MANITOBA LEARNING RESOURCE CENTRE
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A Special Operating Agency of Manitoba Education and Training

Management Report

The accompanying financial statements are the responsibility of the management of the Manitoba Learning Resource Centre and have been prepared in accordance with Canadian public sector accounting principles. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available up to June 28, 2016.

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

The responsibility of the Auditor General is to express an independent opinion on whether the financial statements of the Centre are fairly presented in accordance with Canadian public sector accounting principles. The Auditors' Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management,

Original signed by

Brenda McKinny
Chief Operating Officer

Original signed by

Rhonda Williams, CPA, CGA
Controller

Souris, Manitoba
June 28, 2016

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of Manitoba
To the Manitoba Learning Resource Centre
To the Special Operating Agencies Financing Authority

We have audited the accompanying financial statements of the Manitoba Learning Resource Centre which comprise the statement of financial position as at March 31, 2016, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's 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, the financial statements present fairly, in all material respects, the financial position of the Manitoba Learning Resource Centre as at March 31, 2016, and the results of its operations, changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Office of the Auditor General

Office of the Auditor General
June 28, 2016
Winnipeg, Manitoba

500 - 330 Portage Avenue Winnipeg, Manitoba R3C 0C4 office: (204) 945-3790 fax: (204) 945-2169
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Manitoba Learning Resource Centre
An Agency of the Government of Manitoba

Statement of Financial Position
(in thousands)

March 31	**2016**	2015
Financial assets		
Cash	**$ 3**	$ 3
Accounts receivable	**845**	874
Portfolio investments	**64**	64
Inventories for resale	**2,374**	2,511
	3,286	3,452
Liabilities		
Working capital advance (Note 5)	**1,934**	2,297
Accounts payable and accruals	**575**	365
Customer deposit accounts	**174**	177
Accrued severance liability (Note 6)	**53**	51
	2,736	2,890
Net financial assets	**550**	562
Non-financial assets		
Prepaid expenses	**4**	9
Tangible capital assets (Note 7)	**35**	27
	39	36
Accumulated surplus	**$ 589**	$ 598

Designated assets (Note 8)

See accompanying notes to the financial statements.

Manitoba Learning Resource Centre

An Agency of the Government of Manitoba

Statement of Operations and Accumulated Surplus

(in thousands)

Year Ended March 31	2016 Budget	**2016 Actual**	2015 Actual
Sales	$ 7,718	**$ 7,215**	$ 7,097
Cost of goods sold			
Inventory, beginning of year	2,779	**2,511**	2,439
Purchases	6,649	**6,035**	6,170
Transportation in	47	**35**	39
Transportation out	96	**91**	99
	9,571	**8,672**	8,747
Inventory, end of year	2,804	**2,374**	2,511
Cost of goods sold	6,767	**6,298**	6,236
Gross profit	951	**917**	861
General and administrative expenses			
Amortization	14	**11**	17
Bad debts	–	**8**	6
Computer expense	83	**60**	65
Employee benefits	70	**73**	70
Interest	41	**30**	30
Marketing	11	**2**	1
Office	21	**15**	18
Office occupancy	50	**49**	50
Postage	3	**2**	2
Professional services	14	**14**	14
Salaries	355	**360**	348
Telephone	7	**6**	7
Training	4	**–**	–
Travel	11	**6**	7
Warehouse occupancy	89	**89**	89
Warehouse service	201	**201**	201
	974	**926**	925
Annual deficit	(23)	**(9)**	(64)
Accumulated surplus, beginning of year	552	**598**	662
Accumulated surplus, end of year	$ 529	**$ 589**	$ 598

See accompanying notes to the financial statements.

Manitoba Learning Resource Centre
An Agency of the Government of Manitoba

Statement of Change in Net Financial Assets
(in thousands)

Year Ended March 31	2016 Budget	**2016 Actual**	2015 Actual
Annual deficit	$ (23)	**$ (9)**	$ (64)
Tangible capital assets			
Acquisition of tangible capital assets	(41)	**(19)**	(16)
Amortization of tangible capital assets	14	**11**	17
Net acquisition of tangible capital assets	(27)	**(8)**	1
Other non-financial assets			
Decrease (increase) in prepaid expense	–	**5**	(1)
Net acquisition of other non-financial assets	–	**5**	(1)
Decrease in net financial assets	(50)	**(12)**	(64)
Net financial assets, beginning of year	552	**562**	626
Net financial assets, end of year	$ 502	**$ 550**	$ 562

See accompanying notes to the financial statements.

Manitoba Learning Resource Centre

An Agency of the Government of Manitoba

Statement of Cash Flows

(in thousands)

Year Ended March 31		**2016**		2015
Increase (decrease) in cash				
Operating				
Annual deficit	**$**	**(9)**	$	(64)
Amortization of tangible capital assets		**11**		17
		2		(47)
Changes in				
Accounts receivable		**29**		(318)
Inventories for resale		**137**		(72)
Accounts payable and accruals		**210**		(62)
Customer deposit accounts		**(3)**		(49)
Accrued severance liability		**2**		3
Prepaid expenses		**5**		(1)
		382		(546)
Capital				
Acquisition of tangible capital assets		**(19)**		(16)
Financing				
(Repayment) receipt of working capital advance		**(363)**		562
Increase in cash		**–**		–
Cash, beginning of year		**3**		3
Cash, end of year	**$**	**3**	$	3
Supplemental cash flow information:				
Interest received	**$**	**5**	$	4
Interest paid	**$**	**28**	$	30

See accompanying notes to the financial statements.

Manitoba Learning Resource Centre
An Agency of the Government of Manitoba

Notes to the Financial Statements
(in thousands)

For the year ended March 31, 2016

1. Nature of operations

In 1931, the Manitoba Text Book Bureau (MTBB) was created as a branch of the Department of Education and Training. It was established to achieve economies of scale and reduce the cost of learning resources for schools in Manitoba. In December 2015, under *The Statutes Correction and Minor Amendments Act (Education Act)*, the name of the entity was officially changed to the Manitoba Learning Resource Centre (LRC).

Effective April 1, 1996, the LRC was designated as a Special Operating Agency under *The Special Operating Agencies Financing Authority Act*, Chapter S 185, C.C.S.M. and operates under a charter approved by the Lieutenant-Governor in Council.

The LRC is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances the LRC through working capital advances. This financial framework enables the LRC to operate in a business-like manner according to public policy expectations.

A Management Agreement between the SOAFA and the Minister of Education, being the Minister responsible for the Agency at that time, assigns responsibility to the LRC to manage and account for the LRC's related assets and operations on behalf of SOAFA.

The LRC continues to be part of the Department of Education and Training under the general direction of the Assistant Deputy Minister, School Programs Division, and ultimately the policy direction of the Deputy Minister and Minister.

The LRC 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.

2. Basis of accounting

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

3. Significant accounting policies

Revenue

Revenue is recognized upon transfer of title to the customer.

Expenses

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

Financial assets

Cash

Cash includes cash on hand and bank balance.

Portfolio investments

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

Inventories for resale

Inventories for resale are valued using the average unit cost method and are measured using lower of cost and net realizable value.

Liabilities

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

3. Significant accounting policies *(continued)*

Non-financial assets

Non-financial assets do not normally provide resources to discharge liabilities of the LRC. These assets are normally employed to provide future services.

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

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 are amortized over their estimated useful lives as follows:

Office equipment, furniture, and video recording equipment	20% declining balance
Computer equipment	20% straight line
Computer software	20% straight line

One-half year's amortization is applied in the year of acquisition.

Measurement uncertainty

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

4. Financial instruments and financial risk management

Measurement

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

The LRC records its financial assets at cost, which include cash, portfolio investments, accounts receivable and inventories for resale. The LRC also records its financial liabilities at cost, which include working capital advance, accounts payable and accruals, and customer deposit accounts.

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 LRC did not incur any re-measurement gains and losses during the year (2015 – $nil).

Financial risk management – overview

The LRC has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk, market risk, interest 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 LRC to credit risk consist principally of cash, portfolio investments and accounts receivable.

Notes to the Financial Statements

(in thousands)

For the year ended March 31, 2016

4. Financial instruments and financial risk management *(continued)*

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

		2016		2015
Cash	**$**	**3**	$	3
Accounts receivable		**845**		874
Portfolio investments		**64**		64
	$	**912**	$	941

Cash and portfolio investments: The LRC is not exposed to significant credit risk as these amounts are held by the Minister of Finance.

Accounts receivable: The LRC is not exposed to significant credit risk as the balance is due from a large client base, and payment in full is typically collected when it is due. The LRC manages this credit risk through close monitoring of overdue accounts.

The LRC 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 change in the allowance for doubtful accounts during the year was as follows:

Balance, beginning of the year	$	74
Provision for receivable impairment		8
Amounts written off		–
Balance, end of the year	$	82

Notes to the Financial Statements

(in thousands)

For the year ended March 31, 2016

4. Financial instruments and financial risk management *(continued)*

Liquidity risk

Liquidity risk is the risk that the LRC will not be able to meet its financial obligations as they come due.

The LRC 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 the obligations.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the LRC'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 funds on deposit and portfolio investments.

The interest rate risk on funds on deposit 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 LRC is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

(in thousands)

5. Working capital advance

The LRC has an authorized line of working capital advances of $3,500, of which $1,934 was used as of March 31, 2016 (2015 – $2,297).

6. Accrued severance liability

Effective April 1, 1998, the LRC 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, 2014. The report provides a formula to update the liability on an annual basis. The LRC's actuarially determined net liability for accounting purposes as at March 31, 2016, was $53 (2015 – $51), with the actuarial gain of $30 (2015 – $30) being amortized over the 15-year expected average remaining service life of the employee group. Significant long-term actuarial assumptions used in the March 31, 2014, valuation, and in the determination of the March 31, 2016, present value of the accrued severance benefit obligation were:

Annual rate of return	
Inflation component	2.00%
Real rate of return	4.00%
	6.00%
Assumed salary increase rates	
Annual productivity increase	1.00%
Annual general salary increase	2.75%
	3.75%

Notes to the Financial Statements

(in thousands)

For the year ended March 31, 2016

6. Severance liability *(continued)*

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

		2016		2015
Accrued benefit liability	**$**	**39**	$	35
Unamortized actuarial gains		**14**		16
Severance benefit liability	**$**	**53**	$	51

Total expenses related to severance benefits at March 31 include the following components:

		2016		2015
Interest on obligation	**$**	**2**	$	2
Employer service cost		**3**		3
Severance payout		**–**		–
Amortization of actuarial gains over EARSL		**(2)**		(2)
Total expense related to severance benefit	**$**	**3**	$	3

Manitoba Learning Resource Centre
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Notes to the Financial Statements
(in thousands)

For the year ended March 31, 2016

7. Tangible capital assets

	2016				2015
	Opening Balance	Additions	Disposals	Closing Balance	Closing Balance
Cost					
Computer equipment	$ 208	$ –	$ 53	**$ 155**	$ 208
Computer software	109	19	–	**128**	109
Office equipment and furniture	48	–	–	**48**	48
Video recording equipment	51	–	–	**51**	51
Total cost	416	19	53	**382**	416
Accumulated amortization					
Computer equipment	208	–	53	**155**	208
Computer software	90	10	–	**100**	90
Office equipment and furniture	42	1	–	**43**	42
Video recording equipment	49	–	–	**49**	49
Total accumulated amortization	389	11	53	**347**	389
Net	$ 27	$ 8	–	**$ 35**	$ 27

8. Designated assets

The LRC has allocated $64 (2015 – $64) of its portfolio investments as designated assets for cash received from the Province of Manitoba as settlement for the vacation entitlements earned by employees of the LRC prior to its designation as an SOA and the severance pay benefits accumulated to March 31, 1998, for certain of the LRC's employees. This amount is held in an interest bearing account. Any unused balance is re-invested annually. Funds are to be used for payments to employees for their outstanding vacation and severance pay amounts.

9. Related party transactions

The LRC is related in terms of common ownership to all Province of Manitoba created Departments, Agencies, and Crown Corporations. The LRC enters into transactions with these entities in the normal course of business and the transactions are measured at the exchange amount.

10. Pension benefits

Employees of the LRC 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 LRC, through the Civil Service Superannuation Fund. At December 31, 2014, the Fund had a deficit of $3.8 billion.

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the LRC transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the LRC is required to pay annually to the Province an amount equal to its employees' current pension contributions. The amount paid for 2016 was $24 (2015 – $23). Under this agreement, the LRC has no further pension liability.

11. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the management of the LRC.