

Public Accounts

YE Item #64 Revolving Fund Audited Financial Statements

Attached is the Revolving Fund Audited Financial Statements.

The information provided within this working paper addresses all requirements of YE Directive 64, with regards to content, format, completeness, analysis and reconciliation of SAM data, and its due date of June 26, 2013.



Steve Lewis, Director Corporate Services

June 27, 2013
Date

Petroleum Products Division

Financial Statements

March 31, 2013

Petroleum Products Division

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Independent Auditors' Report

To the Minister of Public Works and Services

We have audited the accompanying financial statements of Petroleum Products Division, which comprise the statement of financial position as at March 31, 2013, and the statement 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, 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 in our audit 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 Petroleum Products Division as at March 31, 2013, and the results of its operations for the year then ended in accordance with Canadian public sector accounting standards.

**Yellowknife, Canada
June 25, 2013**

MacKay LLP

Chartered Accountants

Petroleum Products Division

Statement of Operations and Changes in Net Assets

For the year ended March 31,	2013	2012
Revenue		
Sales of petroleum products (note 10)	\$ 41,267,928	\$ 32,624,492
Cost of goods sold	35,002,953	26,770,330
Gross margin	6,264,975	5,854,162
Expenditures		
Bad debts (recovered)	55,831	(8,139)
Commissions	2,369,848	2,209,248
Contracts and purchased services	945,272	740,907
Operating and maintenance costs	466,330	726,877
Miscellaneous	29,405	7,554
Salaries, wages and employee benefits	2,008,192	1,935,904
Travel	330,393	315,015
Utilities	305,113	301,545
	6,510,384	6,228,911
Deficiency of revenue over expenditures before other items	(245,409)	(374,749)
Other income (expenses)		
Other revenue	59,108	94,020
Grant-in-kind, Government assets provided at no cost (note 5)	2,541,829	2,450,423
Financing charges (note 5)	(594,754)	(497,423)
Tangible capital assets - rent expenses (note 5)	(1,947,075)	(1,953,000)
	59,108	94,020
Deficiency of revenue over expenditures	(186,301)	(280,729)
Stabilization fund, beginning of year	368,282	649,011
Stabilization fund, end of year	\$ 181,981	\$ 368,282

Petroleum Products Division

Statement of Financial Position

March 31,	2013	2012
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Assets

Current

Accounts receivable (note 6)	\$ 8,634,200	\$ 11,421,189
Inventory (note 7)	28,517,741	26,850,895
Prepaid expenses	109,581	-

\$ 37,261,522	\$ 38,272,084
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Liabilities

Current

Accounts payable and accrued liabilities (note 8)	\$ 5,726,945	\$ 5,649,608
Employee benefits payable	211,567	154,044
Due to the Government of the Northwest Territories - revolving fund (note 9)	31,141,029	32,100,150

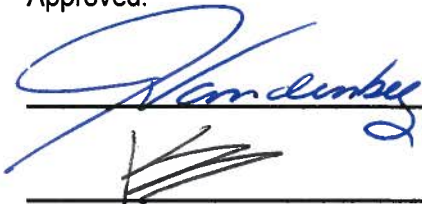
37,079,541	37,903,802
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Fund balances

Stabilization fund	181,981	368,282
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\$ 37,261,522	\$ 38,272,084
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Approved:



John Vandenberg, Director



Kathleen Broderick, Comptroller

Petroleum Products Division

Notes to the Financial Statements

March 31, 2013

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, 2013 is a surplus of \$181,814 (2012 - \$368,282).

2. 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.

Petroleum Products Division

Notes to the Financial Statements

March 31, 2013

2. Implemented accounting changes (continued)

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 occurs
- 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 through a tax system.

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

3. 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) Accounting estimates

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 5.

Petroleum Products Division

Notes to the Financial Statements

March 31, 2013

3. 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 \$61,933 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 employment, employees may qualify and earn employment benefits for annual leave, retirement, severance and removal costs. The estimated liability for these benefits is recorded as the benefits are earned by the employees.

(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 \$176,397 (2012 - \$154,193) to the plan while employees contributed \$97,423 (2012 - \$101,971). 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. Other revenue is recognized as goods are delivered or services are provided.

Petroleum Products Division

Notes to the Financial Statements

March 31, 2013

4. 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.

5. Grant in kind

Financing charges

Management estimated that the Fund required up to \$40.4 million in working capital with an estimated financing cost of \$594,754 for the year. (For 2012 they were \$32.9 million and \$497,423 respectively). The financing cost is based upon the average monthly balance due to the Government at an average interest rate for the Government of 1.51% p.a.

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

	Cost	Accumulated Amortization	2013	2012
Fuel storage facilities	\$ 54,432,581	\$ 20,458,207	\$ 33,974,476	\$ 35,607,181
Fuel delivery vehicles	4,629,923	3,507,306	1,122,617	949,628
Construction in progress	4,996,548	-	4,996,548	1,137,536
	\$ 64,059,052	\$ 23,965,513	\$ 40,093,641	\$ 37,694,345

Amortization expense for 2013 is \$1,947,075 (2012 - \$1,953,000).

Petroleum Products Division

Notes to the Financial Statements

March 31, 2013

6. Accounts receivable

	Total Receivable	Allowance for Doubtful	2013
Commercial and private customers	\$ 2,315,049	\$ (210,688)	\$ 2,104,361
Municipalities and Housing Authorities	1,541,251	(9,260)	1,531,991
Government of the Northwest Territories			
- Departments and agencies	323,703	(135,344)	188,359
- Northwest Territories Power Corporation	4,447,215	-	4,447,215
Government of Canada	362,274	-	362,274
	\$ 8,989,492	\$ 355,292	\$ 8,634,200

7. Inventory

	2013	2012
P-50 Diesel (motive, non-motive and heating oil)	\$ 22,752,941	\$ 21,848,364
Gasoline	4,389,858	3,802,412
Jet A1	1,348,216	1,157,510
Naptha	26,726	42,609
	\$ 28,517,741	\$ 26,850,895

8. Accounts payable and accrued liabilities

	2013	2012
Trade payables	\$ 609,337	\$ 872,810
Petroleum products	4,750,533	4,494,537
Commissions	133,297	79,729
Goods and services tax	233,778	202,532
	\$ 5,726,945	\$ 5,649,608

Petroleum Products Division

Notes to the Financial Statements

March 31, 2013

9. Due to the Government of the Northwest Territories (GNWT) - revolving fund

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

	2013	2012
Balance, beginning of year	\$ 32,100,150	\$ 23,151,495
Plus:		
Payments made from the revolving fund		
- purchases of petroleum products	36,678,792	30,201,373
- other cash disbursements	6,245,860	6,054,937
Less:		
Cash received into the revolving fund	(44,247,734)	(27,307,655)
Balance, end of year	\$ 31,141,029	\$ 32,100,150

10. Sales of Petroleum Products

	2013	2012
Commercial / Private	\$ 9,447,641	\$ 8,228,440
Territorial Municipalities and Housing Associations	6,149,462	5,590,650
Northwest Territories Power Corporation	22,743,900	16,087,477
Departments and Agencies	2,528,551	2,376,090
Government of Canada	398,374	341,835
	\$ 41,267,928	\$ 32,624,492

11. 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 9.

12. 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.

Petroleum Products Division

Notes to the Financial Statements

March 31, 2013

13. Comparative amounts

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

14. 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 2010, the Government entered into a three-year contract with Bluewave Energy 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 November 2013.

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, 2013, 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 \$4,387,250 as follows:

2014	\$	2,066,550
2015		1,094,280
2016		678,655
2017		547,765
		<hr/>
		\$ 4,387,250

The Fund paid \$2,369,848 (2012 - \$2,209,248) in commissions to local contractors in the 16 communities that they serve.

15. Capital management

The Fund's capital objectives are to manage operations with a goal of controlling profits and losses. The Fund attempts to break-even on an annual basis, and is also monitored so that it remains within the profit and loss restrictions of the Stabilization Fund, as set out in the Financial Administration Act.

The Fund's capital is provided and managed by the Government of the Northwest Territories.

Petroleum Products Division

Notes to the Financial Statements

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16. Financial instruments

Financial risk management objectives and policies

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.

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 is exposed to credit risk from its customers. In particular, 49% (\$4,447,000) of the receivables are from Northwest Territories Power Corporation.