

Audit Objective

The purpose of the audit was to attest to the fair presentation in the financial statements of Real Properties Services Revolving Fund, of the financial position and results of operations and changes in financial position for the year ended March 31, 1999 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

**Please note that information has been withheld
pursuant to the provisions of the "*Access to
Information Act.*"**

FINANCIAL STATEMENTS

REAL PROPERTY SERVICES

REVOLVING FUND

March 31, 1999

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, 1999 and the statements of operations and accumulated deficit and changes in financial position 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 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, 1999 and the results of its operations and the changes in its financial position 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,
August 20, 1999.

Ernst + Young LLP

Chartered Accountants

Balance sheet

Real Property Services Revolving Fund

as at March 31 (in thousands of dollars)	1999	1998
Assets		
Current		
Accounts receivable		
Government of Canada	373,570	223,513
Outside parties	11,641	16,339
Inventories	891	1,105
Work in process	83	31
	386,185	240,988
Capital assets (note 3)	18,021	15,729
	404,206	256,717
Liabilities		
Current		
Accounts payable and accrued liabilities		
Government of Canada	31,424	32,296
Outside parties	249,843	238,744
Professional liability fund	910	155
Long-term obligations due within one year (note 4)	4,000	16,407
	286,177	287,602
Long-term obligations (note 4)	34,800	32,004
Contractual commitments and Contingent liabilities (note 5 and 10)		
Equity of Canada		
Accumulated net charge against the Fund's authority	188,662	83,410
Accumulated deficit	(105,433)	(146,299)
	404,206	256,717

The accompanying notes are an integral part of the financial statements

Statement of operations

Real Property Services Revolving Fund

Years ended March 31 (in thousands of dollars)	1999	1998
Revenues (note 6)	290,937	323,744
Operating expenses		
Salaries and employee benefits	189,420	221,378
Provision for employee termination benefits	12,951	14,565
Provision for compensation	4,276	0
Transportation and communications	7,664	6,964
Information	609	361
Professional and special services	25,949	17,328
Occupancy costs	9,200	10,367
Rentals	649	933
Purchased repair and maintenance	2,188	872
Utilities, materials and supplies	4,748	4,477
Amortization	5,119	6,124
Loss on disposal of capital assets	104	0
Corporate and administrative services	48,637	74,379
Other expenditures	2,934	5,836
	314,448	363,584
Net loss	(23,511)	(39,840)

The accompanying notes are an integral part of the financial statements

Statement of accumulated deficit

Real Property Services Revolving Fund

Years ended March 31 (in thousands of dollars)	1999	1998
Balance, beginning of year	(146,299)	(109,048)
Net loss	(23,511)	(39,840)
Write-off of employee departure program costs to accumulated net charge against the Fund's authority account (note 9)	64,377	0
Vote 10 - Real Property Services Revolving Fund - Activities in support of broader government objectives	0	2,589
Balance, end of year	(105,433)	(146,299)

The accompanying notes are an integral part of the financial statements

Statement of changes in financial position

Real Property Services Revolving Fund

Years ended March 31 (in thousands of dollars)	1999	1998
Operating activities		
Net loss	(23,511)	(39,840)
Item not affecting use of authority		
Amortization	5,119	6,124
	(18,392)	(33,716)
Working capital change (note 7)	(146,622)	(115,444)
Changes in other assets and liabilities (note 8)	2,796	5,075
	(162,218)	(144,085)
Investing activities		
Capital assets		
Acquisitions	(7,045)	(4,874)
Disposals/adjustments	(366)	872
	(7,411)	(4,002)
Financing activities		
Recovery from Vote 10 - Real Property Services Revolving Fund - Activities in support of broader government objectives	0	2,589
Write-off of employee departure program costs to accumulated net charge against the Fund's authority (note 9)	64,377	0
	64,377	2,589
Net increase in accumulated net charge against the Fund's authority	(105,252)	(145,498)
Accumulated net charge against the Fund's authority beginning of year	(83,410)	62,088
Accumulated net charge against the Fund's authority end of year	(188,662)	(83,410)

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. 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.

2. Significant accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles 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 cost and are recorded on a first-in, first-out basis.

2. Significant accounting policies (continued)

c) Capital assets

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
Dredges and fixed shore based facilities	35 years
Scows, tugs and large survey launches	30 years
All other dredging assets	15 years
Vehicles and construction equipment	3 years
Tools, machinery, building and office equipment, including EDP equipment, furniture and fixtures	5 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	Acquisitions	Disposals/ Adjustments	Balance end of year
Dredges and 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	1,482	0	(29)	1,453
Vehicles and construction equipment	4,876	116	0	4,992
Tools, machinery, building and office equipment, including EDP equipment, furniture and fixtures	56,496	6,929	80	63,505
	67,742	7,045	51	74,838
Accumulated amortization	Balance beginning of year	Current year amortization	Disposals/ Adjustments	Balance end of year
Dredges and fixed shore based facilities	1,778	6	0	1,784
Scows, tugs and large survey launches	1,114	4	0	1,118
All other dredging assets	579	40	(9)	610
Vehicles and construction equipment	4,581	78	0	4,659
Tools, machinery, building and office equipment, including EDP equipment, furniture and fixtures	43,961	4,991	(306)	48,646
	52,013	5,119	(315)	56,817
Net	15,729		366	18,021

4. Long-term obligations

(in thousands of dollars)

	1999	1998
Provision for employee termination benefits	38,800	36,004
Provision for compensation	0	12,407
Total long-term obligations	38,800	48,411
Less: Portion of employee termination benefits due within one year	4,000	4,000
Portion of compensation due within one year	0	12,407
	34,800	32,004

5. Contractual commitments

The Fund is engaged in contractual commitments in the amount of \$971,546,475 over the next 5 years.

6. Revenues

(in thousands of dollars)

	1999	1998
Inventory management fees	31,072	46,827
Project revenues	180,121	199,265
Payroll recoveries at direct cost	41,562	71,579
Other Income	38,182	6,073
	290,937	323,744

7. Changes in working capital

(In thousands of dollars)

	1999	1998	Changes
Current assets	386,185	240,988	(145,197)
Current liabilities	286,177	287,602	(1,425)
	(100,008)	46,614	(146,622)

8. Changes in other assets and liabilities

(in thousands of dollars)

	1999	1998	Changes
Other assets	0	0	0
Other liabilities	34,800	32,004	2,796
	34,800	32,004	2,796

9. Write-off of employee departure program costs

The amount of \$64,377,000 represents costs incurred by Real Property Services Revolving Fund from 1995-96 to 1998-99 relating to employee departures under various work force reduction initiatives.

10. Contingent liabilities

The Revolving Fund has a number of outstanding claims and litigation in dispute as at March 31, 1999. Management of the Revolving Fund believes that these outstanding claims and litigation, will not have a material impact on the financial statements because significant settlements, if any, arising from resolution of these matters would be funded centrally by Treasury Board. Accordingly, no provision has been made in the financial statements in respect of the above claims and litigation.

11. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Revolving Fund's ability to conduct normal business operations. However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Revolving Fund, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Management has developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 Issue on the Real Property Services Revolving Fund.

12. Comparative figures

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