Environment Fund

Financial Statements

March 31, 2013

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Management Responsibility Statement

Management is responsible for the reliability, integrity and objectivity of the data in the accompanying financial statement, which has been prepared in accordance with Canadian public sector accounting standards for not-for-profit organizations. Where appropriate, the financial statements include estimates and judgments based on careful consideration of the information available to management.

In discharging its responsibility for financial reporting, management maintains and relies on internal control systems and practices, which are designated to provide reasonable assurance that the transactions are authorized, the assets are safeguarded and proper records are maintained. These control systems and practices ensure the orderly conduct of business, the accuracy of the accounting records, reliability of financial information and compliance to legislation governing the Environment Fund.

The auditor provides an independent, objective audit for the purpose of expressing an opinion on the financial statements. The auditor also considers whether the transactions that come to their notice during the course of the audit are, in all significant respects, in accordance with specified legislation.

Ernie Campbell, Deputy Minister,
Department of Environment and Natural Resources

N Magrum

Nancy Magrum, C.G.A., Director Finance and Administration,
Department of Environment and Natural Resources

May 31, 2013

Independent Auditors' Report

To the Minister of Environment Fund

We have audited the accompanying financial statements of Environment Fund, which comprise the statement of financial position as at March 31, 2013, and the statements of operations and changes in net assets 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 for Not-for-profit Organizations, 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.

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 auditors consider internal control relevant to the Fund'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 Fund'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 qualified audit opinion.

CHARTERED
ACCOUNTANTS

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Independent Auditors' Report (continued)

Basis for Qualified Opinion
The Environment Fund relies on reports prepared by distributors, processing centres and depots for the recording of beverage container program revenues, depot handling fees, processing fees and refundable deposits. The reports provided by distributors, processing centres and depots are not audited, and consequently, our review of these accounts was limited to the amounts reported on the filed claims. As a result we are unable to determine, if adjustments would be required to revenues, expenditures, accounts receivable, accounts payable or net assets.

Wages and benefits paid to all employees of the Environment Fund are administered by the Government of the Northwest Territories. Our audit scope was limited as we did not audit the components of wages and benefits expenditures. Accordingly, we are not able to determine whether any adjustments might be necessary to wages and benefits expenditures, liabilities and net assets.

Qualified Opinion
In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2013 and the results of its operations for the year then ended in accordance with Canadian public sector accounting standards for Not-for-profit Organizations.

MacKay LLP

Chartered Accountants

Yellowknife, Canada
May 31, 2013

Environment Fund

Statement of Operations

For the year ended March 31,	2013	2012
	$	$
Revenues		
Beverage container program	**5,165,214**	5,335,763
Recoveries	**-**	(24,069)
Single-use retail bag program	**494,038**	575,653
	5,659,252	5,887,347
Expenditures		
Advertising and promotion	**17,617**	11,226
Contract service - miscellaneous	**22,987**	38,831
Contract service - satellite depots	**54,624**	16,168
Depot handling fee	**756,428**	712,047
Equipment, supplies and maintenance	**17,187**	117,029
Freight	**322,190**	296,764
Grants and contributions	**103,071**	128,690
Insurance	**8,000**	10,833
Office	**9,562**	7,744
Processing centre handling fee	**611,919**	584,825
Professional fees	**26,971**	39,228
Refundable deposit fee	**3,067,331**	2,999,776
Storage	**44,374**	35,827
Travel and training	**22,238**	40,515
Wages and benefits	**483,602**	430,637
	5,568,101	5,470,140
Excess of revenues over expenditures before other item	**91,151**	417,207
Other income		
Interest	**27,837**	25,673
Excess of revenues over expenditures	**118,988**	442,880

See accompanying notes

Environment Fund

Statement of Changes in Net Assets

For the year ended March 31, 2013

	Unrestricted	Equipment replacement reserve	**Total 2013**	Total 2012
	$	$	$	$
Balance, beginning of year	1,290,510	333,158	**1,623,668**	1,180,788
Excess of revenues over expenditures	118,988	-	**118,988**	442,880
Transfers (Note 4b)	(47,594)	47,594	**-**	-
Balance, end of year	**1,361,904**	**380,752**	**1,742,656**	1,623,668

See accompanying notes

Environment Fund

Statement of Financial Position

	March 31, 2013	March 31, 2012	April 1, 2011
	$	$	$
Financial Assets			
Accounts receivable	**632,101**	827,310	763,295
Due from treasury (note 6)	**2,336,833**	1,784,104	1,574,546
Loans receivable (note 7)	**5,972**	5,972	1,805
	2,974,906	2,617,386	2,339,646
Liabilities			
Accounts payable and accrued liabilities	**459,638**	214,240	374,293
Unredeemed container liability (note 9)	**772,612**	779,478	784,565
	1,232,250	993,718	1,158,858
	1,742,656	1,623,668	1,180,788
Represented by			
Fund balances			
Unrestricted	**1,361,904**	1,290,510	895,224
Equipment replacement reserve	**380,752**	333,158	285,564
	1,742,656	1,623,668	1,180,788

Approved:

Deputy Minister

Salvador
Director (Acting)

See accompanying notes

1. Nature of operations

The Environment Fund ("the Fund") contains all fees and surcharges collected from programs established under the authority of the *Waste Reduction and Recovery Act* ("the Act") of the Northwest Territories. The Act was enacted in October 2003 during the 6th session of the 16th Legislative Assembly. The Act came into force in July 2005 with the establishment of the Environment Fund.

The assets of the Fund may be used to pay for:

- the establishment, operation and evaluation of programs in respect of the reduction or recovery of waste
- education programs related to the reduction or recovery of waste
- research and development activities related to the reduction or recovery of waste
- the appropriate disposal of a designated or prohibited material as waste
- expenses associated with the work of the advisory committee established by the Minister to provide advice and assistance relating to the establishment of programs and operation of programs in respect of the reduction and recovery of waste
- other costs associated with programs, initiatives, or activities in respect of the reduction or recovery of waste

Environment Fund Programs

The Beverage Container Program, which came into effect November 1, 2005, is one of two established programs operating within the Environment Fund. Administration of this program rests with the Chief Environmental Protection Officer appointed under the *Environmental Protection Act*.

The Single Use Retail Bag Program, which came into effect January 15, 2010, is currently the second of two established programs operating within the Environment Fund. Administration of this program rests with the Chief Environmental Protection Officer appointed under the *Environmental Protection Act*.

The Department of Environment and Natural Resources advised it will be examining other waste reduction and recovery programs that could, in the future, to become part of the Fund.

These financial statements are prepared in accordance with public sector accounting standards for Not-for-profit Organizations (PSA - NPO).

2. **First Time Adoption of Public Sector Accounting for Not-for-Profit Organizations**

PS 2125 First-time adoption by Government Organizations requires that comparative financial information be provided and that the PSA-NPO be applied retrospectively as of the reporting date, which for the Fund is March 31, 2013. However, PS 2125 provides for certain optional exemptions and mandatory exemptions for first time adopters.

Optional Exemptions

The Fund has elected to apply the exemption and consider the conditions for write-down on tangible capital assets on a prospective basis from the date of transition. As a result, no write-downs of tangible capital assets were recognized. No other optional exemptions were enacted.

Mandatory Exemptions

The estimates previously made by the Fund under Canadian Generally Accepted Accounting Principles (GAAP) were not revised for the application of PSA-NPO to reflect any difference in accounting policy or when there is objective evidence that those estimates were in error. As a result the Board has not used hindsight to revise estimates.

The Fund issued financial statements for the year ended March 31, 2013 using PSA-NPO. The adoption of PSA-NPO results in no adjustments to the previously reported assets, liabilities, net assets, net income and cash flows.

3. Implemented Accounting Changes

Government Transfers – Section PS 3410

Public Sector Accounting Board (PSAB) revised and replaced Section PS 3410 – Government Transfers. The Section has been adopted April 1, 2012 and applied prospectively. This new standard outlines how to account for and report government transfers to individuals, organizations and other governments from both a transferring and a recipient perspective.

Financial Instruments, Section PS 3450 and related amendments to Financial Statement Presentation

PSAB approved new Section PS 3450, Financial Instruments, and related amendments to Section PS 1201, Financial Statement Presentation. The Section has been adopted April 1, 2012. This standard establishes how to account for and report all types of financial instruments including derivatives. Financial instruments include primary instruments and derivative financial instruments.

Foreign Currency Translation, Section PS 2601

PSAB approved Section PS 2601, replacing existing Section PS 2600, Foreign Currency Translation. The effective date for Section PS 2601 is April 1, 2012 for government organizations and April 1, 2015 for governments. Governments and government organizations adopt Section PS 2601 in the same fiscal year Section PS 3450, Financial Instruments, is adopted. As the Fund does not typically have foreign currency transactions it is not expected to have an impact on the financial statements.

Tax Revenue, Section PS 3510

In February of 2010 the Public Sector Accounting Board (PSAB) released a Section PS 3510 - Tax Revenue. This new Section establishes recognition, measurement, presentation and disclosure standards relating to tax revenue reported in financial statements.

The main features of the new Section are as follows:

- -Tax revenue should be grossed up for transfers made through the tax system.
- -Tax revenue should not be grossed up for the amount of tax concessions (that are often referred to as tax expenditures)
- -Tax revenue should be recognized when it is authorized and the taxable event occur
- -Tax revenue should be recognized by the government that imposes the tax except in flow- through arrangements.
- -Guidance is provided for identifying and distinguishing between tax concessions and transfers made though a tax system.

As the Fund does not have tax revenue it is not expected to have an impact on the financial statements.

4. Significant accounting policies

The Fund follows accounting principles generally accepted in Canada in preparing its financial statements. The significant accounting policies used are as follows:

(a) Capital assets

Capital equipment, consisting of mobile equipment and machinery, exceeding $50,000 are recorded at cost and amortized on a straight-line basis over the estimated useful life of the equipment. Capital equipment items less than $50,000 are recorded as expenditures when purchased. All tangible capital assets owned by the Fund have been fully depreciated.

(b) Reserve funds

Restrictions have been placed on surplus to reserve funds for future operations:

Equipment replacement reserve - an amount equal to 1/10 of the cost of capital equipment, including capital equipment purchased with start-up funds, has been reserved annually for future replacements of capital equipment. The 2013 transfer is $47,594 (2012 - $47,594). This reserve was approved by the Government of the Northwest Territories to be set up for future capital equipment purchases/replacement.

(c) Contributed services

The Department of Environment and Natural Resources maintains the accounts of the Environment Fund. The costs associated with administering and maintaining the accounts are not reflected in these financial statements as they are reported on in the consolidated financial statements of the Government of the Northwest Territories ($46,544 in 2013, $37,132 in 2012).

(d) Start-up funding

The Department of Environment and Natural Resources received $1,143,000 in start-up funding from the Government of the Northwest Territories to cover the costs of implementing the Beverage Container Program. The start-up costs, which were incurred before the Beverage Container Program came into force on November 1, 2005, are not reflected in the financial statements as they are reported on in the consolidated financial statements of the Government of the Northwest Territories.

(e) Cash flow statement

As the Fund does not maintain a bank account, but rather receives working capital advances and finances accounts receivable and operating expenses from the Government's Consolidated Revenue Fund (the "CRF"); a statement of cash flows has not been presented.

4. **Significant accounting policies (continued)**

(f) **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, loans receivable and due from treasury. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, and unredeemed container liability.

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.

(g) **Use of estimates**

The preparation of financial statements in conformity with PSA-NPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in these financial statements are unredeemed container liability and refundable deposit fees expense.

5. 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. Earlier adoption is encouraged. The impact of the transition to these accounting standards has not yet been determined.

6. Due from treasury

The Fund is a special purpose fund as defined in subsection 1(1) of the *Financial Administration Act* that forms part of the Government of the Northwest Territories Consolidated Revenue Fund.

In April 2006, the Fund joined the Government of the Northwest Territories investment pool, which consolidates and invests the cash balances for all participants in money market securities. The monies for these investments flow out of the Consolidated Revenue Fund and do not affect the cash balances of the participants. The investment pool revenues are prorated and allocated to the participants.

7. Loan receivable

The Fund loaned three bottle depot operators funds to be used to pay persons returning empty beverage containers to the depots and to secure additional space for depot operations. One of the loans was fully repaid during the current year. The second loan is a non-interest bearing loan with an amount currently outstanding of $5,000 and is repayable in monthly installments of $833, the loan is due on January 1, 2014. The final loan is a non-interest bearing loan with an amount currently outstanding of $972 and is repayable in monthly installments of $139, the loan was due on February 1, 2010 and is currently in arrears. As a result the Fund will recover the amount in arrears via equal monthly holdbacks against the grant owed in the 2014 fiscal year.

As the full amount of the loans receivable is due within one year, it has been classified as current as at March 31, 2013.

8. Expenses by program

The Fund's two major programs, beverage container and single use bag, have direct costs associated to them in terms of depot handling fees, processing and refundable deposits. The costs for the beverage container program total $4,439,844, while the costs associated with the single use bag program total $78,558.

9. Unredeemed container liability

The unredeemed container liability is an amount that is equal to 15% of the beverage container surcharges of the current year. It has been recognized to cover the future redemption of containers that are currently in circulation. It was derived per the policy that the Government of the Northwest Territories specified.

10. Comparative figures

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

11. Related party transactions

	2013	2012
	$	$
NWT Liquor Commission		
Accounts receivable	**164,409**	330,116
Revenue - Beverage Container Program Revenues	**1,871,501**	1,930,934
Department of Human Resources - Payroll expenses	**483,602**	430,637
Department of Finance		
Insurance expense	**8,000**	10,833
Accounts payable	**170,965**	-

The Fund receives human resource management, legal services and risk management from the Government of the Northwest Territories without charge.

The Fund also receives management services from the Department of Environment and Natural Resources, as outlined in Note 4(c).

12. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

The financial instruments of the Fund and the nature of the risks to which it may be subject are as follows:

(a) Credit risk

The Fund does have credit risk in accounts receivable of $632,101 (2012 - $827,310). Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. In the opinion of management the credit risk exposure to the Fund is low and is not material.