

**SHIP-SOURCE OIL POLLUTION FUND**

FINANCIAL STATEMENTS

MARCH 31, 2015

## **SHIP-SOURCE OIL POLLUTION FUND**

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## INDEPENDENT AUDITOR'S REPORT

To the Administrator of  
Ship-source Oil Pollution Fund

We have audited the accompanying financial statements of the Ship-source Oil Pollution Fund, which comprise the statement of financial position as at March 31, 2015, the statements of operations, change in net financial assets and cash flows for the year then ended, as well as a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ship-source Oil Pollution Fund as at March 31, 2015, as well as the results of its operations, its change in net financial assets and its cash flows for the year then ended in accordance with public sector accounting standards.

*Budget*

As explained in Note 11 to the financial statements, budget figures are not disclosed in the financial statements, although it is required according to public sector accounting standards.



Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario  
May 12, 2015

# SHIP-SOURCE OIL POLLUTION FUND

## STATEMENT OF FINANCIAL POSITION

MARCH 31, 2015

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	2015	2014
<b>FINANCIAL ASSETS</b>		
Balance of the account with Receiver General for Canada (Note 3)	\$ 409,835,893	\$ 406,005,275
Accounts receivable	-	1,000
Prepaid expenses	1,690	1,189
<b>TOTAL FINANCIAL ASSETS</b>	<b>409,837,583</b>	<b>406,007,464</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	336,633	129,776
Provision for claims under review (Note 4)	948,619	804,020
<b>TOTAL LIABILITIES</b>	<b>1,285,252</b>	<b>933,796</b>
<b>NET FINANCIAL ASSETS</b>	<b>408,552,331</b>	<b>405,073,668</b>
<b>NON-FINANCIAL ASSETS</b>		
Capital assets (Note 5)	97,963	218,050
<b>ACCUMULATED SURPLUS</b>	<b>\$ 408,650,294</b>	<b>\$ 405,291,718</b>

*Contingencies* (Note 6)

  
\_\_\_\_\_, Administrator

# SHIP-SOURCE OIL POLLUTION FUND

## STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2015

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	2015	2014
<b>REVENUE</b>		
Interest	\$ 5,266,651	\$ 6,826,266
Recoveries related to previously awarded settlements	133,144	2,138,651
	<b>5,399,795</b>	<b>8,964,917</b>
<b>CLAIMS</b>		
Payments made towards Canadian claims	341,218	141,796
Increase of provision for claims under review	144,599	199,696
International Oil Pollution Compensation Funds Contributions (Note 6)	246,095	1,028,982
	<b>731,912</b>	<b>1,370,474</b>
	<b>4,667,883</b>	<b>7,594,443</b>
<b>OPERATING EXPENSES</b>		
Administrator's fees	99,000	98,450
Legal fees	83,527	74,787
Consulting fees	133,176	96,630
Audit fees	16,498	16,216
Special examination fees	56,500	-
Administrative services, salaries and office	467,789	460,149
Travel	37,310	16,247
Rent	225,717	225,717
Access to Information and Privacy Act (Note 8)	60,633	62,294
Amortization of capital assets	129,157	159,051
	<b>1,309,307</b>	<b>1,209,541</b>
<b>OPERATING SURPLUS</b>	<b>3,358,576</b>	<b>6,384,902</b>
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>	<b>405,291,718</b>	<b>398,906,816</b>
<b>ACCUMULATED SURPLUS, END OF YEAR</b>	<b>\$ 408,650,294</b>	<b>\$ 405,291,718</b>

## SHIP-SOURCE OIL POLLUTION FUND

### STATEMENT OF CHANGE IN NET FINANCIAL ASSETS FOR THE YEAR ENDED MARCH 31, 2015

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	2015	2014
<b>OPERATING SURPLUS</b>	<b>\$ 3,358,576</b>	<b>\$ 6,384,902</b>
Acquisition of capital assets	(9,656)	(21,924)
Amortization of capital assets	129,157	159,051
Loss on disposal of capital assets	586	-
	<b>120,087</b>	<b>137,127</b>
<b>INCREASE IN NET FINANCIAL ASSETS</b>	<b>3,478,663</b>	<b>6,522,029</b>
<b>NET FINANCIAL ASSETS, BEGINNING OF YEAR</b>	<b>405,073,668</b>	<b>398,551,639</b>
<b>NET FINANCIAL ASSETS, END OF YEAR</b>	<b>\$ 408,552,331</b>	<b>\$ 405,073,668</b>

# SHIP-SOURCE OIL POLLUTION FUND

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2015

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	2015	2014
<b>OPERATING TRANSACTIONS</b>		
Operating surplus	\$ 3,358,576	\$ 6,384,902
<b>Adjustments for:</b>		
Amortization of capital assets	129,157	159,051
Loss on disposal of capital assets	586	-
	<b>3,488,319</b>	<b>6,543,953</b>
<b>Net change in non-cash working capital items:</b>		
Accounts receivable	1,000	(1,000)
Prepaid expenses	(501)	(1,189)
Accounts payable and accrued liabilities	206,857	28,060
Provision for claims under review	144,599	199,696
	<b>351,955</b>	<b>225,567</b>
<b>INVESTING TRANSACTION</b>		
Acquisition of capital assets	(9,656)	(21,924)
<b>INCREASE IN BALANCE OF ACCOUNT WITH RECEIVER GENERAL FOR CANADA</b>		
	<b>3,830,618</b>	<b>6,747,596</b>
<b>BALANCE, BEGINNING OF YEAR</b>	<b>406,005,275</b>	<b>399,257,679</b>
<b>BALANCE, END OF YEAR</b>	<b>\$ 409,835,893</b>	<b>\$ 406,005,275</b>

# SHIP-SOURCE OIL POLLUTION FUND

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

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### 1. GOVERNING STATUTES AND PURPOSE OF THE ORGANIZATION

The Ship-source Oil Pollution Fund (the Fund) was created on April 24, 1989 by amendments to the *Canada Shipping Act* and succeeded the Maritime Pollution Claims Fund. The Fund is governed by Part 7 of the *Marine Liability Act* (MLA) as modified by Statutes of Canada, 2009, Chapter 21.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of accounting**

The financial statements are prepared in accordance with Treasury Board accounting policies which are consistent with public sector accounting standards.

#### **Accounting estimates**

The preparation of financial statements in accordance with Treasury Board Secretariat accounting policies, which are consistent with public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses for the periods covered. The primary estimates relate to the useful life of capital assets and the valuation of provision for claims under review. Actual amounts could differ from the estimates.

#### **Revenue recognition**

Interest income is recognized as revenue when it is earned. Recoveries related to previously awarded settlements are recognized when they are received.

#### **Capital assets**

Capital assets are recorded at cost. Capital assets are amortized over their estimated useful lives according to the straight-line method over the following periods:

Computer equipment	3 years
Furniture and equipment	10 years
Leasehold improvements	Remaining term of lease

#### **Recognition of the provision for claims**

Provisions for indemnification claims are recognized when a formal claim is submitted by the claimant and is duly received by the Fund.

#### **Recognition of the International Oil Pollution Compensation Funds Contributions**

The Fund recognizes its contributions to the International Oil Pollution Compensation Funds when the contributions are determined and requested by the International Oil Pollution Compensation Funds.

#### **Foreign currency translation**

Transactions involving foreign currencies are translated into Canadian dollars using rates of exchange in effect at the time of these transactions.

# SHIP-SOURCE OIL POLLUTION FUND

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

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### 3. BALANCE OF THE ACCOUNT WITH RECEIVER GENERAL FOR CANADA

The cash balance of the Fund is held within the Consolidated Specified Purpose Accounts of the Government of Canada. Public Works and Government Services Canada acts as the custodian of this cash balance and Transport Canada performs the various transactions on behalf of the Fund. Interest is credited to the account in accordance with the provisions of the MLA at a rate based on a 5-year Government of Canada bond interest rate, calculated monthly. The interest rates varied between 0.66% and 1.57% during the year (2014: 1.10% and 2.24%). The average interest rate for March 2015 was 0.70% (2014: 2.24%).

### 4. MEASUREMENT UNCERTAINTY

Due to uncertainties inherent to the claims review process, it is possible that the provision for claims under review may be insufficient. Accordingly, a provision of \$948,619 for claims received prior to March 31, 2015 (2014: \$804,020) but not completely reviewed by that date has been calculated and recorded in the books. This provision is based on management's estimate and supported by claims payment historical data. All subsequent adjustments due to further investigation will be recognized in the year in which the claims are reviewed.

### 5. CAPITAL ASSETS

	2015		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 151,768	\$ 144,988	\$ 6,780
Furniture and equipment	185,555	94,372	91,183
Leasehold improvements	487,714	487,714	-
	<b>\$ 825,037</b>	<b>\$ 727,074</b>	<b>\$ 97,963</b>

  

	2014		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 153,345	\$ 138,777	\$ 14,568
Furniture and equipment	176,874	76,206	100,668
Leasehold improvements	487,714	384,900	102,814
	<b>\$ 817,933</b>	<b>\$ 599,883</b>	<b>\$ 218,050</b>

# SHIP-SOURCE OIL POLLUTION FUND

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

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### 6. CONTINGENCIES

The Ship-source Oil Pollution Fund may be required to make contributions to the International Oil Pollution Compensation Funds, for which the amount owing is determined by the International Oil Pollution Compensation Funds. The amounts contributed are used to pay compensation for claims arising under the jurisdiction of the contracting states to the International Oil Pollution Compensation Funds. The size of the contribution is contingent on the number of claims received by the International Oil Pollution Compensation Funds, resulting in varying levels of contributions from year to year. Given this volatility, it has been determined that this contribution cannot be reasonably estimated from year to year. The amount of the contribution is paid and recorded by the Ship-source Oil Pollution Fund once the contribution is determined and requested by the International Oil Pollution Compensation Funds. During the year ended March 31, 2015, the Fund has contributed \$246,095 (2014: \$1,028,982) to the International Oil Pollution Compensation Funds.

During the fiscal year commencing April 1, 2015, the maximum liability of the Fund is \$165,837,463 (2014: \$162,745,303) for all claims from one oil spill. Furthermore, as of April 1, 2015, the Minister of Transport also has the statutory power to impose a levy of 49.74 cents (2014: 48.81 cents) per metric tonne of “contributing oil” imported into or shipped from a place in Canada in bulk as cargo in a ship. Both the maximum liability and the levy are indexed annually to the consumer price index. No levy has been imposed since 1976.

In the normal course of its operations, the Fund may receive information about incidents that have occurred but for which no claims have been received. It is not possible for the Fund to determine the likeliness of a claim for any of these reported incidents. The Fund is also not able to assess the financial value of any such claims should they materialize. No provision related to these incidents is recognized in the financial statements. A provision will be recognized when a claim is effectively received.

### 7. INFORMATION INCLUDED IN OPERATIONS

	2015	2014
Foreign exchange gain included in the recoveries related to previously awarded settlements	\$ 1,563	\$ 178,704
Foreign exchange loss included in the International Oil Pollution Compensation Funds contributions	\$ 19,436	\$ 91,546

# SHIP-SOURCE OIL POLLUTION FUND

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

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### 8. ACCESS TO INFORMATION AND PRIVACY ACT EXPENSES

	2015	2014
Consultant fees	\$ 54,452	\$ 54,042
Records and information management database	5,932	7,595
Administration costs	249	657
	<b>\$ 60,633</b>	<b>\$ 62,294</b>

The *Access to Information and Privacy Act* expenses incurred in 2015 are related to application development and system improvements of a records and information database and activities to facilitate the processing of access to information requests and to ensure that records containing personal information are dealt with in accordance with privacy laws and regulations.

### 9. RELATED PARTY TRANSACTIONS

The Fund is related, in terms of common ownership, to all Government of Canada departments, agencies and Crown Corporations.

#### Rent

During the year, the Fund has paid \$225,717 (2014: \$225,717) to Public Works and Government Services Canada (PWGSC) for the use of office space.

The Fund was committed to making minimum annual lease payments to PWGSC in the amount of \$225,717 for the rental of office space up to March 31, 2015. As a tenant, the Fund is also responsible to pay its share of escalation costs annually. The lease agreement has not yet been renewed as at May 12, 2015.

#### Accounting services

During the year, the Fund has paid \$29,934 (2014: \$30,780) to Transport Canada for accounting services.

### 10. SUBSEQUENT EVENT

The Fund recognizes a provision for an indemnification claim when a formal and duly prepared claim is submitted by the claimant and is effectively received by the Fund. All claims received before March 31, 2015 were provided for in the financial statements. During the period from April 1, 2015 to May 12, 2015, the Fund has received an additional claim totalling \$5,738. This claim is not provided for in the financial statements.

### 11. BUDGET

The Ship-source Oil Pollution Fund does not prepare an annual budget.