

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, 1999 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

**Please note that information has been withheld
pursuant to the provisions of the "Access to
Information Act."**

FINANCIAL STATEMENTS

**OPTIONAL SERVICES
REVOLVING FUND**

March 31, 1999

AUDITORS' REPORT

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

We have audited the balance sheet of **Optional Services Revolving Fund** as at March 31, 1999, the statements of operations and accumulated deficit and the statement of changes in financial position for the year then ended. These financial statements are the responsibility of the management of 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 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 Optional Services Revolving Fund as at March 31, 1999, the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles for Revolving Funds of Government of Canada as described in Note 2.

The financial statements of the preceding year were audited by another firm of Chartered Accountants.

Ottawa, Canada,
August 13, 1999.

Ernst & Young LLP

Chartered Accountants

Balance sheet

Optional Services Revolving Fund

as at March 31 (in thousands of dollars)	1999	1998
Assets		
Current		
Accounts receivable		
Government of Canada	13,916	16,346
Outside parties	1,142	6,207
Inventories	1,605	1,673
Prepaid expenses	183	0
	<u>16,846</u>	<u>24,226</u>
Capital assets (note 3)	1,788	1,640
	<u>18,634</u>	<u>25,866</u>
Liabilities		
Current		
Accounts payable and accrued liabilities		
Government of Canada	2,135	4,177
Outside parties	12,213	9,239
	<u>14,348</u>	<u>13,416</u>
Long-term obligations (note 4)	2,411	2,652
Equity of Canada		
Accumulated net charge against the Fund's authority	15,383	21,798
Accumulated deficit	(13,508)	(12,000)
	<u>18,634</u>	<u>25,866</u>

The accompanying notes are an integral part of the financial statements

Statement of operations

Optional Services Revolving Fund

Years ended March 31 (in thousands of dollars)	1999	1998
Revenues (note 5)	88,983	100,182
Cost of sales	71,104	77,937
Gross operating profit	17,879	22,245
Operating expenses		
Salaries and employee benefits	8,820	12,456
Provision for employee termination benefits	(232)	1,318
Provision for compensation	1,008	1,172
Transportation and communications	1,042	1,676
Information	649	386
Professional and special services	2,646	1,652
Occupancy costs	3,350	3,517
Rentals	122	132
Purchased repair and maintenance	152	1,087
Utilities, materials and supplies	179	0
Amortization	450	514
Interest on drawdown	653	2,363
Loss on disposal of capital assets	37	55
Corporate and administrative services	2,474	1,677
Other expenditures	695	260
	22,045	28,265
Net loss	(4,166)	(6,020)

The accompanying notes are an integral part of the financial statements

Statement of accumulated deficit

Optional Services Revolving Fund

Years ended March 31 (in thousands of dollars)	1999	1998
Balance, beginning of year	(12,000)	(43,999)
Net loss	(4,166)	(6,020)
Write-off of stocked item supply accumulated deficit to accumulated net charge against the Fund's authority account	0	38,019
Write-off of employee departure program costs to accumulated net charge against the Fund's authority account (note 9)	2,658	0
Balance, end of year	(13,508)	(12,000)

The accompanying notes are an integral part of the financial statements

Statement of changes in financial position

Optional Services Revolving Fund

Years ended March 31 (in thousands of dollars)	1999	1998
Operating activities		
Net loss	(4,166)	(6,020)
Items not affecting use of authority		
Amortization	450	514
	(3,716)	(5,506)
Working capital change (note 6)	8,312	(2,258)
Changes in other assets and liabilities (note 7)	(241)	441
	4,355	(7,323)
Investing activities		
Capital assets		
Acquisitions	(623)	(567)
Disposals/adjustments	25	46
	(598)	(521)
Financing activities		
Write-off of stocked item supply accumulated deficit to accumulated net charge against the Fund's authority account	0	38,019
Write-off of employee departure program costs to accumulated net charge against the Fund's authority account	2,658	0
	2,658	38,019
Net decrease in accumulated net charge against the Fund's authority	6,415	30,175
Accumulated net charge against the Fund's authority beginning of year	(21,798)	(51,973)
Accumulated net charge against the Fund's authority end of year	(15,383)	(21,798)

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.

All the functions of the OSRF prior to April 1, 1992 were under the Supply Revolving Fund (SRF) which was wound up as at March 31, 1992 in accordance with the authority provided in 1991-92 Supplementary Estimates.

2. Significant accounting policies

The financial statements have been prepared in accordance with 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**
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
Furniture and Equipment	10 years
Electronic data processing (EDP) Equipment	5 years
Automotive	5 years
Warehouse Equipment	10 years

Assets are amortized commencing the year after acquisition.

2. Significant accounting policies (continued)

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.

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	490	21	0	511
Furniture and Equipment	502	532	149	1,183
EDP Equipment	2,158	41	443	2,642
Automotive	235	0	0	235
Warehouse Equipment	1,061	29	(698)	392
	4,446	623	(106)	4,963

Accumulated amortization	Balance beginning of year	Current year amortization	Disposals/ Adjustments	Balance end of year
Leasehold improvements	69	49	(25)	93
Furniture and Equipment	263	28	151	442
EDP Equipment	1,432	305	353	2,090
Automotive	204	16	0	220
Warehouse Equipment	838	52	(560)	330
	2,806	450	(81)	3,175

Net	1,640		(25)	1,788
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4. Long-term obligations

(in thousands of dollars)

	1999	1998
Provision for Employee Termination Benefits	2,411	2,652

5. Revenues

(in thousands of dollars)

	1999	1998
Locally shared support services centres (LSSSC) sales	7,148	8,986
Crown assets distribution centres (CADC) sales	9,548	9,992
Communications coordination services (CCSB) Sales	21,562	39,841
Traffic management recoveries	36,762	31,658
Vaccine program recoveries	8,199	7,585
Software brokerage program recoveries	5,764	1,688
Other	0	432
	88,983	100,182

6. Changes in working capital

(in thousands of dollars)

	1999	1998	Changes
Current assets	16,846	24,226	7,380
Current liabilities	14,348	13,416	932
	(2,498)	(10,810)	8,312

7. Changes in other assets and liabilities

(in thousands of dollars)

	1999	1998	Changes
Other assets	0	0	0
Other liabilities	2,411	2,652	(241)
	2,411	2,652	(241)

8. Accounts Receivable write-off

During the year outstanding Government of Canada Accounts receivable totalling \$920,539 were written off. These accounts were deemed uncollectible thus management agreed in a one time approach to write-off the accounts.

9. Write-off of employee departure program costs

The amount of \$2,658,000 represents costs incurred by Optional Services Revolving Fund from 1995-96 to 1998-99 relating to employee departures under various work force reduction initiatives.

10. Uncertainty due to the Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Revolving Fund's ability to conduct normal business operations. However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Revolving Fund, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Management has developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 Issue on the Optional Services Revolving Fund.

11. Comparative figures

Certain prior years amounts have been reclassified to conform with the presentation of the current year.