



ANNUAL REPORT 2011/12

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An Agency of the Manitoba Government



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MINISTER'S LETTER OF TRANSMITTAL



MINISTER OF INFRASTRUCTURE
AND TRANSPORTATION

Room 203
Legislative Building
Winnipeg, Manitoba CANADA
R3C 0V8

June 30, 2012

The Honourable Philip S. Lee
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg, MB R3C 0V8

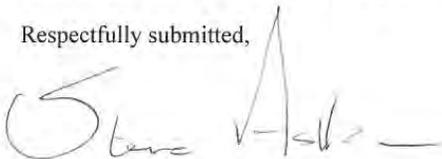
May It Please Your Honour:

It is my privilege to present the Annual Report of Materials Distribution Agency (MDA) for the year ended March 31, 2012.

This report marks the completion of MDA's nineteenth 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 exhibit an ability to react quickly to the needs of all provincial clients in a cost effective and efficient manner.

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,



Steve Ashton
Minister Responsible for
Materials Distribution Agency

DEPUTY MINISTER'S LETTER OF TRANSMITTAL



Infrastructure and Transportation
Associate Deputy Minister's Office
3rd Floor – 215 Garry Street
Winnipeg, Manitoba R3C 3P3
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June 30, 2012

Honourable Steve Ashton
Minister of Infrastructure and Transportation
Minister Responsible for the Materials
Distribution Agency
Room 203, Legislative Building
Winnipeg MB R3C 0V8

Dear Minister Ashton:

It is with pleasure that I present the nineteenth Annual Report of Materials Distribution Agency (MDA) for the year ending March 31, 2012.

The Agency continues to offer costs savings and streamline its products and services for the benefit of provincial clients. MDA reacts quickly to the needs of the departments in times of crisis. This was particularly evident during the postal disruption of the spring of 2011 for which MDA coordinated essential mail services for all Provincial departments ensuring that thousands of Manitobans were able to receive critical mail. I appreciate the dedication and value the contributions of all staff as they continually enhance the Agency's services.

I commend the commitment and hard work of the staff and managers of MDA who constantly work to improve the organization of which the government can be very proud.

Respectfully submitted,



Paul Rochon
Associate Deputy Minister of Manitoba Infrastructure and Transportation
Chair of the Materials Distribution Agency Advisory Board

CHIEF OPERATING OFFICER'S LETTER OF TRANSMITTAL

June 19, 2012

To Our Valued MDA Stakeholders:

I have the distinction to present the Materials Distribution Agency's (MDA) nineteenth 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 establish and secure. Stakeholders, such as Employment and Income Assistance Branch, Manitoba Textbook Bureau, and The Office of Disaster Management, have realized cost-savings in their purchases and their day-to-day operating costs utilizing our services. MDA reacts quickly to concerns and emergent issues to improve the Agency each year.

MDA is grateful to its customers for their continued loyalty. We look forward to developing new opportunities and innovative solutions for our existing and new client base. MDA looks forward to continue our tradition of excellent service and deep expertise, while continuing to establish 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 relationship.

Sincerely,

A handwritten signature in blue ink that reads "Dave Bishop". The signature is written in a cursive, flowing style.

Dave Bishop
Chief Operating Officer - MDA

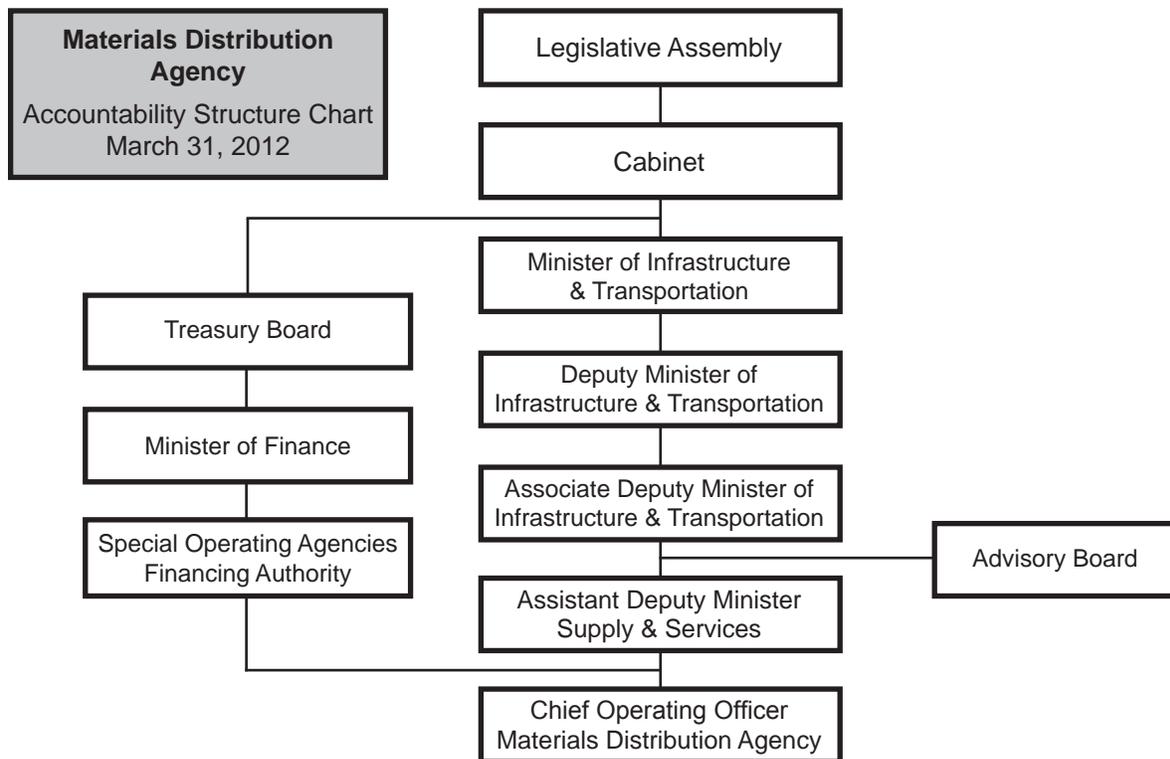
STRUCTURE FOR OPERATIONS

Accountability Structure

As an organization within Manitoba Infrastructure and Transportation, MDA reports directly to the Assistant Deputy Minister, Supply and Services, and is held accountable to the Associate Deputy Minister, Deputy Minister, and Minister of Infrastructure and Transportation 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, 2012, are listed below.

Members of the Advisory Board for Materials Distribution Agency		
CHAIR	Paul Rochon Associate Deputy Minister Manitoba Infrastructure and Transportation	
MEMBERS		
Client Representatives	Bruce Bremner Assistant Deputy Minister Manitoba Conservation	Ian Hasanally Assistant Deputy Minister Administrative Services Division Manitoba Infrastructure and Transportation
Ex Officio	Tracey Danowski Assistant Deputy Minister Supply and Services Division Manitoba Infrastructure and Transportation	David Bishop Chief Operating Officer Materials Distribution Agency
Staff Representative	Peter Roberts Logistics Coordinator Materials Distribution Agency	



MDA MISSION STATEMENT

Mission

This Agency provides mail and material management services to the public sector.

ORGANIZATIONAL GOALS

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

Service – To sustain and improve customer service by developing infrastructure, setting standards and meeting or exceeding customer needs.

Growth – To grow business while maintaining or decreasing overall government expenditures.

ORGANIZATIONAL VALUES

MDA's mission statements are focused on reliability, teamwork and accountability in its efforts to be the Government of Manitoba's single source for products and services.

Reliability

MDA:

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

Teamwork

MDA:

- Behaves ethically
- Recognizes achievements
- Communicates
- Is positive
- Sees each call as an opportunity
- Values diversity of backgrounds and opinions
- Creates and supports a common direction and common goals
- Demonstrates the priority of team goals

Accountability

MDA:

- Meets deadlines
- Provides clients with quality assured goods
- Saves government clients money
- Strives to know its clients' 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 then 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	1,265
Janitorial Supplies	405
Medical Supplies	1,178
Home Care Equipment	467
Office Furnishings and Furniture	330
Publications	190
Total Line Items	3,835



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 is made up 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 Management for Members of the Legislature

On behalf of the Legislative Assembly, MDA negotiates constituency walk rates and cost effective mail service for MLA's. MDA prepares and calculates the volume for each MLA and prepares guidebooks for each constituency.

Mail Finishing

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

- Envelope addressing
- Bursting of printed forms and cheques
- Folding of printed material
- Envelope insertion
- Manual collating of items into kits or envelopes

Prices vary with the type of activity (i.e. bursting or folding) and volume. MDA may offer high volume clients lower prices, 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 also offers Signature Service, which provides clients with delivery of mail confirmation.

Contract Administration

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

Digital Printing

MDA's Variable Data Print 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. MDA receives and repairs any damaged or non-functioning component. The item is disinfected before being returned to the active equipment rental pool. MDA carries out periodic safety checks on equipment in the field to ensure the product stays in good working condition. MDA also electronically tracks Employee and Income Assistance Branch (EIA) program equipment use.

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 competitive rates and continue to show favourable growth for the Agency.

Distribution services include:

Janitorial and Stationery Products

- Wide range of janitorial and stationery items (currently 1,670 products)
- 239 products are environmentally friendly (growing annually) and a toner recycling program
- Pricing is the same throughout the province and is competitive with private companies (three independent audits were conducted to support the fact that MDA is more cost effective than buying directly from retailers)

Medical Supplies

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

Manitoba Text Book Bureau (MTBB)

- MTBB is an SOA that procures textbooks and other school-related items that are distributed by MDA
- 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 pricing

Office Relocation/Moving and Disposal Services

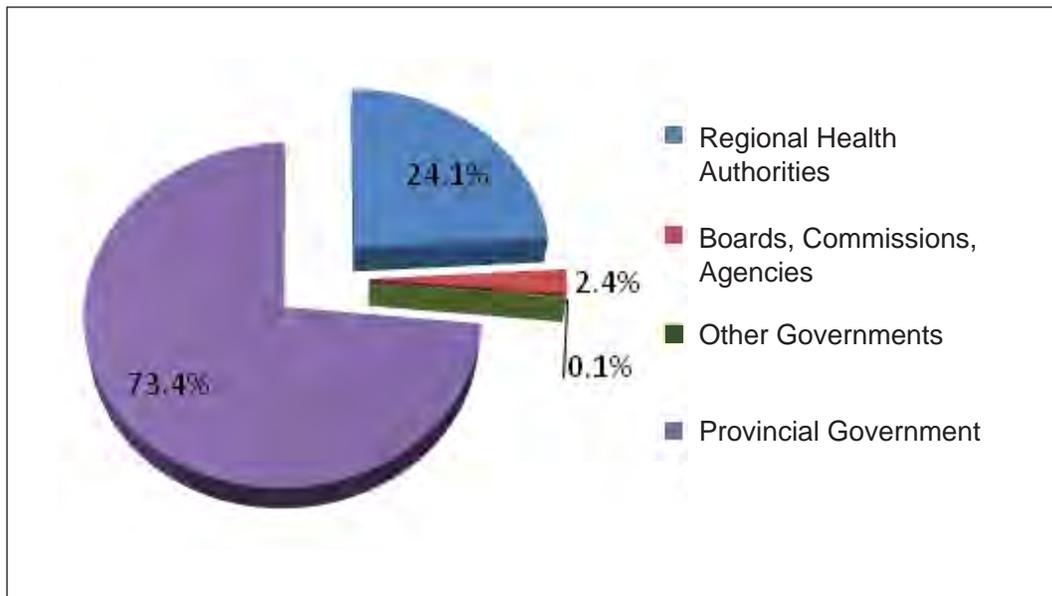
- Significant cost savings and consistent positive client feedback
- Furnishings no longer needed are recycled to other offices or to recycling companies

Special projects

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

MARKET SEGMENT INFORMATION

Total Revenue 2011/12: \$23,240,000



WAREHOUSE PRODUCTS – DISTRIBUTION INFORMATION

Warehouse Products – Distribution Information

Number of Orders	2011/12	2010/11	2009/10
Warehouse Orders	54,600	53,300	55,200
Equipment Orders	14,701	14,300	14,371
Mail Finishing Orders	4,150	3,700	4,680
Federal Mail Processed (pieces)	2.35 million	2.63 million	2.62 million
Inter-Departmental Mail (pieces)*	347,000	339,400	348,500
Manitoba Text Book Bureau Orders	10,345	11,855	11,923
Office Relocations	638	724	717

**Excluding payroll advice letters*

Distribution of Products By Area	2011/12	2010/11	2009/10
Winnipeg	54%	57%	56%
Rural	46%	43%	44%

Delivery of Winnipeg Orders	2011/12	2010/11	2009/10
Regular (2 days)	95%	95%	96%
Same day	2%	2%	1%
Pickup	3%	3%	3%

2011/12 PROJECTS AND ACTIVITY STATUS HIGHLIGHTS

1. Human Resources Overview

MDA recognizes staff as its greatest resource. MDA management has identified specific issues and plans to improve the human resources area. A multi-layered strategy is used to identify key objectives through staff surveys, management recommendations, government initiatives, and employee suggestions.

Safety Management Program

MDA management 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 Officer, recruited by the MIT Supply and Services Division, will assist with development and implementation of an MDA safety management program.
- MDA participated in a safety audit in May 2011. All deficiencies from this audit were addressed by the end of the third quarter. The next audit will take place in the first quarter of fiscal year 2012/13.

Communication Improvements

Communication is identified as a key concern by staff and management. MDA has developed four strategies to address this area in 2011/12.

1. Hold a minimum of 10 meetings for each area of MDA in the 2011/12 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	3	2	11
Contracts & Purchasing	10/yr	3	2	3	2	10
Warehouse - Distribution	10/yr	3	2	3	2	10
Warehouse - Mail Services	10/yr	3	2	3	2	10
Finance & IT	10/yr	3	1	3	3	10

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

Strategy results:

- The employee survey was conducted on January 10/12. Two meetings were held in the fourth quarter and employee survey results were posted for staff to view.
3. Hold two meetings with all staff in fiscal year 2011/12 to provide an update on business initiatives, new policies, MDA's financial situation, and answer questions.

Strategy results:

- The COO conducted a meeting with all MDA staff in June 2011. Employees were updated on initiatives from the 2011/12 business plan, strategic direction, and the audited 2010/11 financial results. A second meeting was held with all MDA staff in December 2011 to provide updates on business initiatives.

Orientation Packages

Each manager will develop an orientation package, unique to their area, with checklists to ensure completion of tasks within required timelines. This will augment the broader MIT orientation package.

Strategy results:

- The orientation packages for each area of MDA are complete.

Wellness Plan

MDA's goal is to establish itself as a healthy workplace, aligning it with the province's priority to promote healthy living. MDA recognizes the substantial future savings to the Agency and health care system that will be realized when people remain healthy longer. In addition, productivity increases with healthier workers.

MDA has developed a plan for improvements to staff health. MDA's Wellness Committee and management have identified the following initiatives:

- Conduct an annual Wellness Fair in early 2011
- Organize employee tournaments in ping pong, cribbage, darts and Dance Dance Revolution
- Arrange for two healthy lunches and four healthy snack days
- Improve workout room
- Track staff who use alternative travel methods to and from work, and participate in the government's Commuter Challenge

- Organize MDA Olympics in mid 2011/12
- Arrange for two additional speakers to address staff on health issues
- Offer a voluntary smoking cessation program
- Coordinate an internal recycling initiative

Strategy results:

(All MDA wellness events occur during lunch time or after business hours, with the exception of the annual wellness fair.)

- MDA held its fourth annual Wellness Fair in October 2011. There were 56 MDA staff and 18 provincial employees, from outside of MDA, who participated in the fair. A survey was conducted and the feedback was extremely favourable
- A healthy snack break and lunch were arranged for staff in June for the Employee Appreciation Day
- The Wellness Committee organized MDA's participation for the Winnipeg Humane Society's annual "Paws in Motion" walk at Assiniboine Park on June 25/11. Eleven staff participated in the walk and many more made donations
- MDA's annual singles and doubles cribbage tournament was held in the second and third quarters
- The workout room was updated and repairs were made to existing equipment
- The internal recycling program was implemented in May 2011

2. New and Growth Business Initiatives Overview

The Agency needs to grow revenue in strategic markets and increase loyalty through the implementation of client relationship management strategies, competitive pricing, product/service quality, product availability and service reliability.

MDA's traditional clients continue to shop at alternative suppliers. MDA must implement more frequent communications focused on the benefits of buying through MDA. It must dispel negative perceptions associated with price, product availability, and unreliable 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 expenditures 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.

Family Services and Consumer Affairs (FS&CA)

In 2009/10, MDA was granted permission from Treasury Board to provide publically funded day care facilities with products and services. The Agency has dedicated resources to growing this line of business over the next two years. MDA has developed a comprehensive communications strategy for this client base and will be tracking quarterly sales throughout fiscal year 2011/12.

Strategy results:

- Sales are as follows:

Sales 2009/10 (\$)	Sales 2010/11 (\$)	Sales 2011/12 (\$)
18,400	33,200	32,500

- MCG is working on an updated communications package for day cares that will be distributed in the first quarter of fiscal year 2012/13

Mail Services

MDA Mail Services offers a variety of services such as printing, addressing, folding, inserting, mail processing and IDM delivery. The MCG and MDA management will conduct a mail market analysis for potential growth by the end of the first quarter. Once the study is complete, MDA will develop a marketing and operational plan based on the recommendations. There are significant cost savings by departments in using MDA for ID mail and mail processing.

Strategy results:

- The mail market analysis is complete. MCG staff are completing a report to be presented to MDA's COO in the second quarter
- A strategy is being developed by MCG to grow business and increase client contact

Office of Disaster Management (ODM)

In 2009/10, MDA partnered with the Office of Disaster Management to store, inventory and distribute pandemic supplies for the Province of Manitoba. MDA has entered into an agreement to continue this business until the end of fiscal year 2011/12. ODM requires ongoing management of the pandemic stock on behalf of the Regional Health Authorities past the next year. MDA will make a formal proposal to retain this business and continue offering storage and distribution for the pandemic safety stock program.

Strategy results:

- MDA is currently operating a 40,000 sq ft temporary warehouse for the pandemic stock
- MDA conducted meetings with representatives from ODM in May 2011. MDA is analysing options for future space requirements with this business line

Association of Manitoba Municipalities (AMM)

MDA has been marketing this association since early 2008. MCG has developed a strategic plan for increasing awareness of MDA products and services. This involves attending two trade shows, advertising in the Municipal Leader magazine and sales calls to key rural municipality offices. Revenue for this business line has increased by 30% in fiscal year 2010/11. MDA will monitor quarterly sales to determine the viability of this initiative.

Strategy results:

- MDA has partnered with Vehicle and Equipment Management Agency (VEMA) to place an advertisement in the Municipal Leader Magazine. This has cut costs to both agencies
- Staff from MCG attended the AMM trade show in April 2011
- Sales are as follows:

Sales 2009/10 (\$)	Sales 2010/11 (\$)	Sales 2011/12 (\$)
27,400	36,400	22,600

Employee Income and Assistance

This is a key business line for MDA which is growing each year. In late 2007, MDA launched an electronic ordering system (e-order) in Winnipeg at the client's request. MDA will track volumes throughout 2011/12 to verify the effectiveness of this plan.

Strategy results:

- Sales are as follows:

Sales 2009/10 (\$)	Sales 2010/11 (\$)	Sales 2011/12 (\$)
2,100,000	2,400,000	2,600,000

Marketing and Communications Group (MCG)

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 in fiscal year 2011/12.

Strategy results:

- MCG sourced three new mail clients which consist of various mail finishing jobs
- Manitoba Health vaccine program will begin April 1, 2012

Conservation

The Department of Conservation has asked MDA to evaluate its current structure and look at possible ways to assist with inventory management and tracking of assets throughout the Province. MDA will work closely with Conservation to determine the viability of this partnership.

Strategy results:

- MDA submitted a proposal with estimated costs to Conservation management in April 2011. They informed MDA to proceed in developing a formal service agreement.
- MCG is preparing the service agreement with completion in the first quarter of fiscal year 2012/13

Rural libraries

MCG will start to market to all rural libraries in 2011/12. MDA will track the value of this business initiative over the next three years.

Strategy results:

- Sales are as follows:

Sales 2011/12 (\$)
120.0

Personal Care Homes

MDA will approach all personal care homes throughout the province in regards to the inventory management of medical equipment (e.g. beds, mattresses, lifts, etc.).

Strategy results:

- MDA entered into a formal service agreement with Deer Lodge Centre for a preventative mattress maintenance program to begin in September 2011

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 from 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 2011/12. Additional projects maybe identified throughout the year, based on operational and client requirements.

Procedure for Business Line Analysis

MDA has over 20 varying business lines, each with unique standards and client requirements. MDA's Business Line Analyst will create templates for:

- Current business line reviews on an annual basis
- New business assessment

Each program will be reviewed annually by MDA's Finance area to ensure financial stability and operational effectiveness. MCG will review to determine client satisfaction.

Strategy results:

- Segmented reporting will be used to assess financial performance

MDA Business Line	Annual Revenue (\$)
New Business Template	---
Mail Services (5 lines)	5,000,000
MTBB	240,000
Medical Equipment	2,000,000
Moving	750,000
Storage	85,000
Janitorial	1,500,000
Stationery	3,000,000
Medical Supplies	1,500,000

Executive Management Committee (EMC) Presentations

MDA has committed to making presentations to each department's EMC during fiscal year 2011/12. The Agency will be outlining potential areas where cost savings can be realized, an overview of business lines and consolidation of similar activities.

Strategy results:

- Presentations were completed by June 2011

MDA Website

Over the past three years, MDA has maintained a website to market its products and services. At this time, the website is static. MDA has tasked MCG to explore 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 to update outdated information and products. MDA could reduce the amount of catalogues printed each year, saving money and becoming more environmentally friendly.

Strategy results:

- COO and MCG Manager met and discussed options for MDA's website.
- This project is deferred to 2012/13 due to cost constraints

Warehouse space review

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

Strategy results:

- Logistics Manager will present space options for warehouse by third quarter
- This project is complete and the warehouse has been augmented to accommodate the vaccine distribution business line

Good Manufacturing Practice Certificate (GMP)

This licensing is required by the Federal Government in order to distribute certain types of health supplies and equipment (nutritional supplements, wound dressings, etc.). MDA will work with the Federal Government to identify these items, implement necessary process changes and apply for this licence to be compliant with legislation.

Strategy results:

- MDA management met with Federal Government representatives in April 2011 to determine the scope of this project. MDA's Purchasing and Contract Manager will coordinate this project
- MDA has applied for the Medical Device Establishment licence and the Drug Establishment licence with Health Canada
- MDA has contracted a consultant with expertise in the area of GMP certification to lead the Agency through this process
- MDA has achieved GMP certification as of April 1, 2012

Information Technology Projects

MDA relies heavily on the Great Plains system for ensuring client 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 efficiencies of staff. There are two projects identified for analysis and upgrades in the 2011/12 fiscal year:

- MDA's E-order program – The IT department will establish a maintenance schedule to ensure this program is operating reliably
- Rewrite mail printing utility program - Rewriting VIPP Utility, Print Operator Belt, etc. to .NET technology to become compatible with Windows 7

Strategy results:

- MDA's E-order program - Enhancements requested by CSRs where completed and implemented
- Mail printing utility program – The mail printing .Net program (new program compatible with Windows 7) is now in the testing stage with the print operator. The project consists of 3 phases – current testing is on phase 1.
 - Phase 2 development is complete with testing commencing in the third quarter.
 - Phase 3 is complete as of March 31, 2012

4. Sustainable Development & Green Initiatives Overview

MDA supports all government initiatives on sustainable development and green procurement. It currently carries 239 products which are considered environmentally friendly. This number is steadily growing each year. Procurement Services Branch (PSB) continues to recommend MDA as a supplier of choice for many commodity lines, such as furniture, stationery, and janitorial supplies.

MDA provides disposal services on behalf of the Province to ensure that all items are re-distributed, recycled or disposed of in the proper manner, instead of being thrown into landfills.

Janitorial and Stationery Products

Each year MDA works with clients to provide an enhanced line of environmentally friendly products. MDA's target in 2011/12 is to obtain a minimum of 10 new green products to replace traditional items which are not environmentally friendly. MDA will report on this initiative in the fourth quarter of 2011/12.

Strategy results:

- A total of 13 new green products were added to MDA's product line in fiscal year 2011/12

Toner Recycling

MDA offers a toner recycling program to all provincial clients. This return program is free to clients and ensures all cartridges are returned to the appropriate vendor for recycling. In 2009/10, MDA made numerous enhancements to streamline this process, reduce overall costs and increase the compliance for this initiative. MCG is tasked with creating a toner recycling campaign to raise awareness and increase recycling numbers.

Strategy results:

- The recycling campaign project was completed in the fourth quarter

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.

The following financial review and analysis compares the actual results for the year ended March 31, 2012 to the projections for the same period, and to the actual results for the year ended March 31, 2011.

MDA reported a net loss of \$231,000, compared to a projected net loss of \$343,000 for the year ended March 31, 2012, and a net income of \$44,000 for the year ended March 31, 2011.

(In thousands)

	2012 Actual	2012 Projected	2012 Actual vs. Projected	2011 Actual	2012 Actual vs. 2011 Actual
Warehouse Sales	15,426	15,100	326	12,817	2,629
Service Revenue	10,667	10,320	347	11,116	(449)
Total Revenue	26,093	25,420	673	23,933	2,180
Salaries & benefits	4,478	4,450	28	4,421	57
Cost of Sales	11,940	11,800	140	10,220	1,720
Occupancy Costs	1,172	1,030	142	1,077	95
Operational Costs	7,685	7,550	135	7,644	41
Administrative Cost	633	517	86	527	106
Extraordinary Item	416*	416*	—	—	416
Total Expenses	26,324	25,763	561	23,889	2,435
Net Income/(loss)	(231)	(343)	112	44	(275)

* The Agency was asked to absorb \$416,000 in communications and security costs for the Postal Disruption Contingency Plan on behalf of the provincial government.

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 other.

MDA absorbed \$416,000 in communication and security costs on behalf of the provincial government. This amount was incurred during the postal disruption of 2011 and due to the fact the departments had no funds for implementing the postal service contingency plan. Once the postal disruption was over, there were discussions as to how to apportion the costs to each program area. It was determined that there was no reasonable basis from which to allocate the costs, therefore, MDA absorbed this expenditure. In the postal disruptions of 1997/98 and 2003/04, which were much shorter (less than 3 days) in duration, costs incurred were billed back to the departments using the services provided.

It is important to note that the postal disruption is an extraordinary expense which could not be budgeted.



Ratio Analysis

Ratio	2012	2011	2010	2009
Return on Total Revenue*	.71%	.08%	.77%	.68%
Return on Average Assets*	3.44%	.14%	2.63%	2.33%
Gross Profit Percentage	22.6%	20.30%	21.90%	20.42%
Days Sales in Receivables	32 days	52 days	35 days	39 days
Inventory Turnover	7.76 times	6.64 times	7.76 times	8.23 times

*before extraordinary item

MDA Performance Measures

* Internal Turn Around Times:	2012	2011	2010	2009
(In number of days)				
Health Orders – Urban	1	1	1	1
Health Orders – Rural	1	1	1	1
Other Goods – Urban	1.5	1.5	1	1
Other Goods – Rural	1.5	1.5	1	1
MB Text Book Bureau	1	1	1	1
No. Sales Invoices	62,709	62,373	63,692	64,506
No. Inventory Items	3,835	3,718	3,041	3,251

* 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

**MATERIALS DISTRIBUTION AGENCY
FINANCIAL STATEMENTS
MARCH 31, 2012**

INDEPENDENT AUDITORS' REPORT

To the Special Operating Agencies Financing Authority of
Materials Distribution Agency

Report on the Financial Statements

We have audited the accompanying financial statements of Materials Distribution Agency, an agency of the Special Operating Agencies Financing Authority, Province of Manitoba, which comprise the statements of financial position as at March 31, 2012, March 31, 2011, and April 1, 2010 and the statements of operations, change in net financial assets and cash flow for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, these financial statements present fairly, in all material respects, the financial position of Materials Distribution Agency as at March 31, 2012, March 31, 2011 and April 1, 2010 and the results of its operations and cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

June 15, 2012
Winnipeg, Canada

Magnus Chartered Accountants LLP

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Statement of Financial Position

(in thousands)

March 31, 2012, March 31, 2011, and April 1, 2010

	March 31 2012 Actual	March 31 2011 Actual (Restated - Note 4)	April 1 2010 Actual (Restated - Note 4)
Financial assets			
Cash and cash equivalents	\$ 1,410	\$ 493	\$ 828
Accounts receivable (Note 6)	2,305	2,891	2,635
Portfolio investments	412	412	412
Inventories held for resale (Note 8)	1,467	1,476	1,600
	5,594	5,272	5,475
Liabilities			
Accounts payable and accrued liabilities	2,892	2,616	2,990
Employee future benefits (Note 9)	607	583	545
	3,499	3,199	3,535
Net financial assets	2,095	2,073	1,940
Non-financial assets			
Tangible capital assets (Note 10)	1,654	1,896	1,995
Prepaid expenses	226	237	227
	1,880	2,133	2,222
Accumulated surplus	\$ 3,975	\$ 4,206	\$ 4,162

Designated assets (Note 11)

Commitments (Note 12)

See accompanying notes to financial statements.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Statement of Operations

(in thousands)

Years ended March 31, 2012 and 2011

	2012 Budget	2012 Actual	2011 Actual (Restated – Note 4)
Revenues:			
Warehouse sales (Schedule 1)	\$ 11,755	\$ 15,426	\$ 12,817
Service revenue (Schedule 1)	11,485	10,667	11,116
	23,240	26,093	23,933
Expenses:			
Cost of sales	9,357	11,940	10,220
Salaries and benefits	4,599	4,478	4,421
Occupancy costs	995	1,172	1,077
Operating expenses (Schedule 2)	7,725	7,685	7,644
Administrative expenses (Schedule 2)	559	633	527
Province of Manitoba transfer (Note 13)	-	416	-
	23,235	26,324	23,889
Net (loss) income for the year	5	(231)	44
Accumulated surplus, beginning of year	4,333	4,206	4,162
Accumulated surplus, end of year	\$ 4,338	\$ 3,975	\$ 4,206

See accompanying notes to financial statements.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Statement of Change in Net Financial Assets

(in thousands)

Years ended March 31, 2012 and 2011

	2012 Budget	2012 Actual	2011 Actual (Restated – Note 4)
Net (loss) income for the year	\$ 5	\$ (231)	
Tangible capital assets			
Acquisition of tangible capital assets	(960)	(746)	(914)
Amortization of tangible capital assets	960	988	1,012
Net acquisition of tangible capital assets	-	242	98
Other non-financial assets			
Increase (decrease) in prepaid expenses during the year	-	11	(9)
Net acquisition of other non-financial assets	-	11	(9)
Increase in net financial assets	5	22	133
Net financial assets, beginning of year	2,553	2,073	1,940
Net financial assets, end of year	\$ 2,558	\$ 2,095	\$ 2,073

See accompanying notes to financial statements.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Statement of Cash Flow

(in thousands)

Years ended March 31, 2012 and 2011

	2012 Actual	2011 Actual (Restated - Note 4)
Cash provided by (applied to):		
Operating activities:		
Net (loss) income for the year	\$ (231)	\$ 44
Adjustment for:		
Amortization	988	1,012
	757	1,056
Changes in the following:		
Accounts receivable	585	(259)
Inventories held for resale	9	124
Prepaid expenses	11	(9)
Accounts payable and accrued liabilities	277	(371)
Employee future benefits	24	38
Cash provided by operating activities	1,663	579
Capital activities:		
Acquisition of tangible capital assets	(746)	(914)
Cash applied to capital activities	(746)	(914)
Change in cash and cash equivalents	917	(335)
Cash and cash equivalents, beginning of year	493	828
Cash and cash equivalents, end of year	\$ 1,410	\$ 493

See accompanying notes to financial statements.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2012

1. Nature of organization

The Government of Manitoba established a central warehouse operation in 1974. Its mandate is 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 management. 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 the 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. It 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 of Infrastructure and Transportation assigns responsibility to the Agency to manage and account for Agency-related assets and operations on behalf of the Financing Authority.

The Agency continues to be part of Manitoba Infrastructure and Transportation under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Deputy Minister and Minister.

The Agency remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided in its charter in order to meet business objectives.

The Agency is economically dependent on the Province of Manitoba and the Manitoba Regional Health Authorities deriving most of its revenue and all of its capital financing requirements from the Province. These transactions are recorded at the exchange amount, which is the amount agreed upon by both parties.

2. Basis of accounting

As of April 1, 2011, the Agency adopted Canadian public sector accounting (PSA) standards with a transition date of April 1, 2010. These are the Agency's first financial statements prepared in accordance with PSA standards. More details on the transition to PSA standards are provided in Note 4 to these financial statements.

The adoption of PSA standards includes the early adoption of PS 1201 Financial Statement Presentation, PS 3041 Portfolio Investments, PS 3450 Financial Instruments, and new PS 3410 Government Transfers.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2012

3. Significant accounting policies

(a) Revenue

Warehouse sales

Revenue is recognized when the goods are shipped.

Service revenue

Service revenue is recognized when the related services are completed or substantially completed.

Other revenue

All other revenues are recorded on an accrual basis.

(b) Expenses

Accrual accounting

All expenses incurred for goods and services are recognized on an 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 deposits and investments 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 SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2012

3. 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	5 years straight line
Office equipment	20% straight line
Production 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) Measurement uncertainty

The preparation of financial statements in conformity 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. Actual results could differ from these estimates.

4. First-time adoption of Public Sector Accounting Standards

In previous fiscal years, the Agency classified itself as a Government Business-Type Organization (GBTTO) and followed the recommendations of the Canadian Institute of Chartered Accountants Accounting Handbook – Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category would cease to exist for fiscal years ending on or after January 1, 2011, and that GBTTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) standards. In accordance with recommendations of the Public Sector Accounting Handbook, the Agency has determined that it is an “other government organization” and has determined that PSA standards are the most appropriate framework for financial reporting purposes.

These new standards were required to be applied retroactively. The impacts of these changes are as follows:

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2012

4. First-time adoption of Public Sector Accounting Standards (continued)

(a) Tangible capital assets	<u>March 31, 2011</u>	<u>April 1, 2010</u>
Capital assets as per previous financial statements	\$ 1,895	\$ 1,986
Add: net book value of intangible assets reclassified to tangible capital assets per PSA standards	<u>1</u>	<u>9</u>
Tangible capital assets as per PSA standards	<u>\$ 1,896</u>	<u>\$ 1,995</u>
(b) Employee future benefits	<u>March 31, 2011</u>	<u>April 1, 2010</u>
Severance liability as per previous financial statements	\$ 500	\$ 462
Add: sick pay benefits recognized per PSA standards - Note (i)	<u>83</u>	<u>83</u>
Employee future benefits as per PSA standards	<u>\$ 583</u>	<u>\$ 545</u>
(c) Accumulated surplus	<u>March 31, 2011</u>	<u>April 1, 2010</u>
Equity as per previous financial statements	\$ 3,052	\$ 3,040
Less: intangible assets previously recognized that do not qualify for recognition per PSA standards	(60)	(92)
Less: sick pay benefits recognized per PSA standards - Note (i)	(83)	(83)
Add: contributed equity reclassified as accumulated surplus per PSA standards	<u>1,297</u>	<u>1,297</u>
Accumulated surplus as per PSA standards	<u>\$ 4,206</u>	<u>\$ 4,162</u>
(d) Net Income		<u>March 31, 2011</u>
Net income as per previous financial statements		\$ 12
Add: amortization of intangible assets that do not qualify for recognition per PSA standards		<u>32</u>
Net income as per PSA standards		<u>\$ 44</u>
(e) Cash flows		

The adoption of PSA standards did not impact the net cash flows of the Agency. However, the adjustments made to tangible capital assets, employee future benefits, accumulated surplus and net income resulted in reclassifications of certain amounts presented in the statement of cash flow.

Notes:

- (i) PSA standards require the recognition of a liability for future sick pay benefits that accumulate but do not vest. Recognition of a liability for sick pay benefit that accumulate but do not vest was not required under the previous standards.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2012

5. Financial instruments and financial risk management

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 fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative re-measurement 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.

The Agency did not incur any re-measurement gains and losses during the year ended March 31, 2012 (2011 - \$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 principally of cash and cash equivalents, accounts receivable and portfolio investments.

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

	2012	2011
Cash and cash equivalents	\$ 1,410	\$ 493
Accounts receivable	2,305	2,891
Portfolio Investments	412	412
	\$ 4,127	\$ 3,796

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 at March 31, 2012 was \$93 (2011 - \$93).

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2012

5. Financial instruments and financial risk management (continued)

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.

6. Accounts receivable

	2012	2011
Trade receivables	\$2,304	\$ 2,890
Other	1	1
	<u>\$2,305</u>	<u>\$ 2,891</u>

7. Working capital advances

The Special Operating Agencies Financing Authority has provided the Agency with an authorized line of working capital of \$1,000 of which \$nil was used at March 31, 2012 (2011 - \$nil).

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2012

8. Inventories held for resale

	2012	2011
Medical supplies	\$ 681	\$ 597
Equipment	102	158
Stationary	479	476
Janitorial	196	237
Furniture	9	8
	<hr/>	<hr/>
	\$ 1,467	\$ 1,476

9. Employee future benefits

	2012	2011
Severance benefits	\$ 524	\$ 500
Sick pay benefits	83	83
	<hr/>	<hr/>
	\$ 607	\$ 583

Pension benefits

Employees of SOAs 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 special operating agencies, 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 its employees' current pension contributions. The amount paid for 2012 was \$187 (2011 - \$185). 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 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 that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2011. 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, 2012 was \$524 (2011 - \$500), with the actuarial loss being amortized over the 15 year expected average remaining service life of the employee group.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2012

9. Employee future benefits (continued)

Significant long-term actuarial assumptions used in the March 31, 2011 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.00%
real rate of return	4.00%
	<hr/>
	6.00%
	<hr/>
Assumed salary increase rates	
annual productivity increase	1.00%
annual general salary increase	2.75%
	<hr/>
	3.75%

Sick pay benefits

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 6.00% annual return and a 3.75% annual salary increase.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2012

10. Tangible capital assets

	2012			2011	
	Opening Balance	Additions	Disposals	Closing Balance	Total
Cost					
Computer equipment	\$ 567	\$ 15	\$ -	\$ 582	\$ 567
Fixtures	161	2	-	163	161
Leasehold improvements	836	18	-	854	836
Office equipment	64	-	-	64	64
Production equipment	284	7	-	291	284
Rental equipment	8,930	675	-	9,605	8,930
Warehouse equipment	998	29	-	1,027	998
	\$ 11,840	\$ 746	\$ -	\$ 12,586	\$ 11,840
Accumulated amortization					
Computer equipment	\$ 557	\$ 3	\$ -	\$ 560	\$ 557
Fixtures	123	10	-	133	123
Leasehold improvements	752	21	-	773	752
Office equipment	64	-	-	64	64
Production equipment	284	8	-	292	284
Rental equipment	7,508	885	-	8,393	7,508
Warehouse equipment	656	61	-	717	656
Total accumulated amortization	\$ 9,944	\$ 988	\$ -	\$ 10,932	\$ 9,944
Net book value	\$ 1,896	\$ (242)	\$ -	\$ 1,654	\$ 1,896

11. Designated assets

The Agency has allocated \$412 (2011 - \$412) of its portfolio investments as designated assets for cash received from the Province of Manitoba for the 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.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2012

12. Commitments

Leased premises

On March 24, 2003, the Agency took partial possession of a rental property consisting of 76,067 square feet at 1715 St. James Street, Winnipeg, Manitoba. The lease is for a term of ten years commencing May 1, 2003 with an additional five year option. The payments are \$521 per year.

On April 30, 2010, the Agency took possession of a rental property consisting of 45,000 square feet at 1455 Mountain Avenue, Winnipeg, Manitoba. The lease will expire on June 30, 2013 and the payments are \$18 per month.

Rental agreement

The Agency leases space from the Province of Manitoba on a monthly basis for the following locations: 450 Broadway, Winnipeg; 340 - 9th Street, Brandon; and 25 Tupper Street, Portage La Prairie. Occupancy charges for the year ended March 31, 2012 were \$10 (2011 - \$10).

13. Province of Manitoba transfer

A total of \$416 was transferred from the Agency to the Province of Manitoba during the year to cover communications and security costs resulting from the disruption of postal services during June and July of 2011. These expenditures were unexpected and not considered routine operating expenses of the Agency.

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Schedule of Warehouse Sales and Service Revenue

(in thousands)

Years ended March 31, 2012 and 2011

Schedule 1

	2012	2011
Warehouse sales:		
Medical supplies	\$ 4,919	\$ 4,858
Stationery	4,580	4,060
Furniture	2,537	1,259
Janitorial	2,174	2,030
Health equipment	574	489
Special projects	642	121
	<hr/> \$ 15,426	<hr/> \$ 12,817
Service revenue:		
Disposal	\$ 5	\$ 17
Manitoba Textbook Bureau	290	290
Freight	731	726
Moving	389	466
Storage	63	60
Office equipment - copy centres	51	192
Mail services	5,870	5,940
Home care equipment rentals	3,062	2,841
Other income	206	584
	<hr/> \$ 10,667	<hr/> \$ 11,116

Schedule of Operating and Administrative Expenses

(in thousands)

Years ended March 31, 2012 and 2011

Schedule 2

	2012	2011
Operating expenses:		
Amortization	\$ 988	\$ 1,012
Copy centre	43	142
Equipment rentals	139	137
Freight	1,428	1,296
Mail services	4,550	4,392
Moving	313	430
Vehicle	92	95
Warehouse supplies	132	140
	\$ 7,685	\$ 7,644
Administrative expenses:		
Computer	\$ 237	\$ 226
Miscellaneous	12	11
Office	207	142
Professional fees	14	15
Promotion and marketing	75	73
SOAFA fees	2	2
Telephone	66	52
Training	20	6
	\$ 633	\$ 527



MAGNUS CHARTERED ACCOUNTANTS LLP • ADVISORY • ASSURANCE • TAXATION • TRANSACTIONS

INDEPENDENT AUDITORS' REPORT

To the Special Operating Agencies Financing Authority of
Materials Distribution Agency

Report on the Schedule of Public Sector Compensation Disclosure

We have audited the accompanying Schedule of Public Sector Compensation Disclosure of Materials Distribution Agency for the year ended March 31, 2012 ("the schedule"). The schedule has been prepared by management in accordance with *The Public Sector Compensation Disclosure Act*.

Management's Responsibility for the Schedule

Management is responsible for the preparation of the schedule in accordance with *The Public Sector Compensation Disclosure Act*, and for such internal controls as management determines is necessary to enable the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the schedule 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 schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the schedule 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 schedule.

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 information included in the Schedule of Public Sector Compensation Disclosure of Materials Distribution Agency for the year ended March 31, 2012, is prepared, in all material respects, in accordance with the provisions of *The Public Sector Compensation Disclosure Act*.

A handwritten signature in cursive script that reads "Magnus".

June 15, 2012
Winnipeg, Canada

Magnus Chartered Accountants LLP

**MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

Schedule of Public Sector Compensation Disclosure
(in thousands)
Year ended March 31, 2012

Pursuant to the disclosure requirements of the *Public Sector Compensation Disclosure Act*, no remuneration or other benefits were paid to the Advisory Board members during the year.

The *Public Sector Compensation Disclosure Act* also requires all public sector bodies to disclose compensation to any employee or officer when such compensation is \$50 or more per annum. This information is as follows:

Employee	Title	Compensation
Ailyn Almendral	IT - Systems Administrator	\$ 76
Sherry Batenchuk	Mail Services Coordinator	50
David Bishop	Chief Operating Officer	88
Michael Boyak	Business Analyst	57
Rhonda Boyd	Client Services Manager	57
Glen Dela Cruz	Programmer/Analyst	69
Garret Gilchrist	Senior Equipment Technician	51
Joel Hershfield	Manager of Finance & Technology, Wellness Coordinator	72
Michael Langenfeld	Contracts and Purchasing Manager	58
Robert Nicholls	Logistics Manager	62
Lee Pomfret	Transportation Coordinator	51
Byron ST Hilaire	Storekeeper	50