

AEC Briefing Note
2003-706 Audit of the Real Property Services Revolving Fund
Financial Statements 2002/2003

Authority for the Project

The audit of the financial statements of the Real Property Services Revolving Fund (RPSRF) 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.

**Real Property Services Revolving
Fund**

**Financial Statements
March 31, 2003**

June 13, 2003

PricewaterhouseCoopers LLP
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Auditors' Report

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

We have audited the balance sheet of the **Real Property Services Revolving Fund** as at March 31, 2003, the statements of operations, accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the management of the Real Property 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 Real Property 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

Real Property Services Revolving Fund

BALANCE SHEET

| | As at March 31 | |
|---|----------------|----------------|
| | 2003 | 2002 |
| <i>In thousands of dollars</i> | | |
| Assets | | |
| Current | | |
| Cash in transit | 2,134 | 737 |
| Accounts receivable | | |
| Government of Canada | 226,426 | 200,038 |
| Outside parties | 12,705 | 8,812 |
| Other assets (note 3) | 4,853 | 3,813 |
| | <u>246,118</u> | <u>213,400</u> |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | | |
| Government of Canada | 8,746 | 11,223 |
| Outside parties | 155,921 | 144,341 |
| Professional liability fund | 2,320 | 2,347 |
| Other liabilities | 5,705 | 6,200 |
| | <u>172,692</u> | <u>164,111</u> |
| Allowance for employee termination benefits | 18,340 | 18,609 |
| | <u>191,032</u> | <u>182,720</u> |
| Equity of Canada | | |
| Accumulated net charge against the Fund's authority | 71,467 | 50,723 |
| Accumulated deficit | (16,381) | (20,043) |
| | <u>246,118</u> | <u>213,400</u> |

The accompanying notes are an integral part of the financial statements

Real Property Services Revolving Fund

STATEMENT OF OPERATIONS

| | Year ended March 31 | |
|--|---------------------|---------|
| | 2003 | 2002 |
| <i>In thousands of dollars</i> | | |
| Gross revenues (note 6) | 836,328 | 818,685 |
| Recoverable disbursements made on behalf of clients | 681,641 | 659,521 |
| Net revenues | 154,687 | 159,164 |
| Operating expenses | | |
| Salaries and employee benefits | 96,995 | 101,678 |
| Employee termination benefits | 1,198 | 4,613 |
| Overhead chargeback | 30,721 | 28,506 |
| Corporate and administrative services | 19,201 | 17,817 |
| Occupancy costs | 3,914 | 3,555 |
| Provision for claims and other expenses | 5,524 | 4,114 |
| | 157,553 | 160,283 |
| Net loss | (2,866) | (1,119) |

The accompanying notes are an integral part of the financial statements

Real Property Services Revolving Fund

STATEMENT OF ACCUMULATED DEFICIT

| | Year ended March 31 | |
|--|---------------------|-----------------|
| | 2003 | 2002 |
| <i>In thousands of dollars</i> | | |
| Balance, beginning of year | (20,043) | (107,151) |
| Net loss | (2,866) | (1,119) |
| Write-off of net draw down authority used (note 1) | - | 88,227 |
| Recovery of net draw down authority used (note 1) | 6,528 | - |
| Balance, end of year | <u>(16,381)</u> | <u>(20,043)</u> |

The accompanying notes are an integral part of the financial statements

Real Property Services Revolving Fund

STATEMENT OF CASH FLOWS

| | Year ended March 31 | |
|---|---------------------|------------------|
| | 2003 | 2002 |
| <i>In thousands of dollars</i> | | |
| Operating activities | | |
| Net loss | (2,866) | (1,119) |
| <i>Items not affecting use of the Fund's authority</i> | | |
| Provision for employee termination benefits | 1,199 | 4,613 |
| | <u>(1,667)</u> | <u>3,494</u> |
| Changes in working capital (note 5) | (24,137) | 51,597 |
| Payment on provision for employee termination benefits | <u>(1,468)</u> | <u>(613)</u> |
| Net financial resources (used) provided by operating activities | <u>(27,272)</u> | <u>54,478</u> |
| Financing activities | | |
| Write-off of net draw down authority used (note 1) | - | 88,227 |
| Recovery of net draw down authority used (note 1) | 6,528 | - |
| Net financial resources provided by financing activities | <u>6,528</u> | <u>88,227</u> |
| Net (decrease) increase in accumulated net charge against the Fund's authority | (20,744) | 142,705 |
| Accumulated net charge against the Fund's authority, beginning of year | <u>(50,723)</u> | <u>(193,428)</u> |
| Accumulated net charge against the Fund's authority, end of year | <u>(71,467)</u> | <u>(50,723)</u> |

The accompanying notes are an integral part of the financial statements

Real Property Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2003

1. AUTHORITY AND PURPOSE

The Real Property Services Revolving Fund (RPSRF), formerly The Public Works Revolving Fund, was established by the *Adjustment of Accounts Act (Bill C-22)* dated July 22, 1980, which was repealed in 1985 and replaced by Section 5 of the *Revolving Funds Act*. It allows the Minister of Public Works and Government Services Canada (PWGSC) to make expenditures for undertakings by the department, on behalf of other government departments and agencies, other governments, and private sector tenants of federally owned or leased property. Effective April 1, 1996, the Architectural Engineering and Realty Services Revolving Fund began operation under the name of Real Property Services Revolving Fund. The Fund looks after the activities of architectural and engineering, property management, holdings and divestiture, and support services.

The Fund has a continuing non-lapsing authority from Parliament to make payments out of the Consolidated Revenue Fund for the operating expenses, necessary working capital, and capital expenditures.

In accordance with the former Section 33 of the *Adjustment of Accounts Act*, and through the 1983-84 Supplementary Estimates (B), the authority of the Fund was amended to include charges on behalf of other Public Works Canada's departmental programs and to increase the financial authority from \$55,000,000 to \$150,000,000. In the 1984-85 Supplementary Estimates (C) the authority was increased from \$150,000,000 to \$300,000,000. Through the 1987-88 Supplementary Estimates (F), the authority was further increased from \$300,000,000 to \$450,000,000.

The Services Program operated as a revolving fund on a direct cost recovery basis from April 1, 1985 to March 31, 1988, supplemented by a payment vote to cover non-recoverable operating expenses from clients, as well as a vote to cover capital acquisitions of the Program. Since April 1, 1988, under revised terms and conditions approved by Treasury Board (TB) Minute 805839 dated June 25, 1987, the objective of the Real Property Services (formerly Public Works) Revolving Fund is to operate as a financially self-supporting entity charging market-based service fees in accordance with the TB approved rate structure for the services provided to clients.

In addition, the Revolving Fund receives funding by way of a separate vote, to cover operating expenses in support of activities serving broader government objectives, which are not recovered by revenues. The amount received in 1997-98 and 1996-97 was \$2,589,000.

Real Property Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2003

1. AUTHORITY AND PURPOSE (continued)

Through the 2000-01 Annual Reference Level Update (ARLU) exercise, which was approved on December 9, 1999 (TB Minute 827730), the Revolving Fund presented a revision to its Financial Framework whereby it will no longer be used as a business tool to manage the costs related to the appropriated funding of the Federal Accommodation and Holding Service Line. Effective April 1, 1999, RPSRF is used exclusively for providing services to Other Government Departments and third parties.

Finally, in accordance with Section 12 of the *Revolving Fund Act* R.S.C. 1985, c. R-8 to amend subsection 5(3) of the Act and through the 2001-02 Supplementary Estimates (B) - vote 7b and 13b (TB decision 829420 dated December 6, 2001), the draw down authority of the fund was reduced from \$450,000,000 to \$150,000,000 in addition to the write off of \$88,227,114 on the net draw down authority used as of March 31, 2002.

In addition, the Revolving Fund receives funding by way of a separate vote, to cover the net draw down authority used in support of activities serving broader government objectives. The amount received in 2002-03 is \$6,528,000.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada 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. Overhead chargeback and corporate and administrative services are based on budgeted expenditures calculated as a percentage of budgeted net revenues.

b) Inventories

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

c) Work in process

Work in process includes labour and disbursements incurred for services performed or goods delivered, less amounts already billed to clients.

Real Property Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2003

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 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, 1988. 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 as described in the annex of (TB) Minute 805839 dated June 25, 1987.

f) 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

| | 2003 | 2002 |
|--|-------|-------|
| Goods and Services Tax refundable advances | 4,312 | 3,320 |
| Prepaid expenses | 11 | 22 |
| Inventories and work in process | 525 | 453 |
| Other advances | 5 | 18 |
| | 4,853 | 3,813 |

Real Property Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2003

4. CONTRACTUAL COMMITMENTS

The Fund is engaged in contractual commitments for Property Services. Future payments are as follows:

In thousands of dollars

| | |
|-------------------------------|----------------|
| 2003-2004 | 83,615 |
| 2004-2005 | 7,814 |
| 2005-2006 | 5,720 |
| 2006-2007 | 3,551 |
| 2007-2008 and following years | 6,922 |
| | <u>107,622</u> |

5. CHANGES IN WORKING CAPITAL

In thousands of dollars

| | 2003 | 2002 | Changes |
|---------------------|---------------|---------------|-----------------|
| Current assets | 246,118 | 213,400 | (32,718) |
| Current liabilities | 172,692 | 164,111 | 8,581 |
| | <u>73,426</u> | <u>49,289</u> | <u>(24,137)</u> |

6. GROSS REVENUES

In thousands of dollars

| | 2003 | 2002 |
|---|----------------|----------------|
| Recoverable disbursements made on behalf of clients | 681,641 | 659,521 |
| Project fees | 117,579 | 108,779 |
| Payroll recoveries | 24,784 | 26,249 |
| Inventory management fees | 7,879 | 7,949 |
| Other revenues | 4,445 | 16,187 |
| | <u>836,328</u> | <u>818,685</u> |

Real Property Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2003

7. COMPARATIVE FIGURES

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