MATERIALS DISTRIBUTION AGENCY

Financial Statements

For the year ended March 31, 2020

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Contents

Management's Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of the management of the **MATERIALS DISTRIBUTION AGENCY** and have been prepared in accordance with Canadian public sector accounting standards. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available to the audit report date.

Management maintains internal controls to properly safeguard the assets and to provide reasonable assurance that the books and records from which the financial statements are derived accurately reflect all transactions and that established policies and procedures are followed.

The responsibility of the external audit is to express an independent opinion on whether the financial statements of the **MATERIALS DISTRIBUTION AGENCY** are fairly represented in accordance with Canadian public sector accounting standards. The Independent Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management

MATERIALS DISTRIBUTION AGENCY

Original Document Signed

David Bishop, Chief Operating Officer

Oct. 1, 2020

Date

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Independent Auditor's Report

To The Special Operating Agencies Financing Authority

Opinion

We have audited the financial statements of **MATERIALS DISTRIBUTION AGENCY** (the "Agency"), which comprise the statement of financial position as at March 31, 2020, and the statements of operations and accumulated surplus, change in net financial assets, and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2020, and its results of operations, its change in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Agency in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Agency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Agency or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Agency's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Agency's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Agency to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants

Winnipeg, Manitoba
September 21, 2020

MATERIALS DISTRIBUTION AGENCY
Statement of Financial Position
(in thousands)

March 31		2020		2019
Financial Assets				
Cash and cash equivalents	$	-	$	76
Accounts receivable (Note 5)		3,336		2,609
Inventories for resale (Note 7)		1,455		1,413
		4,791		4,098
Liabilities				
Cash and cash equivalents overdraft		1,556		-
Accounts payable and accrued liabilities		2,520		3,303
Employee future benefits (Note 8)		851		871
		4,927		4,174
Net financial assets (debt)		(136)		(76)
Non-financial Assets				
Tangible capital assets (Note 9)		5,474		4,603
Prepaid expenses		208		188
		5,682		4,791
Accumulated surplus	$	5,546	$	4,715

The accompanying notes are an integral part of these financial statements.

MATERIALS DISTRIBUTION AGENCY
Statement of Operations and Accumulated Surplus
(in thousands)

For the year ended March 31	2020 Budget	2020 Actual	2019 Actual
Revenue			
Warehouse sales (Schedule 1)	$ 16,800	$ 15,812	$ 15,498
Service revenue (Schedule 1)	13,162	13,186	12,212
Interest income	-	-	6
	29,962	28,998	27,716
Expenses			
Cost of sales	13,272	12,211	12,096
Occupancy costs	1,482	1,317	1,267
Operating expenses (Schedule 2)	8,745	8,794	8,087
Administrative expenses (Schedule 2)	908	774	702
Salaries and benefits	5,055	5,071	5,126
	29,462	28,167	27,278
Annual operating surplus	500	831	438
Transfer to the Province of Manitoba (Note 10)	-	-	275
Annual surplus	500	831	163
Accumulated surplus, beginning of year	4,030	4,715	4,552
Accumulated surplus, end of year	$ 4,530	$ 5,546	$ 4,715

The accompanying notes are an integral part of these financial statements.

MATERIALS DISTRIBUTION AGENCY
Statement of Change in Net Financial Assets (Debt)
(in thousands)

For the year ended March 31	2020 Budget	2020 Actual	2019 Actual
Annual surplus	$ 500	$ 831	$ 163
Tangible Capital Assets			
Acquisition of tangible capital assets	(2,400)	(2,431)	(2,638)
Disposals of tangible capital assets	-	12	130
Amortization of tangible capital assets	1,500	1,548	1,472
Net change in tangible capital assets	(900)	(871)	(1,036)
Other Non-financial Assets			
Decrease in prepaid expenses	-	(20)	(35)
Change in net financial assets (debt)	(400)	(60)	(908)
Net financial assets (debt), beginning of year	1,548	(76)	832
Net financial assets (debt), end of year	$ 1,148	$ (136)	$ (76)

The accompanying notes are an integral part of these financial statements.

MATERIALS DISTRIBUTION AGENCY
Statement of Cash Flows
(in thousands)

For the year ended March 31		2020		2019
Cash provided by (applied to):				
Cash Flows from Operating Activities				
Annual surplus	$	**831**	$	163
Amortization of tangible capital assets		**1,548**		1,472
Loss on disposal of tangible capital assets		**12**		130
		2,391		1,765
Changes in non-cash working capital balances				
Accounts receivable		**(727)**		(145)
Inventories for resale		**(42)**		178
Prepaid expenses		**(20)**		(35)
Accounts payable and accrued liabilities		**(783)**		709
Employee future benefits		**(20)**		59
		799		2,531
Cash Flows from Capital Activities				
Acquisition of capital assets		**(2,431)**		(2,638)
Redemption of portfolio investments		**-**		512
		(2,431)		(2,126)
Increase (decrease) in cash and cash equivalents		**(1,632)**		405
Cash and cash equivalents (overdraft), beginning of year		**76**		(329)
Cash and cash equivalents (overdraft), end of year	$	**(1,556)**	$	76

The accompanying notes are an integral part of these financial statements.

1. Nature of Organization

The Government of Manitoba established a central warehouse operation in 1974 to effectively meet the cost needs of departments and certain boards, commissions and agencies of the Crown, for a variety of commonly used items. Effective April 1, 1993, Materials Distribution Agency (the "Agency") was designated as a Special Operating Agency pursuant to *The Special Operating Agencies Financing Authority Act*, Cap. S185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

In 1956, Mail Management (Postal Service) was created as a branch of the Manitoba Provincial Government to provide centralized postal services. Effective April 1, 1996, the Postage Service was renamed Mail Management Agency and designated as a Special Operating Agency (SOA) pursuant to *The Special Operating Agencies Financing Authority Act*, Cap. S185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council. Effective April 1, 2005, the operations of the Materials Distribution Agency and the Mail Management Agency were amalgamated. The amalgamated operations have been operating as Materials Distribution Agency.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). The Financing Authority has the mandate to hold and acquire assets required for and resulting from the Agency's operations and finances the Agency through repayable loans and working capital advances. This financial framework enables the Agency to operate in a business like manner according to public policy expectations. A Management Agreement between the Financing Authority and the Minister responsible for the Agency assigns responsibility to the Agency to manage and account for Agency-related assets and operations on behalf of the Financing Authority.

The Agency is now part of the Department of Finance under the general direction of the Associate Deputy Minister, Central Services Division, and ultimately the policy direction of the Deputy Minister and Minister. The Agency remains bound by relevant legislation and regulations. The Agency is also bound by administrative policy except where specific exemptions have been provided in its charter in order to meet business objective.

Effective April 1, 2012 the Agency is administering the vaccine program on behalf of Manitoba Health.

2. Basis of Accounting

The financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board.

For the year ended March 31, 2020

3. Significant Accounting Policies

Revenue

(a) Warehouse sales are recognized when the goods are shipped and when collection is reasonably assured.

(b) Service revenue is recognized when the related services are completed or substantially completed pursuant to the underlying contracts, where applicable, and when collection is reasonably assured.

(c) Investment income and all other revenue is recognized on the accrual basis.

Expenses

(a) All expenses incurred for goods and services are recorded on an accrual basis.

(b) Government transfers are recognized as expenditures in the period in which the transfers are authorized and all eligibility criteria have been met.

Financial Assets

Cash and cash equivalents include cash on hand and short term investments and deposits with original maturities of three months or less.

Accounts receivable are recorded at the lower of cost and net realizable value. An allowance for doubtful accounts is recorded when there is uncertainty whether the amounts will be collected.

Portfolio investments are investments and deposits with original maturities of more than three months. These investments are recognized at cost.

Inventories for resale are recorded at the lower of cost or net realizable value.

Liabilities

Liabilities are present obligations as a result of transactions and events occurring at or prior to the end of the fiscal year. The settlement of the liabilities will result in the future transfer or use of assets or other form of settlement. Liabilities are recorded at the estimated amount ultimately payable.

3. Significant Accounting Policies (continued)

Non-financial Assets

(a) Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition cost. The costs of tangible capital assets, less any residual value, are amortized over their useful lives as follows:

Computer equipment	20% straight-line
Furniture and fixtures	20% straight-line
Leasehold improvements	10 years straight-line
Office equipment	20% straight-line
Mail finishing equipment	20% declining balance
Rental equipment	2-5 years straight-line
Warehouse equipment	20% declining balance

(b) Prepaid expenses are payments for goods or services which will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year the goods or services are consumed.

Measurement Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Financial Instruments and Financial Risk Management

Financial instruments are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Agency records cash and cash equivalents and portfolio investments at fair value. The Agency records accounts receivable, accounts payable, and accrued liabilities at cost.

Gains and losses on financial instruments measured at fair value are recorded in the Statement of Remeasurement Gains and Losses until realized. Upon disposition of the financial instruments, the cumulative remeasurement gains and losses are reclassified to the statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs.

Financial Risk Management Overview

The Agency has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest rate risk; and foreign currency risk.

(in thousands)

4. Financial Instruments and Financial Risk Management (continued)

Credit Risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist primarily of cash and cash equivalents and accounts receivable.

The maximum exposure of the Agency to credit risk at March 31 is:

	2020	2019
Cash and cash equivalents	$ -	$ 76
Accounts receivable	3,336	2,609
	$ 3,336	$ 2,685

Cash and cash equivalents: The Agency is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

Accounts receivable: The Agency is not exposed to significant credit risk as the balance of the accounts receivable are primarily with other government agencies and departments. The balance is due from a large client base and payment in full is typically collected when it is due. The Agency manages the credit risk through close monitoring of overdue accounts.

The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

The balance in the allowance for doubtful accounts as at March 31, 2020 is $95 ($65 in 2019).

Liquidity Risk

Liquidity risk can be defined as an organization's ability to meet its financial obligations as they come due.

The Agency manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet its obligations.

(in thousands)

4. Financial Instruments and Financial Risk Management (continued)

Market Risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Agency's income or the fair values of its financial instruments.

(a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to cash and cash equivalents and portfolio investments.

The interest rate risk on cash and cash equivalents is considered to be low because of their short-term nature. The interest rate risk on portfolio investments is considered low as the original deposits are reinvested at rates for investments with similar terms and conditions.

(b) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Agency is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

5. Accounts Receivable

	2020	2019
Trade accounts receivable	**$ 3,354**	$ 2,602
Other receivables	**77**	72
	3,431	2,674
Allowance for doubtful accounts	**95**	65
	$ 3,336	$ 2,609

(in thousands)

6. Working Capital Advances

The Special Operating Agencies Financing Authority has provided the Agency with an authorized line of working capital of $600 (2019 - $600) of which $NIL was used at March 31, 2020 (2019 - $NIL).

7. Inventories for Resale

		2020		2019
Medical supplies	$	**669**	$	741
Stationery		**328**		251
Janitorial		**254**		240
Health equipment		**188**		167
Special projects		**13**		12
Furniture		**3**		2
	$	**1,455**	$	1,413

8. Employee Future Benefits

Pension Benefits

Employees of the Agency are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board (CSSB). The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including the Agency, through the Civil Service Superannuation Fund (CSSF).

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Agency transferred to the Province of Manitoba the pension liability for its employees.

Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2020 was $315 ($327 in 2019). Under this Agreement, the Agency has no further pension liability.

Severance Benefits

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of the severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from expected and/or because of changes in the actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life (EARSL) of the related employee group.

(in thousands)

8. Employee Future Benefits (continued)

An actuarial report was completed for the severance pay liability as of March 31, 2017. The report provides a formula to update the liability on an annual basis. The Agency's actuarially determined net liability for accounting purposes as at March 31, 2020 is $777 ($801 in 2019). The actuarial loss of $80 ($87 in 2019) based on actuarial reports is being amortized over the 15 year expected average remaining service life (EARSL) of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2017 valuation, and in the determination of the March 31, 2020 present value of the accrued severance benefit obligations are:

Annual rate of return	3.80 %
Assumed salary increase rate:	
Annual productivity increase	1.00 %
Annual general salary increase	2.75 %
	3.75 %

The severance benefit liability at March 31 includes the following components:

	2020	2019
Accrued benefit liability		
Balance, beginning of year	$ **888**	$ 798
Actuarial loss	**-**	36
Interest on accrued severance benefits	**32**	30
Service costs	**35**	37
Severance paid	**(98)**	(13)
Balance, end of year	**857**	888
Less unamortized actuarial losses	**(80)**	(87)
Severance benefit liability	$ **777**	$ 801

The total expenses related to severance benefits at March 31 includes the following components:

	2020	2019
Interest on accrued severance benefits	$ **32**	$ 30
Current period service cost	**35**	37
Amortization of actuarial losses over EARSL	**7**	3
Total expense related to severance benefit	$ **74**	$ 70

(in thousands)

8. Employee Future Benefits (continued)

The Agency provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include a 5.00% annual return and a 3.00% annual salary increase. The Agency's sick leave benefit liability as at March 31, 2020 based on the valuation model is $70 (2019 - $70). The increase (decrease) in sick leave benefit liability of $NIL (2019 - $NIL) represents the total sick leave benefit expense (recovery) for the year.

9. Tangible Capital Assets

				2020
	Opening Balance	Additions	Disposals	Closing Balance
Cost				
Computer equipment	$ 313	$ -	$ -	$ 313
Furniture and fixtures	165	-	-	165
Leasehold improvements	1,236	64	-	1,300
Office equipment	70	-	-	70
Mail finishing equipment	542	-	-	542
Rental equipment	14,894	2,364	276	16,982
Warehouse equipment	1,386	3	-	1,389
	$ 18,606	$ 2,431	$ 276	$ 20,761
	Opening Balance	Amortization	Disposals	Closing Balance
Accumulated Amortization				
Computer equipment	$ 279	$ 6	$ -	$ 285
Furniture and fixtures	164	-	-	164
Leasehold improvements	1,010	36	-	1,046
Office equipment	64	-	-	64
Mail finishing equipment	441	13	-	454
Rental equipment	10,882	1,461	264	12,079
Warehouse equipment	1,163	32	-	1,195
	14,003	1,548	264	15,287
Net book value	$ 4,603	$ 883	$ 12	$ 5,474

During the year ended March 31, 2020, tangible capital assets disposed of totaled $276, resulting in a loss on disposal of tangible capital assets of $12. Disposals consisted of tangible capital assets that were written-off due to no longer being in use, there were no tangible capital assets sold for proceeds during the year.

(in thousands)

9. Tangible Capital Assets (continued)

	2019			
	Opening Balance	Additions	Disposals	Closing Balance
Cost				
Computer equipment	$ 313	$ -	$ -	$ 313
Furniture and fixtures	165	-	-	165
Leasehold improvements	1,160	90	14	1,236
Office equipment	64	6	-	70
Mail finishing equipment	542	-	-	542
Rental equipment	12,510	2,538	154	14,894
Warehouse equipment	1,384	4	2	1,386
	$ 16,138	$ 2,638	$ 170	$ 18,606
	Opening Balance	Amortization	Disposals	Closing Balance
Accumulated Amortization				
Computer equipment	$ 272	$ 7	$ -	$ 279
Furniture and fixtures	164	-	-	164
Leasehold improvements	974	36	-	1,010
Office equipment	64	-	-	64
Mail finishing equipment	424	17	-	441
Rental equipment	9,549	1,373	40	10,882
Warehouse equipment	1,124	39	-	1,163
	12,571	1,472	40	14,003
Net book value	$ 3,567	$ 1,166	$ 130	$ 4,603

During the year ended March 31, 2019, tangible capital assets disposed of totaled $170, resulting in a loss on disposal of tangible capital assets of $130. Disposals consisted of tangible capital assets that were written-off due to no longer being in use, there were no tangible capital assets sold for proceeds during the year.

10. Transfer to the Province of Manitoba

During the year ended March 31, 2020, with the Lieutenant Governor's approval by Order in Council, the Agency transferred $Nil ($275 in 2019) of its surplus funds to the Province of Manitoba.

11. Uncertainity due to COVID-19

Subsequent to year end, the impact of COVID-19 in Canada and on the global economy increased significantly. As the impacts of COVID-19 continue, there could be further impact on the Agency. Management is actively monitoring the affect on its financial condition, liquidity, operations, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Agency is not able to fully estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity at this time.

MATERIALS DISTRIBUTION AGENCY
Schedule 1
Schedule of Warehouse Sales and Services Revenue
(in thousands)

For the year ended March 31	2020	2019
Warehouse Sales		
Medical supplies	$ 7,356	$ 7,134
Stationery	3,902	4,103
Janitorial	2,298	2,283
Health equipment	1,882	1,842
Furniture	371	134
Special projects	3	2
	15,812	15,498
Service Revenue		
Mail service	4,920	4,853
Equipment rentals	4,804	4,188
Freight	1,284	1,127
Vaccine program	678	678
Moving	592	538
Storage	326	329
Manitoba Textbook Bureau	265	290
Other revenues and recoveries	209	165
Disposal service	108	44
	$ 13,186	$ 12,212

MATERIALS DISTRIBUTION AGENCY
Schedule 2
Schedule of Operating and Administrative Expenses
(in thousands)

For the year ended March 31	2020	2019
Operating expenses		
Mail services	**$ 3,901**	$ 3,569
Freight	**2,381**	2,172
Amortization	**1,548**	1,472
Moving expenses	**519**	419
Equipment rentals	**161**	167
Vehicle	**147**	150
Warehouse supplies	**137**	138
	8,794	8,087
Administrative expenses		
Office	**364**	259
Computer	**294**	259
Telephone	**60**	110
Miscellaneous	**21**	18
Professional fees	**20**	21
Promotion and marketing	**8**	21
Training	**7**	14
	$ 774	$ 702