

Financial statements

Provincial Drug Distribution Program

March 31, 2016

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 annually.

The external auditors, 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:



Allan Horsburgh
Vice-President, Stewardship and Accountability
Nova Scotia Health Authority



Janet Knox
President and Chief Executive Officer
Nova Scotia Health Authority

June 29, 2016



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Auditor General of Nova Scotia

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Provincial Drug Distribution Program:

Report on the Financial Statements

I have audited the accompanying financial statements of the Provincial Drug Distribution Program, which comprise the statement of financial position as at March 31, 2016, and the statements 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 Responsibilities for the Financial Statements

Management is responsible for the preparation and fair representation 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Provincial Drug Distribution Program as at March 31, 2016, and its financial performance and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Michael A. Pickup, CPA, CA
Auditor General of Nova Scotia

June 29, 2016
Halifax, Nova Scotia



Provincial Drug Distribution Program

Statement of financial position [in thousands of Canadian dollars]

As at March 31

	2016	2015
	\$	\$
Assets		
Current		
Cash	258	1,947
Accounts receivable <i>[note 3]</i>	13,712	12,769
HealthPRO dividends receivable <i>[note 5]</i>	839	1,475
Inventory	3,680	3,772
	<u>18,489</u>	<u>19,963</u>
Financial liabilities		
Accounts payable and accrued liabilities	5,273	6,058
Due to Nova Scotia Health Authority	4,349	2,916
Customer rebates	765	564
	<u>10,387</u>	<u>9,538</u>
Net financial assets	<u>8,102</u>	<u>10,425</u>
Accumulated surplus	<u>8,102</u>	<u>10,425</u>

See accompanying notes

On behalf of the Board:

Director

Provincial Drug Distribution Program

Statement of operations

[in thousands of Canadian dollars]

Year ended March 31

	Budget	2016	2015
	\$	\$	\$
	<i>[unaudited]</i>		
Revenue			
Schedule of revenues <i>[schedule 1]</i>	99,684	98,825	95,797
	99,684	98,825	95,797
Expenses			
Drugs	98,592	96,885	94,859
Compensation	805	796	752
Other	182	3,379	182
Fees	95	86	94
Travel	5	2	3
Plant maintenance supplies	5	—	—
	99,684	101,148	95,890
Annual deficit	—	(2,323)	(93)

See accompanying notes

Provincial Drug Distribution Program

Statement of changes in net financial assets [in thousands of Canadian dollars]

Year ended March 31

	2016 \$	2015 \$
Annual deficit	(2,323)	(93)
Net financial assets, beginning of year	10,425	10,518
Net financial assets, end of year	8,102	10,425

See accompanying notes

Provincial Drug Distribution Program

Statement of cash flows [in thousands of Canadian dollars]

Year ended March 31

	2016	2015
	\$	\$
Operating activities		
Annual deficit	(2,323)	(93)
Changes in due to Nova Scotia Health Authority	1,433	1,119
Changes in non-cash working capital items	(799)	(2,531)
Cash provided by operating activities	(1,689)	(1,505)
Cash, beginning of year	1,947	3,452
Cash, end of year	258	1,947

See accompanying notes

Provincial Drug Distribution Program

Notes to financial statements

March 31, 2016

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, 1997, the Nova Scotia Health Authority ["NSHA"] [formerly known as "District Health Authorities"] and the IWK Health Centre ["IWK"] 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%. Effective April 1, 2015, the nine District Health Authorities were merged into one, the Nova Scotia Health Authority. The Nova Scotia Health Authority now administers the PDDP.

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 measured at the fair value of the consideration received or receivable, excluding discounts and rebates. Revenue is recognized in the period in which the risks and rewards of the underlying drugs have been substantially transferred to the NSHA, the IWK and NDOs. HealthPRO dividends are recognized in income in the period earned.

[c] Operating costs

These financial statements do not include certain expenses that are absorbed by the NSHA.

[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, 2016

3. Accounts receivable

	2016 \$000	2015 \$000
Customer receivables, net	13,304	12,641
Outdated drugs receivable, net	408	128
	<u>13,712</u>	<u>12,769</u>

4. Contribution from Province of Nova Scotia

As at April 1, 1997, the cumulative difference between receipts and disbursements of \$7,341,000 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, the PDDP became members of HealthPRO Procurement Services, a national group purchasing organization. The majority of contracts were committed by PDDP beginning 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 the NSHA 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.

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, 2016 was \$380,000 [2015 – \$700,000].

Provincial Drug Distribution Program

Notes to financial statements

March 31, 2016

The aging of accounts receivable was as follows:

	2016 \$000	2015 \$000
Current	13,108	11,974
31 – 60 days	230	309
61 – 90 days	24	104
91 days and over	350	382
	<u>13,712</u>	<u>12,769</u>

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, 2016, the PDDP has met its objective of having sufficient liquid resources to meet its current obligations.

8. 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.

9. Contingency fund

PDDP's Board of Managers historically established a contingency fund in the amount of \$200,000. This fund represents a restriction on cash that is to be used for extraordinary expenses such as possible business interruption or disaster such as a flood, fire, computer system crash, pandemic, or eviction from the premises for other safety or urgent reasons.

10. Comparative figures

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

Provincial Drug Distribution Program

Schedule 1

Schedule of revenues
[in thousands of Canadian dollars]

Year ended March 31

	2016	2015
	\$	\$
Drugs	97,061	94,827
Department of Health	250	250
Other	309	109
HealthPRO dividends	1,205	611
Total revenues	98,825	95,797