

MANITOBA LEARNING RESOURCE CENTRE
An Agency of the Government of Manitoba
Province of Manitoba

Financial Statements

For the year ended March 31, 2020

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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

Qualified Opinion

We have audited the financial statements of Manitoba Learning Resource Centre which comprise the financial position as at March 31, 2020, and the statement of operations and accumulated surplus, the statement of changes in net financial assets, and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Manitoba Learning Resource Centre, as at March 31, 2020, and the results of its operations, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards (PSAS).

Basis for Qualified Opinion

Unable to count inventory at year end.

Due to management's closure of the Manitoba Learning Resource Centre's warehouse premises in relation to the Coronavirus disease (COVID-19) pandemic, we were unable to observe the counting of physical inventories at year-end, and we were unable to satisfy ourselves by alternative means concerning the inventory quantities held at March 31, 2020, which are stated in the Statement of Financial Position at \$2,265,000. As a result of these matters, we were unable to determine whether any adjustments might have been necessary in respect of recorded inventories, and the elements making up results of operations, changes in net financial assets, and its cash flows for the year then ended.

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Manitoba Learning Resource Centre's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate the Manitoba Learning Resource Centre or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Manitoba Learning Resource Centre's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Manitoba Learning Resource Centre's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Manitoba Learning Resource Centre's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Manitoba Learning Resource Centre to cease to continue as a going concern.



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

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

Office of the Auditor General

Office of the Auditor General

Winnipeg, Manitoba

September 30, 2020

Manitoba Learning Resource Centre
An Agency of the Government of Manitoba
Statement of Financial Position

(in thousands)

March 31

2020

2019

Financial assets

Cash	\$ 3	\$ 3
Accounts receivable	408	233
Portfolio investments	64	64
Inventories for resale	<u>2,265</u>	<u>2,209</u>
	<u>2,740</u>	<u>2,509</u>

Liabilities

Working capital advance (Note 5)	1,772	1,636
Accounts payable and accruals	483	284
Customer deposit accounts	122	216
Accrued severance liability (Note 6)	<u>58</u>	<u>65</u>
	<u>2,435</u>	<u>2,201</u>

Net financial assets

	<u>305</u>	<u>308</u>
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Non-financial assets

Prepaid expenses	28	28
Tangible capital assets (Note 7)	<u>10</u>	<u>14</u>
	<u>38</u>	<u>42</u>

Accumulated surplus

	<u>\$ 343</u>	<u>\$ 350</u>
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Assets (Note 8)

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Manitoba Learning Resource Centre
An Agency of the Government of Manitoba
Statement of Operations and Accumulated Surplus

(in thousands)

Year Ended March 31

	2020 Budget	2020 Actual	2019 Actual
Sales	\$ 7,930	\$ 6,940	\$ 7,133
Cost of goods sold			
Inventory, beginning of year	2,334	2,209	2,172
Purchases	6,797	5,962	6,154
Transportation in	42	34	29
Transportation out	<u>105</u>	<u>102</u>	<u>104</u>
	9,278	8,307	8,459
Inventory, end of year	<u>2,347</u>	<u>2,265</u>	<u>2,209</u>
	6,931	6,042	6,250
Cost of goods sold	<u>6,931</u>	<u>6,042</u>	<u>6,250</u>
Gross profit	<u>999</u>	<u>898</u>	<u>883</u>
General and administrative expenses			
Amortization	13	7	9
Computer expense	75	66	62
Employee benefits	82	69	78
Interest	35	40	39
Marketing	8	1	-
Office	16	13	12
Office occupancy	49	50	50
Postage	2	2	2
Professional services	15	15	15
Salaries	385	346	366
Telephone	7	6	6
Training	4	-	1
Travel	11	-	1
Warehouse occupancy	89	89	89
Warehouse service	<u>201</u>	<u>201</u>	<u>201</u>
	992	905	931
Annual surplus (deficit)	<u>7</u>	<u>(7)</u>	<u>(48)</u>
Accumulated surplus, beginning of year	<u>390</u>	<u>350</u>	<u>398</u>
Accumulated surplus, end of year	<u>\$ 397</u>	<u>\$ 343</u>	<u>\$ 350</u>

Manitoba Learning Resource Centre
An Agency of the Government of Manitoba
Statement of Change in Net Financial Assets

(in thousands)

Year Ended March 31

	2020 Budget	2020 Actual	2019 Actual
Annual surplus (deficit)	\$ 7	\$ (7)	\$ (48)
Tangible capital assets			
Acquisition of tangible capital assets	(15)	(3)	(1)
Amortization of tangible capital assets	<u>13</u>	<u>7</u>	<u>9</u>
Net reduction (acquisition) of tangible capital assets	<u>(2)</u>	<u>4</u>	<u>8</u>
Other non-financial assets			
Increase in prepaid expense	<u>(2)</u>	<u>-</u>	<u>(22)</u>
Net acquisition of other non-financial assets	<u>(2)</u>	<u>-</u>	<u>(22)</u>
Increase (decrease) in net financial assets	3	(3)	(62)
Net financial assets, beginning of year	<u>357</u>	<u>308</u>	<u>370</u>
Net financial assets, end of year	<u>\$ 360</u>	<u>\$ 305</u>	<u>\$ 308</u>

Manitoba Learning Resource Centre

An Agency of the Government of Manitoba

Statement of Cash Flows

(in thousands)

Year Ended March 31

2020

2019

Increase (decrease) in cash

Operating

Annual deficit	\$ (7)	\$ (48)
Amortization of tangible capital assets	<u>7</u>	<u>9</u>

- (39)

Changes in

Accounts receivable	(175)	(12)
Inventories for resale	(56)	(37)
Accounts payable and accruals	199	(7)
Customer deposit accounts	(94)	(38)
Accrued severance liability	(7)	5
Prepaid expenses	<u>-</u>	<u>(22)</u>

(133) (150)

Capital

Acquisition of tangible capital assets	<u>(3)</u>	<u>(1)</u>
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Financing

Increase of working capital advance	<u>136</u>	<u>151</u>
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Increase (decrease) in cash

- -

Cash, beginning of year

3 3

Cash, end of year

\$ 3 \$ 3

Supplemental cash flow information:

Interest received	\$ 2	\$ 3
Interest paid	\$ 32	\$ 41

Manitoba Learning Resource Centre

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Notes to the Financial Statements

(in thousands)

For the year ended March 31, 2020

1. Nature of operations

In 1931, the Manitoba Text Book Bureau (MTBB) was created as a branch of the Department of Education. It was established to achieve economies of scale and reduce the cost of learning resources for schools in Manitoba. In December 2016, 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 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.

Manitoba Learning Resource Centre

An Agency of the Government of Manitoba

Notes to the Financial Statements

(in thousands)

For the year ended March 31, 2020

3. Significant accounting policies

Revenue

Revenue is recognized upon transfer of title to the customer and when collection is reasonably assured.

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 weighted 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.

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.

Manitoba Learning Resource Centre

An Agency of the Government of Manitoba

Notes to the Financial Statements

(in thousands)

For the year ended March 31, 2020

3. Significant accounting policies (continued)

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 (2019 - \$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.

Manitoba Learning Resource Centre

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Notes to the Financial Statements

(in thousands)

For the year ended March 31, 2020

4. Financial instruments and financial risk management (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the LRC to credit risk consist principally of cash, portfolio investments and accounts receivable.

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

	<u>2020</u>	<u>2019</u>
Cash	\$ 3	\$ 3
Accounts receivable	408	233
Portfolio investments	<u>64</u>	<u>64</u>
	<u>\$ 475</u>	<u>\$ 300</u>

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.

Manitoba Learning Resource Centre

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Notes to the Financial Statements

(in thousands)

For the year ended March 31, 2020

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.

Manitoba Learning Resource Centre

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Notes to the Financial Statements

(in thousands)

For the year ended March 31, 2020

5. Working capital advance

The LRC has an authorized line of working capital advances with the Province of Manitoba of \$3,000, of which \$1,772 was used as of March 31, 2020 (2019 - \$1,636). The working capital advance bears interest at a rate set by the Minister of Finance and is due on demand.

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, 2017. 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, 2020 was \$58 (2019 - \$65), with the actuarial gain of \$19 (2019 - \$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, 2017 valuation, and in the determination of the March 31, 2020 present value of the accrued severance benefit obligation were:

Discount rate	
Province's weighted average rate of borrowing	3.80%
Assumed salary increase rates	
annual productivity increase	1.00%
annual general salary increase	<u>2.75%</u>
	<u>3.75%</u>

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

	<u>2020</u>	<u>2019</u>
Accrued benefit liability	\$ 61	\$ 66
Unamortized actuarial losses	<u>(3)</u>	<u>(1)</u>
Severance benefit liability	<u>\$ 58</u>	<u>\$ 65</u>

Manitoba Learning Resource Centre

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Notes to the Financial Statements

(in thousands)

For the year ended March 31, 2020

6. Accrued severance liability (continued)

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

	<u>2020</u>	<u>2019</u>
Interest on obligation	\$ 2	\$ 2
Employer service cost	3	3
Severance payout	(11)	-
Amortization of actuarial gains over the expected average remaining service lifetime	<u>(1)</u>	<u>(1)</u>
Total expense related to severance benefit	<u>\$ (7)</u>	<u>\$ 4</u>

7. Tangible capital assets

	<u>2020</u>			<u>2019</u>	
	<u>Opening Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Closing Balance</u>	<u>Closing Balance</u>
Cost					
Computer equipment	\$ 155	\$ -	\$ -	\$ 155	\$ 155
Computer software	134	4	-	138	134
Office equipment and furniture	48	-	-	48	48
Video recording equipment	<u>51</u>	<u>-</u>	<u>(51)</u>	<u>-</u>	<u>51</u>
Total cost	<u>388</u>	<u>4</u>	<u>(51)</u>	<u>341</u>	<u>388</u>
Accumulated Amortization					
Computer equipment	155	-	-	155	155
Computer software	123	7	-	130	123
Office equipment and furniture	46	-	-	46	46
Video recording equipment	<u>50</u>	<u>-</u>	<u>(50)</u>	<u>-</u>	<u>50</u>
Total accumulated amortization	<u>374</u>	<u>7</u>	<u>(50)</u>	<u>331</u>	<u>374</u>
Net	<u>\$ 14</u>	<u>\$ (3)</u>	<u>\$ (1)</u>	<u>\$ 10</u>	<u>\$ 14</u>

Manitoba Learning Resource Centre

An Agency of the Government of Manitoba

Notes to the Financial Statements

(in thousands)

For the year ended March 31, 2020

8. Designated assets

The LRC has allocated \$64 (2019 - \$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, 2018, the Fund had a deficit of \$5.2 billion (2017 - \$4.4 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 2020 was \$22 (2019 - \$25). 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 per the approved annual business plan for the agency.

Manitoba Learning Resource Centre

An Agency of the Government of Manitoba

Notes to the Financial Statements

(in thousands)

For the year ended March 31, 2020

12. Subsequent event

Overall risk to operations

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

LRC has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended March 31, 2020 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of LRC for future periods.

Future operations

As part of the mandate review undertaken by Manitoba Education beginning in 2019/20, a recommendation and implementation plan for the dissolution of the MLRC effective March 31, 2021 was approved by the Government of Manitoba in June 2020. The services provided by the MLRC will be assumed by school divisions, independent schools, accommodated elsewhere within government, or ceased.