

Financial Statements

Real Property 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 **Real Property Services Revolving Fund** as at March 31, 2000 and 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 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 the **Real Property 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 21, 2000.

Ernst & Young LLP

Chartered Accountants

Balance sheet

Real Property Services Revolving Fund

as at March 31	2000	1999
(in thousands of dollars)		(restated - see note 9)
Assets		
Current		
Accounts receivable		
Government of Canada	342,224	373,567
Outside parties	10,616	11,641
Inventories	903	891
Work in process	0	83
	353,743	386,182
Capital assets (note 3)	2,778	2,829
	356,521	389,011
Liabilities		
Current		
Accounts payable and accrued liabilities		
Government of Canada	17,901	18,771
Outside parties	154,570	129,995
Professional liability fund	1,729	910
Long-term obligations due within one year (note 4)	1,360	1,360
	175,560	151,036
Long-term obligations (note 4)	11,964	11,832
	187,524	162,868
Contractual commitments (note 5)		
Equity of Canada		
Accumulated net charge against the Fund's authority	276,619	331,576
Accumulated deficit	(107,622)	(105,433)
	356,521	389,011

The accompanying notes are an integral part of the financial statements

Statement of operations

Real Property Services Revolving Fund

Year ended March 31	2000	1999
(in thousands of dollars)		(restated - see note 9)
Revenues (note 6)	120,048	106,154
Operating Expenses		
Salaries and employee benefits	80,372	64,403
Provision for employee termination benefits	1,030	4,403
Provision for compensation	0	1,454
Occupancy costs	2,657	3,128
Amortization	252	356
Overhead chargeback	22,193	21,655
Corporate and administrative services	13,582	13,269
Provision for claims and other expenditures	2,151	0
	122,237	108,668
Net loss	(2,189)	(2,514)

The accompanying notes are an integral part of the financial statements

Statement of accumulated deficit

Real Property Services Revolving Fund

Year ended March 31	2000	1999
(in thousands of dollars)		(restated - see note 9)
Balance, beginning of year	(105,433)	(146,299)
Net loss	(2,189)	(2,514)
Net loss of transferred operations (note 9)	0	(20,997)
Write-off of employee departure program costs to accumulated net charge against the Fund's authority account	0	64,377
Balance, end of year	(107,622)	(105,433)

The accompanying notes are an integral part of the financial statements

Statement of cash flows

Real Property Services Revolving Fund

Year ended March 31 (in thousands of dollars)	2000	1999 (restated - see note 9)
Operating activities		
Net loss	(2,189)	(2,514)
Net loss of transferred operations (note 9)	0	(20,997)
Item not affecting use of authority		
Amortization	252	5,119
	(1,937)	(18,392)
Working capital change (note 7)	56,963	(146,622)
Changes in other assets and liabilities (note 8)	132	2,796
	55,158	(162,218)
Investing activities		
Capital assets		
Acquisitions	(201)	(7,045)
Disposals/adjustments	0	(366)
	(201)	(7,411)
Financing activities		
Transferred net liabilities (note 9)	0	(142,914)
Write-off of employee departure program costs to accumulated net charge against the Fund's authority	0	64,377
	0	(78,537)
Net decrease (increase) in accumulated net charge against the Fund's authority	54,957	(248,166)
Accumulated net charge against the Fund's authority beginning of year	(331,576)	(83,410)
Accumulated net charge against the Fund's authority end of year	(276,619)	(331,576)

The accompanying notes are an integral part of the financial statements

Notes to the Financial Statements

Real Property Services Revolving Fund

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 will look 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, the necessary working capital, and capital expenditures, the total of which is not to exceed \$450,000,000 at any time.

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 (E), 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.

Finally, through the 2000-2001 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 (note 9).

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 Revenue for 1999-2000 and Actual Revenue for 1998-1999. Revenues are net of recoverable disbursements made on behalf of clients.

b) **Inventories**

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

c) **Capital assets**

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 life as follows:

Category	Estimated economic life
Dredges & fixed shore based facilities	35 years
Scows, tugs and large survey launches	30 years
All other dredging assets	15 years

Current year acquisitions are amortized from the month the asset becomes operational.

d) **Work in process**

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

e) **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.

f) **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, 1996. 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.

g) **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 (restated - note 9)	Acquisitions	Disposals/ Adjustments	Balance end of year
Dredges & fixed shore based facilities	2,564	0	0	2,564
Scows, tugs and large survey launches	2,324	0	0	2,324
All other dredging assets	1,453	201	0	1,654
	6,341	201	0	6,542

Accumulated amortization	Balance beginning of year (restated - note 9)	Current year amortization	Disposals/ Adjustments	Balance end of year
Dredges & fixed shore based facilities	1,784	6	0	1,790
Scows, tugs and large survey launches	1,118	4	0	1,122
All other dredging assets	610	242	0	852
	3,512	252	0	3,764
Net	2,829			2,778

4. Long-term obligations

(in thousands of dollars)

	2006	1999
Provision for Employee Termination Benefits	13,326	13,192
Total long-term obligations	13,326	13,192
Less portion due within one year	1,366	1,366
	11,960	11,826

5. Contractual commitments

The Fund is engaged in contractual commitments in the amount of \$440,000,000 over the next 5 years.

6. Revenues

(in thousands of dollars)

	2000	1999
Inventory management fees	4,982	11,807
Project revenues	90,524	68,446
Payroll recoveries at direct cost	20,887	15,794
Other Income	3,655	10,107
	120,048	106,154

7. Changes in working capital

(In thousands of dollars)

	2000	1999	Changes
Current assets	353,743	386,182	32,439
Current liabilities	175,560	151,036	24,524
	178,183	235,146	56,963

8. Changes in other assets and liabilities

(in thousands of dollars)

	2000	1999	Changes
Other assets	0	0	0
Other liabilities	11,964	11,832	132
	(11,964)	(11,832)	132

9. Transfer of operations

Effective April 1, 1999, a portion of the current Real Property Services activities was transferred to the Real Property Business Line and is being funded through a Net Vote rather than the RPS Revolving Fund. The 1998-99 figures have been restated based on the percentage of the activities transferred to the Vote as set out in the ARLU for 1998-1999. The resulting impact on the Balance sheet and the Statement of operations is as follows:

(in thousands of dollars)

Balance sheet	1999	Transferred operations	Restated 1999 results
<u>Assets</u>			
Current assets	386,185	3	386,182
Capital assets	18,021	15,192	2,829
	404,206	15,195	389,011
<u>Liabilities and Equity of Canada</u>			
Current liabilities	286,177	135,141	151,036
Long-term obligations	34,800	22,968	11,832
Accumulated net charge against the Fund's authority	188,662	(142,914)	331,576
Accumulated deficit	(105,433)	0	(105,433)
	404,206	15,195	389,011
Statement of operations	1999	Transferred operations	Restated 1999 results
Revenues	290,937	184,783	106,154
Operating expenses	314,448	205,780	108,668
Net loss	(23,511)	(20,997)	(2,514)

10. Comparative figures

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