

	2014	2013
	\$	\$
OPERATING ACTIVITIES		
Annual surplus	454	1,307
Changes in non-cash working capital items	974	(291)
Cash provided by operating activities	1,428	1,016
Cash, beginning of year	2,024	1,008
Cash, end of year	3,452	2,024

See accompanying notes

Provincial Drug Distribution Program

NOTES TO FINANCIAL STATEMENTS

March 31, 2014
[in thousands of Canadian dollars]

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 Managers. 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 mark-up 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 public sector accounting standards for provincial reporting entities established by the Canadian Public Sector Accounting Board [“PSAB”], and include the following significant accounting policies:

[a] Inventories held for resale

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

[b] Revenue recognition

Revenue is recognized in the period in which the risks and rewards of the underlying drugs have been substantially transferred to the DHAs and NDOs.

[c] Operating costs

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

[d] Measurement uncertainty

The preparation of these financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period.

Provincial Drug Distribution Program

NOTES TO FINANCIAL STATEMENTS

March 31, 2014
[in thousands of Canadian dollars]

3. ACCOUNTS RECEIVABLE

	2014	2013
	\$	\$
Customer receivables, net	12,349	10,187
Outdated drugs receivable, net	184	275
	<u>12,533</u>	<u>10,462</u>

4. CONTRIBUTION FROM PROVINCE OF NOVA SCOTIA

As at April 1, 1997, the cumulative difference between receipts and disbursements of \$7,341 was recognized as a contribution from the Province of Nova Scotia. This amount is included in the PDDP's accumulated surplus.

5. HEALTHPRO DIVIDENDS

In February 2011, Capital District Health Authority and the PDDP became members of HealthPRO Procurement Services, a national group purchasing organization and the majority of contracts were committed by PDDP in October 2011. HealthPRO contracts allow PDDP to take part in national volume pricing and earn patronage dividends [rebates]. Dividends are paid quarterly, in the ninth month following the end of the quarter in which the rebates are earned by HealthPRO.

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 from Capital District Health Authority and customer rebates are carried at historical cost because 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 statements 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 risks.

Provincial Drug Distribution Program

NOTES TO FINANCIAL STATEMENTS

March 31, 2014
[in thousands of Canadian dollars]

6. FINANCIAL INSTRUMENTS [Cont'd]

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 as at March 31, 2014 was \$569 [2013 – \$247]. The aging of accounts receivable was as follows:

	2014	2013
	\$	\$
Current	12,265	9,876
61 – 90 days	179	203
91 days and over	446	530

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. Accounts payable mature within 60 days. The customer rebates have no set terms of repayment.

7. CAPITAL MANAGEMENT

In managing capital, the PDDP focuses on liquid resources available for operations. The 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, 2014, the PDDP has met its objective of having sufficient liquid resources to meet its current obligations.

8. COMPARATIVE FIGURES

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

9. BUDGETED FIGURES

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the PDDP's Board of Managers. The PDDP does not prepare an annual budget for the statement of net debt.

SCHEDULE OF REVENUES

Year ended March 31,
[in thousands of Canadian dollars]

	2014	2013
	\$	\$
Drugs	92,992	88,360
Department of Health	250	250
Other	129	132
HealthPRO dividends	1,734	1,643
Customer rebates	—	(21)
Total revenues	95,105	90,364

