

Optional Services Revolving Fund

**Financial Statements
March 31, 2004**

June 14, 2004

Auditors' Report

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

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We have audited the statement of financial position of the **Optional Services Revolving Fund** as at March 31, 2004 the statements of operations, accumulated surplus and cash flows for the year then ended. These financial statements have been prepared to comply with Section 4 of the Treasury Board of Canada's Policy on Special Revenue Spending Authorities. 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, 2004 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.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the management of the Optional Services Revolving Fund and the Treasury Board of Canada Secretariat for reporting on the use of the Fund authority. The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

PricewaterhouseCoopers LLP

Chartered Accountants

Optional Services Revolving Fund

STATEMENT OF FINANCIAL POSITION

As at March 31

	2004	2003
<i>In thousands of dollars</i>		
Assets		
Current		
Cash in transit	1,028	
Accounts receivable		
Government of Canada	2,017	4,607
Outside parties	3,585	2,507
Other assets (note 3)	65	3,139
	<u>5,667</u>	<u>10,253</u>
Capital assets (note 4)	1,717	2,112
	<u>8,412</u>	<u>12,365</u>
Liabilities		
Current		
Accounts payable and accrued liabilities		
Government of Canada	766	1,559
Outside parties	7,376	5,441
Other liabilities	311	215
	<u>8,453</u>	<u>7,215</u>
Allowance for employee termination benefits	1,633	1,465
	<u>10,086</u>	<u>8,680</u>
Equity of Canada		
Accumulated net charge against the Fund's authority	(5,245)	3,543
Accumulated surplus	3,571	142
	<u>(1,674)</u>	<u>3,685</u>
	<u>8,412</u>	<u>12,365</u>

The accompanying notes are an integral part of the financial statements.

Optional Services Revolving Fund

STATEMENT OF OPERATIONS

For the year ended March 31

	2004	2003
<i>In thousands of dollars</i>		
Revenues (note 6)	98,939	100,228
Direct costs	83,760	88,881
Gross margin	15,179	11,347
Operating expenses		
Salaries and employee benefits	6,356	5,924
Employee termination benefits	357	(26)
Professional and special services	2,240	2,396
Occupancy costs	874	574
Corporate and administrative services	587	652
Amortization	395	34
Transportation and communications	362	322
Utilities, materials and supplies	176	141
Interest on draw down	125	88
Purchased repair and maintenance	116	101
Information	36	49
Rentals	34	44
Other expenses	92	411
	11,750	10,710
Net income	3,429	637

The accompanying notes are an integral part of the financial statements.

Optional Services Revolving Fund

STATEMENT OF ACCUMULATED SURPLUS

For the year ended March 31

	2004	2003
<i>In thousands of dollars</i>		
Balance, beginning of year	142	1,157
Net income	3,429	637
Transfer of activities		(1,652)
Balance, end of year	<u>3,571</u>	<u>142</u>

The accompanying notes are an integral part of the financial statements.

Optional Services Revolving Fund

STATEMENT OF CASH FLOWS

For the year ended March 31

	2004	2003
<i>In thousands of dollars</i>		
Operating activities		
Net income	3,429	637
Items not affecting use of the Fund's authority		
Amortization	395	34
Provision for employee termination benefits	357	(27)
	<u>4,181</u>	<u>644</u>
Changes in working capital (note 7)	4,796	(11,797)
Payments on provision for employee termination benefits	(189)	(2)
Net financial resources provided (used) by operating activities	<u>8,788</u>	<u>(11,155)</u>
Investing activities		
Capital assets		
Acquisitions		(797)
Proceeds on disposal of capital assets		20
Net financial resources used by investing activities		<u>(777)</u>
Net increase (decrease) in accumulated net charge against the Fund's authority	8,788	(11,932)
Accumulated net charge against the Fund's authority, beginning of year	(3,543)	9,445
Transfer of activities		(1,056)
	<u>(3,543)</u>	<u>8,389</u>
Accumulated net charge against the Fund's authority, end of year	<u>5,245</u>	<u>(3,543)</u>

The accompanying notes are an integral part of the financial statements.

Optional Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

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 the reporting requirements for revolving funds described by the Receiver General for Canada. The basis of accounting used in these financial statements differs from Canadian generally accepted accounting principles because:

- The services received without charge from other government departments are not reported as expenses;
- The liabilities for employee termination benefits are based on management's estimates rather than actuarial valuation; also vacation pay and time-off in lieu are based on management's estimates; and
- The contributions to the Pension plan are based on Treasury Board's rates representing an estimate of what the cost is likely to be for the Government in the upcoming year; also actuarial surpluses or deficiencies are not accounted for in the Fund.

Optional Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The significant accounting policies are as follows:

a) Revenues and expenses

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

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 useful economic lives as follows:

Category	Estimated useful economic life
Informatics hardware	3 to 5 years
Informatics software	3 to 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, vacation pay and time-off in lieu

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.

The liability for vacation pay and compensatory leave is calculated at the salary levels in effect at the end of the year for all unused vacation pay and time-off in lieu benefits accruing to employees.

Optional Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Insurance

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

3. OTHER ASSETS

In thousands of dollars

	2004	2003
Goods and Services Tax refundable advances	63	3,143
Other advances	2	(4)
	65	3,139

4. CAPITAL ASSETS AND ACCUMULATED AMORTIZATION

In thousands of dollars

	Balance beginning of year	Acquisitions	Disposals / adjustments	Balance end of year
Capital Assets				
Informatics hardware	129			129
Informatics software	2,070			2,070
	2,199			2,199
	Balance beginning of year	Current year amortization	Disposals / adjustments	Balance end of year
Accumulated Amortization				
Informatics hardware	87	7		94
Informatics software		388		388
	87	395		482
Net	2,112			1,717

Optional Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

5. CONTRACTUAL COMMITMENTS

The fund is engaged in contractual commitments for Optional Services. Future payments are as follows:

In thousands of dollars

2004-2005	833,297
2005-2006	670,644
2006-2007	539,440
2007-2008	459,450
2008-2009	75,363
	<u>2,578,194</u>

6. REVENUES

In thousands of dollars

	2004	2003
Traffic management recoveries	42,265	45,607
Vaccine program recoveries	34,224	33,541
Software brokerage program recoveries	8,515	4,515
Locally shared support services centres sales	6,932	7,154
Crown assets distribution centres sales	4,800	4,685
Communication, printing and audio-visual recoveries	2,203	4,726
	<u>98,939</u>	<u>100,228</u>

7. CHANGES IN WORKING CAPITAL

In thousands of dollars

	2004	2003	Changes
Current assets	6,695	10,253	3,558
Current liabilities	8,453	7,215	1,238
			<u>4,796</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.

Optional Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

9. FINANCIAL INSTRUMENTS

The Revolving Fund's financial instruments consist of cash in transit, accounts receivable, accounts payable and accrued liabilities. The carrying values of these financial instruments approximate fair value because of their short terms to maturity. Unless otherwise noted, it is management's opinion that the Revolving Fund is not exposed to significant interest, currency or credit risk arising from these financial instruments.

10. USE OF ESTIMATES

The preparation of financial statements in accordance with the reporting requirements for Revolving Funds described by the Receiver General for Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.