

**Petroleum Products Division
(Revolving Fund)**

Financial Statements

March 31, 2011

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(Revolving Fund)**

Financial Statements

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	Page
Independent Auditor's Report	3
Statement of Income	4
Statement of Amount Due to the Government of the Northwest Territories	5
Balance Sheet	6
Notes to the Financial Statements	7 - 14

**CHARTERED
ACCOUNTANTS**

**MacKay LLP
Independent Auditor's Report**

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**To the Minister of
Public Works and Services**

We have audited the accompanying financial statements of Petroleum Products Division (Revolving Fund), which comprise the balance sheet as at March 31, 2011, and the statements of income and amount due to the Government of the Northwest Territories 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 generally accepted accounting principles, 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 judgement, 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 Petroleum Products Division as at March 31, 2011, and its financial performance for the year then ended in accordance with Canadian generally accepted accounting principles.

**Yellowknife, Canada
May 27, 2011**

Mackay LLP
Chartered Accountants

Petroleum Products Division
(Revolving Fund)

Statement of Income

<u>For the year ended March 31,</u>	<u>2011</u>	<u>2010</u>
Sale of petroleum products (note 3)	\$ 28,844,000	\$ 26,939,401
Cost of goods sold	23,520,499	21,367,669
Gross profit (18.5%, 2010 20.7%)	5,323,501	5,571,732
 Expenses		
Bad debts (recovered)	(424)	188,646
Commissions	2,197,395	2,016,266
Contracts and purchased services	393,902	458,613
Miscellaneous	60,681	59,340
Operating and maintenance costs	825,106	1,125,889
Salaries, wages and employee benefits	1,817,305	1,749,041
Travel	222,172	220,890
	5,516,137	5,818,685
 Income (loss) from operations before other items	(192,636)	(246,953)
 Other income (expenses)		
Other revenue	205,535	259,493
Grant-in-kind - Government assets provided at no cost	2,319,340	1,945,877
Grant-in-kind - Financing charges (note 4)	(346,737)	(240,750)
Grant-in-kind - Tangible capital assets - rent expenses (note 4)	(1,972,603)	(1,705,127)
	205,535	259,493
 Net income	\$ 12,899	\$ 12,540

Petroleum Products Division
(Revolving Fund)

Statement of Amount Due to the Government of the Northwest Territories

<u>For the year ended March 31,</u>	<u>2011</u>	<u>2010</u>
Amount due to the Government of the Northwest Territories, beginning of year	\$ 25,172,968	\$ 26,077,000
Net income	12,899	12,540
	25,185,867	26,089,540
Add: Purchases of petroleum products	24,141,068	21,482,194
Add: Other cash disbursements	3,635,795	7,055,108
Less: Cash receipts	29,162,224	29,453,874
Amount due to the Government of the Northwest Territories, end of year	\$ 23,800,506	\$ 25,172,968

**Petroleum Products Division
(Revolving Fund)**

Balance Sheet

March 31, 2011 2010

Assets

Current

Accounts receivable (note 5)	\$ 6,010,331	\$ 6,123,020
Inventory (note 6)	23,419,852	22,581,524
Prepaid expenses	-	15,151
	\$ 29,430,183	\$ 28,719,695

Liabilities

Current

Accounts payable and accrued liabilities	\$ 5,474,125	\$ 3,414,875
Employee leave benefits	89,320	70,006
	5,563,445	3,484,881
Employee termination benefits	68,232	61,846
	5,629,677	3,546,727
Due to the Government of the Northwest Territories	23,800,506	25,172,968
	\$ 29,430,183	\$ 28,719,695

Commitments and contingencies (note 7)

Approval:



John Vandenberg, Director

James Sergeant, Comptroller

Petroleum Products Division (Revolving Fund)

Notes to the Financial Statements

March 31, 2011

1. Authority and operations

The Petroleum Products 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 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, 2011 is a surplus of \$649,011.

	2011	2010
Surplus at beginning of year	\$ 636,112	\$ 623,572
Net profit	12,899	12,540
	\$ 649,011	\$ 636,112

2. Significant accounting policies

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenue and expenses during the year. Actual results could differ from those estimates. A summary of significant accounting policies of the Fund are as follows:

(a) 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 4.

**Petroleum Products Division
(Revolving Fund)**

Notes to the Financial Statements

March 31, 2011

2. Significant accounting policies (continued)

(b) Revenue recognition

Revenue is recognized when fuel is dispensed or delivered to customers. Other revenue is recognized as goods and services are provided.

(c) Inventory

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

(d) 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 \$20,000 charged by Public Works and Services and service charges of \$52,020 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.

(e) 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 \$148,791 (2010 - \$84,576) to the plan while employees contributed \$63,564 (2010 - \$43,981). 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.

(f) 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.

**Petroleum Products Division
(Revolving Fund)**

Notes to the Financial Statements

March 31, 2011

2. Significant accounting policies (continued)

(g) Comprehensive income

Section 1530 introduces Comprehensive Income, which consists of Net Income and Other Comprehensive Income (OCI). OCI represents changes in net assets during a period arising from transactions and other events with non-owner sources. It includes unrealized gains and losses on financial assets classified as "available for sale", currency translation adjustments relating to self-sustaining foreign operations and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

(h) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(i) Financial instruments - recognition and measurement

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated.

**Petroleum Products Division
(Revolving Fund)**

Notes to the Financial Statements

March 31, 2011

2. Significant accounting policies (continued)

(i) Financial instruments - recognition and measurement

Section 3855 requires that all financial assets and financial liabilities be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial asset or liability has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.

Financial instruments classified as held-for-trading are subsequently measured at fair value and unrealized gains and losses are included in net income in the period in which they arise. The assets have been classified as held-for-trading.

Available-for-sale assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as held-for-trading, held-to-maturity, or loans and receivables. Available-for-sale assets are subsequently measured at fair value with unrealized gains and losses recorded in net assets until realized, at which time they will be recognized in net income. No assets have been classified as available-for-sale.

Held to maturity assets are those non-derivative financial assets with fixed or determinable payments and fixed maturity that the Fund has an intention and ability to hold until maturity, excluding those assets that have been classified as held-for-trading, available-for-sale, or loans and receivables. They are subsequently measured at amortized cost using the effective interest method. No assets have been classified as held to maturity.

Financial instruments classified as loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand, usually with interest. These assets do not include debt securities or assets classified as held-for-trading. They are subsequently measured at amortized cost using the effective interest method. Accounts receivable have been classified as loans and receivables.

All other financial liabilities that are not classified as held-for-trading are subsequently measured at cost or amortized cost. Accounts payable and accrued liabilities, employee leave and termination benefits, employee termination benefits and due to the government of the Northwest Territories are classified as other financial liabilities.

Petroleum Products Division
(Revolving Fund)

Notes to the Financial Statements

March 31, 2011

3. Sale of petroleum products

	2011	2010
Commercial/Private	\$ 7,654,178	\$ 7,220,603
Territorial municipalities and housing authorities	4,878,493	5,115,273
Government of the Northwest Territories		
Northwest Territories Power Corporation	13,823,874	12,282,586
Departments and agencies	2,202,877	2,000,078
Government of Canada	284,578	320,861
	\$ 28,844,000	\$ 26,939,401

4. Expenses off-set with grant-in-kind

Financing charges

Management estimated that the Fund required up to \$30.9 million in working capital with an estimated financing cost of \$647,799 for the year. (For 2010 they were \$32.5 million and \$240,750 respectively). The financing cost is based upon the average monthly balance due to the Government at an average interest rate for the Government of 3.14% p.a.

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:

Fuel storage facilities	30 years straight line, no salvage
Fuel delivery vehicles	10 years straight line, no salvage

	Cost	Accumulated Amortization	2011	2010
Fuel storage facilities	\$ 53,613,663	\$ 17,114,213	\$ 36,499,450	\$ 29,863,556
Fuel delivery vehicles	4,002,132	3,010,691	991,441	1,241,654
Construction in progress	1,043,371	-	1,043,371	6,750,631
	\$ 58,659,166	\$ 20,124,904	\$ 38,534,262	\$ 37,855,841

Amortization expense for 2011 is \$1,972,603 (2010 - \$1,705,127).

Petroleum Products Division
(Revolving Fund)

Notes to the Financial Statements

March 31, 2011

5. Accounts receivable

	2011	2010
Commercial/Private	\$ 1,147,310	\$ 997,325
Territorial municipalities & housing associations	1,541,705	1,551,576
Government of the Northwest Territories		
Departments and agencies	735,438	773,657
Northwest Territories Power Corporation	2,797,868	2,977,898
Government of Canada	95,610	130,164
Less: Allowance for doubtful accounts	6,317,931	6,430,620
	307,600	307,600
	<hr/>	<hr/>
	\$ 6,010,331	\$ 6,123,020

6. Inventory

	2011	2010
Heating fuel	\$ 18,992,064	\$ 19,272,880
Gasoline	3,281,122	2,458,612
Jet A	899,330	821,062
Naptha	29,576	28,970
Inventory in transit	217,760	-
	<hr/>	<hr/>
	\$ 23,419,852	\$ 22,581,524

**Petroleum Products Division
(Revolving Fund)**

Notes to the Financial Statements

March 31, 2011

7. Commitments and contingencies

Fuel resupply contracts

The Government established a one-year contract in 2010 with Northern Transportation Company Limited (NTCL) for the supply and delivery of bulk petroleum products to communities served by marine transport, and has exercised the option to extend that contract for 2011. NTCL has confirmed freight rates and availability of product for the 2011 marine resupply season. The Government also in 2010 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 of 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 will expire in the fiscal year ending 2012, and six in 2013. Under these contracts, fixed commission rates are paid.

The value of this commitment is estimated at \$1,863,801 as per the detailed listing below:

2012	\$ 1,381,969
2013	481,922
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\$ 1,863,891	

Historically the Government of the Northwest Territories pays \$2.2 million in commissions to local contractors in the 16 communities that they serve.

8. 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
(Revolving Fund)**

Notes to the Financial Statements

March 31, 2011

9. Financial instruments

The following sections describe the Fund's financial risk management objectives and policies and the Fund's financial risk exposures.

(a) 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.

(b) 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, 45% (\$2,797,868) of the receivables are from NTPC.

10. Capital disclosures

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.