

PRIVY COUNCIL OFFICE

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2010

Privy Council Office Financial Statements (Unaudited)

Statement of Management Responsibility

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2010, and all information contained in these statements rests with departmental management. These financial statements have been prepared by management in accordance with Treasury Board accounting policies, which are consistent with Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the Privy Council Office's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in the Privy Council Office's *Departmental Performance Report* is consistent with these financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that financial information is reliable; that assets are safeguarded; and that transactions are in accordance with the *Financial Administration Act*, are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of government funds. Management also seeks to ensure the objectivity and integrity of data in its financial statements by careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout the Privy Council Office.

The financial statements of the Privy Council Office have not been audited.

Wayne G. Wouters
Clerk of the Privy Council and
Secretary to the Cabinet

Marilyn MacPherson
Assistant Deputy Minister
Corporate Services

Ottawa, Ontario

August 16, 2010

Privy Council Office Statement of Operations (Unaudited)

for the year ended March 31, 2010

Expenses (Note 4)	2010	Restated 2009
	(in thousands of dollars)	
Provide professional, non-partisan policy advice and support to the Prime Minister and Portfolio Ministers	67,178	60,934
Provide policy advice and secretariat support to Cabinet and Cabinet committees	16,138	15,040
Provide overall leadership and direction to the Public Service in support of the Government's Agenda	3,134	3,545
Provide Commissions of Inquiry with financial and administrative support	11,303	14,547
Internal Services	78,680	78,482
Total Expenses	176,433	172,548
Revenues (Note 5)		
Provide professional, non-partisan policy advice and support to the Prime Minister and Portfolio Ministers	-	-
Provide policy advice and secretariat support to Cabinet and Cabinet committees	-	-
Provide overall leadership and direction to the Public Service in support of the Government's Agenda	-	1
Provide Commissions of Inquiry with financial and administrative support	-	2
Internal Services	11	14
Total Revenues	11	17
Net Cost of Operations	176,422	172,531

The accompanying notes form an integral part of these financial statements.

Privy Council Office Statement of Financial Position (Unaudited)

at March 31, 2010

Assets	2010	2009
	(in thousands of dollars)	
Financial assets		
Accounts receivable and advances (Note 6)	1,577	1,277
Total financial assets	1,577	1,277
Non-financial assets		
Prepaid expenses	752	284
Tangible capital assets (Note 7)	9,288	9,313
Total non-financial assets	10,040	9,597
Total	11,617	10,874

Liabilities and Equity of Canada		
Liabilities		
Accounts payable and other liabilities (Note 8)	17,331	19,893
Vacation pay and compensatory leave	5,544	6,550
Employee severance benefits (Note 9)	17,887	18,423
Total liabilities	40,762	44,866
Equity of Canada	(29,145)	(33,992)
Total	11,617	10,874

Contractual obligations (Note 10)

The accompanying notes form an integral part of these financial statements.

Privy Council Office Statement of Equity (Unaudited)

at March 31, 2010

	2010	2009
	(in thousands of dollars)	
Equity of Canada, beginning of year	(33,992)	(24,885)
Net cost of operations	(176,422)	(172,531)
Refund and adjustment of previous year expenditures	(1,181)	(1,279)
Revenue not available for spending	(11)	(17)
Services provided without charge by other government departments (Note 11)	20,521	19,358
	(157,093)	(154,469)
Current year appropriations used (Note 3)	158,601	149,329
Change in net position in the Consolidated Revenue Fund (Note 3c)	3,339	(3,967)
Equity of Canada, end of year	(29,145)	(33,992)

The accompanying notes form an integral part of these financial statements.

Privy Council Office Statement of Cash Flow (Unaudited)

for the year ended March 31, 2010

	2010	2009
	(in thousands of dollars)	
Operating Activities		
Net cost of operations	176,422	172,531
Non-cash items		
Amortization of tangible capital assets (Note 7)	(2,339)	(2,278)
Loss on disposal of tangible capital assets	(33)	(98)
Tangible capital asset transfers (Note 7)	(40)	(94)
Other (Note 7)	211	(34)
Services provided without charge by other government departments (Note 11)	(20,521)	(19,358)
	(22,722)	(21,862)
Variations in Statement of Financial Position		
Increase (decrease) in accounts receivable and advances	300	(1,160)
Increase (decrease) in prepaid expenses	468	(65)
(Increase) decrease in liabilities:		
Accounts payable and other liabilities	2,562	(2,673)
Vacation pay and compensatory leave	1,006	(1,306)
Employee severance benefits	536	(4,123)
	4,872	(9,327)
Cash used by operating activities	158,572	141,342
Capital Investment Activities		
Acquisition of tangible capital assets (Note 7)	2,176	2,724
Cash used by capital investment activities	2,176	2,724
Net cash provided by Government of Canada	160,748	144,066

The accompanying notes form an integral part of these financial statements.

Privy Council Office

Notes to Financial Statements (Unaudited)

for the year ended March 31, 2010

1. *Authority and Purpose*

The Privy Council Office is a division of the Public Service of Canada as set out in column 1 of Schedule I.1 of the *Financial Administration Act* and reports to Parliament through the Prime Minister.

The Privy Council Office reports directly to the Prime Minister and is headed by the Clerk of the Privy Council and Secretary to the Cabinet. The Clerk is also the Head of the Public Service. The mandate of the Privy Council Office is to serve Canada and Canadians by providing the best non-partisan advice and support to the Prime Minister, ministers within the Prime Minister's portfolio and Cabinet. PCO's work requires close and continuous contact with other federal departments and agencies to support their ability to work effectively and to ensure overall consultation and coordination.

Commissions of Inquiry established under the *Inquiries Act* are designated as departments under the *Financial Administration Act* and the Prime Minister is designated as the "appropriate Minister" under that same Act. PCO provides administrative and financial management support to commissions. In 2009-2010, PCO provided support to the following commissions: the Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182, the Commission of Inquiry into the Actions of Canadian Officials in Relation to Abdullah Almalki, Ahmad Abou-Elmaati and Muayyed Nureddin, the Commission of Inquiry into Certain Allegations Respecting Business and Financial Dealings Between Karlheinz Schreiber and the Right Honourable Brian Mulroney and the Commission of Inquiry into the Decline of Sockeye Salmon in the Fraser River.

2. *Significant Accounting Policies*

The financial statements have been prepared in accordance with Treasury Board accounting policies, which are consistent with Canadian generally accepted accounting principles for the public sector. Significant accounting policies are as follows:

- a) **Parliamentary appropriations:** The Privy Council Office is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to the department do not parallel financial reporting according to Canadian generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 3 provides a high-level reconciliation between the bases of reporting.

Privy Council Office Notes to Financial Statements (Unaudited)

for the year ended March 31, 2010

- b) **Net cash provided by government:** The Privy Council Office operates within the Consolidated Revenue Fund (CRF). The CRF is administered by the Receiver General for Canada. All cash received by the Privy Council Office is deposited to the CRF and all cash disbursements made by the Privy Council Office are paid from the CRF. The net cash provided by government is the difference between all cash receipts and all cash disbursements including transactions between departments of the federal government.
- c) **Change in net position in the Consolidated Revenue Fund** is the difference between the net cash provided by government and appropriations used in a year, excluding the amount of non-respendable revenue recorded by the Privy Council Office. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.
- d) **Revenues:**
- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
 - Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.
- e) **Expenses** are recorded on the accrual basis:
- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement.
 - Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.
 - Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans, legal services and worker's compensation coverage are recorded as operating expenses at their estimated cost.
- f) **Employee future benefits:**
- i. Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer plan administered by the Government of Canada. The Privy Council Office's contributions to the plan are charged to expenses in the year incurred and represent the total departmental obligation to the plan. Current

Privy Council Office Notes to Financial Statements (Unaudited)

for the year ended March 31, 2010

legislation does not require the Privy Council Office to make contributions for any actuarial deficiencies of the plan.

- ii. **Severance benefits:** Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the government as a whole.
- g) **Accounts receivable and advances** are stated at amounts expected to be ultimately realized. A provision is made for receivables where recovery is considered uncertain.
- h) **Contingent liabilities** are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.
- i) **Foreign currency transactions** are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect on 31 March. Gains and losses resulting from foreign currency transactions are included in on the statement of operations.
- j) **Tangible capital assets** having an initial cost of \$5,000 or more are recorded at their acquisition cost. The Privy Council Office does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value. Work in progress is only amortized when the related projects are completed and their amortization is based on the estimated useful life of the asset. Amortization of capital assets is done on a straight-line basis over the estimated useful life of the capital asset as follows:

Asset Class	Amortization Period
Machinery and equipment	5 to 15 years
Informatics hardware	3 to 5 years
Informatics software	3 to 5 years
Other equipment	10 to 15 years
Motor vehicles	3 to 10 years

Privy Council Office

Notes to Financial Statements (Unaudited)

for the year ended March 31, 2010

- k) **Measurement uncertainty:** The preparation of these financial statements in accordance with Treasury Board accounting policies, which are consistent with Canadian generally accepted accounting principles for the public sector, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes these estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, the liability for employee severance benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

Privy Council Office

Notes to Financial Statements (Unaudited)

for the year ended March 31, 2010

3. *Parliamentary Appropriations*

The Privy Council Office receives most of its funding through annual Parliamentary appropriations. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary appropriations in prior, current or future years. Accordingly, the Privy Council Office has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

a) **Reconciliation of net cost of operations to current year appropriations used:**

	2010	2009
	(in thousands of dollars)	
Net cost of operations	176,422	172,531
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (less):		
Amortization of tangible capital assets	(2,339)	(2,278)
Loss on disposal of tangible capital assets	(33)	(98)
Services provided without charge by other government departments (Note 11)	(20,521)	(19,358)
Prepaid expenses	(348)	221
Vacation pay and compensatory leave	1,006	(1,306)
Employee severance benefits	536	(4,123)
Refund and adjustment of previous year expenditures	1,181	1,279
Revenue not available for spending	11	17
Other	698	1,238
	(19,809)	(24,408)
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Add:		
Acquisition of tangible capital assets	1,172	1,147
Acquisition of prepaid expenses	816	59
	1,988	1,206
Current year appropriations used	158,601	149,329

Privy Council Office Notes to Financial Statements (Unaudited)

for the year ended March 31, 2010

b) Appropriations provided and used:

	2010	2009
	(in thousands of dollars)	
Vote - Operating expenditures	153,841	147,634
Statutory amounts	16,480	13,827
Less:		
Appropriations available for future years	(7)	(7)
Lapsed appropriations: Operating	(11,713)	(12,125)
Current year appropriations used	158,601	149,329

c) Reconciliation of net cash provided by government to current year appropriations used:

	2010	2009
	(in thousands of dollars)	
Net cash provided by government	160,748	144,066
Refund and adjustment of previous year expenditures	1,181	1,279
Revenue not available for spending	11	17
	161,940	145,362
Change in net position in the Consolidated Revenue Fund		
Variation in accounts receivable and advances	(300)	1,160
Variation in accounts payable and other liabilities	(2,562)	2,673
Other	(477)	134
	(3,339)	3,967
Current year appropriations used	158,601	149,329

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Notes to Financial Statements (Unaudited)

for the year ended March 31, 2010

4. *Expenses*

The following table presents details of expenses by category:

	2010	2009
	(in thousands of dollars)	
Salaries and employee benefits	118,805	114,382
Professional and special services	20,815	25,261
Accommodation	12,787	12,043
Transportation and telecommunications	7,343	7,283
Acquisition of machinery and equipment	4,660	4,110
Purchased repair and maintenance	3,539	2,148
Information	2,691	3,305
Amortization of tangible capital assets (Note 7)	2,339	2,278
Rental	2,056	1,442
Utilities, materials and equipment	1,576	1,461
Transfer payments	34	36
Loss on disposal of tangible capital assets	33	98
Other	(245)	(1,299)
Total	176,433	172,548

5. *Revenues*

The following table presents details of revenues by category:

	2010	2009
	(in thousands of dollars)	
Gain on disposal of tangible assets	7	8
Miscellaneous revenues	3	5
Gain on foreign exchange	1	1
Regulatory fees	-	3
Total	11	17

Privy Council Office Notes to Financial Statements (Unaudited)

for the year ended March 31, 2010

6. *Accounts Receivable and Advances*

The following table presents details of accounts receivable and advances:

	2010	2009
	(in thousands of dollars)	
Receivables from other federal government departments and agencies	637	762
Receivables from external parties	979	525
Employee advances	27	38
Subtotal	1,643	1,325
Less: Allowance for doubtful accounts on external receivables	66	48
Total	1,577	1,277

Privy Council Office

Notes to Financial Statements (Unaudited)

for the year ended March 31, 2010

7. *Tangible Capital Assets*

(in thousands of dollars) Capital Asset Class	Cost				Accumulated Amortization				Net Book Value 2010 ¹	Net Book Value 2009 ¹
	Opening Balance	Acquisi- tions	Disposal and write- offs	Closing Balance	Opening Balance	Amortiza- tion	Disposal and write- offs	Closing Balance		
Machinery and equipment	55	8	-	63	32	3	-	35	28	23
Informatics hardware	11,051	530	(415)	11,166	8,982	1,144	(392)	9,734	1,432	2,069
Informatics software	5,239	1,474	-	6,713	4,048	362	-	4,410	2,303	1,191
Other equipment	8,057	969	(48)	8,978	3,833	739	(8)	4,564	4,414	4,224
Motor vehicles	541	143	(186)	498	332	125	(128)	329	169	209
Work-in- progress - software	333	84	-	417	-	-	-	-	417	333
Work-in- progress - other	1,264	1,150	(1,889)	525	-	-	-	-	525	1,264
	26,540	4,358	(2,538)	28,360	17,227	2,373	(528)	19,072	9,288	9,313

NOTES:

1. Net Book Value variation of \$25,000 between 2009-2010 and 2008-2009 is explained as follows:

Total Acquisition of tangible capital assets	
Acquisition of tangible capital assets	\$ 1,172,000
Works in progress	\$ 1,003,000
Net cost of tangible capital assets transfers ²	\$ 35,000
Total Acquisition of tangible capital assets	\$ 2,210,000
Net cost of tangible capital assets transfers ²	(\$ 74,000)
Amortization of tangible capital assets	(\$ 2,339,000)
Loss on disposal of tangible capital assets	(\$ 33,000)
Others	\$ 211,000
Variation between 2010 and 2009	(\$ 25,000)

2. This only applies to the transfer of vehicles between federal departments at their net book value.

Privy Council Office Notes to Financial Statements (Unaudited)

for the year ended March 31, 2010

8. *Accounts Payable and Other Liabilities*

The following table presents details of accounts payable and other liabilities:

	2010	2009
	(in thousands of dollars)	
Payables to external parties	9,823	15,608
Payables to other federal government departments and agencies	6,077	3,450
Other liabilities	931	835
Contingent liabilities	500	-
Total	17,331	19,893

9. *Employee Benefits*

(a) Pension benefits: The Privy Council Office's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Quebec Pension Plans benefits and are indexed to inflation.

Both the employees and the department contribute to the cost of the Public Service Pension Plan. The 2009-10 expense amounts to \$14,602,525 (\$12,101,968 in 2008-09), which represents approximately 1.9 times (2.0 in 2008-09) the contributions by employee.

The Privy Council Office's responsibility with regard to the plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the plan's sponsor.

(b) Severance benefits: The Privy Council Office provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

Privy Council Office

Notes to Financial Statements (Unaudited)

for the year ended March 31, 2010

	2010	2009
	(in thousands of dollars)	
Accrued benefits obligation, beginning of year	18,423	14,300
Expense for the year	1,283	5,364
Benefits paid during the year	(1,819)	(1,241)
Accrued benefits obligation, end of year	17,887	18,423

10. Contractual Obligations

The nature of the Privy Council Office's activities can result in large multi-year contracts and obligations whereby the Privy Council Office will be obligated to make future payments when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	2011	2012	2013	2014	2015 and thereafter	Total
Privy Council Office						
Transport and telecommunications	656	153	156	49	-	1,014
Information	549	225	-	-	-	774
Professional and special services	1,380	43	21	-	-	1,444
Rental	622	526	305	83	12	1,548
Purchased repair and maintenance	212	26	26	26	-	290
Utilities, materials and equipment	36	-	-	-	-	36
Acquisition of machinery and equipment	328	-	-	-	-	328
	3,783	973	508	158	12	5,434
Commissions of Inquiry						
Transport and telecommunications	30	-	-	-	-	30
Information	-	-	-	-	-	-
Professional and special services	1	-	-	-	-	1
Rental	483	345	1	-	-	829
Purchased repair and maintenance	196	-	-	-	-	196
Utilities, materials and equipment	5	-	-	-	-	5
Transfer payments	-	-	-	-	-	-
	715	345	1	-	-	1,061
Total	4,498	1,318	509	158	12	6,495

Privy Council Office Notes to Financial Statements (Unaudited)

for the year ended March 31, 2010

11. Related Party Transactions

The Privy Council Office is related as a result of common ownership to all Government of Canada departments, agencies and Crown corporations. The Privy Council Office enters into transactions with these entities in the normal course of business and on normal trade terms.

Services provided without charge: During the year, the Privy Council Office received, without charge from other government departments, accommodation, legal fees, the employer's contribution to the health and dental insurance plans and worker's compensation coverage. These services without charge have been recognized in the Privy Council Office's Statement of Operations as follows:

	2010	2009
	(in thousands of dollars)	
Accommodation	12,031	11,447
Employer's contribution to the health and dental insurance plans	8,173	7 485
Legal services	319	420
Worker's compensation coverage	(2)	6
Total	20,521	19,358

The government has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all without charge. The costs of these services, which include payroll and cheque issuance services provided by Public Works and Government Services Canada, and audit services provided by the Office of the Auditor General, are not included as an expense in the Privy Council Office's Statement of Operations.

12. Comparative information

Comparative figures on the Statement of Operations have been restated to conform to the presentation by Program Activity.

Privy Council Office Notes to Financial Statements (Unaudited)

for the year ended March 31, 2010

13. Program Activity Reporting

The 2009-2010 Financial Statements for the Privy Council Office were prepared based on Treasury Board Secretariat reporting requirements for program activities. As a result, charges for Internal Services activities which were distributed between Program Activities in the financial statements in prior year have now been presented separately in the financial statements. If this reporting requirement had not been implemented, expenses for 2009-2010 would have been reported as follow:

	2010	2009
	(in thousands of dollars)	
Provide professional, non-partisan policy advice and support to the Prime Minister and Portfolio Ministers	130,185	123,694
Provide policy advice and secretariat support to Cabinet and Cabinet committees	29,421	28,404
Provide overall leadership and direction to the Public Service in support of the Government's Agenda	5,524	5,903
Provide Commissions of Inquiry with financial and administrative support	11,303	14,547
Total	176,433	172,548