

Audit Objective

The purpose of the audit was to attest to the fair presentation in the financial statements of Real Property Services Revolving Fund, of the financial position and results of operations and changes in financial position for the year ended March 31, 2001 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.

Financial Statements

Real Property Services - Revolving Fund

March 31, 2001



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, 2001 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 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 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, 2001 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 12, 2001.

Ernst & Young LLP

Chartered Accountants

Balance sheet

Real Property Services Revolving Fund

as at March 31

(in thousands of dollars)

2001

2000

Assets		
Current		
Accounts receivable		
Government of Canada	248,263	342,224
Outside parties	14,644	10,616
Inventories and prepaid expenses	524	903
	<u>263,431</u>	<u>353,743</u>
Capital assets (note 3)	0	2,778
	<u>263,431</u>	<u>356,521</u>
Liabilities		
Current		
Accounts payable and accrued liabilities		
Government of Canada	17,158	17,901
Outside parties	143,401	154,570
Professional liability fund	1,986	1,729
Allowance for employee termination benefits due within one year	1,340	1,360
	<u>163,885</u>	<u>175,560</u>
Allowance for employee termination benefits	13,269	11,964
	<u>177,154</u>	<u>187,524</u>
Contractual commitments (note 4)		
Equity of Canada		
Accumulated net charge against the Fund's authority	193,428	276,619
Accumulated deficit	(107,151)	(107,622)
	<u>263,431</u>	<u>356,521</u>

The accompanying notes are an integral part of the financial statements

Statement of operations

Real Property Services Revolving Fund

Year ended March 31 (in thousands of dollars)	2001	2000
Net revenues (note 5)	133,112	120,048
Operating Expenses		
Salaries and employee benefits	80,607	79,262
Provision for employee termination benefits	2,605	2,140
Occupancy costs	2,916	2,657
Amortization	0	252
Overhead chargeback	23,853	22,193
Corporate and administrative services	14,907	13,582
Provision for claims and other expenditures	7,753	2,151
	132,641	122,237
Net income (loss)	471	(2,189)

The accompanying notes are an integral part of the financial statements

Statement of accumulated deficit

Real Property Services Revolving Fund

Year ended March 31 (in thousands of dollars)	2001	2000
Balance, beginning of year	(107,622)	(105,433)
Net income (loss)	471	(2,189)
Balance, end of year	(107,151)	(107,622)

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)	2001	2000
Operating activities		
Net <u>income (loss)</u>	471	(2,189)
Item not affecting use of authority		
Amortization	0	252
	471	(1,937)
Working capital change (note 6)	78,637	56,963
Changes in allowance for employee termination benefits	1,305	132
	80,413	55,158
Investing activities		
Capital assets		
Acquisitions	0	(201)
Disposals/adjustments	2,778	0
	2,778	(201)
Net decrease (increase) in accumulated net charge against the Fund's authority	83,191	54,957
Accumulated net charge against the Fund's authority beginning of year	(276,619)	(331,576)
Accumulated net charge against the Fund's authority end of year	(193,428)	(276,619)

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 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, 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.

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.

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.

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, 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.

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
Dredges & fixed shore based facilities	2,564	0	(2,564)	0
Scows, tugs and large survey launches	2,324	0	(2,324)	0
All other dredging assets	1,654	0	(1,654)	0
	6,542	0	(6,542)	0

Accumulated amortization	Balance beginning of year	Current year amortization	Disposals/ Adjustments	Balance end of year
Dredges & fixed shore based facilities	1,790	0	(1,790)	0
Scows, tugs and large survey launches	1,122	0	(1,122)	0
All other dredging assets	852	0	(852)	0
	3,764	0	(3,764)	0

Net	2,778		(2,778)	0
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Transfer of capital assets

The adoption of a new Financial Framework on April 1st, 1999 required the Real Property Services Revolving Fund to transfer capital assets to the Appropriation in fiscal years 2000 and 2001. As a result, capital assets were transferred to the Appropriation for proceeds equal to the net book value of \$2,778,000 (\$15,192,000 in 2000). The offsetting entry was recorded against the Contributed Capital account.

4. Contractual commitments

The Fund is engaged in contractual commitments in the amount of \$146,000,000 over the next 5 years.

5. Net revenues

(in thousands of dollars)

	2001	2000
Gross revenues	712,515	615,800
Less recoverable disbursements made on behalf of clients	579,403	495,752
Net revenues	133,112	120,048
Net revenues by category:		
Inventory management fees	5,148	4,982
Project revenues	103,342	90,524
Payroll recoveries at direct cost	21,194	20,887
Other Income	3,428	3,655
	133,112	120,048

6. Changes in working capital

(in thousands of dollars)

	2001	2000	Changes
Current assets	263,431	353,743	90,312
Current liabilities	163,885	175,560	(11,675)
	99,546	178,183	78,637

7. Comparative figures

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