Consolidated Financial Statements of

Canadian Blood Services
Société canadienne du sang

Year ended March 31, 2014

KPMG LLP
Suite 1800
150 Elgin Street
Ottawa, ON K2P 2P8

Telephone (613) 212-KPMG (5764)
Fax (613) 212-2896
Internet www.kpmg.ca

INDEPENDENT AUDITOR'S REPORT

To the Members of Canadian Blood Services

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Canadian Blood Services, which comprise the consolidated statement of financial position as at March 31, 2014, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canadian Blood Services as at March 31, 2014 and its consolidated results of operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Report on Other Legal Requirements

As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 20, 2014

Ottawa, Canada

Canadian Blood Services
Société canadienne du sang

Consolidated Statement of Financial Position
As at March 31, 2014, with comparative information for 2013
(In thousands of dollars)

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents (note 3)	$ 180,376	$ 190,676
Members' contributions receivable	18,515	3,364
Other amounts receivable	11,133	20,343
Inventory (note 4)	115,060	131,133
Prepaid expenses	8,149	7,793
	333,233	353,309
Investments, captive insurance operations (note 5)	384,282	354,174
Capital assets and intangible assets (note 6):		
Land, buildings, software and equipment	205,129	211,760
Right to the blood supply system	21,562	22,442
	226,691	234,202
	$ 944,206	$ 941,685
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$ 86,806	$ 88,091
Current portion of obligations under capital leases	300	316
	87,106	88,407
Provision for future claims (note 15)	249,886	249,886
Employee future benefit liabilities (note 8)	32,981	28,109
Obligations under capital leases	349	680
Deferred contributions (note 10):		
Expenses of future periods	179,894	202,285
Capital assets	210,546	217,699
	390,440	419,984
Net assets:		
Invested in capital assets	15,579	15,579
Restricted for captive insurance purposes (note 11)	131,654	102,829
Unrestricted net assets	36,211	36,211
	183,444	154,619
Guarantees and contingencies (note 16)		
Commitments (note 17)		
	$ 944,206	$ 941,685

See accompanying notes to the consolidated financial statements.

On behalf of the Board

Leah Hollins

R W Gladstone

Leah Hollins, Director and Chair

R. Wayne Gladstone, Director

Canadian Blood Services
Société canadienne du sang

Consolidated Statement of Operations
Year ended March 31, 2014, with comparative information for 2013
(In thousands of dollars)

	Canadian Blood Services (note 13) 2014	2013	Captive Insurance (note 15) 2014	2013	Consolidated 2014	2013
Revenue:						
Members' contributions	$ 973,269	$ 980,278	$ –	$ –	$ 973,269	$ 980,278
Federal contributions	8,432	8,580	–	–	8,432	8,580
Less amounts deferred	(29,412)	(42,776)	–	–	(29,412)	(42,776)
	952,289	946,082	–	–	952,289	946,082
Amortization of previously deferred contributions:						
Relating to capital assets	22,067	21,510	–	–	22,067	21,510
Relating to operations	24,288	26,486	–	–	24,288	26,486
Total contributions recognized as revenue	998,644	994,078	–	–	998,644	994,078
Stem cells revenue	12,536	15,462	–	–	12,536	15,462
Net investment income (note 12)	1,917	2,089	15,854	16,977	17,771	19,066
Other income	2,147	5,264	–	–	2,147	5,264
Total revenue	**1,015,244**	**1,016,893**	**15,854**	**16,977**	**1,031,098**	**1,033,870**
Expenses:						
Cost of plasma protein products	459,120	464,274	–	–	459,120	464,274
Staff costs	332,302	316,141	–	–	332,302	316,141
General and administrative (note 14)	117,123	126,034	244	487	117,367	126,521
Medical supplies	84,873	86,963	–	–	84,873	86,963
Depreciation and amortization	21,826	21,116	–	–	21,826	21,116
Total expenses	**1,015,244**	**1,014,528**	**244**	**487**	**1,015,488**	**1,015,015**
Excess of revenue over expenses before the undernoted	–	**2,365**	**15,610**	**16,490**	**15,610**	**18,855**
Change in fair value of investments measured at fair value	–	–	13,215	1,411	13,215	1,411
Excess of revenue over expenses	**$ –**	**$ 2,365**	**$ 28,825**	**$ 17,901**	**$ 28,825**	**$ 20,266**

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Net Assets
Year ended March 31, 2014, with comparative information for 2013
(In thousands of dollars)

	Invested in capital assets	Restricted for captive insurance	Unrestricted	2014	2013
Balance, beginning of year	$ 15,579	$ 102,829	$ 36,211	$ 154,619	$ 134,353
Excess of revenue over expenses	–	28,825	–	28,825	20,266
Balance, end of year (note 11)	$ 15,579	$ 131,654	$ 36,211	$ 183,444	$ 154,619

See accompanying notes to the consolidated financial statements.

Canadian Blood Services
Société canadienne du sang

Consolidated Statement of Cash Flows
Year ended March 31, 2014, with comparative information for 2013
(In thousands of dollars)

	2014	2013
Cash and cash equivalents provided by (used for):		
Operating activities:		
Excess of revenue over expenses	$ 28,825	$ 20,266
Items not involving cash and cash equivalents:		
Depreciation and amortization of capital assets and intangible assets	21,826	21,116
Amortization of deferred contributions	(46,355)	(47,996)
Loss on sale of capital assets	74	94
Net realized gains on sales of investments, captive insurance operations	(4,017)	(5,186)
Change in fair value of equity investments, captive insurance operations	(13,215)	(1,411)
Amortization of bonds, captive insurance operations	266	299
Employee future benefit expenses in excess of cash payments	4,872	2,563
	(7,724)	(10,255)
Change in non-cash operating working capital:		
Decrease (increase) in Members' contributions receivable	(15,151)	20
Decrease (increase) in other amounts receivable	9,210	(3,735)
Decrease (increase) in inventory	16,073	(16,252)
Increase in prepaid expenses	(356)	(903)
Increase (decrease) in accounts payable and accrued liabilities	(1,918)	128
Increase in deferred contributions of future periods	1,897	34,467
Total operating activities	2,031	3,470
Investing activities:		
Proceeds on sales of investments, captive insurance operations	154,014	161,584
Purchases of investments, captive insurance operations	(167,156)	(174,784)
Increase in deferred contributions related to capital assets	14,914	20,297
Proceeds on sale of capital assets	167	300
Purchases of capital assets	(13,923)	(19,105)
Total investing activities	(11,984)	(11,708)
Financing activities:		
Repayment of obligations under capital leases	(347)	(626)
Total financing activities	(347)	(626)
Decrease in cash and cash equivalents	(10,300)	(8,864)
Cash and cash equivalents, beginning of year	190,676	199,540
Cash and cash equivalents, end of year	$ 180,376	$ 190,676
Cash and cash equivalents are comprised of:		
Cash on deposit	$ 180,068	$ 190,181
Butterfield Asset Management Money Market Fund	52	239
HSBC Money Market Pooled Fund	256	256
	$ 180,376	$ 190,676

See accompanying notes to the consolidated financial statements.

1. Nature of the organization and operations:

Canadian Blood Services/Société canadienne du sang (Canadian Blood Services) owns and operates the national blood supply system for Canada, except Québec, and is responsible for the collection, testing, processing and distribution of blood and blood products as well as the recruitment and management of blood donors. Canadian Blood Services also recruits volunteer donors for both Canadian and international patients requiring stem cell transplants and delivers an array of diagnostic services throughout Canada. Since 2008, Canadian Blood Services assumed a new mandate for organ and tissue donation and transplantation in Canada. This mandate includes the development of a set of recommendations for an integrated national donation and transplantation system, national registries to facilitate organ transplantation and leading practice and system performance initiatives. In addition, recognizing the importance of cord blood stem cell transplantation as a treatment for Canadian patients, Canadian Blood Services has been given the mandate to establish Canada's (excluding Québec) national public cord bank.

Canadian Blood Services was incorporated on February 16, 1998, under Part II of the Canada Corporations Act. Effective May 7, 2014, Canadian Blood Services continued its incorporation to the Canada Not-for-Profit Corporations Act. It is a corporation without share capital and qualifies for tax-exempt status as a registered charity under the Income Tax Act (Canada). The Members of the Corporation are the Ministers of Health of the Provinces and Territories of Canada, except Québec. The Members, as well as the Federal government provide contributions to fund the operations of Canadian Blood Services. Canadian Blood Services operates in a regulated environment, pursuant to the requirements of Health Canada.

Canadian Blood Services has established two wholly-owned captive insurance corporations; CBS Insurance Company Limited (CBSI) and Canadian Blood Services Captive Insurance Company Limited/Compagnie d'assurance captive de la société canadienne du sang limitée (CBSE). CBSI was incorporated under the laws of Bermuda on September 15, 1998, and is licensed as a Class 3 reinsurer under the Insurance Act, 1978 of Bermuda and related regulations. CBSE was incorporated under the laws of British Columbia on May 4, 2006, and is registered under the Insurance (Captive Company) Act of British Columbia.

2. Basis of presentation and significant accounting policies:

Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CPA Handbook.

A summary of the significant accounting policies used in these consolidated financial statements are set out below. The accounting policies have been applied consistently to all periods presented.

(a) Consolidation:

The financial statements include the results of the operations of Canadian Blood Services and the accounts of its wholly-owned captive insurance subsidiaries (the Corporation). Significant inter-company transactions have been eliminated.

(b) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses in the financial statements. Estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates. Significant estimates include assumptions used in measuring pension and other post-employment benefits and the provision for future insurance claims, which are described in more detail in notes 8 and 15, respectively.

(c) Revenue recognition:

The Corporation follows the deferral method of accounting for contributions.

Members' and Federal contributions are recorded as revenue in the period to which they relate. Amounts approved but not received at the end of an accounting period are accrued. Where a portion of a contribution relates to a future period, it is deferred and recognized in the subsequent period.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets other than land are initially deferred and then amortized to revenue on a straight-line basis, at a rate corresponding with the depreciation rate for the related capital asset. Contributions restricted for the purchase of land are recognized as direct increases in net assets invested in capital assets.

Unrestricted funding is recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

2. Basis of presentation and significant accounting policies (continued):

Significant accounting policies (continued):

(c) Revenue recognition (continued):

Revenue from fees and contracts is recognized when the services are provided or the goods are distributed.

Restricted donations are recognized as revenue in the year in which the related expenses are recognized. Unrestricted donations are recognized as revenue in the year received.

(d) Donated goods and services:

The Corporation does not pay donors for blood donations. Additionally, a substantial number of volunteers contribute a significant amount of time each year in support of the activities of the Corporation. The value of such contributed goods and services is not quantified in the financial statements.

(e) Inventory:

Inventory of the Corporation consists of plasma protein products, fresh blood components and supplies related to the collection, production and testing of fresh blood components. Plasma protein products and collection supplies inventories are recorded at average cost and are charged to the statement of operations upon distribution to hospitals and usage. Fresh blood components inventory includes an appropriate portion of direct costs and overhead incurred in the collection, production and testing processes. Fresh blood components inventory is charged to the statement of operations upon distribution to hospitals.

(f) Capital assets and intangible assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Assets acquired under capital leases are amortized over the estimated life of the assets or over the lease term, as appropriate. Repairs and maintenance costs are expensed. Betterments, which extend the estimated life of an asset, are capitalized. When capital assets and intangible assets no longer contribute to the Corporation’s ability to provide services, their carrying amount is written down to their residual value.

Capital assets and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the asset no longer has any long-term service potential to the Corporation. In this event, recoverability of assets held and used is measured by reviewing the estimated residual value of the asset. If the carrying amount of an asset exceeds its estimated residual value, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the residual value of the asset. When a capital asset is written down, the corresponding amount of any unamortized deferred contributions related to the capital asset would be recognized as revenue, provided that all restrictions have been complied with.

2. Basis of presentation and significant accounting policies (continued):

Significant accounting policies (continued):

(f) Capital assets and intangible assets (continued):

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets at the rates indicated below:

Asset	Useful life
Buildings	40 to 65 years
Machinery and equipment	8 to 25 years
Furniture and office equipment	5 to 10 years
Motor vehicles	8 years
Computer equipment	3 years
Computer software	2 to 5 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term or their estimated useful lives. Assets under construction are not depreciated until they are available for use by the Corporation.

The right to the blood supply system represents the excess of the purchase price of the system over the fair value of the tangible net assets acquired in 1998, and is being amortized on a straight-line basis over 40 years.

(g) Asset retirement obligations:

The Corporation recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Corporation concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

Changes in the obligation due to the passage of time are recognized in the statement of operations as an expense using the interest method. Changes in the obligation due to changes in the estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is amortized over the remaining life of the asset.

2. Basis or presentation and significant accounting policies (continued):

Significant accounting policies (continued):

(h) Foreign currency transactions:

Foreign currency transactions of the Corporation are translated using the temporal method. Under this method, transactions are initially recorded at the rate of exchange prevailing at the date of the transaction. Thereafter, monetary assets and liabilities are adjusted to reflect the exchange rates in effect at the statement of financial position date. Gains and losses resulting from the adjustment are included in the statement of operations.

(i) Employee future benefits:

The Corporation sponsors two defined benefit plans, one for employees and the other for executives. In addition, the Corporation sponsors a defined contribution pension plan and provides other retirement and post-employment benefits to eligible employees. Benefits provided under the defined benefit pension plans are based on a member's term of service and average earnings over a member's five highest consecutive annualized earnings.

The Corporation uses the deferral and amortization approach to account for its defined benefit plans. The Corporation accrues its obligations under employee benefit plans as the employees render the services necessary to earn pension and other retirement and post-employment benefits. The Corporation has adopted the following policies:

- The cost of the accrued benefit obligations for pensions and other retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages and expected health care costs. The measurement date of the plan assets and accrued benefit obligation coincides with the Corporation's fiscal year. The most recent actuarial valuations for the two benefit pension plans for funding purposes were as of December 31, 2013, and January 1, 2014. The next required valuations will be as of December 31, 2016 and January 1, 2017 respectively. The most recent actuarial valuation of the other retirement and post-employment benefits was as of April 1, 2012, and the next valuation will be as of April 1, 2015.
- For the purpose of calculating expected return on plan assets, investments are valued at fair value.

2. Basis of presentation and significant accounting policies (continued):

Significant accounting policies (continued):

(i) Employee future benefits (continued):

- Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of active employees is 9 years (2013 - 9 years) and 7 years (2013 - 7 years) for the two defined benefit plans and 10 to 11 years (2013 - 10 to 11 years) for the other retirement and post-employment benefits.

- Past service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment.

- When a restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

- The defined benefit pension plan for employees is jointly sponsored by the employer and participating unions. To reflect the risk-sharing nature of this plan, the Corporation recognizes the 50 percent of the accrued benefit liability or asset that accrues to the employer.

The Corporation also has a defined contribution plan providing pension benefits. The cost of the defined contribution plan is recognized based on the contributions required to be made during each period.

(j) Financial Instruments:

Upon initial recognition, financial instruments are measured at their fair value. Financial assets and financial liabilities are recognized initially on the trade date, which is the date that the Corporation becomes a party to the contractual provisions of the instrument.

Fixed income securities and short-term notes are measured on the statement of financial position at amortized cost. Interest income is recognized on the accrual basis and includes the amortization of premiums or discounts on fixed interest securities purchased at amounts different from their par value.

Equity securities and mutual funds are measured at fair value with changes in fair value recorded directly in the statement of operations. Dividends are recorded as income when declared.

2. Basis of presentation and significant accounting policies (continued):

Significant accounting policies (continued):

(j) Financial Instruments (continued):

Foreign exchange contracts not in a qualifying hedging relationship are measured at fair value with changes in fair value recorded directly in the statement of operations.

All other financial instruments are measured at cost or amortized cost.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest rate method. Transaction costs are comprised primarily of legal, accounting, underwriters' fees and other costs directly attributable to the acquisition, issuance or disposal of a financial asset or financial liability.

Financial assets measured at cost or amortized cost are assessed for indicators of impairment on an annual basis at the end of the fiscal year. If there is an indicator of impairment, the Corporation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Corporation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(k) Future accounting changes:

The has Accounting Standards Board issued new accounting standards for Employee Future Benefits which are effective for years beginning on or after January 1, 2014. The new standards eliminate the deferral and amortization method of accounting for employee future benefits which provided the ability to smooth the recognition of actuarial gains and losses through income. The new standards require that the full amount of the defined benefit liability, net of related assets be recorded on the statement of financial position and introduces changes to what amounts are recognized in the statement of operations or the statement of changes in net assets. The standards allow for the use of either an actuarial valuation for accounting purposes or an actuarial valuation for funding purposes. The Corporation is assessing the impact of the new accounting standards but expects the impact of conversion to be material. Upon adoption in 2015, comparative data will be required to be restated.

(In thousands of dollars)

3. Cash and cash equivalents:

Cash and cash equivalents include deposits with financial institutions that can be withdrawn without prior notice or penalty and units held in money market funds.

Cash and cash equivalents include $308 (2013 - $495) that is restricted for captive insurance operations. Cash and cash equivalents also includes Members' contributions received in advance for expenses of future periods (note 10(a)).

4. Inventory:

Inventory consists of raw materials, work in process and finished goods. Raw materials include medical supplies available for use in the collection, manufacturing and testing of fresh blood components. Work in process consists of plasma for fractionation. Finished goods include plasma protein products, red blood cells, platelets and plasma for transfusion that are available for distribution to hospitals. Work in process and finished goods inventories include direct costs and overhead incurred in the collection, manufacturing, testing and distribution process.

Inventory comprises:

	2014	2013
Raw materials	$ 8,378	$ 8,831
Work in process	4,502	4,863
Finished goods	102,180	117,439
	$ 115,060	$ 131,133

(In thousands of dollars)

5. Investments, captive insurance operations:

All investments are restricted for captive insurance operations. The amortized cost and fair market value of investments are as follows:

	2014	2013
Measured at amortized cost:		
Short-term notes	$ 10,155	$ 6,929
Fixed income securities	245,722	223,861
Measured at fair value:		
Mutual funds	40,367	44,588
Equity securities	88,038	78,796
	$ 384,282	$ 354,174

6. Capital assets and intangible assets:

	Cost	Accumulated depreciation	2014 Net book value	2013 Net book value
Buildings	$ 163,971	$ 39,378	$ 124,593	$ 126,698
Machinery and equipment	83,496	58,643	24,853	26,871
Land	15,579	–	15,579	15,579
Furniture and office equipment	28,655	17,038	11,617	12,244
Leasehold improvements	21,802	13,909	7,893	6,291
Computer equipment	43,383	38,094	5,289	6,093
Motor vehicles	17,812	7,370	10,442	10,592
Computer software	32,676	28,723	3,953	3,160
Equipment under capital leases	3,259	2,884	375	996
Assets under construction	535	–	535	3,236
	411,168	206,039	205,129	211,760
Right to the blood supply system	35,203	13,641	21,562	22,442
	$ 446,371	$ 219,680	$ 226,691	$ 234,202

During the current year, capital assets were acquired at an aggregate cost of $14,556 (2013 - $20,239) of which $Nil (2013 - $523) was acquired by means of capital lease. Cash payments of $13,923 (2013 - $19,105) were made to capital assets.

(In thousands of dollars)

7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $472 (2013 - $3,670) which include amounts payable for sales and payroll taxes.

8. Employee future benefits:

The Corporation sponsors two defined benefit pension plans, one for employees and the other for executives. In addition, the Corporation sponsors a defined contribution pension plan and provides other retirement and post-employment benefits to eligible employees.

(a) Defined benefit pension plans:

Information about the Corporation's defined benefit plans are combined and summarized as follows:

	2014	2013
Accrued benefit obligation	$ 340,777	$ 311,885
Fair value of plan assets	288,663	242,679
Funded status – deficit	(52,114)	(69,206)
Balance of unamortized amounts	35,513	57,929
Adjustment for risk sharing provisions	7,978	5,424
Accrued benefit liability	$ 8,623	$ 5,853

The accrued pension benefit liability is included in the employee future benefit liability in the Corporation's statement of financial position. The defined benefit plan for regular employees is jointly sponsored by the Corporation, as employer, and the participating unions. To reflect the risk-sharing nature of the plan, the Corporation recognizes the 50 percent of the accrued benefit liability or asset that accrues to the employer.

The percentage of the fair value of the assets of the defined benefit plan for employees and the plan for executives by major asset class are as follows: equity 60% and 58% respectively (2013 – 56% and 57%); debt 39% and 14% respectively (2013 - 43% and 12%); and other 1% and 28% respectively (2013 - 1% and 31%).

The difference between the accrued benefit liability recognized on the Corporation's statement of financial position and the actuarially determined funded deficit comprises experience losses and the risk sharing adjustment for the defined benefit plan for employees. Experience losses represent differences between actual asset and accrued benefit values and expected values determined based on the actuarial assumptions used for accounting purposes.

(In thousands of dollars)

8. Employee future benefits (continued):

(a) Defined benefits plans (continued):

Experience gains and losses are amortized to pension expense over the average expected remaining service lives of employees when the aggregate gain or loss exceeds 10% of the greater of the accrued benefit obligation and the fair value of assets at the beginning of the year. Accordingly, $3,011 of amortization was recorded in 2014 (2013 - $1,192).

The significant actuarial assumptions adopted in measuring the Corporation’s defined benefit plans accrued benefit obligation and benefit cost are summarized as follows:

	2014	2013
Accrued benefit obligation:		
Discount rate	4.60%	4.40%
Inflation rate	2.25%	2.50%
Rate of compensation increases	3.25-3.75%	3.75-4.00%
Mortality Table	CPM 2014-B	UP94G
Benefit cost:		
Discount rate	4.40%	5.00%
Expected long-term rate of return on plan assets	4.50-6.00%	4.50-6.00%
Rate of compensation increases	3.75-4.00%	3.75-4.00%

Other information about the Corporation’s defined benefit plans is combined and summarized as follows:

	2014	2013
Employer contributions	$ 12,778	$ 11,678
Employee contributions	8,530	7,897
Benefits paid	8,000	9,222

(b) Pension plan expense:

The net expense for the Corporation’s pension plans is combined and summarized as follows:

	2014	2013
Defined benefit plans	$ 15,548	$ 12,734
Defined contribution plan	4,692	4,825
	$ 20,240	$ 17,559

(In thousands of dollars)

8. Employee future benefits (continued):

(c) Other retirement and post-employment benefits:

Information about the Corporation's other retirement and post-employment benefits is as follows:

	2014	2013
Accrued benefit obligation	$ 26,930	$ 26,429
Balance of unamortized amounts	2,572	4,173
Accrued benefit liability	$ 24,358	$ 22,256

	2014	2013
Benefits paid	$ 929	$ 886
Net expense	3,031	2,393

The accrued benefit liability is included in the employee future benefits liability in the Corporation's statement of financial position.

The difference between the accrued benefit liability recognized on the Corporation's statement of financial position and the accrued benefit obligation comprises experience losses. Experience losses represent differences between actual accrued benefit values and expected values determined based on the actuarial assumptions used for accounting purposes.

Experience gains and losses are amortized to pension expense over the average expected remaining service lives of employees when the aggregate gain or loss exceeds 10% of the accrued benefit obligation at the beginning of the year. Accordingly, $232 of experience losses were amortized into the benefit expense (2013 - experience gains of $18).

(In thousands of dollars)

8. Employee future benefits (continued):

(c) Other retirement and post-employment benefits (continued):

The significant actuarial assumptions adopted in measuring the Corporation's other retirement and post-employment accrued benefit obligation and benefit cost are as follows:

	2014	2013
Accrued benefit obligation:		
Discount rate	4.30-4.70%	3.80-4.40%
Rate of compensation increases	3.75%	4.00%
Mortality Table	CPM 2014-B	UP94G
Benefit cost:		
Discount rate	3.80-4.40%	4.70-5.10%
Rate of compensation increases	4.00%	4.50%

Hospital costs – 4.50% per annum;

Drug costs – 8.05% per annum, with an ultimate rate of 4.50% reached in 2029, starting in 2014;

Other health costs – 4.50% per annum.

Termination benefits have been recognized in accounts payable and accrued liabilities on the statement of financial position and in staff costs in the statement of operations. At March 31, 2014 $8,538 is accrued on the statement of financial position (2013 - $5,431).

9. Credit facilities:

(a) Demand instalment loan:

A demand installment loan in the amount of $25,000 (2013 - $25,000) was arranged to cover contingencies or events not anticipated in the annual budget. At March 31, 2014, no amounts had been borrowed under this facility.

(b) Demand operating credit:

A line of credit in the amount of $50,000 (2013 - $50,000) was arranged to provide working capital for inventory. At March 31, 2014, no amounts had been borrowed under this facility.

(c) Demand bridge facility (Facilities redevelopment project):

A demand revolving bridge facility of $15,000 (2013 - $15,000) was arranged to finance a portion of the redevelopment of the Corporation's facilities. At March 31, 2014, no amounts had been borrowed under this facility.

(In thousands of dollars)

9. Credit facilities (continued):

(d) Demand installment loan (Facilities redevelopment project):

A demand installment loan for the redevelopment of the Corporation's facilities has been arranged. The credit limit established under this loan is the lesser of $15,000 (2013 - $15,000), the outstanding balance on the demand bridge facility or an amount confirmed by the borrower. The facility was arranged to refinance the demand bridge facility. At March 31, 2014, no amounts had been borrowed under the demand installment loan. Any amounts borrowed under the facility will be repayable on demand.

(e) Standby letter of credit:

Standby letters of credit in the amount of $2,000 (2013 - $2,000) were arranged to cover municipal requirements with regard to the redevelopment of the Corporation's facilities. At March 31, 2014, no amounts had been issued under the facility.

Pursuant to the arrangements above, the Corporation has provided a general security agreement in favour of the bank over receivables, inventory, equipment and machinery, a floating charge debenture over all present and future assets and property and a fixed charge over the Brampton and Dartmouth properties. Amounts deferred for contingency purposes are excluded from the general security agreement. With respect to the demand bridge facility, the standby letter of credit facility and demand installment loan, the Corporation has provided a first-priority security interest over funds received for the redevelopment of the Corporation's facilities.

10. Deferred contributions:

(a) Expenses of future periods:

Deferred contributions represent externally restricted contributions to fund expenses of future periods.

	2014	2013
Balance, beginning of year	$ 202,285	$ 194,304
Increase in amounts received related to future periods	4,569	39,902
Less amounts recognized as revenue in the year	(24,288)	(26,486)
Less capital assets purchased from deferred contributions	(2,996)	(5,718)
Add income earned on resources restricted for transition	7	58
Add income earned on resources restricted for contingency	317	225
	$ 179,894	$ 202,285

The capital assets purchased represent purchases from contributions that were deferred at March 31, 2013, as well as contributions received and deferred in the year ending March 31, 2014.

(In thousands of dollars)

10. Deferred contributions (continued):

(a) Expenses of future periods (continued):

At March 31, deferred contributions comprise:

	2014	2013
Members' funding received in advance	$ 20,491	$ 34,299
Deferred contributions restricted for specific projects or programs:		
Fundraising:		
Campaign for all Canadians	3,262	828
Donations – other	972	882
Programs – Members funding:		
National Facilities Redevelopment	7,900	6,774
Organs and Tissues	2,566	2,704
Cord Blood funding	2,170	936
Diagnostic Services – Manitoba	603	752
Inventory:		
Plasma protein products inventory working capital	47,653	72,653
Medical supplies	8,603	9,056
Anti-viral vaccinations	–	1,303
Fresh blood components inventory	15,511	17,956
Projects:		
Automated supply chain and donor testing	25,000	–
Automated supply chain	1,601	–
Productivity and efficiency program	–	8,774
E-Progesa	500	1,000
Laboratory Information System – Manitoba	1,948	1,536
Other:		
Prepaid rent	3,225	3,275
Winnipeg Building Transfusion Service Centre	–	908
Gain on disposal of leased assets	–	21
Transition	–	1,150
Research and development	18,209	18,115
Contingency	19,680	19,363
	$ 179,894	$ 202,285

(In thousands of dollars)

10. Deferred contributions (continued):

(b) Capital assets:

Funds received to acquire capital assets are recorded as deferred contributions – capital assets on the statement of financial position. They are amortized to revenue in the statement of operations at the same rate as capital assets are depreciated to expenses.

	2014	2013
Balance, beginning of year	$ 217,699	$ 218,912
Capital assets purchased	14,556	19,716
Capital funding received for leased assets	358	581
Less capital assets sold	(241)	(394)
Less amounts amortized to revenue	(21,826)	(21,116)
	$ 210,546	$ 217,699

11. Net assets:

Restricted for captive insurance purposes:

All net assets restricted for captive insurance purposes are subject to externally imposed restrictions stipulating that they be used to provide insurance coverage with respect to risks associated with the operations of the Corporation.

(In thousands of dollars)

12. Net investment income:

	2014	2013
Interest income on unrestricted funds	$ 1,917	$ 2,089
Net investment income earned on investments restricted for captive insurance	15,854	16,977
Interest income on resources restricted for transition	7	58
Interest income on resources restricted for contingency	317	225
	18,095	19,349
Less amounts deferred	(324)	(283)
	$ 17,771	$ 19,066

Included in net investment income earned on investments restricted for captive insurance is $2,020 (2013 - $2,251) of dividend income, $10,600 (2013 - $10,343) of interest income, $4,017 (2013 - $5,186) of realized gains on sales of investments, $266 amortization of bonds related to captive insurance operations (2013 - $299) net of $517 (2013 - $504) of investment management fees.

(In thousands of dollars)

13. Canadian Blood Services revenue and expenditures detail:

	Fresh Blood Components & Support Services 2014	2013	Plasma Protein Products 2014	2013	Diagnostic Services 2014	2013	Stem Cells 2014	2013	Organs and Tissues 2014	2013	Total 2014	2013
Revenue:												
Members' contributions	$ 468,788	$ 470,376	$ 459,264	$ 469,262	$ 17,498	$ 17,022	$ 24,139	$ 20,038	$ 3,580	$ 3,580	$ 973,269	$ 980,278
Federal contributions	5,000	5,000	–	–	–	–	–	–	3,432	3,580	8,432	8,580
Less amounts deferred	(14,271)	(30,587)	–	–	(1,276)	(1,273)	(10,285)	(7,336)	(3,580)	(3,580)	(29,412)	(42,776)
	459,517	444,789	459,264	469,262	16,222	15,749	13,854	12,702	3,432	3,580	952,289	946,082
Amortization of previously deferred contributions:												
Relating to capital assets	22,067	21,510	–	–	–	–	–	–	–	–	22,067	21,510
Relating to operations	14,986	17,573	–	–	535	893	5,634	6,248	3,133	1,772	24,288	26,486
Total contributions recognized as revenue	496,570	483,872	459,264	469,262	16,757	16,642	19,488	18,950	6,565	5,352	998,644	994,078
Stem cells revenue	–	–	–	–	–	–	12,536	15,462	–	–	12,536	15,462
Investment income	1,917	2,089	–	–	–	–	–	–	–	–	1,917	2,089
Other income	561	1,455	96	251	325	305	–	316	1,165	2,937	2,147	5,264
Total revenue	**499,048**	**487,416**	**459,360**	**469,513**	**17,082**	**16,947**	**32,024**	**34,728**	**7,730**	**8,289**	**1,015,244**	**1,016,893**
Expenses:												
Cost of plasma protein products	–	–	459,120	464,274	–	–	–	–	–	–	459,120	464,274
Staff costs	301,398	286,228	2,231	2,158	12,974	12,553	10,356	9,688	5,343	5,514	332,302	316,141
General and administrative	98,506	98,482	(2,896)	2,107	1,399	1,834	17,731	20,836	2,383	2,775	117,123	126,034
Medical supplies	77,318	79,225	905	974	2,709	2,560	3,937	4,204	4	–	84,873	86,963
Depreciation and amortization	21,826	21,116	–	–	–	–	–	–	–	–	21,826	21,116
Total expenses	**499,048**	**485,051**	**459,360**	**469,513**	**17,082**	**16,947**	**32,024**	**34,728**	**7,730**	**8,289**	**1,015,244**	**1,014,528**
Excess of revenue over expenses	**$ –**	**$ 2,365**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 2,365**

(In thousands of dollars)

14. Financial instruments:

Risk management:

The Board of Directors has responsibility for the review and oversight of the Corporation's risk management framework and general corporate risk profile. Through its committees, the Board oversees analysis of various risks facing the organization that evolve in response to economic conditions and industry circumstances.

The Corporation is exposed to risks as a result of holding financial instruments. The Corporation does not enter into transactions involving financial instruments, including derivative financial instruments, for speculative purposes. The following is a description of those risks and how they are managed.

(i) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign exchange risk and other price risk. These risks are discussed below:

Interest rate risk:

Interest rate risk pertains to the effect of changes in market interest rates on the future cash flows related to the Corporation's existing financial assets and liabilities.

The Corporation is exposed to interest rate risk on its cash and cash equivalents. At March 31, 2014, this exposure was minimal due to low prevailing rates of return.

Foreign exchange risk:

Foreign exchange risk is the risk that the value or future cash flows of financial instruments will fluctuate as a result of changes in foreign exchange rates. The Corporation is exposed to foreign exchange risk on purchases that are denominated in currencies other than the functional currency of the Corporation. To mitigate this risk, the Corporation has a formal foreign currency policy in place. The objective of this policy is to monitor the marketplace and, when considered appropriate, take advantage of opportunities to fix exchange rates using forward contracts to reduce the risk exposures related to purchases made in foreign currencies. Generally, forward contracts are for periods not in excess of twelve months.

At March 31 the Corporation had the following instruments denominated in $US dollars:

	2014 CDN	2013 CDN
Accounts receivable	$ 57	$ 58
Accounts payable and accrued liabilities	18,881	17,432

14. Financial instruments (continued):

Risk management (continued):

(i) Market risk (continued):

Foreign exchange risk (continued):

During 2014, the Corporation entered into foreign exchange contracts to hedge its foreign currency exposure on a substantial portion of its foreign purchases of plasma protein products. The contracts are intended to match the timing of the anticipated future purchases of foreign currencies. The Corporation did not designate the foreign exchange contracts as hedges of firm commitments or anticipated transactions in accordance with CPA Handbook Section 3856 – *Financial Instruments* and, accordingly, did not use hedge accounting. As a result of this, the foreign exchange contracts are recorded in the statement of financial position at fair value and changes in fair value of these contracts are recognized as gains or losses in the statement of operations.

Included in general and administrative expenses in the statement of operations for the year ended March 31, 2014, were foreign exchange gains of $4,141 (2013 - $1,034). At March 31, 2014, the Corporation had no foreign exchange contracts outstanding.

Other price risk:

Other price risk is the exposure to changes in the value of mutual funds and equity securities in its investment portfolio as a result of market conditions. Other price risk comprises general price risk which refers to fluctuations in value of the mutual funds and equity securities due to changes in general economic or stock market conditions, and specific price risk which refers to equity price volatility that is determined by entity specific characteristics. These risks affect the carrying value of these securities and the level and timing of recognition of gains and losses on securities held, causing changes in realized and unrealized gains and losses. The Corporation mitigates price risk by holding a diversified portfolio. The portfolio is managed through the use of third party investment managers and their performance is monitored by management and the Board of Directors of the captive insurance operations.

(ii) Credit risk:

The Corporation is exposed to the risk of financial loss resulting from the potential inability of a counterparty to a financial instrument to meet its contractual obligations. The carrying amount of cash and cash equivalents, Members' contributions receivable, other amounts receivable, and investments, captive insurance operations represent the maximum exposure of the Corporation to credit risk.

14. Financial instruments (continued):

Risk management (continued):

(ii) Credit risk (continued):

Cash and cash equivalents are held with a Canadian financial institution rated by Standard & Poor's credit rating as A+ credit watch stable. All foreign exchange contracts must be transacted with Schedule I or Schedule II financial institutions as per the Corporation's foreign currency policy.

The Corporation is also exposed to credit risk on fixed income securities investments. The investment policy requires an average credit rating of 'A' on the credit quality of its fixed income portfolio, related to captive insurance operations.

Members' contributions receivable are current in nature and management considers there to be minimal exposure to credit risk from Members due to funding agreements in place and third party Member credit ratings. Standard & Poor's available credit ratings for Members range from A credit watch stable to AAA credit watch stable.

Credit risk associated with other amounts receivable is considered to be minimal based on past experience with bad debts as these accounts represent a small portion of the total amounts receivable by the Corporation. The carrying amount of amounts receivable for these parties represents the Corporation's maximum exposure.

(iii) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and cash equivalents. In addition, the Corporation has credit facilities described in note 9 that it can draw on as required.

At March 31, 2014, the Corporation's capital lease obligations and accounts payable and accrued liabilities are all due within one year.

The provision for future claims has no contractual maturity and the timing of settlement will depend on actual claims experience in the future.

The liabilities for employee future benefits are generally long term in nature and fall due as eligible employees in the Corporation's defined benefit pension plans retire or terminate employment with the Corporation.

(In thousands of dollars)

15. Captive insurance operations:

The Corporation has established two wholly-owned captive insurance subsidiaries, CBS Insurance Company Limited (CBSI) and Canadian Blood Services Captive Insurance Company Limited/ Compagnie d’assurance captive de la société canadienne du sang limitée (CBSE). CBSI provides insurance coverage up to $250,000 with respect to risks associated with the operation of the blood system. CBSE has entered into an arrangement whereby the Members have agreed to indemnify CBSE for all amounts payable by CBSE under the terms of the excess policy up to $750,000, which is in excess of the $250,000 provided by CBSI. No payment shall be made under CBSE until the limit of the liability under the primary policy in CBSI, in the amount of $250,000, has been exhausted. As a result, Canadian Blood Services has $1,000,000 total in coverage.

The results of operations of the two subsidiaries are as follows:

	CBSI		CBSE		Total	
	2014	2013	2014	2013	2014	2013
Gross premiums written and earned	$ 551	$ 685	$ 60	$ 60	$ 611	$ 745
Net premiums earned	551	685	60	60	611	745
Net investment income	15,845	16,966	9	11	15,854	16,977
	16,396	17,651	69	71	16,465	17,722
Expenses:						
General and administrative	800	803	55	64	855	867
Net insurance income before undernoted	15,596	16,848	14	7	15,610	16,855
Change in fair value of investments measured at fair value	13,216	1,411	(1)	–	13,215	1,411
Net insurance income	$ 28,812	$18,259	$ 13	$ 7	$ 28,825	$18,266

15. Captive insurance operations (continued):

The provision for future claims is an actuarially based estimate of the cost to the Corporation of settling claims relating to insured events (both reported and unreported) that have occurred to March 31, 2014.

A significant proportion of both the future claims expense for the period and the related cumulative estimated liability of the Corporation for these future claims at March 31, 2014, of $249,886 (2013 - $249,886) covers the manifestation of blood diseases, which is inherently difficult to assess and quantify. There is a variance between these recorded amounts and other reasonably possible estimates.

16. Guarantees and contingencies:

(a) Guarantees:

In the normal course of business, the Corporation enters into lease agreements for facilities and assets acquired under capital leases. In the Corporation's standard commercial lease for facilities the Corporation, as the lessee, agrees to indemnify the lessor and other related third parties for liabilities that may arise from the use of the leased premises where the event triggering liability results from a breach of a covenant, any wrongful act, neglect or default on the part of the tenant or related third parties. However, this clause may be altered through negotiation. In the Corporation’s assets acquired under capital leases both the lessee and the lessor agree to indemnify each other for death or injury to the employees or agents of either party, where the event triggering liability results from negligent acts, omissions or willful misconduct.

The maximum amount potentially payable under any such indemnities cannot be reasonably estimated. The Corporation has liability insurance that relates to the indemnifications described above. Historically, the Corporation has not made significant payments related to the above-noted indemnities and, accordingly, no liabilities have been accrued in the financial statements.

(b) Contingencies:

The Corporation is party to legal proceedings in the ordinary course of its operations. In the opinion of management, the outcome of such proceedings will not have a material adverse effect on the Corporation’s financial statements or its activities. Claims and obligations related to the operation of the blood supply system prior to September 28, 1998, and the Canadian Council for Donation and Transplantation prior to April 1, 2008, are not the responsibility of the Corporation.

17. Commitments:

At March 31, 2014, the Corporation had the following contractual commitments:

(a) Future minimum payments under operating leases of approximately $18,922 with payments in each of the next five years of: 2015 - $6,214; 2016 - $4,561; 2017 - $2,805; 2018 - $1,891; 2019 - $933; and thereafter $2,518.

(b) Research and development project grants of approximately $5,997 (2013 - $3,990) to be funded from the contributions deferred for future expenses.

(c) Construction commitments of approximately $nil (2013 - $231) funded by Members' contributions.

(d) Vendor commitments of approximately $186,000 (2013 - $172,000) funded by Members' contributions.

18. Research and development:

For the year ended March 31, 2014, the Corporation incurred $11,635 of expenses related to research and development (2013 - $11,764). These costs are included within Fresh Blood Components & Support Services.

19. Related party transactions:

The Members provide funding for the operating budgets of the Corporation. The Corporation enters into other transactions with these related parties in the normal course of business.

20. Capital disclosures:

The Corporation is a non-share capital corporation and plans its operations to essentially result in an annual financial breakeven position. The Corporation considers its capital to be the sum of its net assets. This definition is used by management and may not be comparable to measures presented by other entities. The Corporation manages capital through a formal and approved budgetary process where funds are allocated following the underlying objectives below:

(a) to provide a safe, secure, cost-effective and accessible supply of blood and blood products to all Canadians;

(b) to support the Corporation's ability to continue as a going concern;

20. Capital disclosures (continued):

(c) to meet regulatory and statutory capital requirements related to captive insurance operations; and

(d) to ensure the funding of working capital requirements.

The Corporation evaluates its accomplishment against its objectives annually. The Corporation has complied with all externally imposed capital requirements and there were no changes in the approach to capital management during the period.

The Corporation's captive insurance operations are required to maintain statutory capital and surplus greater than a minimum amount determined as the greater of a percentage of outstanding losses or a given fraction of net written premiums. At March 31, 2014, the Corporation's captive insurance operations were required to maintain a minimum statutory capital and surplus of $37,483 (2013 - $37,483). The actual statutory capital and surplus was $143,448 (2013 - $120,248) and the minimum margin of solvency was therefore met. The Corporation's captive insurance operations were also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. At March 31, 2014, the Corporation's captive insurance operations were required to maintain regulatory assets of at least $189,978 (2013 - $189,154). At that date, regulatory assets were $396,753 (2013 - $372,453) and the minimum liquidity ratio was therefore met. The value of regulatory assets differs from that reported on the statement of financial position as it is determined under a different accounting framework, *International Financial Reporting Standards*.