

25th

Annual REPORT 2017–2018

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An Agency of the
Manitoba Government



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MINISTER'S LETTER OF TRANSMITTAL



MINISTER OF
FINANCE

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

Her Honour the Honourable Janice C. Filmon, C.M., O.M.
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg, MB R3C 0V8

Your Honour:

It is my privilege to present the Annual Report of the Materials Distribution Agency (MDA) for the year ended March 31, 2018.

This report marks the completion of MDA's twenty fifth year as a Special Operating Agency, providing the Province and the broader public sector with quality, cost-effective centralized mail and material management services. MDA continues to demonstrate its competencies by increasing its warehousing and distribution services for all areas of the government.

I commend the staff and management of MDA on the success they achieved in the last year. MDA continues to shine as an innovative Special Operating Agency of the Manitoba Government.

Respectfully submitted,



Honourable Scott Fielding

DEPUTY MINISTER'S LETTER OF TRANSMITTAL



Finance

Deputy Minister
Room 109, Legislative Building, Winnipeg, MB, R3C 0V8
T 204-945-5343 F 204-945-1640
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The Honourable Scott Fielding
Minister of Finance
Room 103, Legislative Building
Winnipeg Manitoba R3C 0V8

Dear Minister Fielding:

It is with pleasure that I present the Twenty Fifth Annual Report of Materials Distribution Agency (MDA) for the year ending March 31, 2018.

The Agency continues to offer costs savings and streamline its products and services for the benefit of provincial clients. I appreciate the commitments and hard work of the MDA's staff that are focused on continually improving the Agency's success.

I look forward to the new challenges and business opportunities the next year will bring to the Agency.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Jim Hrichishen'. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Jim Hrichishen

CHIEF OPERATING OFFICER'S LETTER OF TRANSMITTAL

August 1, 2018

To Our Valued MDA Stakeholders:

I have the distinct honour of presenting the Materials Distribution Agency's (MDA) twenty-fifth Annual Report as a Special Operating Agency.

MDA provides valuable cost-effective mail and product distribution services, along with other lines of business to the Provincial Government. With a centralized point of delivery, MDA is able to offer its clients competitive and substantive cost-savings, including reduced time and effort within their own operations.

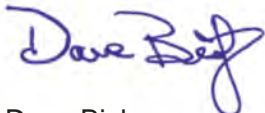
One of MDA's main areas of focus is offering customers superior services and value added benefits that will surpass their expectations and exceed their needs. We are proud of our role and performance in these initiatives, and continue to look for ways to improve and expand.

MDA's success is directly related to the partnerships it has been able to forge and secure. With its vast knowledge of the industry, the Agency is often called upon to develop logistics solutions for the benefit of its clients. This includes being able to react quickly to concerns and emergent issues. Stakeholders, such as Employment and Income Assistance Branch, Manitoba Learning Resource Centre, and The Office of Disaster Management, have realized substantial cost savings and benefited from the resources the Agency has made available.

MDA is grateful to its clients for their long standing loyalty and we look forward to developing new and innovative opportunities for them. MDA's future is bright as it continues to offer excellent service and expertise, while creating an environment our clients want to be a part of.

On behalf of MDA and its staff, I would like to thank our clients for their continued support of MDA. The Agency is grateful not only for having the opportunity to provide provincial departments with distribution solutions, but also for their continued commitment and trust, which have enriched our relationships.

Sincerely,

A handwritten signature in blue ink that reads 'Dave Bishop'.

Dave Bishop
Chief Operating Officer - MDA

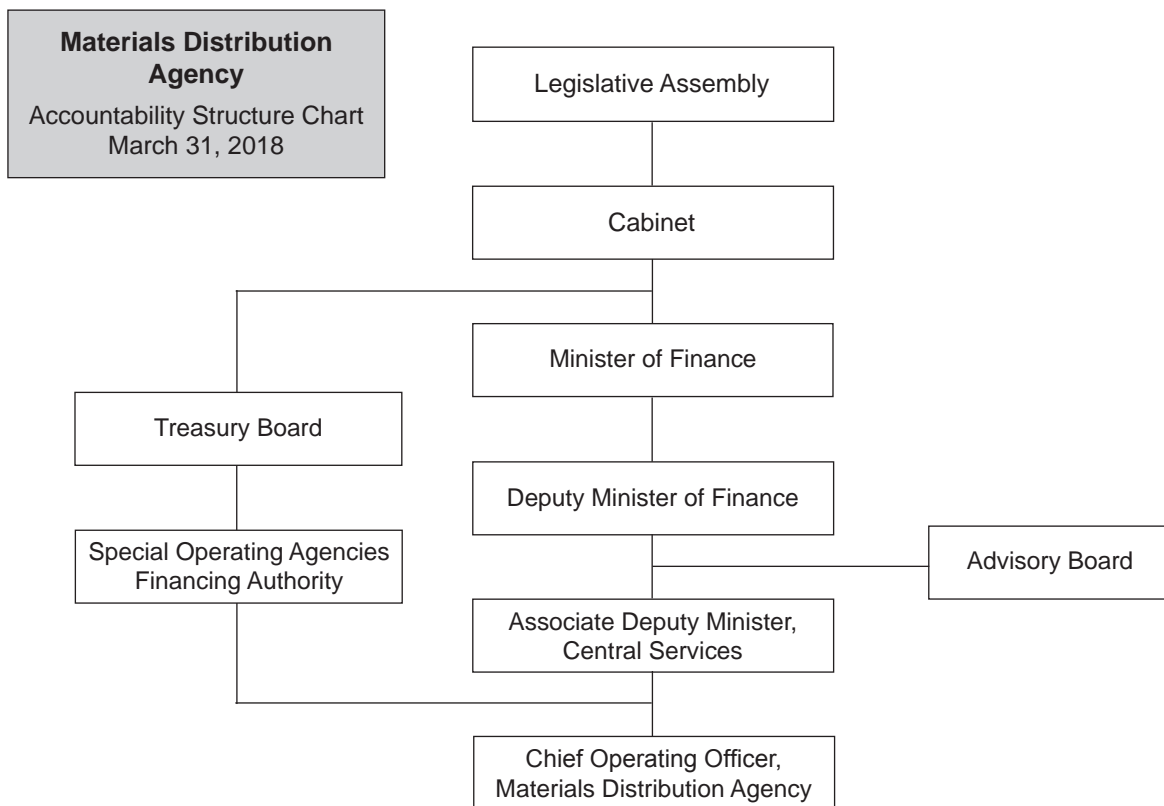
STRUCTURE FOR OPERATIONS

Accountability Structure

As an organization within Manitoba Finance, MDA reports directly to the Associate Deputy Minister, Central Services, and is held accountable to the Deputy Minister and Minister of Finance for operational and financial performance.

The Agency operates outside of the Consolidated Fund under the Special Operating Agencies Financing Authority (SOAFA), which holds title to the Agency’s assets, provides financing for operations, and is responsible for its liabilities. Governance and accountability are substantiated by MDA’s compliance with its Operating Charter, Transfer Agreement, Management Agreement, applicable General Manual of Administration policies, and by *The Special Operating Agencies Financing Authority Act*. Financial and operational information and requirements are disseminated to and from Treasury Board through an SOA coordinator at Treasury Board Secretariat.

The Accountability Structure chart presented below outlines the current structure:



Advisory Board

The Advisory Board for the Materials Distribution Agency meets as required to review the Agency's financial and operating reports, the draft Business Plan and any proposed changes to the Agency's Charter. The Board's members offer advice and direction on reporting and management issues of concern, and on short and long term strategic planning.

Members of the MDA Advisory Board, as of March 31, 2018, are listed below.

| Members of the Advisory Board for Materials Distribution Agency | | |
|--|---|---------------|
| <u>CHAIR</u> | Scott Sinclair Associate Deputy Minister Finance, Central Services | |
| <u>MEMBERS</u> | | |
| Client Representatives | Vacant | Vacant |
| Ex Officio | David Bishop Chief Operating Officer Materials Distribution Agency | |
| Staff Representative | Vacant | |

THE PUBLIC DISCLOSURE (WHISTLEBLOWER PROTECTION) ACT

The Agency confirms that there were no disclosures of wrongdoing that have been made to a supervisor or designated officer during the fiscal year under review.

MDA MISSION & VISION STATEMENTS

Mission

MDA is committed to provide economical products, services and logistics solutions. We strive to meet clients' needs which helps them focus on what they do best.

Vision

The Agency is a reliable source for diverse products and services committed to be the preferred public sector source for mail and material logistics solutions.

ORGANIZATIONAL GOALS

Employees – To increase employee job satisfaction and foster a respectful workplace

Service – To sustain and improve client service by developing partnerships, setting standards and meeting or exceeding client needs

Growth – To grow business while maintaining or increasing overall government value

Sustainable Development – To actively participate in government's environmental initiatives by offering solutions to clients looking for ecologically friendly products and services

ORGANIZATIONAL VALUES

The Agency supports its mission and vision statements with its operating values.

Reliability

- Continually improves all aspects of its organization
- Provides consistent services
- Establishes and follows standards
- Does not make promises it can't keep
- Meets deadlines
- Is fair
- Demonstrates integrity

Teamwork

- Communicates
- Is positive and recognizes achievements
- Views each call as an opportunity
- Values diversity of backgrounds and opinions
- Creates and supports a common direction and common goals
- Fosters a respectful workplace

Accountability

- Meets deadlines
- Provides clients with quality assured goods
- Saves government clients money
- Strives to fully understand client needs



BACKGROUND

In 1974, MDA was created to provide the government with centralized materials management for government departments, boards, commissions and agencies. It became an SOA in 1993. Postal Services was created in 1954 to provide government-wide postal services and became an SOA in 1996. The organizations amalgamated on April 1, 2005. MDA's mandate is to cost-effectively meet the mail and material distribution requirements of organizations within the broader public sector.

AGENCY PRODUCTS

MDA bulk purchases a variety of commonly used supplies and distributes these goods in smaller units as needed by its clients. These distinct product lines are listed below:

| Commodities | Line Items |
|----------------------------------|------------|
| Stationery and Office Supplies | 1,180 |
| Janitorial Supplies | 418 |
| Medical Supplies | 2,217 |
| Home Care Equipment | 449 |
| Office Furnishings and Furniture | 220 |
| Publications | 254 |
| | |
| Total Line Items | 4,738 |

AGENCY SERVICES

MDA provides the following lines of business and related key services:

Mail Processing

MDA processes various types of mail for clients. Mail staff:

- Weigh and ascertain postage of standard and oversized mail through high speed mail machines
- Forward letter mail that exceeds the maximum dimensions or weight through one of two computerized shipping systems
- Process high volume mail through permit mail using pre-printed indicia on envelopes
- Coordinate prepaid mailings through use of numerically controlled Canada Post envelopes

The current cost to clients consists of actual postage and a separate processing fee which varies depending on type (i.e. metered or permit mail). Vendor rate increases will not automatically increase the Agency's processing fee. MDA has other products, such as variable rate services, including Business Reply Mail, Returned Mail and Short Paid Mail where the rate does not remain constant.

Mail Finishing

MDA provides clients with various types of mail finishing services, such as:

- Addressing envelopes
- Folding printed material
- Envelope insertion
- Manual collating of items into kits or envelopes

Current prices vary, both with type of activity (i.e. folding) and volume. MDA may offer high volume clients lower rates, but eligibility for this pricing is dependent on the quality of the clients' printed materials.

Inter-departmental Mail (IDM)

Clients purchase Prepaid Labels in four denominations (Letter, Oversize Letter, Small Packet and Parcel).

Label fees are based upon the size of the item being mailed or the service provided. MDA IDM also offers Signature Service which provides clients with mail delivery confirmation.

Contract Administration

MDA offers broader public sector clients with access to volume-based contracted courier and parcel rates.

Digital Printing

MDA's Variable Data Printing Service provides clients with "just in time" printing of electronic documents on high speed digital black and white printers that can be immediately transferred to the Finishing, Processing and IDM lines of business. Pricing is on a per impression basis.

Home Care Equipment Rental

MDA provides a comprehensive rental, repair and service program. The Agency receives, repairs and disinfects any damaged or non-functioning component before returning it to the active equipment rental pool. MDA carries out periodic safety checks on equipment in the field to ensure items remain in good working condition. MDA also electronically tracks equipment usage for the Employee and Income Assistance Branch (EIA) program.

Warehouse and Distribution Services

MDA provides distribution services to other agencies and departments. This includes picking, packing and transportation for provincial, national and international distribution. These services are offered at very competitive rates and continue to show favourable growth for the Agency. Key distribution services include:

Janitorial and Stationery products

- Wide range of janitorial and stationery items (currently 1,709 products)
- 301 products are environmentally friendly (increasing annually)
- Toner recycling program
- Pricing is the same throughout the province and is competitive with private companies (three independent audits were conducted and support claims that MDA is more cost-effective than buying directly from retailers)

Medical Supplies

- Medical supplies for rural home care - Regional Health Authority, Health, Seniors and Active Living
- Nutritional supplements and child care items - Employee & Income Assistance, Families
- Lab & X-ray facilities - Diagnostic Services of Manitoba (DSM), Health, Seniors and Active Living
- Health booklets/pamphlets - Health, Seniors and Active Living

Manitoba Learning Resource Centre (MLRC)

- MLRC is an SOA that distributes textbooks and other school-related items
- Work is year-round with a heavy order period between June and October

Storage

- Secure storage facilities are provided for government clients
- Rates are well below private industry

Office Relocation/Moving and Disposal Services

- Significant cost savings and consistent positive client feedback
- Furnishings that offices/workplaces no longer need are recycled to other offices or through recycling companies

Provincial Vaccine Program

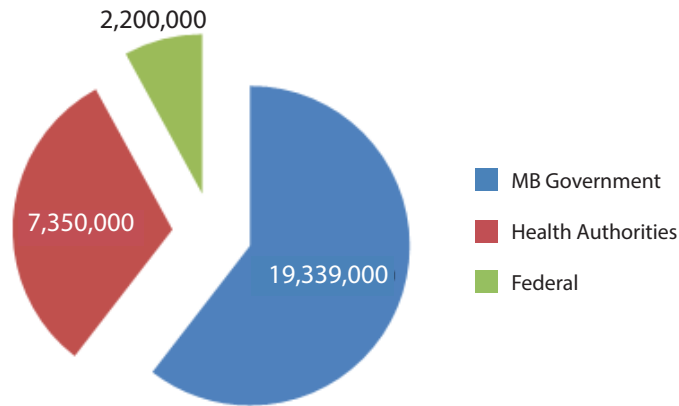
- Distribution of vaccines throughout the province on behalf of Manitoba Health, Seniors and Active Living. These vaccines must be maintained between two and eight degrees Celsius at all times until consumed by the end user.
- MDA is the first provincial entity to achieve GMP certification through Health Canada
- Increased risk management control for products within this program

Special projects

- Timely and cost-effective management of projects that are short in nature (3 – 12 months)
- Example: Pandemic warehousing and distribution for the Office of Disaster Management
- Example: Provincial Low Cost Bike Helmet Program

MARKET SEGMENT INFORMATION

Total Revenue 2017/18:
\$28,889,000



WAREHOUSE PRODUCTS – DISTRIBUTION INFORMATION

| Number of orders | 2017/18 | 2016/17 | 2015/16 | 2014/15 | 2013/14 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Warehouse orders | 45,200 | 57,000 | 58,300 | 54,400 | 46,900 |
| Equipment orders | 22,504 | 20,497 | 15,973 | 15,465 | 15,900 |
| Mail Finishing jobs | 3,761 | 3,920 | 4,276 | 3,995 | 4,230 |
| Vaccine orders | 7,380 | 8,780 | 8,274 | 7,000 | 6,700 |
| Federal Mail processed (pieces) | 1.40 million | 1.40 million | 1.60 million | 1.60 million | 1.51 million |
| Inter-Departmental Mail (pieces) | 192,500 | 239,300 | 252,000 | 258,000 | 161,000 |
| Payroll Advice Letters | 105,800 | 121,200 | 140,800 | 135,800 | 180,400 |
| MLRC orders | 11,000 | 11,089 | 12,080 | 13,963 | 10,320 |
| Moves | 776 | 753 | 863 | 725 | 697 |

| Distribution of Products By Area | 2017/18 | 2016/17 | 2015/16 | 2014/15 | 2013/14 |
|----------------------------------|---------|---------|---------|---------|---------|
| Winnipeg | 55% | 57% | 54% | 55% | 54% |
| Rural | 44% | 43% | 46% | 45% | 46% |

| Delivery of Winnipeg Orders | 2017/18 | 2016/17 | 2015/16 | 2014/15 | 2013/14 |
|-----------------------------|---------|---------|---------|---------|---------|
| Regular (2 days) | 95% | 94% | 94.3% | 92.5% | 93% |
| Same day | 2% | 2.5% | 2.0% | 4% | 4% |
| Pickup | 3% | 3.5% | 3.7% | 3.5% | 3% |

2017/18 PROJECTS AND ACTIVITY STATUS HIGHLIGHTS

1. Human Resources Overview

MDA has identified several internal areas which need to be improved. Improvements will take place using management recommendations, government initiatives and employee suggestions. This section will comprise MDA's strategic human resource plan, tracking mechanisms and reporting on a quarterly basis to deal with these issues.

Safety Management Program

MDA management, the Safety Facilitator and the Safety Committee will develop an internal Safety Management Program to ensure all potential accidents are investigated and improvements implemented.

Strategy results:

- The Safety Facilitator conducted a safety audit at MDA in the third quarter. Results were communicated to the Agency
- MDA passed the safety audit and has made corrections resulting from the audit
- MDA's Safety Committee has developed safety topics with training aids to be discussed in monthly area meetings

Communication Improvements

Communication remains a concern for the Agency. Improvements made in 2017/18 will help to ensure morale and efficiencies remain high this fiscal year.

1. Hold a minimum of 10 meetings for each MDA area in the 2017/18 fiscal year, with minutes distributed to managers and the COO.

Strategy results:

| Business Area | Standard | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | Total |
|----------------------------|----------|---------|---------|---------|---------|-------|
| Customer Serv. & Equipment | 10/yr | 3 | 3 | 2 | 2 | 10 |
| Contracts & Purchasing | 10/yr | 3 | 2 | 2 | 2 | 9 |
| Warehouse – Distribution | 10/yr | 3 | 3 | 1 | 2 | 9 |
| Warehouse – Mail Services | 10/yr | 3 | 2 | 1 | 2 | 8 |
| Finance & IT | 10/yr | 3 | 2 | 1 | 2 | 8 |

2. Conduct an employee survey in the first quarter, with a management review and implementation of recommendations in the remainder of the fiscal year.

Strategy results:

- The employee survey was conducted in the fourth quarter. Results were very encouraging and communicated to staff.
- MDA management will work with staff on recommendations and ideas from the survey in fiscal year 2018/19.

3. Hold two meetings with all staff in fiscal year 2017/18 to update staff on business initiatives, new policies, MDA's financial situation and answer questions.

Strategy results:

- The COO conducted a meeting with all MDA staff at the Employee Appreciation awards in June.
- The COO held area meetings throughout the Agency in the third quarter to discuss Lean and answer questions.

Staff Newsletter

A quarterly newsletter has been developed and continues to be distributed to all MDA staff.

Strategy results:

- Newsletters were distributed each quarter. The feedback from staff has been very positive.

Wellness Plan

To be an employer of choice, MDA must reflect the population it serves and provide a positive workplace environment. With an aging employee base, the Agency is experiencing higher absenteeism, increased health concerns and a need to accommodate staff while remaining attractive to potential employees. MDA has developed a plan for improvements to staff health. MDA's Wellness Committee and management have identified the following plans:

- Organize employee tournaments in ping pong and cribbage
- Hold Wellness fair
- Arrange for two healthy lunches and four healthy snack days
- Track staff that use alternative travel methods to/from work and participate in the government's Commuter Challenge

Strategy results:

- Held a "ParticiPaction" event in June to celebrate Canada's 150th birthday
- A healthy snack was arranged in June for the Employee Appreciation Day
- Held annual singles and doubles cribbage tournament in October
- Held annual singles ping-pong tournament in December

2. New and Growth Business Initiatives Overview

MDA's traditional clients continue to shop at alternate suppliers. MDA must implement more frequent communications to focus on the benefits, and dispel negative impressions associated with price, product availability and reliable delivery. This will include a combined strategic approach to market a full-service Agency featuring a wide range of products, not just stationery and janitorial supplies.

MDA is shifting towards being more sales focused in a traditionally finance-driven Agency. This shift will require dedication, persistence, and increased marketing-related activities to raise the level of exposure to new and existing clients. This section will comprise MDA's strategic marketing and sales initiatives, tracking mechanisms and quarterly reporting requirements.

Mail Services

The MDA Mail area offers a variety of services such as printing, addressing, folding, inserting, mail processing and IDM delivery. The Marketing & Communications Group (MCG) and MDA management will implement a communication strategy to increase client contact for this business line. Departments will experience significant cost savings by utilizing MDA for ID mail and mail processing.

Strategy results:

- MCG will enhance client contact by arranging meetings with MDA's top 10 clients in each mail business area – Completed

Email Encryption

MDA has had preliminary meetings with staff from Business Transformation and Technology (BTT) about the possibility of providing mass mailing email encryption technology for electronic distribution of mail. This would be for departments with stored databases of client emails. Instead of sending physical copies, encrypted emails would be sent. With the major increases from Canada Post over the last year, this will save departments money.

Strategy results:

- A tender was developed by BTT and awarded in the fourth quarter
- MDA will work with the vendor to develop procedures and run a pilot project in the second quarter of fiscal year 2018/19

Automated Toner Ordering

MDA is working with BTT on an automated toner cartridge ordering process within the new tender that is currently being developed. The printers would automatically notify MDA when a cartridge is low and a new one would be sent out. This may reduce the amount of toner cartridges stored in offices. BTT is coordinating this initiative and has no set timelines for completion.

Strategy results:

- MDA conducted meetings with representatives from BTT and participated in the tender preparation
- During meetings between BTT and MDA it was decided that potential savings would not be realized through automating this process and it was shut down.

Department of Families

MDA entered into a partnership with Families for medical supplies/equipment and nutritional supplements for the Employee Income Assistance Branch, Child Special Services and Community Living Disability Services programs. The Agency will track volumes throughout 2017/18 to verify the effectiveness of this initiative.

Strategy results:

- Sales are as follows:

| Time Period | Sales 2017/18 (\$) | Sales 2016/17 (\$) | Difference (\$) | Increase/Decrease |
|---------------|--------------------|--------------------|-----------------|-------------------|
| Totals | 5,000,000 | 5,039,200 | (39,200) | (0.8%) |

Marketing and Communications Group (MCG)

The Supply and Services' MCG works closely with MDA management to source and implement many key business and communication initiatives. MCG is tasked with sourcing five new business opportunities.

Strategy results:

- Federal Government medical supply business was expanded

Manitoba Health

MDA has a strong partnership with Manitoba Health through the Provincial Vaccine Program. The Agency is being asked to look at the potential of providing distribution of products for the Provincial Sexually Transmitted Infection Program.

Strategy results:

- The STI Program will be added into the vaccine MOU
- MDA will continue to work with MB Health to transition the program once Health is ready

Federal Government

MDA has taken on new business with the Federal Government for distribution of medical supplies to northern communities. The Agency has absorbed this business into its regular operations without any additional resources. Negotiations are underway to discuss supplying two northern hospitals with medical supplies. It is unclear when this new business will begin. One or two additional warehouse staff will be required for this increase in business when it occurs. Once the northern hospital business is closer to starting, MDA will review operations and determine if additional staff is required.

Strategy results:

- This is an ongoing process and MDA continues to work closely with the federal government to expand this business line

Winnipeg Home Care Supplies (WRHA)

MDA provided the distribution of home care supplies in Winnipeg business for the WRHA. They took it back nine years ago without any reason. The Agency currently distributes most rural home care supplies. These two programs should be merged once again to increase efficiencies and reduce costs. MDA is quite confident that it could do this business for less money and at a higher service level. The Winnipeg home care program is around \$10 million in revenue and MDA was able to contribute an additional \$200K to the consolidated fund when it distributed these supplies. MDA will need TBS to direct the WRHA to work with the Agency on a feasibility study to determine the potential savings and efficiencies (if any).

Strategy results:

- MDA's COO is working with the Associate Deputy Minister of Central Services office to determine what is required to move forward on this initiative
- Meetings were held in the third quarter between MDA and WRHA management to discuss moving forward on nine business lines
- The therapeutic mattress program was transitioned to MDA in June 2018
- MDA will be submitting a Treasury Board submission for staffing for the remaining WRHA business lines early in fiscal year 2018/19

Manitoba Learning Resource Centre (MLRC)

MDA is in a 12-year partnership with MLRC for the warehouse and distribution of textbooks throughout Manitoba. MLRC's administrative office is located in Souris, Manitoba. By looking into the feasibility of amalgamating MLRC with MDA, there would be a savings in staffing as well as administrative efficiencies. There is potential after the first year to increase MDA's consolidated fund contribution by \$100,000 based on this amalgamation. MDA will work with the Associate Deputy Minister of Finance to determine the feasibility of this initiative.

Strategy results:

- MDA's COO is working with the Associate Deputy Minister of Central Services office to determine what is required to move forward on this initiative
- This initiative is on hold

3. Internal Project Initiatives Overview

MDA management and staff identify key areas that need improvement, updating or removal each year. MDA reacts quickly to issues brought forth by staff, clients, vendors and management. These projects could be small (updating an existing SOP) or large (feasibility study of all mail satellite offices).

MDA has identified several important internal improvements that need to be completed in 2017/18. There may be additional projects throughout the year based on operational requirements and client needs.

MDA Website

Over the past five years, MDA maintains a basic website to market its products and services. The COO tasked MCG with providing fundamental requirements to BTT, and scheduling initial meetings. BTT will assume overall maintenance of the site and create an easy to search and interactive website that can be updated with new products in real time. This will allow clients to utilize the website, instead of relying on printed catalogues and monthly flyers for current information and products. MDA's intent is to reduce the amount of catalogues printed to save costs and become more environmentally friendly. The Manager of Finance and IT will project manage this initiative.

Strategy results:

- The Finance and IT manager met and discussed options for MDA's website with a representative from Business Transformation and Technology (BTT). The manager will submit a report on recommendations.
- BTT will work with MDA in fiscal year 2018/19 on implementation of a new website

Warehouse Space and Staffing Review

The Manager of Logistics will undertake an analysis to determine effective warehouse space usage and staff levels by business line. The findings will be presented to the COO. An action plan will be developed to reconfigure warehouse areas or examine possible synergies.

Strategy results:

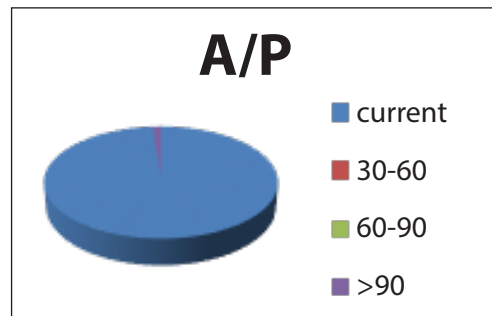
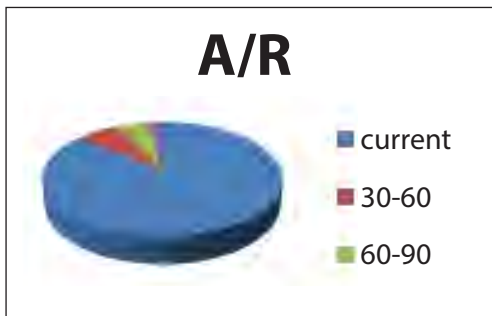
- MDA is undergoing a Lean review by the Continuous Improvement Office which took place in the 2nd quarter.
- MDA had its first kaizen event in September in one area of the warehouse and the second area was completed in December.

Key Performance Indicators (KPI's)

The COO has tasked each manager to review/develop KPI's for their areas to confirm overall productivity and service levels are being achieved.

Strategy results:

- Finance area: the performance is measured by reviewing the aging of the receivables and payables. The sooner an organization collects receivables the easier it is to pay its creditors. The collection module improved the collection of receivables.



Orientation Checklist

MDA has a comprehensive orientation checklist for new staff. This checklist needs to be customized for each area to ensure proper training is taking place. This will include agency operational and safety items as well as departmental information.

Strategy results:

- The Agency has implemented an on boarding strategy. Each area will customize their orientation checklist to ensure that required training/reviews are taking place.

Information Technology Projects

MDA relies on Great Plains Dynamics for ensuring clients' needs are met. There are many small projects which occur throughout each year. These projects improve the information we can supply to clients and increase internal staff efficiencies. The following larger projects were identified for analysis and upgrades in the 2017/18 fiscal year:

- Rental module enhancement – Integrate with GP card to allow for potential automation of serial number
- Shipping labels – The IT area will evaluate the order fulfillment process to determine the feasibility of having courier labels printing directly onto MDA's labels
- Upgrade GP to newer version

Strategy results:

- Rental module enhancement is complete
- Upgrade to GP 2015 is complete
- Shipping label project is ongoing

4. Sustainable Development & Green Initiatives Overview

MDA supports government sustainable development and green procurement initiatives. The Agency considers sustainably responsible purchasing an important component to the Manitoba government's *Sustainable Development Act*. The agency promotes and encourages a healthy environment by offering sustainable products and services to its clients.

MDA carries 253 sustainable stationery, kitchen and janitorial products including ECOLOGO, Forest Stewardship Council (FSC) and Sustainable Forest Initiative (FSI) third-party certified items. In 2017/18, MDA introduced five new sustainable products.

MDA provides disposal services on behalf of the Province that ensure items are re-distributed, recycled or disposed of in the proper manner, instead of into landfills. The Agency also provides toner and cell phone recycling through interdepartmental mail for all provincial offices.

Sustainability Action Plan

The Sustainability Action Plan helps to understand and promote sustainability through these four components:

- Awareness
- Pollution Prevention
- Resource Conservation
- Social Responsibility

The following MDA initiatives support the Sustainability Action Plan:

- **Batteries:** collecting used batteries for Call-2-Recycle program
- **Calendars and Catalogues:** printing with Forest Stewardship Council (FSC) paper
- **Cardboard:** dedicating bins for recycling and reusing for packaging
- **Cell Phones:** partnering with Bell MTS to recycle small electronics
- **Electronics:** sending items to depots
- **External Communications:** informing clients about sustainable products through MDA Connected
- **Green Choice Products:** providing environmentally-friendly product choices
- **Interdepartmental Mail:** reusing delivery bags and paper envelopes
- **Internal Communications:** informing staff about sustainability through MDA Bitz
- **Invoice Attachment in Great Plains:** reducing printing and storage in MDA Finance
- **Mattresses:** recycling through Mother Earth Recycling
- **Medical Equipment:** reusing medical equipment in a safe and cost-efficient manner
- **Metal Scrap:** collecting metal scrap for pickup and remuneration
- **Minimum Orders:** consolidating orders reduces deliveries, fuel and emissions
- **Office Supplies:** repurposing, re-distributing, recycling or disposing of supplies
- **Plastic Bags:** reusing and recycling plastic shopping bags
- **Recycling Centres:** providing mixed recycling centres for internal reuse program and collection
- **Storage and Shipping:** reusing wood pallets and cardboard for storage and shipping
- **Surplus Furniture:** offering gently pre-owned office furniture
- **Toner Cartridges:** returning used toners to suppliers
- **Work Boots:** collecting gently-used work boots for Winnipeg Harvest

Staff Participation

Since 2014, MDA holds an annual Earth Day Clean-up. Over that time, 14 staff members collected over 263 pounds of litter including paper, cigarette butts, plastic, cardboard and other materials from the parking lots around MDA.

Winnipeg Harvest Boots and Shoes Donation

In 2017/18, MDA donated 13 pairs of work boots/shoes to Winnipeg Harvest. These boots provide opportunities for those without footwear, to participate in training and working at the Harvest facility.

Mattress Recycling

MDA now recycles mattresses through Mother Earth Recycling (MER). MER is a Winnipeg-based Aboriginal Social Enterprise. It is a not-for-profit facility providing jobs for people with barriers to employment. MDA discards up to 400 mattresses per year, which when recycled, is equal to 27 metric tons of CO2 saved or 71 cars off the road.

Recycled Materials at MDA

| Recycled Material Types and Estimated Weights | | | |
|---|------------|------------|------------|
| Program Type | 2017/2018 | 2016/2017 | 2015/2016 |
| Batteries | 149 lbs | 109 lbs | 208 lbs |
| Cardboard | 77,435 lbs | 77,435 lbs | 26,803 lbs |
| Cellular Phones | 396 lbs | 258 lbs | NA |
| Co-Mingled Recycling | 12,010 lbs | 6,005 lbs | 6,005 lbs |
| Plastic Bags | 200 bags | NA | NA |
| Toner Cartridges | 27,217 lbs | 31,682 lbs | NA |
| Work Boots | 13 pairs | 6 pairs | NA |



FINANCIAL OVERVIEW

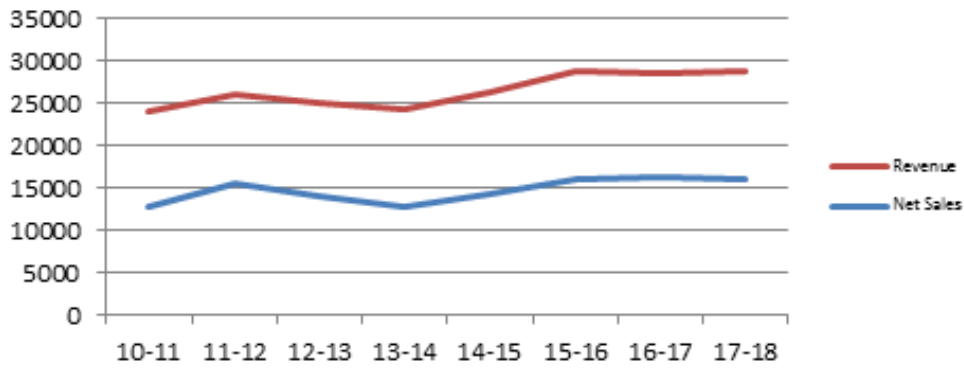
Review of Operations

MDA has seen the volume and breadth of products grow in most commodity lines. Current clients are ordering more commonly stocked products, while also requesting that MDA expand its lines of goods. As needs change, clients look to MDA to assume warehousing and distribution at lower costs.

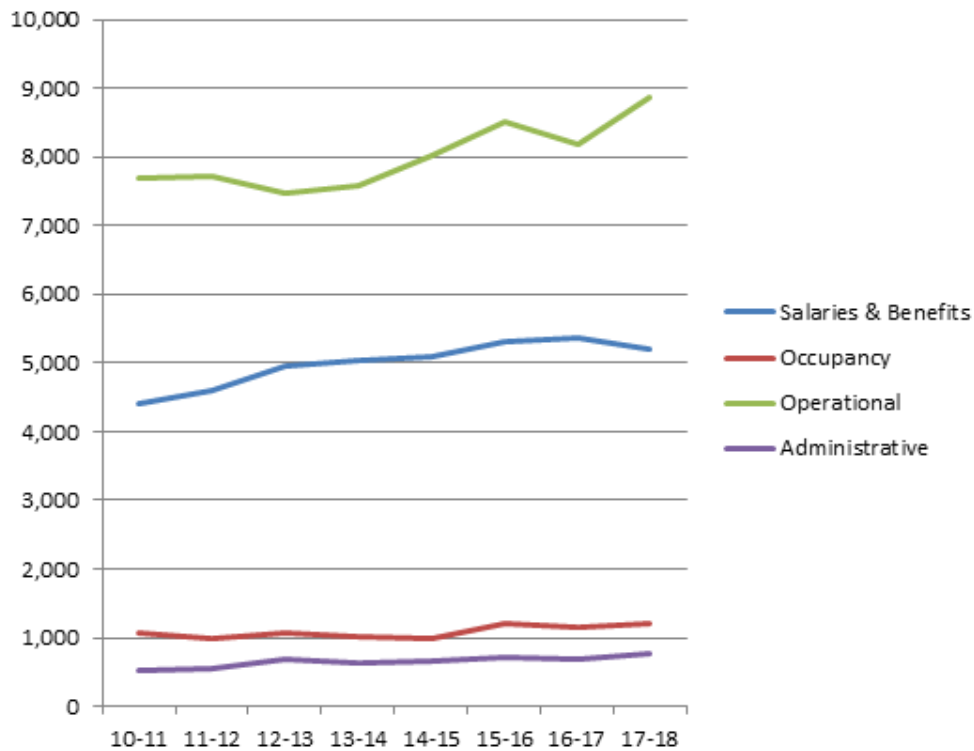
MDA reported a net income of \$181,000 compared to a projected income of \$111,000 for the year ended March 31, 2018. The increase is due to MDA's increase in mail services and health equipment revenue.

| | 2017-18 Actual | 2017-18 Budget | Actual vs. Budget | 2016-17 Actual | Actual vs. Actual |
|---------------------|-------------------|-------------------|----------------------|-------------------|----------------------|
| Warehouse Sales | 16,003 | 16,100 | (97) | 16,234 | (231) |
| Service Revenue | 12,886 | 12,446 | 440 | 12,388 | 498 |
| Total Revenue | 28,889 | 28,546 | 343 | 28,622 | 267 |
| Salaries & Benefits | 5,189 | 5,765 | (576) | 5,357 | (168) |
| Cost of Sales | 12,478 | 12,500 | (22) | 12,993 | (515) |
| Occupancy Costs | 1,202 | 1,127 | 75 | 1,148 | 54 |
| Operational Costs | 8,876 | 8,335 | 541 | 8,174 | 702 |
| Administrative Cost | 763 | 730 | 33 | 681 | 82 |
| Revenue Share | 200 | 200 | | 200 | |
| Total Expenses | 28,708 | 28,657 | 51 | 28,553 | 155 |
| Net Income/(loss) | 181 | (111) | 292 | 69 | 112 |

Sales and Revenue (\$'000)



Expenses



Financial Position

The Agency did not use its working capital payable line of credit at any time during this fiscal year and has no working capital payable outstanding.

Remaining cash generated by operations was used to purchase capital and inventory.

Ratio Analysis

| Ratio | 2018 | 2017 | 2016 | 2015 |
|---------------------------|------------|------------|-----------|------------|
| Return on Total Revenue* | 1.3% | .94% | 1.03% | .91% |
| Days Sales in Receivables | 27.17 days | 31.6 days | 35.0 days | 26.70 days |
| Inventory Turnover | 7.8 times | 7.92 times | 8.0 times | 5.5 times |

*before revenue share

MDA Performance Measures

| * Internal Turnaround Times: | 2018 | 2017 | 2016 | 2015 |
|------------------------------|--------|--------|--------|--------|
| <i>(In number of days)</i> | | | | |
| Health Orders – Urban | 1 | 1 | 1 | 1 |
| Health Orders – Rural | 1 | 1 | 1 | 1 |
| Other Goods – Urban | 1.5 | 1.5 | 1.5 | 1.5 |
| Other Goods – Rural | 1.5 | 1.5 | 1.5 | 1.5 |
| MB Learning Resource | 1.5 | 1 | 1 | 1 |
| No. Sales Invoices | 60,800 | 64,500 | 66,500 | 66,739 |
| No. Inventory Items | 4,738 | 4,725 | 4,733 | 4,182 |

* MDA internal processing time: Example – An order received at 11:00 am is processed, picked/packed and ready for shipment by 11:00 am the next day. The delivery time will be based upon the destination of the order and the courier schedule.



APPENDIX A – INDEPENDENT AUDITOR’S REPORT

**MATERIALS DISTRIBUTION AGENCY
FINANCIAL STATEMENTS
MARCH 31, 2018**



MATERIALS DISTRIBUTION AGENCY
(An Agency of the Government of Manitoba)

Management's Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of management of 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 judgments regarding all necessary estimates and all other data available as at May 28, 2018.

Management maintains internal controls to properly safeguard the assets of Materials Distribution Agency 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 financial statements of Materials Distribution Agency have been audited by Magnus LLP, Chartered Professional Accountants, independent external auditors. The responsibility of the auditor is to express an independent opinion on whether the financial statements of Materials Distribution Agency are fairly represented, in all material respects, 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 the financial statements.

On behalf of Management of
Materials Distribution Agency



David Bishop
Chief Operating Officer



Joel Hershfield, CPA(ret), CMA(ret)
Manager of Finance and Technology

INDEPENDENT AUDITOR'S REPORT

To the Special Operating Agencies Financing Authority
and Materials Distribution Agency

Report on the Financial Statements

We have audited the accompanying financial statements of Materials Distribution Agency, an agency of the Government of Manitoba, which comprise the statements of financial position as at March 31, 2018 and the statements of operations, change in net financial assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Materials Distribution Agency as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



May 28, 2018
Winnipeg, Canada

Chartered Professional Accountants

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Statement of Financial Position

(in thousands)

March 31, 2018

| | 2018 Actual | 2017 Actual |
|--|----------------|----------------|
| Financial assets | | |
| Cash and cash equivalents | \$ - | \$ 406 |
| Accounts receivable (Note 4) | 2,464 | 1,855 |
| Portfolio investments | 512 | 512 |
| Inventories for resale (Note 6) | 1,591 | 1,634 |
| | 4,567 | 4,407 |
| Liabilities | | |
| Cash and cash equivalents overdraft | 329 | - |
| Accounts payable and accrued liabilities | 2,594 | 2,217 |
| Employee future benefits (Note 7) | 812 | 761 |
| | 3,735 | 2,978 |
| Net financial assets | 832 | 1,429 |
| Non-financial assets | | |
| Tangible capital assets (Note 8) | 3,567 | 2,780 |
| Prepaid expenses | 153 | 162 |
| | 3,720 | 2,942 |
| Accumulated surplus | \$ 4,552 | \$ 4,371 |

Designated assets (Note 9)

See accompanying notes to financial statements.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Statement of Operations

(in thousands)

Year ended March 31, 2018

| | 2018 Budget | 2018 Actual | 2017 Actual |
|---|----------------|----------------|----------------|
| Revenue: | | | |
| Warehouse sales (Schedule 1) | \$ 16,100 | \$ 16,003 | \$ 16,234 |
| Service revenue (Schedule 1) | 12,443 | 12,882 | 12,385 |
| Interest income | 3 | 4 | 3 |
| | 28,546 | 28,889 | 28,622 |
| Expenses: | | | |
| Cost of sales | 12,500 | 12,478 | 12,993 |
| Salaries and benefits | 5,765 | 5,189 | 5,357 |
| Occupancy costs | 1,127 | 1,202 | 1,148 |
| Operating expenses (Schedule 2) | 8,335 | 8,876 | 8,174 |
| Administrative expenses (Schedule 2) | 730 | 763 | 681 |
| | 28,457 | 28,508 | 28,353 |
| Net income before transfer of funds to the Province of Manitoba | 89 | 381 | 269 |
| Transfer of funds to the Province of Manitoba (Note 11) | 200 | 200 | 200 |
| Net (loss) income for the year | (111) | 181 | 69 |
| Accumulated surplus, beginning of year | 4,302 | 4,041 | 4,371 |
| Accumulated surplus, end of year | \$ 3,930 | \$ 4,552 | \$ 4,371 |

See accompanying notes to financial statements.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Statement of Change in Net Financial Assets

(in thousands)

Year ended March 31, 2018

| | 2018 Budget | 2018 Actual | 2017 Actual |
|---|----------------|----------------|----------------|
| Net (loss) income for the year | \$ (111) | \$ 181 | \$ 69 |
| Tangible capital assets | | | |
| Acquisition of tangible capital assets | (1,200) | (2,363) | (1,748) |
| Disposals of tangible capital assets | - | 123 | 80 |
| Amortization of tangible capital assets | 1,210 | 1,453 | 1,304 |
| Net acquisition of tangible capital assets | 10 | (787) | (364) |
| Other non-financial assets | | | |
| Decrease (increase) in prepaid expenses | 5 | 9 | (36) |
| Net acquisition of other non-financial assets | 5 | 9 | (36) |
| Change in net financial assets | (96) | (597) | (331) |
| Net financial assets, beginning of year | 1,554 | 1,429 | 1,760 |
| Net financial assets, end of year | \$ 1,458 | \$ 832 | \$ 1,429 |

See accompanying notes to financial statements.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Statement of Cash Flow

(in thousands)

Year ended March 31, 2018

| | 2018 Actual | 2017 Actual |
|--|----------------|----------------|
| Cash provided by (applied to) | | |
| Operating activities: | | |
| Net income for the year | \$ 181 | \$ 69 |
| Adjustments for: | | |
| Amortization | 1,453 | 1,304 |
| (Gain) on disposal of tangible capital assets (Note 8) | (17) | (12) |
| | 1,617 | 1,361 |
| Changes in the following: | | |
| Accounts receivable | (609) | 913 |
| Inventories for resale | 43 | 17 |
| Prepaid expenses | 9 | (36) |
| Accounts payable and accrued liabilities | 377 | (693) |
| Employee future benefits | 51 | (4) |
| Cash provided by operating activities | 1,488 | 1,558 |
| Capital activities: | | |
| Acquisition of tangible capital assets | (2,363) | (1,748) |
| Proceeds on disposal of tangible capital assets | 140 | 92 |
| Cash (applied to) capital activities | (2,223) | (1,656) |
| Change in cash and cash equivalents | (735) | (98) |
| Cash and cash equivalents, beginning of year | 406 | 504 |
| Cash and cash equivalents, end of year | \$ (329) | \$ 406 |

See accompanying notes to financial statements.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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 objectives.

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

2. Basis of accounting

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

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

3. Summary of significant accounting policies

(a) Revenue

Warehouse sales

Revenue is recognized when the goods are shipped and when collection is reasonably assured.

Service revenue

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.

Other revenue

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

(b) Expenses

Accrual basis of accounting

All expenses incurred for goods and services are recognized on the accrual basis.

Government transfers

Government transfers are recognized as expenses in the period in which the transfers are authorized and all eligibility criteria have been met.

(c) Financial assets

Cash and cash equivalents

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

Accounts receivable

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

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

Inventories for resale

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

(d) 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 which will result in the future transfer or use of assets or other form of settlement. Liabilities are recognized when there is an appropriate basis of measurement and a reasonable estimate can be made of the amount involved.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

3. Summary of significant accounting policies (continued)

(e) Non-financial assets

Tangible capital assets

Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition costs. The costs of tangible capital assets, less any residual value, are amortized over their estimated 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 |

Prepaid expenses

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

(f) Financial instruments - measurement

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

The Agency records its financial assets at cost. Financial assets include cash and cash equivalents, accounts receivable and portfolio investments. The Agency also records its financial liabilities at cost. Financial liabilities include accounts payable and accrued liabilities.

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. Gains and losses on financial instruments measured at fair value, if any, are recorded in accumulated surplus as 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.

(g) Measurement uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards 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. These estimates are reviewed periodically and adjustments are recognized in the period they become known. Actual results may differ from these estimates.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

4. Accounts receivable

Accounts receivable at March 31 is comprised of the following:

| | 2018 | 2017 |
|---------------------------------|----------------|-----------------|
| Trade accounts receivable | \$2,459 | \$ 1,920 |
| Other receivables | 70 | - |
| Allowance for doubtful accounts | (65) | (65) |
| | \$2,464 | \$ 1,855 |

5. Working capital advances

The Special Operating Agencies Financing Authority has provided the Agency with an authorized line of working capital of \$600 (2017 - \$1,000) of which \$nil was used at March 31, 2018 (2017 - \$nil).

6. Inventories for resale

| | 2018 | 2017 |
|------------------|-----------------|-----------------|
| Medical supplies | \$ 716 | \$ 866 |
| Health equipment | 181 | 150 |
| Stationery | 445 | 408 |
| Janitorial | 245 | 207 |
| Furniture | 4 | 3 |
| | \$ 1,591 | \$ 1,634 |

7. Employee future benefits

| | 2018 | 2017 |
|--------------------|---------------|---------------|
| Severance benefits | \$ 742 | \$ 691 |
| Sick pay benefits | 70 | 70 |
| | \$ 812 | \$ 761 |

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. 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.

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Agency transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to the current pension contributions of its employees. The amount paid for the year ended March 31, 2018 was \$330 (2017 - \$366). Under this agreement, the Agency has no further pension liability as at year end.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

7. Employee future benefits (continued)

Severance benefits

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of the severance pay benefit obligation 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.

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. In accordance with the formula, the Agency's actuarially determined net liability for accounting purposes as at March 31, 2018 is \$742 (2017 - \$691), with the total net actuarial losses of \$82 (2017 - \$38) based on the completed actuarial reports being amortized over the 15 year 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, 2018 present value of the accrued severance benefit liability, are:

| | |
|--------------------------------|----------------------|
| Annual rate of return: | |
| Inflation component | 2.00% (2017 - 2.00%) |
| Real rate of return | 1.80% (2017 - 4.00%) |
| | <hr/> |
| | 3.80% (2017 - 6.00%) |
| | <hr/> |
| Assumed salary increase rates: | |
| Annual productivity increase | 1.00% (2017 - 1.00%) |
| Annual general salary increase | 2.75% (2017 - 2.75%) |
| | <hr/> |
| | 3.75% (2017 - 3.75%) |
| | <hr/> |

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

| | 2018 | 2017 |
|--|--------|--------|
| Accrued benefit liability, beginning of year | \$ 705 | \$ 711 |
| Actuarial losses | 44 | - |
| Interest on accrued severance benefits | 28 | 43 |
| Current period service costs | 38 | 34 |
| Severance benefits paid during the year | (17) | (83) |
| Accrued benefit liability, end of year | 798 | 705 |
| Less: unamortized actuarial losses | (56) | (14) |
| Severance benefit liability, end of year | \$ 742 | \$ 691 |

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

7. Employee future benefits (continued)

The total expense related to severance benefits for the year ended March 31 includes the following components:

| | 2018 | 2017 |
|--|--------------|--------------|
| Interest on accrued severance benefits | \$ 28 | \$ 43 |
| Current period service costs | 38 | 34 |
| Amortization of actuarial losses over EARSL | 3 | 2 |
| Total expense related to severance benefits | \$ 69 | \$ 79 |

Sick pay benefits

The Agency provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit liability related to sick leave entitlements 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, 2018 based on the valuation model is \$70 (2017 - \$70). The increase (decrease) in the sick leave benefit liability of \$nil (2017 - \$nil) represents the total sick leave benefit expense (recovery) for the year.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

8. Tangible capital assets

| | 2018 | | | |
|---------------------------------|--------------------|-------------------|-------------------|--------------------|
| | Opening Balance | Additions | Disposals | Closing Balance |
| Cost | | | | |
| Computer equipment | \$ 310 | \$ 3 | \$ - | \$ 313 |
| Furniture and fixtures | 165 | - | - | 165 |
| Leasehold improvements | 1,154 | 6 | - | 1,160 |
| Office equipment | 64 | - | - | 64 |
| Mail finishing equipment | 542 | - | - | 542 |
| Rental equipment | 13,228 | 2,341 | (3,059) | 12,510 |
| Warehouse equipment | 1,371 | 13 | - | 1,384 |
| | \$ 16,834 | \$ 2,363 | \$ (3,059) | \$ 16,138 |
| Accumulated amortization | | | | |
| Computer equipment | \$ (262) | \$ (10) | \$ - | \$ (272) |
| Furniture and fixtures | (164) | - | - | (164) |
| Leasehold improvements | (937) | (37) | - | (974) |
| Office equipment | (64) | - | - | (64) |
| Mail finishing equipment | (397) | (27) | - | (424) |
| Rental equipment | (11,172) | (1,313) | 2,936 | (9,549) |
| Warehouse equipment | (1,058) | (66) | - | (1,124) |
| | \$ (14,054) | \$ (1,453) | \$ 2,936 | \$ (12,571) |
| Net book value | \$ 2,780 | \$ 910 | \$ (123) | \$ 3,567 |

During the year ended March 31, 2018, rental equipment additions totaling \$123 (2017 - \$80) were sold for proceeds of \$140 (2017 - \$92) resulting in a gain on disposal of tangible capital assets of \$17 (2017 - \$12) included in total health equipment sales for the year.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

8. Tangible capital assets (continued)

| | 2017 | | | |
|---------------------------------|--------------------|-------------------|----------------|--------------------|
| | Opening Balance | Additions | Disposals | Closing Balance |
| Cost | | | | |
| Computer equipment | \$ 279 | \$ 31 | \$ - | \$ 310 |
| Furniture and fixtures | 165 | - | - | 165 |
| Leasehold improvements | 1,147 | 7 | - | 1,154 |
| Office equipment | 64 | - | - | 64 |
| Mail finishing equipment | 542 | - | - | 542 |
| Rental equipment | 11,646 | 1,662 | (80) | 13,228 |
| Warehouse equipment | 1,323 | 48 | - | 1,371 |
| | \$ 15,166 | \$ 1,748 | \$ (80) | \$ 16,834 |
| Accumulated amortization | | | | |
| Computer equipment | \$ (253) | \$ (9) | \$ - | \$ (262) |
| Furniture and fixtures | (163) | (1) | - | (164) |
| Leasehold improvements | (900) | (37) | - | (937) |
| Office equipment | (64) | - | - | (64) |
| Mail finishing equipment | (363) | (34) | - | (397) |
| Rental equipment | (10,022) | (1,150) | - | (11,172) |
| Warehouse equipment | (985) | (73) | - | (1,058) |
| | \$ (12,750) | \$ (1,304) | \$ - | \$ (14,054) |
| Net book value | \$ 2,416 | \$ 444 | \$ (80) | \$ 2,780 |

9. Designated assets

The Agency has allocated \$412 (2017 - \$412) of its portfolio investments totaling \$512 as designated assets for cash received from the Province of Manitoba for vacation entitlements earned by employees of the Agency prior to its designation as an SOA and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

10. Commitments

The agency has no significant non-routine operating lease or other commitments.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

11. Transfer of funds to the Province of Manitoba

During the year ended March 31, 2018, with Lieutenant-Governor approval by Order in Council, the Agency transferred \$200 (2017 - \$200) of its surplus funds to the Province of Manitoba.

12. Financial instruments and financial risk management

The Agency does not have any significant financial instruments subsequently measured at fair value or denominated in a foreign currency therefore the Agency did not incur any remeasurement gains or losses during the year (2017 - \$nil).

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.

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, accounts receivable and portfolio investments.

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

| | 2018 | 2017 |
|---------------------------|-----------------|-----------------|
| Cash and cash equivalents | \$ - | \$ 406 |
| Accounts receivable | 2,464 | 1,855 |
| Portfolio investments | 512 | 512 |
| | <u>\$ 2,976</u> | <u>\$ 2,773</u> |

Cash and cash equivalents and portfolio investments: The Agency is not exposed to significant credit risk as these amounts are 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 this 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, 2018 is \$65 (2017 - \$65). The total provision for receivable impairment during the year was \$nil (2017 - \$nil) and there were no reversals of previously recognized impairments during the current or prior year.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

12. Financial instruments and financial risk management (continued)

The aging of accounts receivable and the related allowance for doubtful accounts at March 31, 2018 is as follows:

| | Accounts receivable | Allowance | Net |
|----------------------------------|------------------------|-----------|----------|
| Current | \$ 2,161 | \$ - | \$ 2,161 |
| 30-60 days past the billing date | 185 | - | 185 |
| 61-90 days past the billing date | 29 | - | 29 |
| 90 days past the billing date | 154 | (65) | 89 |
| Balance, end of the year | \$ 2,529 | \$ (65) | \$ 2,464 |

Liquidity risk

Liquidity risk is the risk that the Agency will not be able 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.

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.

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.

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 significant financial instruments denominated in a foreign currency.

13. Budget information

The budget information for the year ended March 31, 2018 has been restated to reflect the transfer payment to the Province of Manitoba as an expense for the year in accordance with Canadian public sector accounting standards.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE PROVINCIAL GOVERNMENT
PROVINCE OF MANITOBA**

Schedule of Warehouse Sales and Service Revenue

(in thousands)

Year ended March 31, 2018

Schedule 1

| | 2018 | 2017 |
|------------------------------|-----------|-----------|
| Warehouse sales: | | |
| Medical supplies | \$ 7,342 | \$ 7,330 |
| Stationery | 4,229 | 4,612 |
| Janitorial | 2,263 | 2,234 |
| Health equipment | 1,767 | 1,466 |
| Furniture | 401 | 575 |
| Special projects | 1 | 17 |
| | <hr/> | <hr/> |
| | \$ 16,003 | \$ 16,234 |
| Service revenue: | | |
| Mail services | \$ 5,511 | \$ 5,181 |
| Equipment rentals | 4,099 | 3,955 |
| Manitoba Textbook Bureau | 290 | 290 |
| Freight | 1,105 | 1,005 |
| Moving | 657 | 601 |
| Storage | 344 | 388 |
| Vaccine program | 673 | 637 |
| Copy centre | 9 | 10 |
| Disposal services | 28 | 81 |
| Other revenue and recoveries | 166 | 237 |
| | <hr/> | <hr/> |
| | \$ 12,882 | \$ 12,385 |

Schedule of Operating and Administrative Expenses

(in thousands)

Year ended March 31, 2018

Schedule 2

| | 2018 | 2017 |
|---------------------------------|-----------------|-----------------|
| Operating expenses: | | |
| Amortization | \$ 1,453 | \$ 1,304 |
| Copy centre | 5 | 5 |
| Equipment rentals | 119 | 140 |
| Freight | 2,025 | 2,011 |
| Mail services | 4,442 | 3,979 |
| Moving expenses | 499 | 430 |
| Vehicle | 126 | 124 |
| Warehouse supplies | 207 | 181 |
| | \$ 8,876 | \$ 8,174 |
| Administrative expenses: | | |
| Computer | \$ 248 | \$ 236 |
| Miscellaneous | 11 | 16 |
| Office | 339 | 296 |
| Professional fees | 14 | 12 |
| Promotion and marketing | 27 | 25 |
| Telephone | 114 | 91 |
| Training | 10 | 5 |
| | \$ 763 | \$ 681 |