

AEC Briefing Note
2003-705 Audit of the Optional Services Revolving Fund
Financial Statements 2002/2003

Authority for the Project

The audit of the financial statements of the Optional Services Revolving Fund (OSRF) was undertaken in accordance with the 2002/2003 Audit and Evaluation Plan as approved by the departmental Audit and Review Committee.

Objective

The objective of the audit was to attest to the fair presentation in the financial statements of the Fund's financial position and the results of its operations and cash flow for the year ended March 31, 2003 for the purpose of reporting to the Deputy Minister and the departmental Senior Financial Officer. The financial statements and Auditor's Report are published in the Public Accounts of Canada.

Results

The audit resulted in the provision of the attached auditor's report (opinion) by the public accounting firm Ernst and Young LLP.

Optional Services Revolving Fund

Financial Statements
March 31, 2003

June 16, 2003

PricewaterhouseCoopers I.L.P.
Chartered Accountants
99 Bank Street
Suite 700
Ottawa, Ontario
Canada K1P 1K6
Telephone +1 (613) 237 3702
Facsimile +1 (613) 237 3963

Auditors' Report

**To the Director General, Audit and Ethics Branch
Public Works and Government Services Canada**

We have audited the balance sheet of the **Optional Services Revolving Fund** as at March 31, 2003 the statements of operations, accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the management of the Optional Services Revolving Fund. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Optional Services Revolving Fund as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting as disclosed in note 2 to the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants

Optional Services Revolving Fund

BALANCE SHEET

	As at March 31	
	2003	2002
<i>In thousands of dollars</i>		
Assets		
Current		
Accounts receivable		
Government of Canada	4,607	1,888
Outside parties	2,507	9,996
Other assets (note 3)	3,139	3,263
	<u>10,253</u>	<u>15,147</u>
Capital assets (note 4)	2,112	4,651
	<u>12,365</u>	<u>19,798</u>
Liabilities		
Current		
Accounts payable and accrued liabilities		
Government of Canada	1,559	2,575
Outside parties	5,441	19,346
Other liabilities	215	3,992
	<u>7,215</u>	<u>25,913</u>
Allowance for employee termination benefits	1,465	2,173
	<u>8,680</u>	<u>28,086</u>
Equity of Canada		
Accumulated net charge against the Fund's authority	3,543	(9,445)
Accumulated surplus	142	1,157
	<u>12,365</u>	<u>19,798</u>

The accompanying notes are an integral part of the financial statements

Optional Services Revolving Fund

STATEMENT OF OPERATIONS

	Year ended March 31	
	2003	2002
<i>In thousands of dollars</i>		
Revenues (note 5)	100,228	108,314
Cost of sales	88,881	98,254
Gross margin	11,347	10,060
Operating expenses		
Salaries and employee benefits	5,924	8,122
Employee termination benefits	(26)	227
Professional and special services	2,396	2,730
Occupancy costs	574	878
Corporate and administrative services	652	2,175
Transportation and telecommunications	322	233
Purchased repairs and maintenance	101	67
Interest on draw down	88	1,026
Utilities, materials and supplies	141	149
Information	49	173
Amortization	34	45
Rentals	44	17
Other expenses	405	13
Bad debts	6	362
	10,710	16,217
Net income (loss)	637	(6,157)

The accompanying notes are an integral part of the financial statements

Optional Services Revolving Fund

STATEMENT OF ACCUMULATED SURPLUS

	Year ended March 31	
	2003	2002
<i>In thousands of dollars</i>		
Balance, beginning of year	1,157	(15,386)
Net income (loss)	637	(6,157)
Write-off of net draw down authority used (note 1)	-	22,700
Transfer of activities (note 7)	(1,652)	-
Balance, end of year	<u>142</u>	<u>1,157</u>

The accompanying notes are an integral part of the financial statements

Optional Services Revolving Fund

STATEMENT OF CASH FLOWS

	Year ended March 31	
	2003	2002
<i>In thousands of dollars</i>		
Operating activities		
Net income (loss)	637	(6,157)
Items not affecting use of the Fund's authority		
Amortization	34	45
Provision for employee termination benefits	(27)	227
	<u>644</u>	<u>(5,885)</u>
Changes in working capital (note 6)	(11,797)	8,207
Payment on provision for employee termination benefits	(2)	(39)
Net financial resources provided (used) by operating activities	<u>(11,155)</u>	<u>2,283</u>
Investing activities		
Capital assets		
Acquisitions	(797)	(4,445)
Proceeds on disposal of capital assets	20	-
Net financial resources used by investing activities	<u>(777)</u>	<u>(4,445)</u>
Financing activities		
Write-off of net draw down authority used (note 1)	-	22,700
Net financial resources provided by financing activities	<u>-</u>	<u>22,700</u>
Net (decrease) increase in accumulated net charge against the Fund's authority	(11,932)	20,538
Accumulated net charge against the Fund's authority, beginning of year	9,445	(11,093)
Transfer of activities (note 7)	(1,056)	-
	<u>8,389</u>	<u>(11,093)</u>
Accumulated net charge against the Fund's authority, end of year	<u>(3,543)</u>	<u>9,445</u>

The accompanying notes are an integral part of the financial statements

Optional Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2003

1. AUTHORITY AND PURPOSE

The Optional Services Revolving Fund (OSRF) was established under *Appropriation Act No.4, 1991-92* which was repealed in 1996 and replaced by Section 5.5 of the *Revolving Funds Act*. The operation of the Fund is for the purpose of Section 6(a) of the *Department of Public Works and Government Services Act* in respect of the acquisition and provision of articles, supplies, machinery, equipment and other materials; and Section 6(b) in respect of the acquisition and provision of printing and publishing services. Treasury Board approved the following programs as part of the OSRF mandate: the systems' Benchmarking and Software Brokerage Programs; the Vaccine Program; the Government Travel Service; and for the recording of the Cost of Product of Traffic Management and the Buy for Lease Program. The operation of the Fund is also for the purpose of Section 6 of the *Surplus Crown Assets Act* for the distribution and disposal of surplus Crown assets; including: authority for the Minister to spend for the purposes of the Fund any revenues received in respect of those purposes; and the aggregate of expenditures made for the purposes of the Fund shall not at any time exceed by more than \$200,000,000 the revenues received in respect of the purposes of the Fund.

In 2001-02, in accordance with Section 12 of the *Revolving Fund Act*, and through the 2001-2002 Supplementary Estimates (A) (Treasury Board decision 829023-1 dated October 25, 2001) the draw down authority of the Fund was reduced from \$200,000,000 to \$75,000,000 and through the 2001-2002 Supplementary Estimates (B) (Treasury Board decision 829420 dated December 6, 2001), the draw down authority of the Fund was reduced from \$75,000,000 to \$35,000,000. The Treasury Board decision 829420 also authorized the write off of \$22,700,000 of the net draw down authority used as of March 31, 2002.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles to the extent that they are in accordance with Government policies and directives. The significant accounting policies include the following:

a) Revenues and expenses

Revenues and expenses are recorded on the accrual basis of accounting.

Optional Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2003

2. SIGNIIFICANT ACCCOUNTING POLICIES (continued)

b) Capital assets

Assets having a purchase cost of \$10,000 or more are capitalized. Capital assets are stated at cost and are amortized on a straight line basis over their estimated economic lives as follows:

Category	Estimated economic life
Informatics hardware	3 to 5 years
Informatics software	5 years

Assets are amortized commencing the month after acquisition.

c) Pension plan

Employees are covered by the *Public Service Superannuation Act* and the *Supplementary Retirement Benefits Act*. The Government of Canada's portion of the pension cost is included in the employee benefit charge assessed against the Fund. The actual payment of the pension is made from the Public Service Superannuation and Supplementary Retirement Benefits Accounts.

d) Employee termination benefits

Termination benefits accrue to employees over their years of service with the Government of Canada as provided for under collective agreements, and the estimated costs of these benefits are recorded in the accounts as they are earned by the employees.

An accrual was made for severance entitlements on service prior to April 1, 1992. This accrual represented a net liability assumed by the Fund and thus was charged to the Fund's accumulated net charge against the Fund's authority.

e) Insurance

The Fund does not carry insurance on its property. This is consistent with the Government's policy of self-insurance.

Optional Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2003

3. OTHER ASSETS

In thousands of dollars

	2003	2002
Goods and Services Tax refundable advances	3,143	1,160
Prepaid expenses	-	21
Inventories	-	2,080
Other advances	(4)	2
	3,139	3,263

4. CAPITAL ASSETS AND ACCUMULATED AMORTIZATION

In thousands of dollars

Capital Assets	Balance beginning of year	Transfer of activities (note 7)	Balance beginning of year adjusted	Acquisitions	Disposals/ adjustments	Balance end of year
Leasehold improvements	241	(241)	-	-	-	-
Informatics hardware	171	(42)	129	20	(20)	129
Informatics software	-	-	-	1,940	-	1,940
Assets under construction	4,391	(3,098)	1,293	(1,163)	-	130
	4,803	(3,381)	1,422	797	(20)	2,199

Accumulated Amortization	Balance beginning of year	Transfer of activities (note 7)	Balance beginning of year adjusted	Current year amortization	Disposals / adjustments	Balance end of year
Leasehold improvements	63	(63)	-	-	-	-
Informatics hardware	89	(36)	53	34	-	87
	152	(99)	53	34	-	87

Net	4,651					2,112
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Optional Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2003

5. REVENUES

In thousands of dollars

	2003	2002
Traffic management recoveries	45,607	43,352
Vaccine program recoveries	33,541	35,037
Locally shared support services centres sales	7,154	6,840
Software brokerage program recoveries	4,515	6,758
Crown assets distribution centres sales	4,685	5,102
Communication, printing and audio-visual recoveries	4,726	1,556
Communications coordination services sales	-	9,669
	100,228	108,314

6. CHANGES IN WORKING CAPITAL

In thousands of dollars

	2003		2002		Changes
	Balance end of year	Balance end of year	Transfer of activities (note 7)	Balance end of year adjusted	
Current assets	10,253	15,147	(2,838)	12,309	2,056
Current liabilities	7,215	25,913	(4,845)	21,068	(13,853)
	3,038	(10,766)	2,007	(8,759)	(11,797)

Optional Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2003

7. TRANSFER OF ACTIVITIES

Effective April 1, 2002, the operations and costs associated with communications services provided by the Funds were transferred to Communications Canada as shown in the following condensed financial information for the year ended March 31, 2002. The assets and liabilities were transferred in the current year at their net book value as at April 1, 2002, after closing adjustments, as shown in the Balance sheet summary below:

<i>In thousands of dollars</i>	Net book value
Balance sheet	
Assets	
Current assets	2,838
Capital assets	3,282
	<u>6,120</u>
Liabilities	
Current liabilities	4,845
Allowance for employee termination benefits	679
	<u>5,524</u>
Equity of Canada	
Accumulated net charge against the Fund's authority	(1,056)
Accumulated Surplus	1,652
	<u>6,120</u>
Statement of operations	
Revenues	9,669
Expenses	12,755
Net loss	<u>(3,086)</u>

8. COMPARATIVE FIGURES

Certain of the prior years' figures have been reclassified in order to conform to the presentation adopted in the current year.