

Petroleum Products Division

Financial Statements

March 31, 2014

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Financial Statements

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Independent Auditors' Report

**To the Minister of Public Works and Services
Government of the Northwest Territories**

We have audited the accompanying financial statements of Petroleum Products Division, which comprise the statement of financial position as at March 31, 2014, and the statement of change in net financial resources (debt), the statement of operations, and the statement of accumulated surplus (deficit) for the year then ended, and 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 Canadian 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 misstatements, whether due to fraud or error.

Auditors' 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 auditors' 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 controls 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 of the effectiveness of the entity's internal controls. An audit also included 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, these financial statements present fairly, in all material respects, the financial position of Petroleum Products Division as at March 31, 2014 and the results of its operations and changes in net financial resources (debt) for the year then ended in accordance with Canadian public sector accounting standards.



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Independent Auditors' Report (continued)

Report on Other Legal and Regulatory Requirements

We further report in accordance with the *Financial Administration Act* that, in our opinion, proper books of account have been kept by Petroleum Products Division, the financial statements are in agreement therewith and the transactions that have come under our notice have, in all significant aspects, been within the statutory powers of Petroleum Products Division.

A handwritten signature in cursive script that reads "Crowe MacKay LLP".

Chartered Accountants

Yellowknife, Northwest Territories
June 26, 2014

Petroleum Products Division

Statement of Financial Position

<u>As at March 31,</u>	<u>2014</u>	<u>2013</u>
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Financial Assets

Accounts receivable (note 4)	8,599,433	8,634,200
Inventories for resale (note 5)	29,316,474	28,517,741
	37,915,907	37,151,941

Liabilities

Accounts payable and accrued liabilities (note 6)	4,147,382	5,726,945
Employee leave and termination benefits	241,399	211,567
Due from the Government of the Northwest Territories (GNWT) (note 7)	33,630,169	31,141,029
	38,018,950	37,079,541
Net Financial Resources (Debt)	(103,043)	72,400

Non-financial Assets

Prepaid expenses	1,198	109,581
Accumulated Surplus (Deficit)	\$ (101,845)	\$ 181,981

Commitments (note 13)

Approved:



John Vandenberg, Director



Kathleen Broderick, Comptroller

Petroleum Products Division

Statement of Changes in Net Financial Resources (Debt)

March 31,	2014	2013
Annual deficit	\$ (283,826)	\$ (186,301)
Change in prepaid expenses	108,383	(109,581)
Decrease in net financial resources (debt)	(175,443)	(295,882)
Net financial resources, beginning of year	72,400	368,282
Net financial resources (debt), end of year	\$ (103,043)	\$ 72,400

Petroleum Products Division

Statement of Operations

<u>For the year ended March 31,</u>	<u>2014</u>	<u>2013</u>
Revenues		
Sales of petroleum products (note 9)	\$ 43,630,793	\$ 41,267,928
Cost of sales	37,404,335	35,002,953
Gross margin	6,226,458	6,264,975
Expenditures		
Bad debts (recovered)	(47,136)	55,831
Commissions	2,392,796	2,369,848
Contracts and purchased services	776,186	945,272
Miscellaneous	77,249	29,405
Operating and maintenance costs	371,627	466,330
Salaries, wages and employee benefits	2,085,528	2,008,192
Travel	310,661	330,393
Utilities	393,860	305,113
	6,360,771	6,510,384
Deficiency of revenues over expenditures before other items	(134,313)	(245,409)
Other expenses (revenue)		
Other expenses (revenue)	149,513	(59,108)
Grant-in-kind, Government assets provided at no cost (note 8)	(2,413,422)	(2,541,829)
Financing charges (note 8)	494,072	594,754
Tangible capital assets - rent expenses (note 8)	1,919,350	1,947,075
	149,513	(59,108)
Annual deficit	\$ (283,826)	\$ (186,301)

Petroleum Products Division**Statement of Accumulated Surplus (Deficit)**

March 31,	2014	2013
Stabilization fund, beginning of year	\$ 181,981	\$ 368,282
Annual deficit	(283,826)	(186,301)
Total Accumulated Surplus (Deficit)	\$ (101,845)	\$ 181,981

Petroleum Products Division

Notes to the Financial Statements

March 31, 2014

1. Authority and Operations

Petroleum Products Division revolving fund (the "Fund") was established in 1973 for the distribution of petroleum products in the Northwest Territories. The Fund operates under the authority of the Revolving Funds Act (the "Act") and the Northwest Territories Financial Administration Act. The Petroleum Products Division of the Department of Public Works and Services of the Government of the Northwest Territories (the "Government") is responsible for the administration of the Fund.

Under the Act, the Fund receives working capital advances from the Consolidated Revenue Fund (the "CRF") to finance inventory, accounts receivable and operating expenses. The Fund's purchases of petroleum products and operating expenses are paid from the CRF and funds received by the Fund are deposited in the CRF. The authorized limit of the Fund, being the maximum amount by which the assets may exceed the liabilities is \$55 million. The balance of the fund is reported as a current liability due to the Government of the Northwest Territories.

The prices for the Fund's petroleum products are approved by the Government. It is the expectation of the Government that the Fund's cost of goods sold and operating expenses will be recovered through the price structure to achieve a break-even operation. Under the Act, there is a special account in the CRF called the Petroleum Products Stabilization Fund to which profits of the Fund shall be credited and losses shall be charged. The debit or credit amount in the Stabilization Fund shall not exceed \$1,000,000 at the end of any fiscal year. The balance in the Stabilization Fund at March 31, 2014 is a deficit (surplus 2013) of (\$101,845) (2013 - \$181,981).

2. Significant accounting policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

(a) Measurement uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically and are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

(b) Tangible capital assets

Tangible capital assets are the property of the Government of the Northwest Territories and accordingly not reported on the financial statements. Use of assets, such as fuel storage facilities and fuel delivery vehicles are accounted for as rent offset by a grant in kind from the Government which is calculated based on the amortization of the assets as described in Note 8.

Petroleum Products Division

Notes to the Financial Statements

March 31, 2014

2. Significant accounting policies (continued)

(c) Services provided without charge

Environmental restoration costs

The Fund does not record any future environmental restoration costs, as they are the responsibility of the Government of the Northwest Territories.

Other services provided without charge

Other than an annual administration fee of \$17,365 charged by Public Works and Services and service charges of \$70,645 charged by Technology Service Centre, following existing practice, the Fund does not record the following services provided without charge by the Government: the procurement of goods and services, the processing of payroll, legal counsel and internal audit services, as it is difficult to estimate them.

(d) Employee leave and termination benefits

Under the terms and conditions of labour contracts, employees may qualify and earn employment benefits for annual leave, retirement, severance and removal costs based on years of service and salary. The estimated liability for these benefits is recorded as the benefits are earned by the employees. The benefit plan is not pre-funded.

(e) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method.

(f) Pensions

The Fund and its employees, who are deemed to be employees of the Government of the Northwest Territories, make contributions to the Public Service Superannuation Plan administered by the Government of Canada. The Fund and the employees contribute to the cost of the plan. The Fund contributes at a rate of 2.14 times that of the employees. During the year the Fund contributed \$163,525 (2013 - \$176,397) to the plan which was recognized as an expense while employees contributed \$102,965 (2013 - \$97,423). These contributions represent the total pension obligation of the Fund and are expensed on a current year basis. The Fund is not required under present legislation to make contributions with respect to actuarial deficiencies to the Public Service Superannuation Account.

(g) Revenue recognition

Revenue from the sale of petroleum products is recognized when the fuel is dispensed or delivered to the customers. The customer assumes all risks of ownership and the collection of any amounts receivable is considered probable. Other revenue is recognized as goods are delivered or services are provided.

Petroleum Products Division

Notes to the Financial Statements

March 31, 2014

2. Significant accounting policies (continued)

(h) Financial instruments

Initial measurement

Financial assets originated or acquired or financial liabilities issued or assumed in an arm's length transaction are initially measured at their fair value. In the case of a financial asset or financial liability not subsequently measured at its fair value, the initial fair value is adjusted for financing fees and transaction costs that are directly related to its origination, acquisition, issuance or assumption. Such fees and costs in respect of financial assets and liabilities subsequently measured at fair value are expensed.

Subsequent measurement

Financial assets measured at amortized cost include accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, employee benefits payable, and amounts due to the Government of the Northwest Territories.

The Fund has no financial instruments measured at fair value.

Impairment

At the end of each reporting period, management assesses whether there are any indications that financial assets measured at cost or amortized cost may be impaired. If there is an indication of impairment, management determines whether a significant adverse change has occurred in the expected timing or the amount of future cash flows from the asset, in which case the asset's carrying amount is reduced to the highest expected value that is recoverable by either holding the asset, selling the asset or by exercising the right to any collateral. The carrying amount of the asset is reduced directly or through the use of an allowance account and the amount of the reduction is recognized as an impairment loss in net income.

Previously recognized impairment losses may be reversed to the extent of any improvement. The amount of the reversal is recognized in operations.

(i) Related party balances

The Fund initially measures related party balances in accordance with the substance of the transactions that gave rise to them. The Fund subsequently measures related party balances in accordance with the Fund's policies for financial instruments, as set out in note (h).

The transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Petroleum Products Division

Notes to the Financial Statements

March 31, 2014

3. Future changes to significant accounting policies

Liability for Contaminated Sites, Section PS 3260

The Public Sector Accounting Board released Section PS 3260 – Liability for Contaminated Sites, in March 2010. This new section requires a government or government organization to recognize a liability for a contaminated site when an environmental standard exists, the contamination exceeds the environmental standard, the government is directly responsible or accepts responsibility for remediation of the contaminated site, and a reasonable estimate of the amount can be made.

This Section is effective for fiscal periods beginning on or after April 1, 2014. The impact of the transition to these accounting standards has not yet been determined.

4. Accounts receivable

	2014	2013
Commercial and Private Customers	\$ 1,793,366	\$ 2,315,049
Territorial and Municipal Housing Authorities	2,160,773	1,541,251
Government of the Northwest Territories		
Departments and Agencies	500,999	323,703
Northwest Territories Power Corporation	4,375,232	4,447,215
Government of Canada	77,219	362,274
	8,907,589	8,989,492
Less: Allowance for doubtful accounts	308,156	355,292
	\$ 8,599,433	\$ 8,634,200

5. Inventories for resale

	2014	2013
Diesel	\$ 22,815,712	\$ 22,752,941
Gasoline	4,762,080	4,389,858
Jet A1	1,665,482	1,348,216
Naptha	73,200	26,726
	\$ 29,316,474	\$ 28,517,741

Inventory in the amount of \$37,404,335 (2013 - \$35,002,953) was expensed during the year.

Petroleum Products Division

Notes to the Financial Statements

March 31, 2014

6. Accounts payable and accrued liabilities

	2014	2013
Commissions	\$ 66,593	\$ 133,297
Goods and Services Tax	218,378	233,778
Petroleum products	3,129,636	4,750,533
Trade payables	732,775	609,337
	<hr/> \$ 4,147,382	<hr/> \$ 5,726,945

7. Due to the Government of the Northwest Territories - revolving fund

The amount due to the Government of the Northwest Territories represents the balance in the revolving fund as follows:

	2014	2013
Balance, beginning of year	\$ 31,141,029	\$ 32,330,402
Plus: Payments made by the Government		
Purchases of petroleum products	38,202,900	36,678,792
Other cash disbursement	7,802,119	6,245,860
Less: Cash received by the Government	(43,515,879)	(44,114,025)
	<hr/> \$ 33,630,169	<hr/> \$ 31,141,029

Petroleum Products Division

Notes to the Financial Statements

March 31, 2014

8. Grant in kind

Financing charges

Management estimated that the Fund required up to \$40 million in working capital with an estimated financing cost of \$494,072 for the year. (For 2013 they were \$40.3 million and \$594,754 respectively). The financing cost is based upon the average monthly balance due to the Government at an average interest rate for the Government of 1.52% per annum.

Tangible capital assets - rent expenses

Tangible capital assets, i.e. fuel storage facilities and fuel delivery vehicles, are owned by the Government of the Northwest Territories. Tangible capital assets are amortized over the estimated useful life of the assets at the following rates and the expense is recognized as rent:

Fuel storage facilities	30 years straight line, no salvage
Fuel delivery vehicles	10 years straight line, no salvage
<hr/>	
	Accumulated
Cost	Amortization
	2014
	2013
Fuel storage facilities	\$ 54,432,581
Fuel delivery vehicles	4,647,452
Construction in process	7,918,140
	<hr/>
	\$ 66,998,173
	\$ 25,693,410
	\$ 41,304,763
	<hr/>
	\$ 40,093,641

Amortization expense for 2014 is \$1,919,350 (2013 - \$1,947,075).

9. Sales of Petroleum Products

	2014	2013
Commercial / Private	\$ 9,489,103	\$ 9,447,641
Territorial Municipalities and Housing Associations	6,743,952	6,149,462
Government of the Northwest Territories		
Northwest Territories Power Corporation	24,270,511	22,743,900
Departments and Agencies	2,783,045	2,528,551
Government of Canada	344,182	398,374
	<hr/>	<hr/>
	\$ 43,630,793	\$ 41,267,928

10. Statement of Cash Flows

A statement of cash flows has not been presented as these financial statements report the transactions within the revolving fund of the Government of the Northwest Territories (GNWT). The cash received and payments made by the GNWT on behalf of this Fund are reported in Note 7.

Petroleum Products Division

Notes to the Financial Statements

March 31, 2014

11. Related party transactions

In addition to those transactions with related parties disclosed elsewhere in the financial statements, the Fund is related in terms of common ownership to all Government of the Northwest Territories departments, agencies and Crown Corporations. The Fund enters into transactions with these entities in the normal course of business, with the exception of the Northwest Territories Power Corporation (NTPC). In accordance with an agreement with the Government of the Northwest Territories, NTPC is charged the landed cost to purchase and deliver petroleum products to its facilities in the communities.

12. Comparative amounts

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year.

13. Commitments

Fuel resupply contracts

The Government established a long-term contract with Northern Transportation Company Limited (NTCL) for the supply and delivery of bulk petroleum products to communities served by marine transport effective April 26, 2013. The prices will be subject to an adjustment factor calculated on June 1st of each year. The contract will terminate in December 2019.

In 2014, the Government entered into a two-year contract with Bluewave Energy Ltd. for the supply and transportation of bulk petroleum destined for delivery to communities served by road by tanker truck; the carrier is Bassett Petroleum Ltd. This contract will terminate in July 2015.

Community fuel delivery contracts

The Government provides local fuel delivery services in 16 communities across the Northwest Territories. The contracts for sales, dispensing and delivery services are awarded based on a competitive request for proposal (RFP) process. Contracts are awarded to local residents or businesses. Ten contracts were renewed in the fiscal year ending March 31, 2014, one contract was awarded to a new contractor in Paulatuk. Under these contracts, fixed commission rates are paid.

The value of this commitment is estimated at \$4,008,480 as follows:

2015	\$ 1,526,615
2016	1,031,372
2017	877,330
2018	573,163
	<hr/>
	\$ 4,008,480

The Fund paid \$2,392,796 (2013 - \$2,369,848) in commissions to local contractors in the 16 communities that they serve.

Petroleum Products Division

Notes to the Financial Statements

March 31, 2014

14. Financial instruments

The Fund is managed to ensure that the cost of goods sold and operating expenses are recovered through the price structure to achieve a break-even operation. In addition, it is the objective of management that the debit or credit amount in the Stabilization Fund shall not exceed \$1,000,000 at the end of any fiscal year.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund does have credit risk in accounts receivable of \$8,599,433 (2013 - \$8,634,200) from its customers. At March 31, 2014, 50% (\$4,374,000) of the receivables are from Northwest Territories Power Corporation. At March 31, 2013, 49% (\$4,447,000) of the receivables were from Northwest Territories Power Corporation.