

Financial Statements

**Government Telecommunications and Informatics
Services Revolving Fund**

March 31, 2000

AUDITORS' REPORT

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

We have audited the balance sheet of the **Government Telecommunications and Informatics Services Revolving Fund** as at March 31, 2000 and the statements of operations, accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the management of the Government Telecommunications and Informatics 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 auditing standards generally accepted in Canada. 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 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 **Government Telecommunications and Informatics Services Revolving Fund** as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with the accounting principles for Revolving Funds of the Government of Canada as described in note 2.

Ottawa, Canada,
July 7, 2000.

Ernst & Young LLP

Chartered Accountants

Balance sheet

Government Telecommunications and Informatics Services Revolving Fund

as at March 31

(in thousands of dollars)

2000

1999

(restated -
see note 3)

Assets

Current

| | | |
|-------------------------|--------|--------|
| Accounts receivable | | |
| Government of Canada | 25,415 | 42,042 |
| Outside parties | 3,553 | 5,133 |
| Inventories | 136 | 624 |
| | 29,104 | 47,799 |
| Capital assets (note 4) | 315 | 2,762 |
| | 29,419 | 50,561 |

Liabilities

Current

| | | |
|--|-------|--------|
| Accounts payable and accrued liabilities | | |
| Government of Canada | 891 | 2,837 |
| Outside parties | 5,153 | 7,300 |
| | 6,044 | 10,137 |
| Long-term obligations (note 5) | 2,442 | 2,905 |
| | 8,486 | 13,042 |

Contractual commitments (note 6)

Equity of Canada

| | | |
|---|--------|--------|
| Accumulated net charge against the Fund's authority | 14,896 | 11,239 |
| Accumulated surplus | 6,037 | 26,280 |
| | 29,419 | 50,561 |

The accompanying notes are an integral part of the financial statements

Statement of operations

Government Telecommunications and Informatics Services Revolving Fund

Years ended March 31

(in thousands of dollars)

2000

1999

(restated -
see note 3)

| | | |
|---|----------------|----------------|
| Revenues | 143,471 | 164,086 |
| Cost of sales | 120,355 | 139,814 |
| Gross operating profit | 23,116 | 24,272 |
| Operating expenses | | |
| Salaries and employee benefits | 12,208 | 13,891 |
| Provision for employee termination benefits | 338 | 1,185 |
| Provision for compensation | 0 | -46 |
| Transportation and communications | 695 | 849 |
| Information | 223 | 122 |
| Professional and special services | 7,324 | 8,206 |
| Occupancy costs | 851 | 1,083 |
| Rentals | 89 | 88 |
| Purchased repair and maintenance | 26 | 221 |
| Utilities, materials and supplies | 396 | 1,031 |
| Amortization | 108 | 41 |
| Interest on drawdown | 219 | 1,021 |
| Loss on disposal of capital assets | 0 | 58 |
| Corporate and administrative services | 710 | 870 |
| Year 2000 expenses | 0 | 6,100 |
| Other expenditures | 172 | 14 |
| | 23,359 | 34,734 |
| Net loss | -243 | -10,462 |

The accompanying notes are an integral part of the financial statements

Statement of accumulated surplus

Government Telecommunications and Informatics Services Revolving Fund



Years ended March 31

(in thousands of dollars)

| | 2000 | 1999 (restated - see note 3) |
|--|--------------|------------------------------------|
| Balance, beginning of year | 26,280 | 31,246 |
| Adjustment accumulated surplus, beginning of the year (note 3) | 0 | -2,112 |
| Accumulated surplus, beginning of year as restated | 26,280 | 29,134 |
| Net loss | -243 | -10,462 |
| Reduction in accumulated surplus (note 1) | -20,000 | 0 |
| Write-off of employee departure program costs to accumulated net charge against the Fund's authority account | 0 | 7,608 |
| Balance, end of year | 6,037 | 26,280 |

The accompanying notes are an integral part of the financial statements

Statement of cash flows

Government Telecommunications and Informatics Services Revolving Fund

Years ended March 31

(in thousands of dollars)

| | 2000 | 1999 (restated - see note 3) |
|--|----------------|------------------------------------|
| Operating activities | | |
| Net loss | -243 | -10,462 |
| Items not affecting use of authority | | |
| Amortization | 108 | 41 |
| Amortization - Recoverable from OGD's | 570 | 445 |
| | 435 | -9,976 |
| Working capital change (note 7) | 14,602 | 31,096 |
| Changes in long-term obligations | 254 | 916 |
| | 15,291 | 22,036 |
| Investing activities | | |
| Capital assets | | |
| Acquisitions | -145 | -972 |
| Disposals/adjustments | 1197 | 58 |
| | 1,052 | -914 |
| Financing activities | | |
| Write-off of employee departure program costs to accumulated net charge against the Fund's authority account | 0 | 7,608 |
| | 0 | 7,608 |
| Net decrease (increase) in accumulated net charge against the Fund's authority | 16,343 | 28,730 |
| Accumulated net charge against the Fund's authority beginning of year | -11,239 | -39,969 |
| Reduction in draw down authority (note 1) | -20,000 | 0 |
| Accumulated net charge against the Fund's authority end of year | -14,896 | -11,239 |

The accompanying notes are an integral part of the financial statements

Notes to the Financial Statements

Government Telecommunications and Informatics Services Revolving Fund

1. Authority and purpose

The Government Telecommunications Agency (GTA) Revolving Fund was established in 1963 to plan and provide telecommunications facilities and services for federal departments and agencies. Section 5.2 of the *Revolving Funds Act* authorizes the Minister to make payments out of the Consolidated Revenue Fund for working capital, capital equipment and temporary financing of operating requirements, the total of which was not to exceed \$8,000,000 at any time. The authority was increased intermittently over the years. The last increase was for \$34,000,000 which brought the authority to \$64,000,000 as per *Appropriation Act No. 4, 1991-92* which was repealed in 1996 and replaced by section 5.5 of the *Revolving Funds Act*. As per Treasury Board decision #827175, on April 1, 1999 the draw down authority of the GTIS Revolving Fund was reduced from \$64,000,000 to \$45,000,000 and the accumulated surplus was reduced by \$20,000,000.

As part of the restructuring announced June 25, 1993, GTA was merged with the informatics groups from the former Supply and Services Canada (SSC) and Public Works Canada (PWC) to form what is called Government Telecommunications and Informatics Services (GTIS). As of April 1, 1994 all balances in the GTA Revolving Fund were transferred to the GTIS Revolving Fund. The 1998-99 Planning, Reporting and Accountability Structure (PRAS) exercise transferred the activities providing internal support to PWGSC from the GTIS Revolving Fund to the Vote effective April 1, 1998.

Also as per Treasury Board decision #827175, on April 1, 1999 architecture and infrastructure and electronic commerce activities transferred to the Vote.

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.

b) Inventories

Inventories are valued at the lower of cost or the net realization value and are recorded on a first-in, first-out basis.

c) Capital assets

Effective April 1, 1999, only 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 |
|------------------------------|--------------------------------|
| Office Equipment | 3 years |
| Furniture and Fixtures | 10 years |
| Automobiles | 3 years |
| Telecommunications Equipment | 3 years |

The current year acquisitions are amortized commencing the first day of the month following the month the expenditure for the asset is recorded.

Starting April 1, 1999, the economic life of the Office Equipment and the Telecommunications Equipment was reduced from 5 years to 3 years. The impact of this change was treated prospectively.

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 is made for severance entitlements on service prior to April 1, 1994. This accrual represents 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. Change in accounting policy - capital assets

During the year, GTIS changed its policy to capitalize assets having an initial purchase cost of \$10,000 or more. Previously, the policy was to capitalize assets having an initial purchase

cost of \$1,000 or more. This decision follows the release of Treasury Board (TB) Accounting Standard 3.1 - Capital Assets. This policy is being applied retroactively with a restatement of 1998 - 1999 comparative figures. Consequently, the effect of the change in accounting policy on the financial statements is as follows: the capital assets net book value decreased by \$1,750,000 in fiscal 2000 (\$2,201,000 in 1999); net loss decreased by \$451,000 in fiscal 2000 (increased by \$89,000 in 1999); and accumulated surplus decreased by \$1,750,000 in fiscal 2000 (\$2,201,000 in 1999).

4. Capital assets and accumulated amortization

(in thousands of dollars)

| Capital Assets | Balance beginning of year (restated - note 3) | Acquisitions | Disposals/ Adjustments | Balance end of year |
|---------------------------------|---|--------------|---------------------------|------------------------|
| Office Equipment | 2,267 | 113 | (2,072) | 308 |
| Furniture and Fixtures | 75 | 0 | (75) | 0 |
| Automobiles | 90 | 0 | (90) | 0 |
| Telecommunications Equipment | 4,477 | 32 | (2,458) | 2,051 |
| | 6,909 | 145 | (4,695) | 2,359 |

| Accumulated amortization | Balance beginning of year (restated - note 3) | Current year amortization | Disposals/ Adjustments | Balance end of year |
|---------------------------------|---|------------------------------|---------------------------|------------------------|
| Office Equipment | 1,113 | 108 | (1,060) | 161 |
| Furniture and Fixtures | 15 | 0 | (15) | 0 |
| Automobiles | 90 | 0 | (90) | 0 |
| Telecommunications Equipment | 2,929 | 570 | (1,616) | 1,883 |
| | 4,147 | 678 | (2,781) | 2,044 |
| Net | 2,762 | | | 315 |

5. Long-term obligations

(in thousands of dollars)

| | 2000 | 1999 |
|---|-------|-------|
| Provision for Employee Termination Benefits | 2,442 | 2,905 |

6. Contractual commitments

The Fund is engaged in contracts with telecommunication suppliers. The future payments are as follows:

(in thousands of dollars)

| | |
|-----------|---------------|
| 2000-2001 | 16,026 |
| 2001-2002 | 9,503 |
| 2002-2003 | 9,057 |
| 2003-2004 | 1,375 |
| | <u>35,961</u> |

7. Changes in working capital

(in thousands of dollars)

| | 2000 | 1999 | Changes |
|---------------------|---------------|---------------|---------------|
| Current assets | 29,104 | 47,799 | 18,695 |
| Current liabilities | 6,044 | 10,137 | (4,093) |
| | <u>23,060</u> | <u>37,662</u> | <u>14,602</u> |

8. Comparative figures

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