

Audit Objective

The purpose of the audit was to attest to the fair presentation in the financial statements of Optional Services Revolving Fund, of the financial position and results of operations and changes in financial position for the year ended March 31, 2001 for the purpose of reporting to the Deputy Minister and the ADM Government Operational Service and for reporting in the Public Accounts of Canada.

Audit Results

The audit resulted in the provision of the attached auditor's report (opinion) by Ernst & Young.

Financial Statements

Optional Services Revolving Fund

March 31, 2001



AUDITORS' REPORT

To the Director General, Audit and Review Branch
Public Works and Government Services

We have audited the balance sheet of the **Optional Services Revolving Fund** as at March 31, 2001, the statement of operations, accumulated deficit, and the statement of 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, 2001, the results of its operations and its cash flows for the year then ended in accordance with the accounting principles for Revolving Funds of Government of Canada as described in Note 2.

Ottawa, Canada,
July 6, 2001.

Ernst & Young LLP

Chartered Accountants

Balance sheet

Optional Services Revolving Fund

as at March 31 (in thousands of dollars)	2001	2000
Assets		
Current		
Accounts receivable		
Government of Canada	10,837	3,374
Outside parties	2,596	2,898
Inventories	2,168	1,877
Prepaid expenses	22	27
	<u>15,623</u>	<u>8,176</u>
Capital assets (note 3)	251	474
	<u>15,874</u>	<u>8,650</u>
Liabilities		
Current		
Accounts payable and accrued liabilities		
Government of Canada	3,529	4,159
Outside parties	14,653	8,211
	<u>18,182</u>	<u>12,370</u>
Allowance for employee termination benefits	1,985	1,821
	<u>20,167</u>	<u>14,191</u>
Equity of Canada		
Accumulated net charge against the Fund's authority	11,093	7,322
Accumulated deficit	(15,386)	(12,863)
	<u>15,874</u>	<u>8,650</u>

The accompanying notes are an integral part of the financial statements

Statement of operations

Optional Services Revolving Fund

Year ended March 31 (in thousands of dollars)	2001	2000
Revenues (note 4)	99,454	82,995
Cost of sales	85,671	65,926
Gross operating profit	13,783	17,069
Operating expenses		
Salaries and employee benefits	7,576	7,334
Provision for employee termination benefits	177	183
Transportation and communications	252	284
Information	72	57
Professional and special services	3,358	2,909
Occupancy costs	1,099	1,863
Rentals	23	28
Purchased repair and maintenance	163	42
Utilities, materials and supplies	253	67
Amortization	53	71
Interest on drawdown	883	871
Loss on disposal of capital assets	170	0
Corporate and administrative services	1,717	1,880
Bad debts expenses	445	0
Other expenditures	65	73
	16,306	15,662
Net income (loss)	(2,523)	1,407

The accompanying notes are an integral part of the financial statements

Statement of accumulated deficit

Optional Services Revolving Fund

Year ended March 31 (in thousands of dollars)	2001	2000
Balance, beginning of year	(12,863)	(14,270)
Net income (loss)	(2,523)	1,407
Balance, end of year	(15,386)	(12,863)

The accompanying notes are an integral part of the financial statements

Statement of cash flows

Optional Services Revolving Fund

Year ended March 31 (in thousands of dollars)	2001	2000
Operating activities		
Net income (loss)	(2,523)	1,407
Employee termination benefits payments	(13)	(38)
Items not affecting use of authority		
Amortization	53	71
Provision for employee termination benefits	177	183
Loss on disposal of capital assets	170	0
	(2,136)	1,623
Working capital change (note 5)	(1,635)	6,569
	(3,771)	8,192
Investing activities		
Capital assets		
Acquisitions	0	(131)
	0	(131)
Net decrease (increase) in accumulated net charge against the Fund's authority	(3,771)	8,061
Accumulated net charge against the Fund's authority beginning of year	(7,322)	(15,383)
Accumulated net charge against the Fund's authority end of year	(11,093)	(7,322)

The accompanying notes are an integral part of the financial statements

Notes to the Financial Statements

Optional Services Revolving Fund

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 materiel; 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.

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.

b) **Inventories**

Inventories are valued at cost and are recorded on a first-in, first-out basis.

c) **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
Leasehold improvements	10 years
Electronic data processing (EDP) Equipment	3 years

Assets are amortized commencing the year after acquisition.

d) **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 fringe benefit charge assessed against the Fund. The actual payment of the pension is made from the Public Service Superannuation and Supplementary Retirement Benefits Accounts.

2. Significant accounting policies (continued)

e) 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.

f) Insurance

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

3. Capital assets and accumulated amortization

(in thousands of dollars)

Capital Assets	Balance beginning of year	Acquisitions	Disposals/ Adjustments	Balance end of year
Leasehold improvements	375	0	(134)	241
Furniture and Equipment	138	0	(138)	0
EDP Equipment	280	0	(163)	117
Automotive	214	0	(214)	0
Warehouse Equipment	156	0	(156)	0
	1,163	0	(805)	358

Accumulated amortization	Balance beginning of year	Current year amortization	Disposals/ Adjustments	Balance end of year
Leasehold improvements	108	(5)	(50)	53
Furniture and Equipment	25	0	(25)	0
EDP Equipment	192	58	(196)	54
Automotive	214	0	(214)	0
Warehouse Equipment	150	0	(150)	0
	689	53	(635)	107

Net	474			251
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4. Revenues

(in thousands of dollars)	2001	2000
Locally shared support services centres (LSSSC) sales	6,477	6,453
Crown assets distribution centres (CADC) sales	5,406	11,997
Communications coordination services (CCSB) Sales	12,559	11,074
Traffic management recoveries	40,677	41,958
Vaccine program recoveries	24,765	9,530
Software brokerage program recoveries	9,570	1,983
	99,454	82,995

5. Changes in working capital

(in thousands of dollars)	2001	2000	Changes
Current assets	15,623	8,176	(7,447)
Current liabilities	18,182	12,370	5,812
	(2,559)	(4,194)	(1,635)