

# **PUBLIC ACCOUNTS 2015-2016**

## **Section I**

### **CONSOLIDATED FINANCIAL STATEMENTS and FINANCIAL STATEMENT DISCUSSION AND ANALYSIS**



**PUBLIC ACCOUNTS**  
**OF THE**  
**GOVERNMENT OF THE NORTHWEST TERRITORIES**  
**FOR THE YEAR ENDED MARCH 31, 2016**

**SECTION I**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**HONOURABLE ROBERT C. MCLEOD**

**Minister of Finance**

This page intentionally left blank.



**THE HONOURABLE GERALD W. KISOUN  
DEPUTY COMMISSIONER OF THE NORTHWEST TERRITORIES**

I have the honour to present the Public Accounts of the Northwest Territories (NWT) in accordance with Sections 37 through 43 of the *Northwest Territories Act (Canada)*, S.C. 2014, c.2, s.2, and Sections 34 through 35 of the *Financial Administration Act*, S.N.W.T. 2015, c.13, for the fiscal year ended March 31, 2016.

Honourable Robert C. McLeod,  
Minister, Finance

November 14, 2016

This page intentionally left blank.

---

# Public Accounts of the Government of the Northwest Territories

---

Table of Contents	Page
<b>SECTION I</b>	
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
<b>RESPONSIBILITY FOR FINANCIAL REPORTING</b>	7
<b>AUDITOR'S REPORT</b>	9
Consolidated Statement of Financial Position	11
Consolidated Statement of Change in Net Debt	12
Consolidated Statement of Operations and Accumulated Surplus	13
Consolidated Statement of Cash Flow	14
Notes to Consolidated Financial Statements	15
Schedule A - Consolidated Schedule of Tangible Capital Assets	48
Schedule B - Consolidated Schedule of Segmented Information	49
<b>FINANCIAL STATEMENT DISCUSSION AND ANALYSIS</b>	

This page intentionally left blank.



## RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of the Consolidated Financial Statements of the Government of the Northwest Territories (GNWT), and related information contained in the Public Accounts, is the responsibility of the Government through the Office of the Comptroller General.

The Consolidated Financial Statements have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). Where PSAS permits alternative accounting methods, management has chosen those that are most appropriate. Where required, management's best estimates and judgment have been applied in the preparation of these Consolidated Financial Statements.

The Government fulfills its accounting and reporting responsibilities, through the Office of the Comptroller General, by maintaining systems of financial management and internal control. The systems are continually enhanced and modified to provide timely and accurate information, to safeguard and control the Government's assets, and to ensure that all transactions are in accordance with the *Financial Administration Act (FAA)*.

The Auditor General of Canada performs an annual audit on the Consolidated Financial Statements in order to express an opinion as to whether the Consolidated Financial Statements present fairly, in all material respects, the financial position of the Government, the change in its net debt, the results of its operations and its cash flows for the year then ended in accordance with PSAS. During the course of the audit, he also examines transactions that have come to his notice, to ensure they are, in all significant respects, within the statutory powers of the Government and those organizations included in the Consolidated Financial Statements.

Jamie Koe, CPA, CGA  
Comptroller General, Finance  
Government of the Northwest Territories

November 14, 2016



This page intentionally left blank.



## INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of the Northwest Territories

### Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Government of the Northwest Territories, which comprise the consolidated statement of financial position as at 31 March 2016, and the consolidated statement of operations and accumulated surplus, consolidated statement of change in net debt and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

*Opinion*

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Government of the Northwest Territories as at 31 March 2016, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

**Report on Other Legal and Regulatory Requirements**

In my opinion, the transactions of the Government of the Northwest Territories and of those organizations listed in Note 1 to the consolidated financial statements that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the Government of the Northwest Territories' powers under the *Northwest Territories Act* and regulations, the *Financial Administration Act* of the Northwest Territories and regulations and the specific operating authorities disclosed in Note 1 to the consolidated financial statements.

A handwritten signature in black ink, appearing to read 'M. Ferguson', with a long horizontal flourish extending to the right.

Michael Ferguson, CPA, CA  
FCPA, FCA (New Brunswick)  
Auditor General of Canada

14 November 2016  
Ottawa, Canada

# Government of the Northwest Territories

## Consolidated Statement of Financial Position

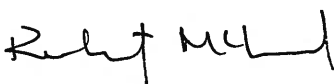
as at March 31, 2016

(thousands of dollars)

	2016 \$	2015 \$
<b>Financial assets</b>		
Cash	91,775	77,835
Portfolio investments (note 3)	97,085	108,165
Due from the Government of Canada (note 12)	75,020	44,279
Accounts receivable (note 5)	131,551	150,755
Inventories for resale (note 6)	28,360	29,474
Loans receivable (note 7)	81,661	79,845
	<b>505,452</b>	<b>490,353</b>
<b>Liabilities</b>		
Short term loans (note 8)	277,403	252,974
Accounts payable and accrued liabilities (note 9)	306,594	290,569
Deferred revenue (note 10)	10,774	23,427
Environmental liabilities and asset retirement obligations (note 11)	66,232	68,895
Due to the Government of Canada (note 12)	146,231	118,469
Capital lease obligations (note 13)	19,911	22,579
Long-term debt (note 14)	451,062	376,759
Pensions (note 15)	26,353	26,320
Other employee future benefits and compensated absences (note 16)	84,205	87,820
	<b>1,388,765</b>	<b>1,267,812</b>
<b>Net debt</b>	<b>(883,313)</b>	<b>(777,459)</b>
<b>Non-financial assets</b>		
Tangible capital assets (schedule A)	2,878,110	2,645,528
Inventories held for use (note 6)	15,046	15,117
Prepaid expenses	8,275	6,784
	<b>2,901,431</b>	<b>2,667,429</b>
<b>Accumulated surplus</b>	<b>2,018,118</b>	<b>1,889,970</b>

Contractual obligations and contingencies (notes 18 and 19)

Approved:



Robert C. McLeod  
Minister of Finance



Jamie Koe, CPA, CGA  
Comptroller General

*The accompanying notes and schedules A and B are an integral part of the consolidated financial statements.*

---

## Government of the Northwest Territories

### Consolidated Statement of Change in Net Debt

---

for the year ended March 31, 2016

(thousands of dollars)

---

	2016 Budget \$	2016 Actual \$	2015 Actual \$
<b>Net debt at beginning of year</b>	(777,459)	(777,459)	(707,744)
Items affecting net debt:			
Annual surplus	152,322	128,148	104,432
Acquisition of tangible capital assets	(313,730)	(359,568)	(285,923)
Amortization of tangible capital assets	113,933	116,668	110,186
Loss (gain) on sale of tangible capital assets	-	6,172	(559)
Proceeds on sale of tangible capital assets	-	3,494	1,762
Write-downs of tangible capital assets	-	652	1,432
	(47,475)	(104,434)	(68,670)
Decrease (increase) in inventories held for use	(434)	71	(654)
Increase in prepaid expenses	(78)	(1,491)	(391)
	(512)	(1,420)	(1,045)
<b>Increase in net debt</b>	<b>(47,987)</b>	<b>(105,854)</b>	<b>(69,715)</b>
<b>Net debt at end of year</b>	<b>(825,446)</b>	<b>(883,313)</b>	<b>(777,459)</b>

---

*The accompanying notes and schedules A and B are an integral part of the consolidated financial statements.*

---

# Government of the Northwest Territories

## Consolidated Statement of Operations and Accumulated Surplus

for the year ended March 31, 2016

(thousands of dollars)

	2016 Budget \$	2016 Actual \$	2015 Actual \$
<b>Revenues</b>			
Grant from the Government of Canada <i>(note 2(l))</i>	1,232,755	1,232,755	1,208,840
Transfer payments <i>(note 20)</i>	189,338	213,851	233,603
	<b>1,422,093</b>	<b>1,446,606</b>	<b>1,442,443</b>
Taxation, non-renewable resource and general revenues			
Corporate and personal income taxes <i>(note 20)</i>	149,019	134,847	142,083
Other taxes <i>(note 20)</i>	121,083	120,856	117,967
General <i>(note 20)</i>	59,638	68,024	77,865
Income from portfolio investments	560	5,039	4,516
Non-renewable resource revenue	81,223	58,203	63,750
Sales	175,586	139,520	141,324
Recoveries	56,291	36,219	35,485
	<b>643,400</b>	<b>562,708</b>	<b>582,990</b>
Recoveries of prior years' expenses	3,000	19,806	6,815
	<b>2,068,493</b>	<b>2,029,120</b>	<b>2,032,248</b>
<b>Expenses (schedule B)</b>			
Environment and economic development	162,929	183,353	206,070
Infrastructure	556,993	520,915	511,427
Education	338,816	345,398	351,580
Health, social services and housing	543,946	533,339	519,864
Justice	129,398	128,276	124,007
General government	162,313	168,921	194,483
Legislative Assembly and statutory offices	21,776	20,770	20,385
	<b>1,916,171</b>	<b>1,900,972</b>	<b>1,927,816</b>
<b>Annual operating surplus</b>	<b>152,322</b>	<b>128,148</b>	<b>104,432</b>
Projects on behalf of third parties			
Expenses	(76,560)	(81,123)	(69,661)
Recoveries	76,560	81,123	69,661
<b>Annual surplus</b>	<b>152,322</b>	<b>128,148</b>	<b>104,432</b>
Accumulated surplus at beginning of year	1,889,970	1,889,970	1,785,538
<b>Accumulated surplus at end of year</b>	<b>2,042,292</b>	<b>2,018,118</b>	<b>1,889,970</b>

*The accompanying notes and schedules A and B are an integral part of the consolidated financial statements.*

# Government of the Northwest Territories

## Consolidated Statement of Cash Flow

for the year ended March 31, 2016

(thousands of dollars)

	2016	2015
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating transactions</b>		
Annual surplus*	128,148	104,432
Items not affecting cash:		
Change in valuation allowances	(1,533)	(8,746)
Loss on tangible capital assets	6,824	873
Amortization	116,668	110,186
Adjustment resulting from NT Hydro conversion	-	(4,181)
Adjustments to tangible capital assets	(5,604)	-
Contributed assets	-	(6,890)
	244,503	195,674
Changes in non-cash assets and liabilities:		
Increase (decrease) in due to the Government of Canada	(2,979)	1,512
Decrease (increase) in accounts receivable	20,360	(74,773)
Decrease in inventories for resale	1,114	3,074
Increase in accounts payable	3,550	49,592
Increase (decrease) in environmental liabilities and asset retirement obligations	(2,663)	25,010
Decrease in deferred revenue	(12,653)	(6,483)
Increase in pensions	33	668
Increase (decrease) in other employee future benefits and compensated absences	(3,615)	29,060
Decrease (increase) in inventories held for use	71	(654)
Increase in prepaid expenses	(1,491)	(391)
<b>Cash provided by operating transactions</b>	<b>246,230</b>	<b>222,289</b>
<b>Investing transactions</b>		
Disposition of portfolio investments	91,348	75,575
Acquisition of portfolio investments	(80,269)	(87,372)
Loans receivable receipts	11,228	12,599
Loans receivable advanced	(12,665)	(11,120)
<b>Cash used for investing transactions</b>	<b>9,642</b>	<b>(10,318)</b>
<b>Capital transactions</b>		
Acquisition of tangible capital assets	(262,753)	(283,466)
Proceeds of disposition of tangible capital assets	3,494	1,762
<b>Cash used for capital transactions</b>	<b>(259,259)</b>	<b>(281,704)</b>
<b>Financing transactions</b>		
Net proceeds from short term loans	24,429	90,177
Repayment of capital lease obligations	(2,668)	(1,716)
Repayment of long-term financing	(4,434)	(4,974)
<b>Cash provided by financing activities</b>	<b>17,327</b>	<b>83,487</b>
<b>Increase in cash</b>	<b>13,940</b>	<b>13,754</b>
<b>Cash at beginning of year</b>	<b>77,835</b>	<b>64,081</b>
<b>Cash at end of year</b>	<b>91,775</b>	<b>77,835</b>

\*Total interest paid during the year \$22,628 (2015- \$22,390)

*The accompanying notes and schedules A and B are an integral part of the consolidated financial statements.*

---

# Government of the Northwest Territories

## Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

### 1. AUTHORITY AND OPERATIONS

#### (a) Authority and reporting entity

The Government of the Northwest Territories (the Government) operates under the authority of the *Northwest Territories Act* (Canada). The Government has an elected Legislative Assembly which authorizes all disbursements, advances, loans and investments unless specifically authorized by statute.

The consolidated financial statements have been prepared in accordance with the *Northwest Territories Act* (Canada) and the *Financial Administration Act* of the Northwest Territories. The consolidated financial statements present summary information and serve as a means for the Government to show its accountability for the resources, obligations and financial affairs for which it is responsible. The following chart lists the organizations comprising the Government reporting entity, how they are accounted for in the consolidated financial statements and their specific operating authority.

#### **Public Agencies fully consolidated:**

##### *Education Act*

- Beaufort-Delta Divisional Education Council
- Commission scolaire francophone Territoires du Nord-Ouest
- Dehcho Divisional Education Council
- Dettah District Education Authority
- N'dilo District Education Authority
- Sahtu Divisional Education Council
- South Slave Divisional Education Council
- Yellowknife Public Denominational District Education Authority (Yellowknife Catholic Schools)
- Yellowknife District No.1 Education Authority

##### *Aurora College Act*

- Aurora College

##### *Hospital Insurance and Health and Social Services Administration Act*

- Beaufort Delta Health and Social Services Authority
- Deh Cho Health and Social Services Authority
- Fort Smith Health and Social Services Authority
- Hay River Health and Social Services Authority
- Sahtu Health and Social Services Authority
- Stanton Territorial Health Authority
- Yellowknife Health and Social Services Authority

##### *Tlicho Community Services Agency Act*

- Tlicho Community Services Agency

##### *Northwest Territories Business Development and Investment Corporation Act*

- Northwest Territories Business Development and Investment Corporation

##### *Northwest Territories Housing Corporation Act*

- Northwest Territories Housing Corporation

##### *Human Rights Act*

- Northwest Territories Human Rights Commission

##### *Northwest Territories Societies Act*

- Northwest Territories Sport and Recreation Council
- Arctic Energy Alliance

##### *Status of Women Council Act*

- Status of Women Council of the Northwest Territories

##### *Northwest Territories Heritage Fund Act*

- Northwest Territories Heritage Fund

##### *Northwest Territories Waters Act*

- Inuvialuit Water Board



---

# Government of the Northwest Territories

## Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

### 1. AUTHORITY AND OPERATIONS (continued)

#### (a) Authority and reporting entity (continued)

*Northwest Territories Hydro Corporation Act*  
Northwest Territories Hydro Corporation (NT Hydro)  
*Northwest Territories Surface Rights Board Act*  
Northwest Territories Surface Rights Board

All organizations included in the Government reporting entity have a March 31 fiscal year-end with the exception of Aurora College, Divisional Education Councils and District Education Authorities, which have a fiscal year-end of June 30. Transactions of these educational organizations that have occurred during the period to March 31, 2016 and that significantly affect the consolidation have been recorded. Revolving funds are incorporated directly into the Government's accounts while trust assets administered by the Government on behalf of other parties (*note 17*) are excluded from the Government reporting entity. Revolving Funds are segments of the Government that are engaged in commercial activities, with undefined and non-lapsing expense appropriations.

#### (b) Budget

The consolidated budget figures are the appropriations approved by the Legislative Assembly and the approved budgets for the consolidated entities, adjusted to eliminate budgeted inter-entity revenues and expenses. They represent the Government's original consolidated fiscal plan for the year and do not reflect supplementary appropriations.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian public sector accounting standards as issued by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

#### (a) Measurement uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards requires the Government to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements. By their nature, these estimates are subject to measurement uncertainty. The effect on the financial statements of changes to such estimates and assumptions in future periods could be significant, although, at the time of preparation of these statements, the Government believes the estimates and assumptions to be reasonable.

The more significant management estimates relate to employee future benefits, environmental liabilities, asset retirement obligations, contingencies, revenue accruals, allowances for doubtful accounts for accounts receivable, valuation allowances for loans receivable, and amortization expense. Other estimates, such as the Canada Health Transfer payments, Canada Social Transfer payments, and Corporate and Personal Income Tax revenues are based on estimates made by the Government of Canada's Department of Finance and are subject to adjustments in future years.

#### (b) Cash

Cash is comprised of bank account balances, net of outstanding cheques and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition.

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (c) Portfolio investments

Portfolio investments are long-term investments in organizations that do not form part of the government reporting entity and are accounted for by the cost or amortized cost method. Such investments are normally in shares and bonds of the investee. When there has been a loss in value of a portfolio investment that is other than a temporary decline, the investment is written down to recognize the loss and it is included as a component of investment income. Interest income is recorded on the accrual basis, dividend income is recognized as it is declared and capital gains and losses are recognized when realized.

##### (d) Inventories

Inventories for resale consist mainly of bulk fuels, liquor products, and arts and crafts. Bulk fuels are valued at the lower of weighted average cost and net realizable value. Liquor products are valued at the lower of cost and net realizable value. Inventories held for use by NT Hydro consist of materials and supplies, lubricants, critical spare parts, and fuel and are recorded at cost as determined using the weighted average cost method. The remaining inventories held for use (including housing materials and supplies, and hospital supplies) are valued at the lower of cost, determined on a first in, first out basis, and net replacement value. Impairments, when recognized, result in write-downs to net realizable value.

##### (e) Loans receivable

Loans receivable and advances are stated at the lower of cost and net recoverable value. Valuation allowances, determined on an individual basis, are based on past events, current conditions and all circumstances known at the date of the preparation of the financial statements and are adjusted annually to reflect the current circumstances by recording write downs or recoveries, as appropriate. Write downs are recognized when the loans have been deemed unrealizable and or uncollectable. Recoveries are recorded when loans previously written down are subsequently collected. Interest revenue is recorded on an accrual basis. Interest revenue is not accrued when the collectability of either principal or interest is not reasonably assured.

##### (f) Non-financial assets

Tangible capital and other non-financial assets are accounted for as assets by the Government as they can be used to provide government services in future periods. These assets do not normally provide resources to discharge the liabilities of the government unless they are sold.

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Tangible capital assets and leases

Tangible capital assets are buildings, roads, equipment, etc. whose life extends beyond the fiscal year, original cost exceeds \$50 and are intended to be used on an ongoing basis for delivering programs and services. Individual assets less than \$50 are expensed when purchased. Tangible capital assets are recorded at cost (including qualifying interest expense), or where actual cost is not available, estimated current replacement cost, discounted back to the acquisition date. Costs include contracted services, materials and supplies, direct labour, attributable overhead costs, and directly attributable interest. Capitalization of interest ceases when no construction or development is taking place or when a tangible capital asset is ready for use in producing goods or services. Assets, when placed in service, are amortized on a straight-line basis over their estimated useful lives as follows:

Asset category	Amortization period
Land	Not amortized
Roads and bridges	75 years or less
Airstrips and aprons	40 years or less
Buildings	40 years or less
Ferries	25 years or less
Fences	20 years or less
Signs	20 years or less
Electric power plants	15 - 100 years
Transmission and distribution systems	20 - 65 years
Aircrafts	20 - 40 years
Fuel distribution systems	15 - 40 years
Water/sewer works	15 - 25 years
Park improvements	10 - 40 years
Mobile and heavy equipment	7 - 15 years
Mainframe and software systems	5 - 10 years
Major equipment	5 - 15 years
Medical equipment	5 - 15 years
LNG and NT Hydro equipment under capital lease	5 years
Leasehold improvements	Lesser of useful life or lease term plus renewal option

The estimate of the useful life of tangible capital assets is reviewed on a regular basis and revised where appropriate on a prospective basis. The remaining unamortized portion of a tangible capital asset may be extended beyond its original estimated useful life when the appropriateness of such a change can be clearly demonstrated.

Write-downs and write-offs of tangible capital assets are recognized whenever significant events and changes in circumstances and use suggest that the asset can no longer contribute to program or service delivery at the level previously anticipated. A write-down is recognized when a reduction in the value of the asset can be objectively measured. A write-off is recognized when the asset is destroyed, stolen, lost, or obsolete to the Government.

Tangible capital assets under construction or development are recorded as work in progress with no amortization until the asset is placed in service. Capital lease agreements are recorded as a liability and a corresponding asset based on the present value of the minimum lease payments, excluding executory costs. The present value is based on the lower of the implicit rate or the Government's borrowing rate at the time the obligation is incurred. Operating leases are charged to expenses. All intangibles, works of art, historical treasures and Commissioner or Territorial lands are not recorded.

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Pensions and other employee future benefits and compensated absences

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Government's contributions are charged as an expense on a current year basis and represent the total pension obligations. The Government is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

Pension benefits to Members of the Legislative Assembly and judges are reported on an actuarial basis. This is done to determine the current value of future entitlement and uses various estimates. When actual experience varies from estimates or when actuarial assumptions change, the adjustments are amortized on a straight-line basis over the estimated average remaining service lives of the contributors. Recognition of actuarial gains and losses commences in the year following the effective date of the related actuarial valuations. In addition, immediate recognition of a previously unrecognized net actuarial gain or loss may be required upon a plan amendment, curtailment or settlement.

Under the terms and conditions of employment, government employees may earn non-pension benefits for resignation, retirement and removal costs. Eligible employees earn benefits based on years of service to a maximum entitlement based on terms of employment. Eligibility is based on a variety of factors including place of hire, date employment commenced, and reason for termination. Benefit entitlements are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is recognized as employees render service. Termination benefits are also recorded when employees are identified for lay-off. Compensated absences include sick, special, parental and maternity leave. Accumulating non-vesting sick and special leave are recognized in the period the employee provides service, whereas parental and maternity leave are event driven and are recognized when the leave commences. An actuarial valuation of the cost of these benefits has been prepared using data provided by management and assumptions based on management's best estimates.

### (i) Contractual obligations and contingencies

The nature of the Government's activities requires entry into contracts that are significant in relation to its current financial position or that will materially affect the level of future expenses. Contractual obligations pertain to funding commitments for operating, commercial and residential leases, and capital projects. Contractual obligations are obligations of a government to others that will become liabilities in the future when the terms of those contracts or agreements are met.

The contingencies of the Government are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. If the future event is considered likely to occur and is quantifiable, an estimated liability is accrued. If the occurrence of the confirming future event is likely but the amount of the liability cannot be reasonably estimated, the contingency is disclosed. If the occurrence of the confirming future event is not determinable, the contingency is disclosed.

### (j) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using exchange rates at year-end. Foreign currency transactions are translated into Canadian dollars using rates in effect at the time the transactions were entered into. All exchange gains and losses are included in net income for the year according to the activities to which they relate.

### (k) Projects on behalf of third parties

The Government undertakes projects for the Government of Canada, the Government of Nunavut and others. Where possible, the Government receives accountable advances and any unexpended balances remaining at year-end are recorded as liabilities. Recoveries are accrued when expenses, as allowed under the project contract, exceed advances.

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (l) Grant from the Government of Canada

Under *Federal-Provincial Fiscal Arrangements Act* (Canada), the Grant from the Government of Canada is calculated as the Gross Expenditure Base, offset by eligible revenues, which are based on a three-year moving average, lagged two years, of representative revenue bases at national average tax rates. Population growth rates and growth in provincial/local government spending are variables used to determine the growth in the Gross Expenditure Base. The Grant is calculated once for each fiscal year and is not revised, with all payments flowing to the Government prior to the end of the fiscal year.

### (m) Transfer payments

Government transfers are recognized as revenue in the period in which the events giving rise to the transfer occurred, as long as the transfer is authorized, eligibility criteria have been met, stipulations that give rise to a liability have been satisfied and a reasonable estimate of the amount can be made. Transfers received before these criteria are fully met are recorded as deferred revenue. Transfers received for tangible capital assets are recognized when the tangible capital asset is put into service.

### (n) Taxes, resource, general and restricted revenues

Corporate and Personal Income tax revenue are recognized on an accrual basis, net of any tax concessions. Income tax is calculated net of tax deductions and credits allowed under the *Income Tax Act*. If an expense provides a financial benefit other than a relief of taxes, it is classified as a transfer made through the tax system. If an expense provides tax relief to a taxpayer and relates to revenue, this expense is considered a tax concession and is netted against tax revenues. Taxes, under the *Income Tax Act*, are collected by the Government of Canada on behalf of the Government under a tax collection agreement. The Government of Canada remits Personal Income taxes monthly throughout the year and Corporate Income tax monthly over a six month period beginning in February. Payments are based on Canada's Department of Finance's estimates for the taxation year, which are periodically adjusted until the income tax assessments for that year are final. Income tax estimates, determined by the Government of Canada, combine actual assessments with an estimate that assumes that previous years' income tax allocations will be sustained and are subject to revisions in future years. Differences between current estimates and future actual amounts can be significant. Any such differences are recognized when the actual tax assessments are finalized.

Resource revenues are recognized on an accrual basis and include mineral, quarry, oil and gas, and water revenues as defined in the Northwest Territories Lands and Resources Devolution Agreement. Mineral and quarry revenues are collected under the authority of the *NWT Lands Act*, water revenues are collected under the authority of the *Water Act* and oil and gas revenues are collected under the authority of the *Petroleum Resources Act*. The Government is entitled to 50 percent of the resource revenues collected (which is referred to as the net fiscal benefit), up to a maximum amount based on a percentage of the Gross Expenditure Base under Territorial Formula Financing. The Government of Canada will deduct its share of the resource revenues collected by the Government (the remaining amount) from the Territorial Formula Financing Grant (*note 2(l)*) payable to the Government two years hence. The Government has also committed to sharing up to 25 percent of the net fiscal benefit with Aboriginal governments that are signatories to the Northwest Territories Lands and Resources Devolution Agreement as per the *Northwest Territories Intergovernmental Resource Revenue Sharing Act*.

Fuel, tobacco, payroll and property taxes are levied under the authority of the *Petroleum Products Tax Act*, the *Tobacco Tax Act*, the *Payroll Tax Act*, and the *Property Assessment and Taxation Act*, respectively. Fuel and tobacco tax revenues are recognized on an accrual basis, based on statements received from collectors. Payroll tax is recognized on an accrual basis, based on payroll tax revenues of the prior year. Property tax and school levies are assessed on a calendar year basis and are recognized in the fiscal year in which the billing occurs. Adjustments arising from reassessments are recorded in revenue in the year they are identified. Revenues from the sale of power and fuel riders are recognized in the period earned based on cyclical meter readings. All other revenues are recognized on an accrual basis.

---

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (n) Taxes, resource, general and restricted revenues (continued)

Certain tangible capital asset additions of NT Hydro are made with the assistance of cash contributions from customers. These contributions are recorded as revenues when all external restrictions or stipulations imposed by an agreement with the external party related to the contribution have been satisfied, generally when the resources are used for the purposes intended.

##### (o) Expenses

Grants and contributions are recognized as long as the grant or contribution is authorized and eligibility criteria have been met. Grants and contributions include transfer payments paid through programs to individuals, and to provide major transfer funding for communities under community government funding arrangements. Payments to individuals include payments for children's benefits, income support or income supplement. Assistance is based on age, family status, income, and employment criteria. Other transfer payments are provided to conduct research, to establish new jobs through support for training and to promote educational, health and cultural activities. Also included are expenses of other consolidated entities and other miscellaneous payments. Under the authority of the *Northwest Territories Intergovernmental Resource Revenue Sharing Act*, a transfer to the Aboriginal parties who are signatories to the Northwest Territories Intergovernmental Resource Revenue Sharing Agreement will be made of 25 percent of the net fiscal benefit from resource revenues that is received by the Government (*note 2 (n)*). All other expenses are recognized on an accrual basis.

##### (p) Environmental liabilities

Environmental liabilities are the result of contaminated sites, defined as a site where as a result of contamination being introduced into air, soil, water, or sediment of a chemical, organic, or radioactive material, or live organism that exceeds an environmental standard. A liability for remediation of contaminated sites is recognized when all of the following criteria are satisfied: an environmental standard exists, contamination exceeds the environmental standard, the Government is directly responsible or accepts responsibility, it is expected that future economic benefits will be given up and a reasonable estimate of the amount can be made. The liability reflects the Government's best estimate of the amount required to remediate the sites to the current minimum standard for its use prior to contamination.

Environmental liabilities consist of the estimated costs related to the management and remediation of environmentally contaminated sites, including costs such as those for future site assessments, development of remedial action plans, resources to perform remediation activities, land farms and monitoring. All costs associated with the remediation, monitoring and post-closing of the site are estimated and accrued. Where estimates are not readily available from third party analyses, an estimation methodology is used to record a liability when sufficient information is available. The methodology used is based on costs or estimates for sites of similar size and contamination when the Government is obligated, or is likely obligated, to incur such costs. If the likelihood of a future event that would confirm the Government's responsibility to incur these costs is either not determinable, or in the event it is not possible to determine if future economic benefits will be given up, or if an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the consolidated financial statements and no liability is accrued. The environmental liabilities for contaminated sites are reassessed on an annual basis.

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (q) Asset retirement obligations

On an annual basis, NT Hydro identifies legal obligations associated with the retirement of its tangible capital assets. Management's best estimate of the future expenditures required to settle the legal obligations are recognized to the extent that they can be reasonably estimated and are calculated based on the estimated future cash flows necessary to discharge the legal obligations, discounted using the NT Hydro's cost of borrowing for maturity dates that coincide with the expected cash flows.

The estimated asset retirement obligation (ARO) is recorded as a liability and a corresponding increase to tangible capital assets. The liability for AROs is increased annually for the passage of time by calculating accretion on the liability based on the discount rates implicit in the initial measurement. Changes in the obligation resulting from revisions to the timing or amount of the estimated undiscounted cash flows or revisions to the discount rate are recognized as an increase or decrease in the related carrying amount of the related tangible capital asset.

NT Hydro has identified AROs for certain hydro, thermal, transmission and distribution assets where NT Hydro expects to maintain and operate these assets indefinitely and therefore no related ARO has been recognized.

##### (r) Recoveries of prior years' expenses

Recoveries of prior years' expenses and reversal of prior years' expense accruals in excess of actual expenditures are reported separately from other revenues on the consolidated statement of operations and accumulated surplus. Pursuant to the *Financial Administration Act*, these recoveries cannot be used to increase the amount appropriated for current year expenses.

##### (s) Segmented information

The Government reports on segments on the basis of relationships of its operations with similar entities. Segmented information is disclosed in Schedule B. Segments are identified by the nature of an entity's operations and the accountability relationship that a group of similar entities has with the Government. There are no significant allocations of revenues or expenses between segments.

Government departments are identified as one segment to reflect the direct accountability relationship for financial reporting and budgeting between departments, their respective Ministers and the Legislative assembly.

Other Public Agencies within the Government Reporting Entity represent another segment. These agencies are typically associated with a particular Government department and have a formalized reporting relationship to that department. For example, Health and Social Services Authorities have an accountability relationship to the Minister of Health and Social Services as well as to their respective board members. Other Public Agencies also includes agencies that report directly to a Minister responsible for their operations. For example, the Northwest Territories Housing and Hydro Corporations have Ministers specifically assigned to their operations. The agencies in this segment assist the Government in delivering its programs and services and in achieving its priorities.

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) Public-Private Partnerships

The Government may, as an alternative to traditional forms of procurement governed by the Government's Contract Regulations, enter into public private partnership (P3) agreements with the private sector to procure services and public infrastructure when: the total projected threshold for procuring those services, including capital, operating and service costs over the life of the agreement, exceeds \$50 million; there is appropriate risk sharing between the Government and the private sector partners; the agreement extends beyond the initial capital construction of the project, and; the arrangement results in a clear net benefit as opposed to being merely neutral in comparison with standard procurement processes. The operating and services costs are expensed as they are incurred and are clearly identified in the agreements.

The Government accounts for P3 projects in accordance with the substance of the underlying agreements. In circumstances where the Government is determined to bear the risks and rewards of an asset under construction, the asset and the corresponding liability are recognized over time as the construction progresses. In circumstances where the Government does not bear the risks and rewards of the asset until substantial completion the future associated agreement is disclosed.

The capital asset value is the total of progress payments made during construction and net present value of the future payments, discounted using the Government's estimated borrowing rate for long term debt at the time of signing the P3 agreement. Capital expenditures may occur throughout the project or at the capital in-service date. Service fees may occur throughout the project or when the project is operational; these fees will include both a service and operational component. All payments are adjusted to reflect performance standards as outlined in the specific agreement and penalties may be deducted for sub-standard performance.

A P3 agreement may encompass certain revenues, including those collected by the partner on behalf of the Government. In such instances the Government will report the gross revenue along with the asset, liability, and expenses as determined from the specific project.

### (u) Future accounting changes

#### *Financial instruments*

The Public Sector Accounting Board (PSAB) issued PS 3450 Financial Instruments effective for fiscal years beginning on or after April 1, 2019. Items within the scope of the standard are assigned to one of two measurement categories: fair value, or cost or amortized cost. Fair value measurement will apply to derivatives and portfolio investments in equity instruments that are quoted in an active market. Also, when groups of financial assets and financial liabilities are managed on a fair value basis they may be reported on that basis. Other financial assets and financial liabilities will generally be measured at cost or amortized cost. Until an item is derecognized, gains and losses arising due to fair value remeasurement will be reported in the Statement of Remeasurement of Gains and Losses.



---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (u) Future accounting changes (continued)

#### *Other New Standards*

Effective April 1, 2019, the Government will concurrently be required to adopt: PS 2601 Foreign Currency Translation, PS 1201 Financial Statement Presentation, and PS 3041 Portfolio Investments in the same fiscal period. Government organizations that apply PSAS were required to adopt these standards effective April 1, 2012, however there is no significant impact on the consolidated financial statements as a result of its application.

PSAB issued new standards in March 2015 on Related Party Transactions (PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions) and four new standards related to Assets (PS 3210), Contingent Assets (PS 3320), Contractual Rights (PS 3380) and Restructuring Transactions (PS 3430) in June 2015. All these new standards have an effective date of April 1, 2017, except for PS 3430 that has an effective date of April 1, 2018.

The Government will analyze the impact of these new standards on its consolidated financial statements.

## 3. PORTFOLIO INVESTMENTS

	2016	2015
	\$	\$
Marketable securities (market value \$97,470; 2015 - \$111,694)	96,685	107,491
Miscellaneous investments	400	674
	<b>97,085</b>	<b>108,165</b>

---

## 4. DESIGNATED AND RESTRICTED ASSETS

Designated and restricted assets are included in cash and portfolio investments.

#### *Designated assets*

Pursuant to the *Student Financial Assistance Act*, the assets of the Student Loan Fund are to be used to provide financial assistance to post-secondary students that meet eligibility criteria as prescribed in its regulations.

Pursuant to the *Waste Reduction and Recovery Act*, the assets of the Environment Fund are to be used for specified purposes as follows:

- (a) the establishment, operation and evaluation of programs in respect of the reduction or recovery of waste;
- (b) education programs related to the reduction or recovery of waste;
- (c) research and development activities related to the reduction or recovery of waste;
- (d) the appropriate disposal of a designated or prohibited material as waste;
- (e) expenses associated with the work of the advisory committee; or
- (f) other costs associated with programs, initiatives or activities in respect of the reduction or recovery of waste.

Portfolio investments, while forming part of the Consolidated Revenue Fund, are designated for the purpose of meeting the obligations of the Legislative Assembly Supplemental Retiring Allowance Pension Plan (*note 15*). Supplementary Retiring Allowance Regulations restrict the investments to those permitted under the *Pension Benefits Standards Act*. The remainder consists of investments held by public agencies listed in note 1(a).

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 4. DESIGNATED AND RESTRICTED ASSETS (continued)

Pursuant to section 27 of the *Northwest Territories Business Development and Investment Corporation Act*, and its Regulations, the Northwest Territories Business Development and Investment Corporation (BDIC) is required to establish a Loan and Investments Fund for its lending and investing activities. Subsection 4(2) of the Program, Projects and Services Continuation Regulations (the Regulations) specifies that a Loans and Bonds Fund will be used to record the lending operations. Subsection 19(2) requires that a Venture Investment Fund be used to record the venture investment operations. Furthermore, under subsection 18(2), the BDIC is obligated to maintain a Capital Fund and Subsidy Fund.

In addition to these funds, the BDIC is required, under subsections 18(6) and 19(5) of the Regulations, to establish a Capital Reserve Fund and a Venture Reserve Fund, respectively. The BDIC will continue to deposit to these reserve funds an amount equal to 10% of each capital or venture investment made. The BDIC may use these reserve funds for further investment or financing for its subsidiaries and venture investments through approved drawdowns.

Sinking fund investments of NT Hydro are held by a Trustee for the redemption of debentures. The agreements require annual installments to retire debt at maturity. NT Hydro's sinking fund policy allows only Canadian fixed-income investments with investment grade credit.

Northwest Territories Housing Corporation has a cash reserve designated by management to settle mortgage principal where the underlying asset has been disposed. It is anticipated that the funds will be disbursed in December 2018.

Northwest Territories Sport and Recreation Council has a cash reserve designated by management to fund building, programs and games expenditures.

Beaufort Delta Divisional Education Council has restricted cash to establish the Harry Stallworthy - Noah Carpenter Fund. The terms of the bequest state that the principal shall remain intact and the net annual income therefrom shall be made available to students of Inuit heritage for financial assistance in the High School Orientation program.

Commission scolaire francophone Territoires du Nord-Ouest has restricted cash for the purpose of covering legal costs related to legal action against the Government for the provision of additional classroom space in Hay River.

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 4. DESIGNATED AND RESTRICTED ASSETS (continued)

	2016 \$	2015 \$
Student Loan Fund:		
Authorized limit for loans receivable	45,000	45,000
Less: Loans receivable balance ( <i>note 7</i> )	(41,953)	(40,632)
Funds designated for new loans	<b>3,047</b>	<b>4,368</b>
Environment Fund:		
Beverage Container Program net assets	<b>2,097</b>	<b>2,526</b>
Portfolio Investments for the Legislative Assembly Supplementary Retiring Allowance ( <i>note 15</i> )		
Marketable securities (market value \$31,767; 2015 - \$31,842)	30,004	26,484
Money market (market value approximates cost)	-	1,267
Cash and other assets (market value approximates cost)	339	302
	<b>30,343</b>	<b>28,053</b>
BDIC:		
Venture Investment Fund	4,182	4,170
Subsidy Fund	488	462
Capital Fund	873	873
Venture Reserve Fund	486	485
Capital Reserve Fund	147	147
Loans and Bonds Fund	1,076	3,104
	<b>7,252</b>	<b>9,241</b>
NT Hydro		
Sinking Funds (market value approximates cost)	<b>7,988</b>	<b>7,194</b>
Northwest Territories Housing Corporation		
Cash	<b>854</b>	-
Northwest Territories Sport and Recreation Council		
Guaranteed investment certificate	<b>743</b>	<b>737</b>
Beaufort Delta Divisional Education Council		
Cash	<b>258</b>	-
Commission scolaire francophone Territoires du Nord-Ouest		
Cash	<b>45</b>	-
	<b>52,627</b>	<b>52,119</b>

---

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 5. ACCOUNTS RECEIVABLE

	Accounts Receivable \$	Allowance for Doubtful Accounts \$	Net 2016 \$	Net 2015 \$
General	131,721	(24,767)	106,954	124,765
Utilities	9,948	(122)	9,826	9,845
Government of Nunavut	6,733	(162)	6,571	8,141
Hospital related costs due from third parties	7,528	(3,410)	4,118	4,042
Revolving fund sales	3,657	-	3,657	3,268
	<b>159,587</b>	<b>(28,461)</b>	<b>131,126</b>	<b>150,061</b>
Receivables from related parties:				
Workers' Safety and Compensation Commission	489	(64)	425	694
	<b>160,076</b>	<b>(28,525)</b>	<b>131,551</b>	<b>150,755</b>

---

#### 6. INVENTORIES

	2016 \$	2015 \$
<b>Inventories for resale:</b>		
Bulk fuels	24,280	26,453
Liquor products	3,527	2,496
Arts and crafts	553	525
	<b>28,360</b>	<b>29,474</b>
<b>Inventories held for use:</b>		
Materials and supplies:		
Housing	2,843	2,992
NT Hydro	8,981	9,142
Hospital supplies	3,086	2,833
Public Stores	136	150
	<b>15,046</b>	<b>15,117</b>
	<b>43,406</b>	<b>44,591</b>

---

Inventory write-down for 2016 is \$292 (2015- \$90).

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 7. LOANS RECEIVABLE

	2016 \$	2015 \$
Northwest Territories Business Development and Investment Corporation loans to businesses receivable over a maximum of 25 years, secured by real property, heavy equipment and general security agreements; bearing fixed interest between 5.10% and 5.78%, (2015 between 5.18% and 5.78%) before valuation allowance of \$5,141 (2015 - \$5,778).	44,350	42,622
Northwest Territories Energy Corporation Ltd. loan to the Dogrib Power Corporation due July 2026, bearing interest at an annual rate of 9.6%, repayable in equal monthly payments of \$195, secured by a \$4,000 guarantee and a restricted bank account.	15,307	16,134
Students Loan Fund loans due in installments to 2028, bearing fixed interest between 1.25% and 11.75%, (2015 - 1.25% and 11.75%) unsecured, before valuation allowance and loan remissions of \$19,247 (2015 - \$17,998).	41,953	40,632
Northwest Territories Housing Corporation mortgages and loans to individuals receivable over a maximum of 25 years, some of which are unsecured and others are secured by registered charges against real property bearing fixed interest between 3.00% and 12.00%, (2015 - 3.00% and 12.00%) before valuation allowance of \$10,302 (2015 - \$10,422).	14,741	14,655
	<b>116,351</b>	<b>114,043</b>
Valuation allowances	(34,690)	(34,198)
	<b>81,661</b>	<b>79,845</b>

---

Interest earned on loans receivable during the year is \$5,148 (2015 - \$4,258).

Conditional grants have been provided by the Northwest Territories Housing Corporation to eligible homeowners, which are fully forgivable on the condition that the property remains the principal residence and the homeowner's annual income remains below the core need income threshold for the term of the agreement. If the conditions are not met, the grants are repayable to the Northwest Territories Housing Corporation. Conditional grants expensed during the year were \$2,908 (2015 - \$5,595).

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 8. SHORT TERM LOANS

Based upon operational needs, the Government may enter into short term borrowing arrangements with its banks. Short-term loans of \$277,403 (2015 - \$252,974) incurred interest at a weighted average year-end rate of 0.95% (2015 - 0.93%). Interest expense on short term loans included in operations and maintenance expenses is \$1,773 (2015 - \$1,893).

The borrowing limit under the *Borrowing Authorization Act* is \$300,000.

#### 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016 \$	2015 \$
Trade	216,074	212,591
Government of Nunavut	262	385
Other liabilities	10,178	8,544
Employee and payroll-related liabilities	77,857	68,216
Accrued interest	706	676
	<b>305,077</b>	<b>290,412</b>
Payable to related parties:		
Workers' Safety and Compensation Commission	1,517	157
	<b>306,594</b>	<b>290,569</b>

---

#### 10. DEFERRED REVENUE

	2016 \$	2015 \$
Government of Canada		
Ministry of Finance	4,082	4,253
Building Canada Plan	513	9,461
Wood Buffalo National Park	-	15
Transport Canada	350	-
Mining Recorders	1,350	-
NPR Limited Partnership	2,070	-
Other	2,409	9,698
	<b>10,774</b>	<b>23,427</b>

---

Deferred revenue consists mainly of funds received from the Government of Canada for corporate income tax for the current year.

# Government of the Northwest Territories

## Notes to Consolidated Financial Statements

March 31, 2016

(All figures in thousands of dollars)

### 11. ENVIRONMENTAL LIABILITIES AND ASSET RETIREMENT OBLIGATIONS

The Government recognizes that there are costs related to the remediation of environmentally contaminated sites for which the Government is responsible. The Government has identified 223 (2015 - 216) sites as potentially requiring environmental remediation at March 31, 2016. Where remediation costs have been estimated and a liability has been recorded the methodology used to estimate the liability is either based on third party analyses or extrapolated from costs previously incurred to remediate, monitor, or manage sites of similar size and contamination.

Type of Site	2015 Liability	Remediation Expenditures	New Sites in 2016	Increase (Decrease) in Estimate	2016 Liability	Number of Sites
	\$	\$	\$	\$	\$	
Abandoned mines <sup>(1)</sup>	13,368	(134)		544	13,778	7
Landfills <sup>(2)</sup>	13,413	(209)	-	(2,059)	11,145	40
Abandoned infrastructure and schools <sup>(3)</sup>	12,148	(1,925)	1,366	303	11,892	69
Airports, airport strips or reserves <sup>(4)</sup>	2,056	(447)	-	265	1,874	24
Sewage lagoons <sup>(5)</sup>	2,841	-	-	(57)	2,784	28
Fuel tanks and resupply lines <sup>(2)</sup>	2,783	(164)	150	(44)	2,725	15
Abandoned lots and maintenance facilities <sup>(3)</sup>	15,201	(45)	-	-	15,156	40
<b>Total environmental liabilities</b>	<b>61,810</b>	<b>(2,924)</b>	<b>1,516</b>	<b>(1,048)</b>	<b>59,354</b>	<b>223</b>
<b>Asset retirement obligations</b>	<b>7,085</b>				<b>6,878</b>	
<b>Total</b>	<b>68,895</b>				<b>66,232</b>	

Possible types of contamination identified under each type of site include the following:

- (1) metals, hydrocarbons, asbestos, wood/metal debris, waste rock, old mine buildings, lead paint;
- (2) hydrocarbons, glycol, metals;
- (3) hydrocarbons, petroleum products;
- (4) hydrocarbons, vehicle lubricants, asbestos, glycol;
- (5) metals, e.coli, total coliforms.

One of the sites, Giant Mine, has been formally designated as contaminated under the *Environmental Protection Act* (NWT). In 2005, the Government recorded a liability for its share of the above ground remediation. The remaining balance of the Government's share of the Giant Mine remediation liability at March 31, 2016 is \$2,851 (2015 - \$2,994). There are 6 other abandoned non-operating mine sites that the Government will be remediating in conjunction with Canada based on cost allocations similar to that of Giant Mine. There are 28 sewage lagoons and 40 landfills sites that are outside incorporated communities and being remediated or monitored as appropriate.

There were 2 (2015 - 0) sites closed during the fiscal year as they were either remediated or no longer meet all the criteria required to record a liability for contaminated sites..

Included in the 223 sites, there are 74 sites where no liability has been recognized. The contamination is not likely to affect public health and safety, cause damage, or otherwise impair the quality of the surrounding environment and there is likely no need for action unless new information becomes available indicating greater concerns, in which case, the site will be re-examined. These sites will continue to be monitored as part of the Government's ongoing environmental protection program.

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 11. ENVIRONMENTAL LIABILITIES AND ASSET RETIREMENT OBLIGATIONS (continued)

The asset retirement obligation includes NT Hydro's disposal of generating plants on leased land, storage tanks systems and the associated piping for petroleum products in all communities serviced by the Northwest Territories Power Corporation, a subsidiary of NT Hydro. The carrying amount of the obligation is based on total expected cash flows, expected timing of cash flows (majority to occur post 2040), and the weighted average discount rate of 2.47% for obligations to be settled in 10 years or less and 3.5% for obligations to be settled in 10 years or more.

#### 12. DUE TO (FROM) THE GOVERNMENT OF CANADA

	2016 \$	2015 \$
Receivables		
Projects on behalf of the Government of Canada	(15,605)	(11,190)
Miscellaneous receivables	(59,415)	(33,089)
	<b>(75,020)</b>	<b>(44,279)</b>
Payables		
Excess income tax advanced	74,002	54,890
Advances for projects on behalf of the Government of Canada	18,923	17,420
Miscellaneous payables	53,306	46,159
	<b>146,231</b>	<b>118,469</b>
	<b>71,211</b>	<b>74,190</b>

The amounts due to the Government of Canada are non-interest bearing. The excess income tax advanced is repayable over the following years:

	\$
2017	12,309
2018	34,957
2019	26,459
2020	277
	<b>74,002</b>



---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

**March 31, 2016**

(All figures in thousands of dollars)

---

#### 13. CAPITAL LEASE OBLIGATIONS

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Buildings	1,343	1,844
Equipment	18,568	20,735
	<b>19,911</b>	<b>22,579</b>

---

Interest expense related to capital lease obligations for the year is \$1,934 (2015 - \$2,151), at an implicit average interest rate of 9.42% (2015 - 8.94%). Capital lease obligations (expiring between 2017 and 2061) are based upon contractual minimum lease obligations for the leases in effect as of March 31, 2016.

	<b>\$</b>
2017	2,650
2018	2,551
2019	2,503
2020	2,422
2021	1,982
2022 and beyond	46,445
Total minimum lease payments	58,553
Less: imputed interest	38,642
Present value of minimum lease payments	<b>19,911</b>

---

# Government of the Northwest Territories

## Notes to Consolidated Financial Statements

March 31, 2016

(All figures in thousands of dollars)

### 14. LONG-TERM DEBT

	2016 \$	2015 \$
Loans due to Canada Mortgage and Housing Corporation, repayable in annual installments until the year 2033, bearing interest at a rate of 6.97% (2015 - 6.97%), unsecured.	7,004	7,576
Mortgages payable to Canada Mortgage and Housing Corporation for three third party loans under the Social Housing Agreement, maturing in 2026 and 2027, bearing interest at rates between 2.78% and 3.68% (2015- 2.78% and 3.68%), unsecured.	2,907	3,143
Mortgage payable to Canada Mortgage and Housing Corporation, repayable in monthly installments of \$7 (2015 - \$7) maturing June 2024, bearing interest at 3.30% (2015 - 3.30%), secured with real property.	666	735
Yellowknife Catholic Schools debentures, repayable in monthly installments of \$68 (2015- \$68), including fixed interest at 5.73%, final installment due in 2018, unsecured.	2,130	2,803
Debentures, due 2025 to 2052, bearing interest between 3.82% and 6.00% (2015- 3.82% and 6.00%), unsecured.	90,000	90,000
Sinking Fund debentures, due 2018 to 2026, bearing interest between 6.33% and 8.41% (2015- 6.33% and 8.41%), secured by sinking funds earning a weighted average effective rate of return of 0.48% (2015- 0.87%).	18,700	18,700
Amortizing Debentures, due 2032 to 2040, bearing interest between 5.16% and 6.42% (2015- 5.16% and 6.42%), unsecured.	57,876	59,476
Series 1, 2 and 3 Debentures, repayable in monthly installments between \$69 and \$73 (2015- \$69 and \$73), maturing 2025 to 2026, bearing interest between 9.11% and 10.00% (2015- 9.11% and 10.00%), unsecured.	15,971	16,923
Real return senior bonds with accrued inflation adjustment, maturing June 1, 2046, redeemable at the option of the issuer, bearing interest at 3.17% (2015- 3.17%) payable semi-annually, unsecured.	177,801	178,176
Loan due to builder (Stanton Hospital), repayable in monthly installments of \$794 starting at the expected in service date November 2018 until November 2048, bearing interest at 5.23% (imputed), unsecured.	13,730	-
Loan due to builder (Mackenzie Valley Fibre Link), repayable in monthly installments of \$620 at the expected in service date June 2017 until June 2037, bearing interest at 4.74% (imputed), unsecured.	65,007	-
	<b>451,792</b>	<b>377,532</b>
Unamortized premium, discount and issuance costs	(730)	(773)
	<b>451,062</b>	<b>376,759</b>

# Government of the Northwest Territories

## Notes to Consolidated Financial Statements

March 31, 2016

(All figures in thousands of dollars)

### 14. LONG-TERM DEBT (continued)

Long-term debt principal repayments and investment in sinking funds (*note 4*) due in each fiscal year for the next five years:

	Long-term Principal	Sinking Fund Investment
	\$	\$
2017	7,344	680
2018	15,146	680
2019	35,849	680
2020	19,414	290
2021	15,648	290
2022 and beyond	358,391	1,450
	<b>451,792</b>	<b>4,070</b>

Interest expense on long-term debt, included in operations and maintenance expenses, is \$19,627 (2015 - \$19,022).

### Debt Authority

The Government has the authority to borrow, pursuant to subsection 28(4) of the *Northwest Territories Act* (Canada), within a borrowing limit authorized by the Government of Canada. The Government's borrowing limit was increased to \$1,300 million by Order in Council P.C. 2015-0644, dated May 28, 2015.

	2016 \$	2015 \$
Government of the Northwest Territories:		
Mortgage payable to Canada Mortgage and Housing Corporation	666	735
Guarantees ( <i>note 19(a)</i> )	21,926	24,142
Real Return Bonds payable	177,801	178,176
Capital lease obligations	1,290	1,628
Short term borrowing	244,803	234,859
NWT Housing Corporation, mortgages and loans payable	9,911	10,719
NWT Housing Corporation, capital lease obligations	53	281
NT Hydro, capital lease obligations	18,568	20,670
NT Hydro, long-term debt (net of sinking fund)	173,830	177,132
NT Hydro, operational debt	32,600	18,115
Fuel Services Division, capital lease obligations	1,375	-
Yellowknife Catholic Schools District Education Authority	2,130	2,803
	<b>684,953</b>	<b>669,260</b>
Authorized borrowing limit	1,300,000	800,000
 <b>Available borrowing capacity before P3s</b>	 <b>615,047</b>	 <b>130,740</b>
Future encumbrances relating to P3s long term debt ( <i>note 14</i> )	78,737	-
 <b>Available borrowing capacity</b>	 <b>536,310</b>	 <b>130,740</b>

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 15. PENSIONS

##### a) Plans' description

The Government administers the following pension plans for Members of the Legislative Assembly (MLAs), Territorial Court Judges, Employees of the Hay River Health and Social Services Authority and the Employees and Superintendent and Assistant Superintendents of the Yellowknife Catholic Schools. The Government is liable for all benefits. Benefits provided under all seven plans are based on years of service and pensionable earnings.

Plan recipient	Name of plan	Funded status
MLAs	Legislative Assembly Retiring Allowance Plan (MLAs Regular)	Funded
MLAs	Legislative Assembly Supplemental Retiring Allowance Plan (MLAs Supplemental)	Non Funded
Judges	Judges Registered Plan (Judges Regular)	Funded
Judges	Judges Supplemental Pension Plan (Judges Supplemental)	Non Funded
Employees	Retirement Plan for Employees of the Hay River Health and Social Services Authority	Funded
Employees	Retirement Plan for Employees of the Yellowknife Catholic Schools	Funded
Superintendent and Assistant Superintendents	Retirement Plan for Superintendent and Assistant Superintendents of the Yellowknife Catholic Schools (Supplemental)	Non Funded

The Regular Plans for both the MLAs and Judges are contributory defined benefit registered pension plans and are pre-funded. The funds related to these plans are administered by independent trust companies.

The Supplemental plans for both the MLAs and Judges are non-contributory defined benefit pension plans and are unfunded; however, the Government has designated assets for the purposes of meeting the obligations of the MLA Supplemental plan (*note 4*).

The average age of the 19 active members of the MLAs plans is 49. The basic benefit formula of the MLAs plans is 2 percent per year of pensionable service multiplied by the average of the best four consecutive years of earnings. Plan assets consist of Canadian and foreign equities, and Canadian fixed income securities and bonds.

The average age of the 4 active members of the Judges' plans is 59. The basic benefit formula of the Judges' plans is 2 percent per year of pensionable service multiplied by the average of the best six consecutive years of earnings, reducing at age 65 by an amount equal to 0.7% of the average Year's Maximum Pensionable Earnings (YMPE) (as defined in the Canada Pension Plan) determined over 3 years at the time of retirement. Plan assets consist of a diversified portfolio of Canadian and foreign equities and bonds.

The Hay River Health and Social Services Authority has a defined benefit pension plan for its employees. The average age of the 139 plan members is 46 years. The basic benefit formula is 1.5 percent of the member's best average pensionable earnings up to the average YMPE plus 2 percent of the member's best average pensionable earnings in excess of the average YMPE, multiplied by years of the pensionable service. Plan assets consist primarily of Canadian and U.S. equities, bonds and mortgages.

Yellowknife Catholic Schools has a defined benefit pension plan for its employees. The average age of the 159 plan members is 44 years. The basic benefit formula is 1.3 percent of the member's best average pensionable earnings up to the average YMPE plus 2 percent of the member's best average pensionable earnings in excess of the average YMPE, multiplied by years of the pensionable service. Earnings and YMPE are averaged over the best 10 years prior to termination, death or retirement. Plan assets consist primarily of fixed income and equity securities. The Supplemental plan for Superintendent and Assistant Superintendents is a non-contributory defined benefit pension plan and not funded until the employee terminates their employment from Yellowknife Catholic Schools.

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 15. PENSIONS (continued)

##### a) Plans' description (continued)

All plans provide death benefits to spouses and eligible dependents. All plans are indexed.

The remaining government employees participate in Canada's Public Service Pension Plan (PSPP). The PSPP provides benefits based on the number of years of pensionable service to a maximum of 35 years. Benefits are determined by a formula set out in the legislation; they are not based on the financial status of the pension plan. The basic benefit formula is 2 percent per year of pensionable service multiplied by the average of the best five consecutive years of earnings.

The public service pension plan was amended during 2013 which raised the normal retirement age and other age related thresholds from age 60 to age 65 for new members joining the plan on or after January 1, 2013. For existing members, the normal retirement age remains age 60. Furthermore, contribution rates for current service for all members of the public service will increase gradually to an employer: employee cost sharing ratio of 50:50 by 2017. The employer contribution rate effective at the end of the year is 1.15 times (2015 – 1.28) the employees' contributions for employees who started prior to January 2013 and 1.1 times (2015 – 1.28) the employees' contributions for all other employees.

Other benefits include survivor pensions, minimum benefits in the event of death, unreduced early retirement pensions, and disability pensions.

##### b) Pension liability

	<b>2016 Regular Funded \$</b>	<b>2016 Supplemental Unfunded \$</b>	<b>2016 Total \$</b>
Accrued benefit obligation	71,022	34,444	105,466
Pension fund assets - market-related value	(81,715)	-	(81,715)
Unamortized actuarial gains (losses)	3,972	(1,370)	2,602
<b>Pension liability (asset)</b>	<b>(6,721)</b>	<b>33,074</b>	<b>26,353</b>

	<b>2015 Regular Funded \$</b>	<b>2015 Supplemental Unfunded \$</b>	<b>2015 Total \$</b>
Accrued benefit obligation	63,057	32,874	95,931
Pension fund assets - market-related value	(69,903)	-	(69,903)
Unamortized actuarial gains (losses)	2,230	(1,938)	292
<b>Pension liability (asset)</b>	<b>(4,616)</b>	<b>30,936</b>	<b>26,320</b>

Included in the pension asset of \$(6,721) (2015 - \$(4,616)) is a deficit for accounting purposes of the Judge's plan in the amount of \$1,249 (2015 - \$806).

# Government of the Northwest Territories

## Notes to Consolidated Financial Statements

March 31, 2016

(All figures in thousands of dollars)

### 15. PENSIONS (continued)

#### c) Change in pension liability (asset)

	2016 Regular Funded \$	2016 Supplemental Unfunded \$	2016 Total \$
<b>Opening balance</b>	<b>(4,616)</b>	<b>30,936</b>	<b>26,320</b>
Change to pension liability (asset) from cash items:			
Contributions from plan members	(2,570)	-	(2,570)
Contributions from Government	(5,147)	-	(5,147)
Benefit payment to plan members	(5,856)	(1,294)	(7,150)
Drawdown from plan assets	5,856	-	5,856
<b>Change in pension liability (asset) from cash items</b>	<b>(7,717)</b>	<b>(1,294)</b>	<b>(9,011)</b>
Change to pension liability (asset) from accrual items:			
Current period benefit cost	5,984	1,269	7,253
Amortization of actuarial losses	(239)	567	328
Prior period cost of plan amendment	51	-	51
Change in valuation allowance	163	-	163
Interest on average accrued benefit obligation	3,412	1,596	5,008
Expected return on average plan assets	(3,759)	-	(3,759)
<b>Change in pension liability (asset) from accrual items</b>	<b>5,612</b>	<b>3,432</b>	<b>9,044</b>
<b>Ending balance</b>	<b>(6,721)</b>	<b>33,074</b>	<b>26,353</b>
	2015 Regular Funded \$	2015 Supplemental Unfunded \$	2015 Total \$
<b>Opening balance</b>	<b>(3,402)</b>	<b>29,054</b>	<b>25,652</b>
Change to pension liability (asset) from cash items:			
Contributions from plan members	(2,647)	-	(2,647)
Contributions from Government	(5,362)	-	(5,362)
Benefit payment to plan members	(2,433)	(1,247)	(3,680)
Drawdown from plan assets	2,433	-	2,433
<b>Change to pension liability (asset) from cash items</b>	<b>(8,009)</b>	<b>(1,247)</b>	<b>(9,256)</b>
Change to pension liability (asset) from accrual items:			
Current period benefit cost	5,925	1,215	7,140
Amortization of actuarial (gains) losses	776	388	1,164
Change in valuation allowance	183	-	183
Interest on average accrued benefit obligation	3,137	1,526	4,663
Expected return on average plan assets	(3,226)	-	(3,226)
<b>Change in pension liability (asset) from accrual items</b>	<b>6,795</b>	<b>3,129</b>	<b>9,924</b>
<b>Ending balance</b>	<b>(4,616)</b>	<b>30,936</b>	<b>26,320</b>

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 15. PENSIONS (continued)

##### d) Pension expense

The components of pension expense include current period benefit cost, amortization of actuarial net (gains)/losses and interest on average accrued benefit obligation net of the expected return on average plan assets, change in valuation allowance and contributions from plan members. The total expense is \$6,474 (2015 - \$7,276). The interest cost on the accrued benefit obligation is determined by applying the discount rate determined at the beginning of the period to the average value of the accrued benefit obligation for the period. The expected return on plan assets is determined by applying the assumed rate of return on plan assets to the average market-related value of assets for the period. The difference between the expected and actual return on plan assets is a gain of \$3,981 (2015 - \$6,169).

In addition to the above, the Government contributed \$58,220 (2015 - \$55,019) to the Public Service Pension Plan. The employees' contributions to this plan were \$43,485 (2015 - \$36,793).

##### e) Changes to pension plans in the year

###### *Hay River Health and Social Services Authority*

As at the valuation date, the Authority has decided to revise the pension plan provisions as follows:

- a) To increase required employee contributions - Effective April 1, 2016, the member required contributions will be increased to 8.15% (previously 7.5%) of earnings up to the yearly maximum pensionable earnings (YMPE) plus 10.4% (previously 9.8%) of earnings above the YMPE.
- b) To cease offering portability at certain ages - The plan was amended, with an effective date of January 1, 2018, to cease offering portability for members who are eligible for immediate pension.

##### f) Valuation methods and assumptions used in valuing pension liability

###### *Valuation date*

The actuarial valuation for the Legislative Assembly was completed as of April 1, 2012 and the results were extrapolated to January 31, 2016. The effective date of the next actuarial valuation is April 1, 2016. The actuarial valuation for the Judge's plan was completed as of April 1, 2013 and the results were extrapolated to March 31, 2016. The effective date of the next actuarial valuation is April 1, 2016. The actuarial valuation for the Retirement Plan for Employees of the Hay River Health and Social Services Authority was completed as at January 1, 2016. The effective date of the next actuarial valuation is January 1, 2017. The actuarial valuation for the Retirement Plan for Employees of the Yellowknife Catholic Schools was completed as at June 30, 2015. The effective date of the next actuarial valuation for the Yellowknife Catholic Schools plan is June 30, 2017.

###### *Liability valuation method*

The actuarial valuations were performed using the projected accrued benefit method. The valuations are based on a number of actuarial assumptions about matters such as mortality, service, withdrawal, earnings and interest rates. The assumptions are based on the Government's best estimates of expected long-term rates and short-term forecasts.

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 15. PENSIONS (continued)

##### (f) Valuation methods and assumptions used in valuing pension liability (continued)

###### *Asset valuation method*

The asset valuation method for the MLA's plans is equal to a smoothed market value which spreads the difference between the actual and expected investment income over a four year period and is then adjusted for payments due to, and payable from, the pension plan. The fair market value of the MLA's regular plan is \$22,524 (2015 - \$25,775). The asset valuation method for the Judges' plans is market value. The market value of the regular Judges' regular plan is \$5,637 (2015 - \$5,530). The asset valuation method for the Retirement Plans for Employees of the Hay River Health and Social Services Authority and of the Yellowknife Catholic Schools are market-related value. The fair market value of its pension plan assets is \$45,091 (2015 - \$38,531) and \$10,237 (2015 - \$3,451) respectively.

###### *Actuarial gains and losses*

Actuarial gains and losses occur when actual experience varies from estimates or when actuarial assumptions change. The adjustments needed are amortized on a straight-line basis over the estimated average remaining service lives of the contributors. The estimated average remaining service lives of the contributors is 3.0 years (2015 - 4.0 years) for the MLA's plans, 2.0 years (2015 - 3.0 years) for the Judges' plans, 7.6 years (2015 - 7.5 years) for the Hay River Health and Social Services Authority plan and 14.2 years (2015 - 14.7 years) for the Yellowknife Catholic Schools plan.

<i>Actuarial assumptions</i>	<b>Yellowknife Catholic Schools' plans</b>	<b>Hay River H&amp;SS Authority plan</b>	<b>MLA's plans</b>	<b>Judges' plans</b>
Expected rate of return on plan assets	4.5%	5.6%	4.8%	4.8%
Rate of compensation increase	2.0%	2.5%	2.3%	2.3%
Annual inflation rate	2.0%	2.0%	2.3%	2.3%
Discount rate	4.5%	5.6%	4.8%	4.8%

###### *Retirement assumptions*

- Members of Legislative Assembly may retire at the earliest of age 60, thirty years of service or when age plus service equals 80.
- Judges may retire at the earlier of age 60 or when age plus service equals 80.
- Employees of the Hay River H&SS Authority may retire early at age 50. Normal retirement is at age 65.
- Employees of the Yellowknife Catholic Schools may retire at the earlier of age 65 or when age plus service equals 90.



---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 16. OTHER EMPLOYEE FUTURE BENEFITS AND COMPENSATED ABSENCES

In addition to pension benefits, the Government provides severance (resignation and retirement), removal and compensated absence (sick, special, maternity and parental leave) benefits to its employees. The benefit plans are not pre-funded and thus have no assets, resulting in a plan deficit equal to the accrued benefit obligation.

Severance benefits are paid to the Government's employees based on the type of termination (e.g. resignation versus retirement) and appropriate combinations that include inputs such as when the employee was hired, the rate of pay, the number of years of continuous employment and age and the benefit is subject to maximum benefit limits. Removal benefits are subject to several criteria, the main ones being location of hire, employee category and length of service. The benefits under these two categories were valued using the projected unit credit methodology.

Compensated absence benefits generally accrue as employees render service and are paid upon the occurrence of an event resulting in eligibility for benefits under the terms of the plan. Events include, but are not limited to employee or dependent illness and death of an immediate family member. Non-accruing benefits include maternity and parental leave. Benefits that accrue under compensated absence benefits were actuarially valued using the expected utilization methodology.

#### Valuation results

The actuarial valuation was completed as at March 31, 2016. The effective date of the next actuarial valuation is March 31, 2017. The liabilities are actuarially determined as the present value of the accrued benefits at March 31, 2016. The values presented below are for all of the benefits under the Compensated Absences and Termination Benefits for the consolidated Government.

	Severance and Removal	Compensated Absences	2016	2015
	\$	\$	\$	\$
<b>Changes in Obligation</b>				
Accrued benefit obligations, beginning of year	65,509	10,825	76,334	74,487
Current period benefit cost	5,867	6,448	12,315	12,061
Interest accrued	1,604	283	1,887	1,856
Benefits payments	(7,523)	(3,928)	(11,451)	(12,153)
Plan amendments	79	-	79	-
Actuarial (gains)/losses	(14,113)	(2,752)	(16,865)	83
Accrued benefit obligations, end of year	51,423	10,876	62,299	76,334
Unamortized net actuarial gain	14,113	2,677	16,790	-
Net future obligation	65,536	13,553	79,089	76,334
Other employee future benefits	3,922	-	3,922	10,258
Other compensated absences	-	1,194	1,194	1,228
Total employee future benefits and compensated absences	<b>69,458</b>	<b>14,747</b>	<b>84,205</b>	<b>87,820</b>

---

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 16. OTHER EMPLOYEE FUTURE BENEFITS AND COMPENSATED ABSENCES (continued)

	Severance and Removal	Compensated Absences	2016	2015
	\$	\$	\$	\$
<b>Benefits Expense</b>				
Current period benefit cost	5,867	6,448	12,315	12,061
Interest accrued	1,604	283	1,887	1,856
Plan amendments	79	-	79	-
Amortization of actuarial gains	9	-	9	-
	<b>7,559</b>	<b>6,731</b>	<b>14,290</b>	<b>13,917</b>

---

The discount rate used to determine the accrued benefit obligation is an average of 3.2%. No inflation rate was applied. The expected payments during the next five fiscal years are:

	Severance and Removal	Compensated Absences	Total
	\$	\$	\$
2017	12,127	2,542	14,669
2018	8,640	1,750	10,390
2019	6,684	1,389	8,073
2020	5,677	1,201	6,878
2021	5,072	1,080	6,152
	<b>38,200</b>	<b>7,962</b>	<b>46,162</b>

---

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 17. TRUST ASSETS UNDER ADMINISTRATION

The Government administers trust assets on behalf of third parties, which are not included in the reported Government assets and liabilities. These consist of cash, term deposits, investments, real estate, and other sundry assets.

	2016 \$	2015 \$
Bequest - South Slave Divisional Education Council	80	80
Correctional institutions and other	438	435
Government of New Brunswick	713	760
Natural Resources - capital	236	238
Patient funds - Beaufort Delta Health and Social Services Authority	173	206
Patient funds - Deh Cho Health and Social Services Authority	1	1
Patient funds - Fort Smith Health and Social Services Authority	14	22
Patient funds - Hay River Health and Social Services Authority	71	60
Patient funds - Stanton Territorial Health Authority	5	14
Public Trustee	5,605	6,134
Scholarship bequest - Beaufort Delta Divisional Education Council	-	257
School functions - Sahtu Divisional Education Council	-	428
Securities - land use permits, water licences and oil and gas deposits	5,495	3,730
Territorial and Supreme Courts	1,224	1,019
	<b>14,055</b>	<b>13,384</b>

---

In addition to the above trust assets under administration, the Government holds cash and bank guarantees in the form of letters of credit and surety bonds in the amount of \$499,844. The majority of these guarantees are held against water licenses issued to regulate the use of water and the deposit of waste.

#### 18. CONTRACTUAL OBLIGATIONS

The Government has entered into agreements for, or is contractually committed to, the following payments subsequent to March 31, 2016:

	Expiry Date	2017 \$	2018- 2048 \$	Total \$
Operational commitments*	2048	138,627	264,063	402,690
RCMP Policing Agreement	2032	44,122	615,571	659,693
Commercial and residential leases	2041	27,670	100,605	128,275
Equipment leases	2022	1,681	2,129	3,810
Tangible capital asset projects in progress at year-end	2020	106,721	14,936	121,657
		<b>318,821</b>	<b>997,304</b>	<b>1,316,125</b>

---

\*Included in the operational commitments above is a contract for \$62,000. Subsequent to year end the contract was re-negotiated and the new commitment is \$4,419.

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 18. CONTRACTUAL OBLIGATIONS (continued)

In addition to the contractual commitments above the Government has the following commitments related to P3s.

The Government entered into an agreement with Northern Lights General Partnership (NL) on October 30, 2014 to design, build, operate and maintain 1,154 km of high-speed fiber optic telecommunications cable from McGill Lake to Inuvik. Construction is expected to be completed in May 2017 with service commencement anticipated for June 2017 with NL operating and maintaining the system until 2037. The total cost of construction is \$90,900, of which \$24,393 remains to be completed. The total of \$90,900 is due over a twenty year term (*see note 14*) with no payment required until the in service date. Upon completion operations and maintenance costs of \$3,190 per year will total \$63,810 for the duration of the contract.

The Government entered into an agreement with Boreal Health Partnership (BHP) on September 22, 2015 to design, build, operate and maintain the Government's new Territorial hospital. Construction is to be completed in November 2018 with BHP operating and maintaining the new facility until 2048. Remaining construction commitments related to the new facility are \$257,475. Of this, \$131,789 is due during the expected remaining 32 months of the construction period and the remaining \$125,686 is payable over a thirty year term starting at the in-service date (*see note 14*). Upon completion operations and maintenance costs of \$7,203 per year will total \$216,090 for the duration of the contract.

#### 19. CONTINGENCIES

##### (a) Guarantees

The Government has guaranteed residential housing loans to banks totaling \$3,260 (2015 - \$3,592) and indemnified Canada Mortgage and Housing for third party loans totaling \$18,666 (2015 - \$20,550). In addition, the Government has provided a guarantee to the Canadian Blood Agency and Canadian Blood Services to cover a share of potential claims made by users of the national blood supply. The Government's percentage is limited to the ratio of the Northwest Territories' population to the Canadian population.

##### (b) Loans

The Northwest Territories Business Development and Investment Corporation (BDIC) has four outstanding loans to three Northern Community Futures organizations totaling \$1,041 (2015 - \$1,161). Loans provided by these three organizations may be assigned to the BDIC when impaired. If assigned, the BDIC would then write-off the Northern Community Futures organization loan balance and would attempt to recuperate its loss. In 2016, no accounts were assigned to BDIC (2015 - \$84).

The BDIC has six (2015 - five) outstanding irrevocable standby letters of credit totaling \$2,375 (2015 - \$2,385) that will expire by 2020. Payment by the BDIC is due from these letters in the event that the applicants are in default of the underlying debt. To the extent that the BDIC has to pay out to third parties as a result of these agreements, these payments will be owed to the BDIC by the applicants. Each letter of credit is secured by promissory note, general security agreement, guarantee or collateral mortgage. During the year, no payments were made (2015 - nil).

##### (c) Claims and litigation

There are a number of claims and pending and threatened litigation cases outstanding against the Government. In certain of these cases, pursuant to agreements negotiated prior to the division of the territories, the Governments of the Northwest Territories and Nunavut will jointly defend the suits. The cost of defending these actions and any damages that may eventually be awarded will be shared by the two Governments 55.66% and 44.34%, respectively. The Government has recorded a provision for any claim or litigation where it is likely that there will be a future payment and a reasonable estimate of the loss can be made. The provision is based upon estimates determined by the Government's legal experts experience or case law in similar circumstances. At year-end, the Government estimated the total claimed amount for which the outcome is not determinable at \$8,363 (2015 - \$8,191). No provision for such claims has been made in these financial statements as it is not determinable that any future event will confirm that a liability has been incurred as at March 31.

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 20. TRANSFER PAYMENTS, TAXATION AND GENERAL REVENUE

	2016 \$	2015 \$
Transfer payments:		
Capital transfers	84,124	98,285
Canada Health and Social Transfer Reform Fund	60,016	62,618
Federal cost shared	50,152	49,889
Other	19,559	22,811
	213,851	233,603
Taxation:		
Corporate Income Tax	25,010	31,272
Personal Income Tax	109,837	110,811
	134,847	142,083
Other taxes:		
Fuel	19,750	19,260
Tobacco	16,191	16,053
Payroll	42,085	40,250
Property and school levies	37,670	37,728
Insurance	5,160	4,676
	120,856	117,967
General:		
Lease	5,959	9,230
Regulatory	30,595	29,361
Sundry and other	23,941	32,555
Interest	7,023	5,436
Gain on disposition of assets	63	147
Grants in kind	443	1,136
	68,024	77,865
	537,578	571,518

---

Transfer payment revenue comprises of transfers received from the Government of Canada. Federal cost shared transfer payments relate to those service agreements that are funded by both the Government and the Government of Canada. Other transfer payments comprises of contributions from the Canada Mortgage and Housing Corporation and of grants and contributions received by the Government's public agencies.

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 21. EXPENSES

Expenses of various Government departments, its territorial corporations and other public agencies are aggregated in the Statement of Operations as follows:

Environment and economic development	Department of Environment and Natural Resources Department of Industry, Tourism and Investment NWT Business Development and Investment Corporation Northwest Territories Heritage Fund Arctic Energy Alliance Inuvialuit Water Board
Infrastructure	Department of Public Works and Services Department of Municipal and Community Affairs Department of Transportation Department of Lands Northwest Territories Hydro Corporation Northwest Territories Surface Rights Board
Education	Department of Education, Culture and Employment Aurora College All Divisional Education Councils in the NWT All District Education Authorities in the NWT Tlicho Community Services Agency (education portion) Northwest Territories Sport and Recreation Council
Health, social services and housing	Department of Health and Social Services All Health and Social Services Authorities in the NWT Tlicho Community Services Agency (health portion) Northwest Territories Housing Corporation
Justice	Department of Justice
General government	Department of Aboriginal Affairs and Intergovernmental Relations Department of Executive Department of Finance Department of Human Resources
Legislative Assembly and statutory offices	Legislative Assembly Northwest Territories Human Rights Commission Northwest Territories Status of Women Council

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

March 31, 2016

(All figures in thousands of dollars)

---

#### 22. OVEREXPENDITURE

During the year 1 department (2015 - 2) exceeded their operations vote by \$2,959 (2015 - \$3,505) and 1 department (2015 - 0) exceeded their capital vote by \$68,916 (2015- \$0) .

Overexpenditure of a vote contravenes subsection 71 of the *Financial Administration Act* which states that "No person shall incur an expenditure that causes the amount of the appropriation set out in the Estimates for a department to be exceeded".

The voted items that were over expended in the current year is as follows:

Department of Transportation (operations)	\$2,959
Department of Finance (capital)	\$68,916

These overexpenditures have been deemed a supplementary appropriation in accordance with section 77 of the *Financial Administration Act* S.N.W.T 2015 which states that "Where the charging of expenditures to an appropriation would cause the appropriation to be exceeded, the Comptroller General may, at the end of a fiscal year, record the amount by which the liability exceeds the appropriation as a deemed appropriation for that fiscal year".

#### 23. SUBSEQUENT EVENTS

##### *Health Board Consolidation*

April 1, 2016 new legislation came into effect giving the Minister of Health and Social Services the authority to create a Territorial Health and Social Services Authority (NTHSSA). The Minister of HSS has announced that the effective date for the NTHSSA to commence operations is August 1, 2016. When the NTHSSA is created, six of the eight current Health and Social Authorities (HSSAs) become part of the NTHSSA and will no longer be separate legal entities. Hay River Health and Social Services Authority (HRHSSA) and Tlicho Community Services Agency (TCSA) will remain outside the NTHSSA; however, the legislation does include provisions to bring the HRHSSA into the NTHSSA at a later date. The NTHSSA will serve as a single integrated delivery system for NWT health and social service programs while recognizing that the TCSA retains a unique role through the provisions of the Tli Cho Agreement. Through the Chief Executive Officer, the NTHSSA will report to and take direction from the Chair of Health and Social Services Leadership Council that will be comprised of persons appointed in accordance with legislation. The financial impact of this change is not significant to the Government.

##### *Building Canada Plan*

On June 13, 2016, Canada signed an eight year, \$72 million, agreement with the Department of Transportation for the new Building Canada Fund. This agreement will allow the Government to rehabilitate selected portions of existing highways and roads, improve safety, and improve access to and from remote communities.

##### *Disaster Financial Assistance*

On June 3, 2016, Canada approved an Order in Council to permit the Government to proceed with a Disaster Financial Assistance Arrangements claim of \$4.1 million, which is for extraordinary expenses associated with the civil emergency response incurred by the Government as a result of the 2014 wildfire.

##### *NWT Sport and Recreation Council*

NWT Sport and Recreation Council is planning to cease to operate once the NWT Lottery Authority is rolled into the Government. The current date for this to occur is April 1, 2017.

---

## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

---

**March 31, 2016**

(All figures in thousands of dollars)

---

#### **23. SUBSEQUENT EVENTS (continued)**

##### *Power revenues*

NT Hydro filed its 2016/19 GRA on June 30, 2016. NT Hydro is anticipating a Public Utilities Board (PUB) Decision on the application prior to March 31, 2017.

NT Hydro also filed an Interim Rate Application with the PUB on June 30, 2016. This application requested a 4.8% increase to base energy rates for all customers effective August 1, 2016. The PUB approved this application on July 26, 2016.

On April 29, 2016 NT Hydro filed a refund rider application to refund the balance of the Rate Stabilization Fund to customers resulting from the world wide decrease in fuel prices over the past two years. The PUB's Decision 6-2016 approved the refund rider of 0.36 cents/kWh effective June 1, 2016.

#### **24. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.



**Government of the Northwest Territories**

**Schedule A**

**Consolidated Schedule of Tangible Capital Assets**

**for the year ended March 31,**

(All figures in thousands of dollars)

	Land <sup>6</sup>	Buildings <sup>1</sup>	Infrastructure <sup>1,2,4</sup>	Leasehold Improvements	Equipment <sup>1,3</sup>	Computers	Work in Progress <sup>5</sup>	2016	2015
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost of tangible capital assets, opening balance	19,439	1,516,744	2,018,385	39,532	234,641	115,029	186,276	4,130,046	3,708,675
Transfers	879	135,302	131,722	3,637	11,905	16,632	(300,077)	-	-
Acquisitions	-	280	1,123	337	353	-	357,475	359,568	442,749
Disposals	-	(9,218)	(9,440)	(260)	(7,140)	(2,274)	-	(28,332)	(21,377)
Cost of tangible capital assets, closing	20,318	1,643,108	2,141,790	43,246	239,759	129,387	243,674	4,461,282	4,130,047
Accumulated amortization, opening	-	(612,345)	(645,650)	(29,521)	(128,240)	(68,763)	-	(1,484,519)	(1,393,075)
Amortization expense	-	(44,237)	(49,761)	(3,829)	(12,375)	(6,466)	-	(116,668)	(110,186)
Disposals	-	6,005	3,310	260	6,443	1,997	-	18,015	18,742
Accumulated amortization, closing	-	(650,577)	(692,101)	(33,090)	(134,172)	(73,232)	-	(1,583,172)	(1,484,519)
<b>Net book value</b>	<b>20,318</b>	<b>992,531</b>	<b>1,449,689</b>	<b>10,156</b>	<b>105,587</b>	<b>56,155</b>	<b>243,674</b>	<b>2,878,110</b>	<b>2,645,528</b>

<sup>1</sup> Included in buildings, infrastructure and equipment are assets under capital lease (cost \$31,041 (2015 - \$36,185); accumulated amortization, \$10,221 (2015 - \$12,357); net book value, \$20,820 (2015 - \$23,828)).

<sup>2</sup> Includes roads, bridges, airstrips, aprons, fuel distribution systems, park improvements, aircraft, water/sewer works, fences, signs, transmission and distribution systems and electric power plants.

<sup>3</sup> Includes ferries, mobile and heavy equipment, medical and major equipment.

<sup>4</sup> Included in infrastructure are roads capitalized but not yet amortized \$257,945 (2015- \$175,085)

<sup>5</sup> Included in work in progress are costs related to P3 projects: Stanton Territorial Hospital Renewal \$40,783 and Mackenzie Valley Fibre Link \$69,142

<sup>6</sup> Land with cost and net book value of \$0, market value \$7,056 (2015- \$543) was contributed to third parties.

**Government of the Northwest Territories**

**Schedule B**

**Consolidated Schedule of Segmented Information**

**for the year ended March 31,**

(All figures in thousands of dollars)

	Departments <sup>1</sup>	Other Public Agencies <sup>2</sup>	Total for All Segments	Adjustments <sup>3</sup>	2016	2015
	\$	\$	\$	\$	\$	\$
<b>Revenues</b>						
Grant from the Government of Canada	1,232,755	-	1,232,755	-	1,232,755	1,208,840
Transfer payments	194,361	19,559	213,920	(69)	213,851	233,603
	<b>1,427,116</b>	<b>19,559</b>	<b>1,446,675</b>	<b>(69)</b>	<b>1,446,606</b>	<b>1,442,443</b>
Taxation and general revenues						
Corporate and personal income taxes	134,847	-	134,847	-	134,847	142,083
Other taxes	111,567	9,752	121,319	(463)	120,856	117,967
General	38,718	698,861	737,579	(669,555)	68,024	77,865
Income from portfolio investments	3,626	1,411	5,037	2	5,039	4,516
Non-renewable resource revenue	58,203	-	58,203	-	58,203	63,750
Sales <sup>4</sup>	125,799	87,067	212,866	(73,346)	139,520	141,324
Recoveries	22,588	15,063	37,651	(1,432)	36,219	35,485
	<b>495,348</b>	<b>812,154</b>	<b>1,307,502</b>	<b>(744,794)</b>	<b>562,708</b>	<b>582,990</b>
Recoveries of prior years' expenses	19,145	-	19,145	661	19,806	6,815
	<b>1,941,609</b>	<b>831,713</b>	<b>2,773,322</b>	<b>(744,202)</b>	<b>2,029,120</b>	<b>2,032,248</b>
<b>Expenses</b>						
Grants and contributions	802,469	5,788	808,257	(601,068)	207,189	201,103
Operations and maintenance	535,871	304,750	840,621	(114,289)	726,332	777,556
Compensation and benefits	383,671	467,287	850,958	(3,257)	847,701	835,386
Change in valuation allowances	3,082	-	3,082	-	3,082	3,585
Amortization of tangible capital assets	83,899	32,752	116,651	17	116,668	110,186
	<b>1,808,992</b>	<b>810,577</b>	<b>2,619,569</b>	<b>(718,597)</b>	<b>1,900,972</b>	<b>1,927,816</b>
<b>Annual operating surplus (deficit)</b>	<b>132,617</b>	<b>21,136</b>	<b>153,753</b>	<b>(25,605)</b>	<b>128,148</b>	<b>104,432</b>
Projects on behalf of third parties						
Expenses	(81,123)	-	(81,123)		(81,123)	(69,661)
Recoveries	81,123	-	81,123	-	81,123	69,661
<b>Annual surplus (deficit)</b>	<b>132,617</b>	<b>21,136</b>	<b>153,753</b>	<b>(25,605)</b>	<b>128,148</b>	<b>104,432</b>

<sup>1</sup> Departments consist of all those listed in Note 21 that begin with the word "Department" and the Legislative Assembly.

<sup>2</sup> Public agencies consist of those listed in Note 21 other than Departments and the Legislative Assembly.

<sup>3</sup> Includes adjustments to eliminate inter-entity balances to comply with Canadian public sector accounting standards of consolidated financial statements; for example, contributions by departments to boards and agencies are shown under grants and contributions expense under the "Departments" column. The amounts received by the applicable board or agency (e.g. Health and Social Services Authority, Divisional Education Council) are shown under general revenue in the "Other Public Agencies" column. These amounts are eliminated upon consolidation to avoid double counting and result in significant amounts shown in the "Adjustments" column.

<sup>4</sup> To conform with the appropriation process, departments' sales are shown as net of cost of sales and are converted to gross sales for consolidation purposes (via adjustments).

**GOVERNMENT OF THE NORTHWEST TERRITORIES  
FINANCIAL STATEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2016  
(Unaudited)**

**HONOURABLE ROBERT C. MCLEOD  
Minister of Finance**

*This page intentionally left blank*

---

## Table of Contents

	Page
INTRODUCTION	5
EXECUTIVE SUMMARY- FINANCIAL HIGHLIGHTS	6
ANNUAL AND ACCUMULATED SURPLUS AND NET DEBT	9
REVENUES AND EXPENSES	11
REVENUES BY SOURCE	12
EXPENSES BY OBJECT	15
EXPENSES BY PROGRAM	17
GROSS DOMESTIC PRODUCT	19
FINANCIAL POSITION- FINANCIAL ASSETS	21
FINANCIAL POSITION- FINANCIAL LIABILITIES	22
NON- FINANCIAL ASSETS	23
CASH FLOWS	25
LONG-TERM DEBT BORROWING LIMITS	26
INDICATORS OF FINANCIAL CONDITION	28
OTHER FINANCIAL INDICATORS	32
RISKS AND UNCERTAINTIES	34
COMPLETION OF ENTITIES CONSOLIDATED WITHIN THE PUBLIC ACCOUNTS	36

*This page intentionally left blank*

## **INTRODUCTION**

The Public Accounts report the financial position and results of operations of the Government for a fiscal year. The Consolidated Statement of Financial Position discloses the assets, liabilities, accumulated surplus or deficit, as well as the net debt position of the Government. The Consolidated Statement of Change in Net Debt discloses the significant items that impacted the Government's net debt position since the last fiscal year end. The financial position of the Government is measured at a specific point in time (March 31 fiscal year end), whereas information relating to revenues and expenses encompasses the results for a fiscal year as disclosed in the Consolidated Statement of Operations. It is important to note that the financial position of the Government is often quite different from the financial condition of the economy.

The financial health of a Government can be measured by its sustainability, flexibility, and vulnerability, looked at in the context of the overall economic and financial environment. These terms are defined as follows:

- **Sustainability:** the degree to which a Government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.
- **Flexibility:** the degree to which a Government can increase its financial resources to respond to rising commitments, by either expanding its revenues, or increasing its debt burden.
- **Vulnerability:** the degree to which a Government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.

The information provided in the following pages is intended to assist readers of the Public Accounts in their assessment of the Government's financial health. It is important to note that the information contained within the Consolidated Financial Statements (Public Accounts – Section I) includes all Government-controlled organizations. Collectively this is referred to as the Government Reporting Entity. Organizations included in the Government Reporting Entity are listed in Note 1 to the Consolidated Financial Statements.

## EXECUTIVE SUMMARY- FINANCIAL HIGHLIGHTS

The executive summary provides a summary of key events affecting results within the Public Accounts and discussion on results in comparison to the original budgets of the Government. High level results of operations for the fiscal year ending March 31, 2016 and the financial position as at March 31, 2016 are summarized below:

(\$ in thousands)

	<b>Budget 2016</b>	<b>Actual 2016</b>	<b>Actual 2015</b>
Total Revenue	2,068,493	2,029,120	2,032,248
Total Expense	1,916,171	1,900,972	1,927,816
<b>Annual Surplus</b>	<b>152,322</b>	<b>128,148</b>	<b>104,432</b>
Financial assets		505,452	490,354
<u>Less: Total liabilities</u>		<u>1,388,765</u>	<u>1,267,812</u>
<b>Net debt</b>		<b>(883,313)</b>	<b>(777,458)</b>
Non-financial assets		2,901,431	2,667,428

The 2015-16 financial statements report a surplus of \$128 million, \$24 million less than was originally budgeted. Subsequent budget adjustments approved during the fiscal year are not reflected in the budget presented. Budget adjustments made during the year typically reflect new information that was not known at the time the original budget was approved, changes in revenues, expenses or both. Mid-year budget adjustments should be considered before any conclusions are drawn with respect to operational results.

Total net debt increased by \$106 million in 2015-16. Debt was incurred to finance capital infrastructure and support working capital requirements for programs and initiatives. This past fiscal year's increase is largely attributable to the inclusion of financing related to public private partnerships of \$79 million for work done to date on the Mackenzie Valley Fibre Link and Stanton Territorial Hospital renewal projects.

The territorial economy grew by 1.3% in 2015 as measured by real GDP. This is higher than the national average rate of 0.9%.

The Government's own source revenues are directly linked to the NWT economy. For example, the Government relies on a small number of resource based companies for the majority of its corporate tax revenue, whose incomes fluctuate



significantly with economic events. In addition, the Government collects resource royalties, though it shares these revenues with the federal government and Aboriginal partner organizations, which reduces the fiscal benefit of royalties for the GNWT. However as the Government relies on federal transfers for the majority of its revenues the overall linkage between the economy and the GNWT's revenues does not appear very strong.

The Territory continues to manage growth in spending, while making targeted investments to encourage economic growth and address the infrastructure deficit. Cumulative infrastructure investments of \$2.9 billion focusing on health care, education and transportation have made the Northwest Territories a safer, more competitive and productive Territory, while supporting the creation of jobs in construction and related industries.

## **Financial Health**

A Government's financial health should be measured in terms of sustainability, flexibility and vulnerability. The preceding measures have attempted to show how the GNWT's fiscal health measures up from this standpoint. This suggests the following conclusions:

- ***Sustainability*** – at the end of the 2015-16 fiscal year the GNWT had a net debt of \$883 million compared to net debt of \$777 million at the end of the prior fiscal year. The net debt represents 43% of revenue. Future investments in infrastructure and operations cannot be sustained at the present level without incurring more debt.
- ***Flexibility*** – pertains to the GNWT's ability to increase its financial resources. The majority of revenue comes from the Territorial Formula Financing Grant from the Government of Canada. The GNWT's own-source revenues, net of \$58 million in non-renewable resource revenues, decreased slightly from 26% of total revenue in 2015 to 25% in 2016; general revenues and taxes are a major source of fluctuation. The GNWT's limited flexibility to increase taxes combined with small tax bases makes a significant increase in other own source revenues unlikely in the short term. While the Government began sharing in non-renewable resource revenues in 2014-2015, these funds are not significant to the overall operations of the Government.

At March 31, 2016, the GNWT has a federally imposed limit on its borrowing of \$1.3 billion. Although the GNWT is currently well under its debt authority limit, \$1.3 billion represents only 68% of 2015-2016 expenses. The limit on the borrowing capacity precludes the use of debt to

increase financial resources; as well, an increase in debt would at best provide short term flexibility.

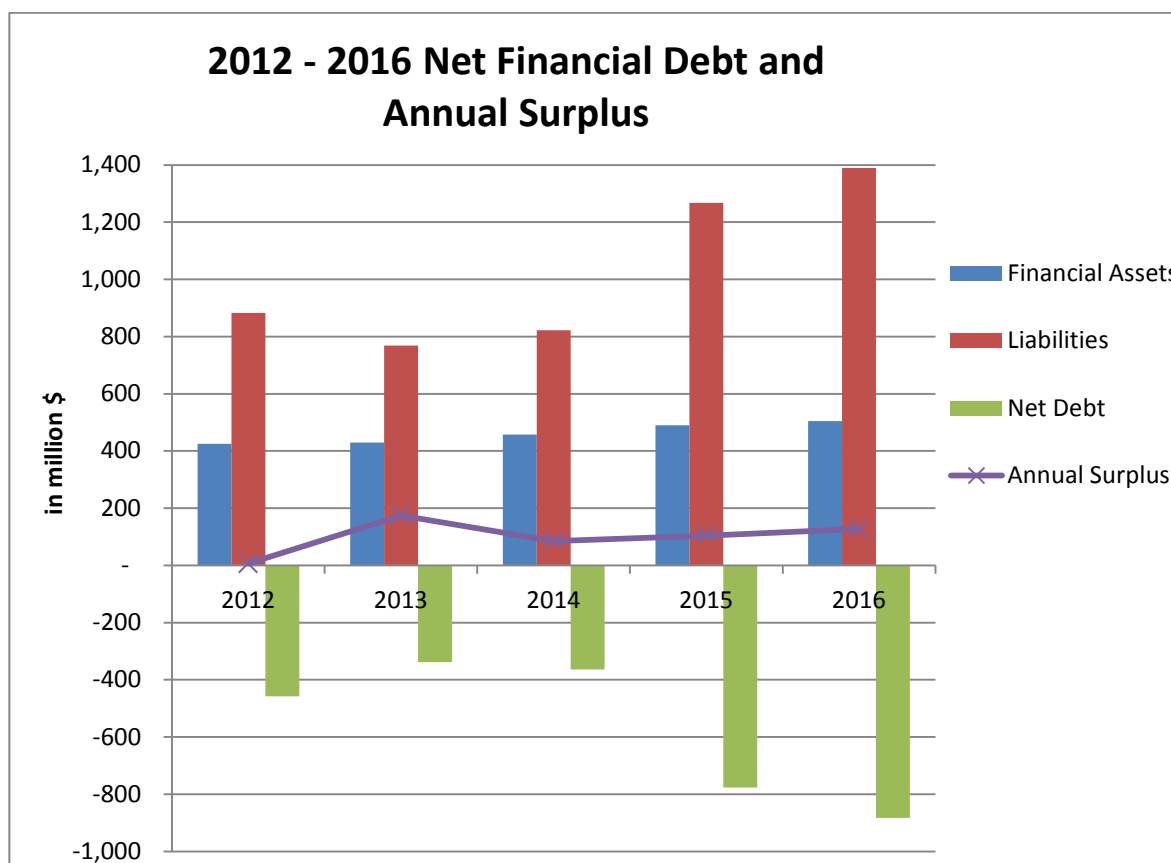
- ***Vulnerability*** – to assess the GNWT's vulnerability, it is not necessary to look further than the Government's limited own-source revenues and the volatility related to corporate and personal income taxes. The Government's largest source of revenue is the grant from Canada. The formula determining the Territorial Formula Financing Grant is established in federal legislation and will remain in effect until March 31, 2019.

In summary, the GNWT continues to be financially stable, but it has limited flexibility to raise new revenues. The GNWT continues to be vulnerable to federal control over changes to its future revenues.

## ANNUAL AND ACCUMULATED SURPLUS AND NET DEBT

Net financial resources result when there are financial assets remaining after being reduced by all liabilities of a Government. Net debt results when there is an excess of liabilities over financial assets. The Government is in a net debt position; liabilities exceeded financial assets at the end of the fiscal year. Over the years, the Government's net debt has fluctuated, but not in unison with fluctuation in annual surplus, as depicted in the graph below. This occurs as other factors impact net debt that do not impact annual surplus, most notably a reduction in cash or an increase in debt as the result of investing in infrastructure will increase net debt. The composition of net debt is shown on the Consolidated Statement of Change in Net Debt within Section 1 of the Public Accounts.

The graph below illustrates the Government's net debt position and annual surplus at the end of each of the last five fiscal years.



Net debt increased during the 2016 fiscal year primarily due to the inclusion of public private partnerships under long term debt for work done to date on the Mackenzie Valley Fibre Link and Stanton Territorial Hospital renewal projects. Net debt is subtracted from the Government's accumulated investment in non-financial assets (tangible capital assets/prepaid expenses/inventories held for

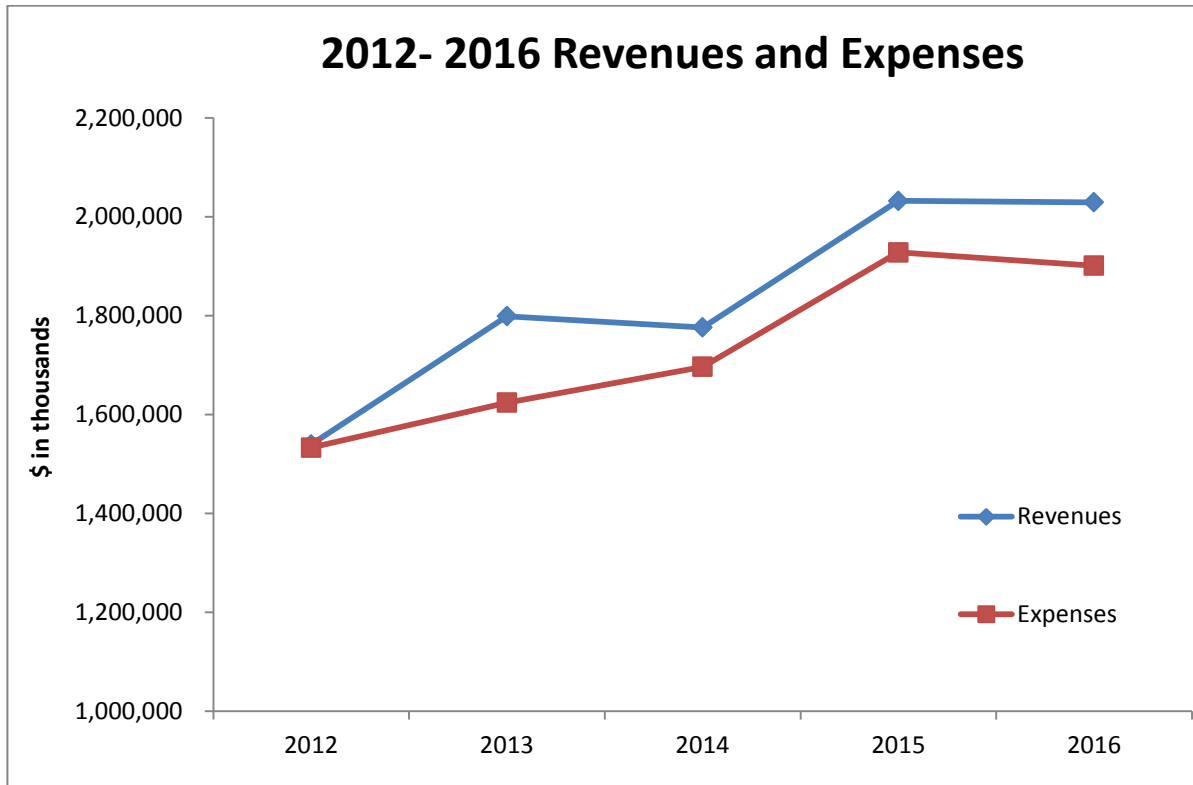
use) to produce the accumulated surplus balance at the end of the year. Net debt represents the debt burden on future generations that must be recovered through future revenues. An important measure of the flexibility of a Government is the level of financial assets available to meet current and future obligations, as well as its ability to absorb any budgeted annual deficit.

#### *Consolidation of Northwest Territories Hydro Corporation*

The Government's comparative information has been significantly impacted by the full consolidation of the Northwest Territories Hydro Corporation's (the Corporation) operations in the 2014-2015 fiscal year. Any analysis performed on the trends disclosed within graphs should be adjusted for the impact of this change in reporting relationship. The consolidation impacted revenues, expenses, financial and non-financial assets, liabilities, and annual and accumulated surplus.

The Government is the sole shareholder of the Northwest Territories Hydro Corporation. In recent years the Government has provided significant subsidies to the Corporation to offset rate increases. It is expected that additional subsidies may be required in the future, creating an economic dependence on the Government which has required a change in the Corporation's classification from a government business enterprise (GBE) to that of a government organization within Section I of the Public Accounts. In years prior to 2014-15, the Corporation was accounted for using the modified equity method; the Government reported only its investment in the Corporation, reduced by any dividends received and adjusted for the annual profit or loss of the Corporation, after the elimination of any unrealized inter-entity gains or losses. During the 2015 fiscal year, it was determined that the Corporation no longer met all the criteria of a GBE and as a result effective April 1, 2014 the operations of the Corporation are consolidated on a line-by-line basis as part of the government reporting entity, on a prospective basis. The inclusion of these results within not only revenues, but expenses, assets and liabilities makes a comparison with prior years something that should be done with care to ensure that a true comparison is achieved.

## REVENUES AND EXPENSES



*\* Revenues depicted above include recoveries of prior year expenditures*

Revenues and expenses have both steadily increased in recent years however the 2015-2016 fiscal year show both beginning to flatten. These are described in more detail on the following pages.

## **REVENUES BY SOURCE**

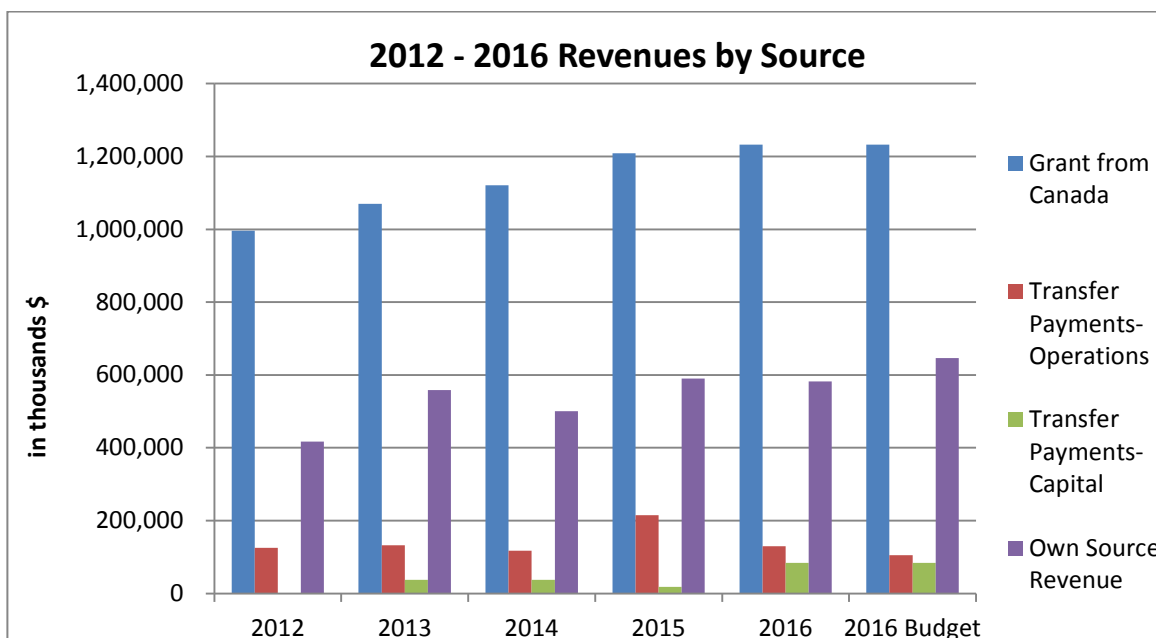
The GNWT funds government programs and services through a combination of transfers from the federal government and own-source revenues. In order to assess the long-term sustainability of the present level of services, various key indicators are monitored on an ongoing basis, including the following:

- Growth rates of revenues and expenditures;
- Changes in the net debt ratio; and
- Impacts of one-time (or non-recurring) events.

The most significant factor that contributes to revenues being more unpredictable than expenses in any given year is the volatility in corporate income tax. NWT corporate income tax revenues are volatile for a number of reasons but mainly because the majority of corporate income tax revenues are generated by a small number of resource based tax payers, whose taxable incomes fluctuate dramatically depending on production and global commodity prices.

The Grant from Canada calculation is based on an equally-weighted three-year moving average of data that is lagged two years. As a result, changes in underlying variables, such as corporate income tax, do not lead to a corresponding impact (up or down) on the Grant from Canada until the second, third and fourth years following the year of the change to the revenue in question. For example, in the event of a revenue shortfall in corporate income tax, the resulting positive offset on the Grant from Canada would occur in one-third increments; in the second, third and fourth years following the year in which the shortfall took place.

Transfer payments revenues related to the purchase or construction of a tangible capital asset, whether fully funded or cost-shared, are recognized when completed assets are put into service, consistent with Public Sector Accounting Standards. This is another significant factor that contributes to revenues being unpredictable. The Inuvik-Tuk Highway is a large project that is cost shared, with annual recognition of revenue as portions of the highway are completed; this causes revenue to be higher than it would normally be as expenditures related to this are capital in nature. The impact on operational expenses will be future amortization when the asset is in service.



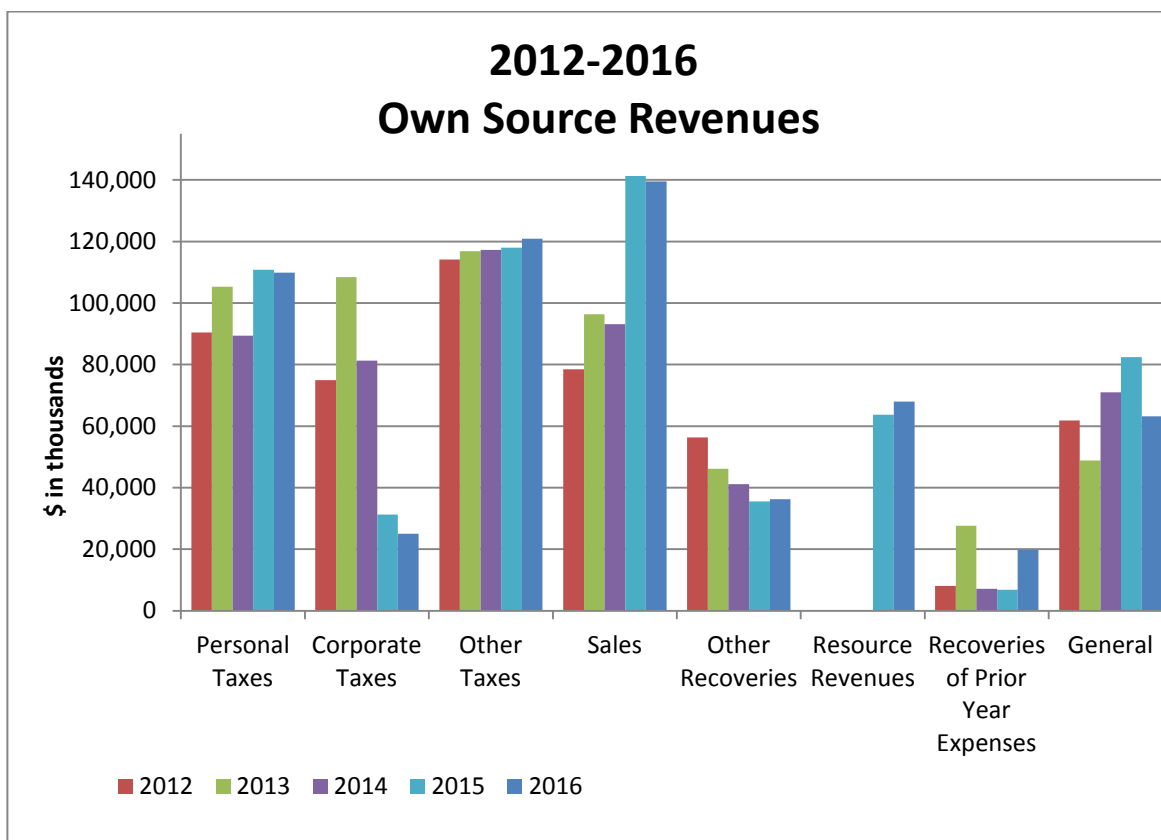
\* Own source revenues include recoveries of prior year expenditures

Total revenue in 2015-16 was \$2.029 billion, a decrease of \$39 million or 1.9 per cent of the original budget. This decrease is due to a decrease in personal and corporate income taxes and a decrease in non-renewable resource revenues due to the downturn in the resource industry.

#### *Territorial Formula Financing Grant from Canada*

The Grant from Canada was \$1.232 billion in 2015-16, an increase of \$24 million over 2014-15, due mainly to normal growth from the escalator on the Grant's Gross Expenditure Base.

The Grant from Canada is an annual formula-based calculation to fill the fiscal gap between the GNWT's expenditure needs and its ability to raise revenues. The NWT's Grant equals the difference between its Gross Expenditure Base and a measure of revenue capacity known as Eligible Revenues. The Gross Expenditure Base is an estimate of the expenditure requirements of the GNWT, which takes into account the higher costs and needs in the NWT to deliver public services of similar quality to those in the provinces. The Gross Expenditure Base is increased annually by the growth in provincial and local government spending and the growth in the NWT population relative to the growth in the Canadian population. Eligible Revenues are calculated by determining what the GNWT could have raised in revenues at national average tax rates and reducing that amount by a 30 per cent Economic Development Incentive.



#### *Own Source Revenue*

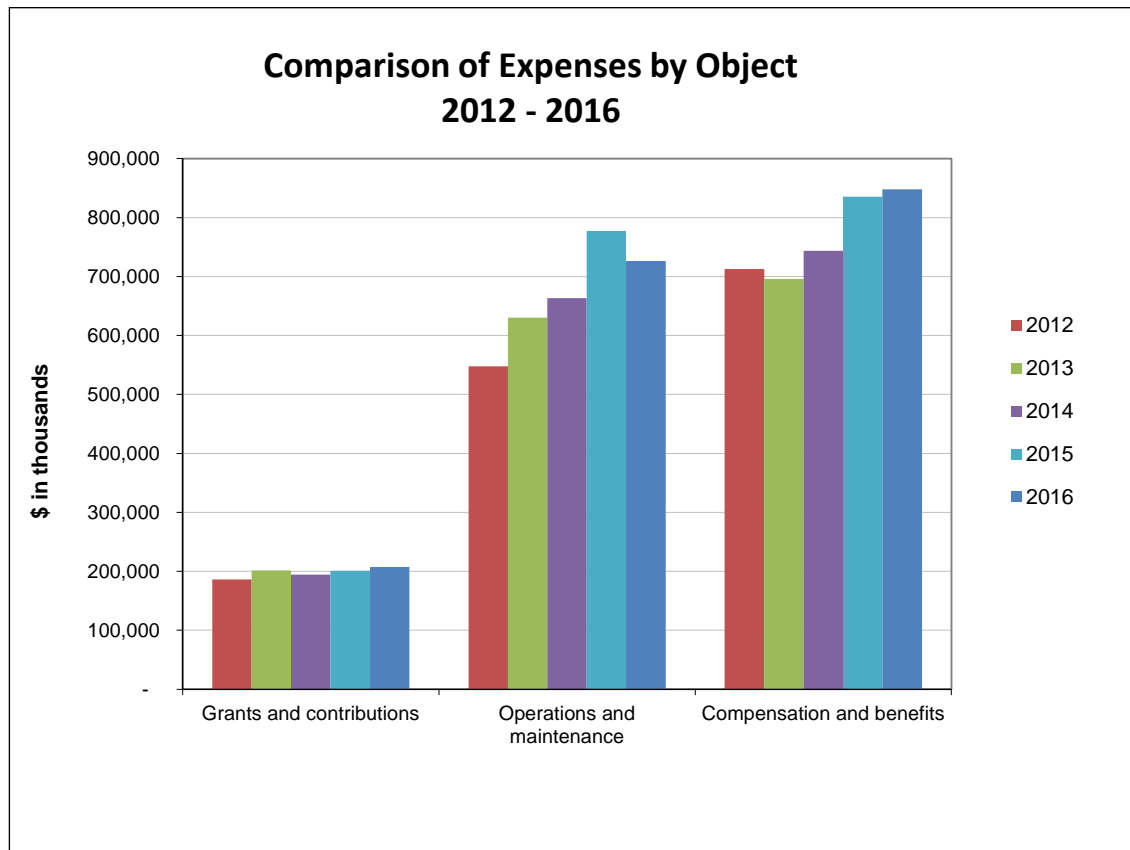
The Government's major own-source revenues, related to corporate and personal income tax, tobacco tax, fuel tax, payroll tax, and excluding non-renewable resource revenues, have averaged approximately 29% of total revenues indicating a reliance on the Grant from Canada. Other transfer payments from Canada vary, approximately 11% of total revenues for the current year.

With the exception of corporate and personal income tax and non-renewable resource revenues, other own-source revenues have proven to be fairly consistent over the years. Corporate income tax revenue is dependent upon a small base of significant taxpayers that accounts for the volatile nature of this tax revenue. 2014-15 was the first year of non-renewable resource revenues and the inclusion of the Hydro Corporation; the effects of the Hydro Corporation and non-renewable resource revenue trends will be evident over time.

Non-renewable resource revenues are subject to volatility and the expected revenue stream could fluctuate significantly from the annual average. In addition non-renewable resource revenues are generated as the resources are extracted and are therefore finite. Non-renewable resource revenues, after sharing with the federal and Aboriginal partners (signatories to the Northwest Territories Lands and Resource Devolution Agreement) will be used to fund infrastructure, pay down debt and invest in the NWT Heritage Fund.



## EXPENSES BY OBJECT



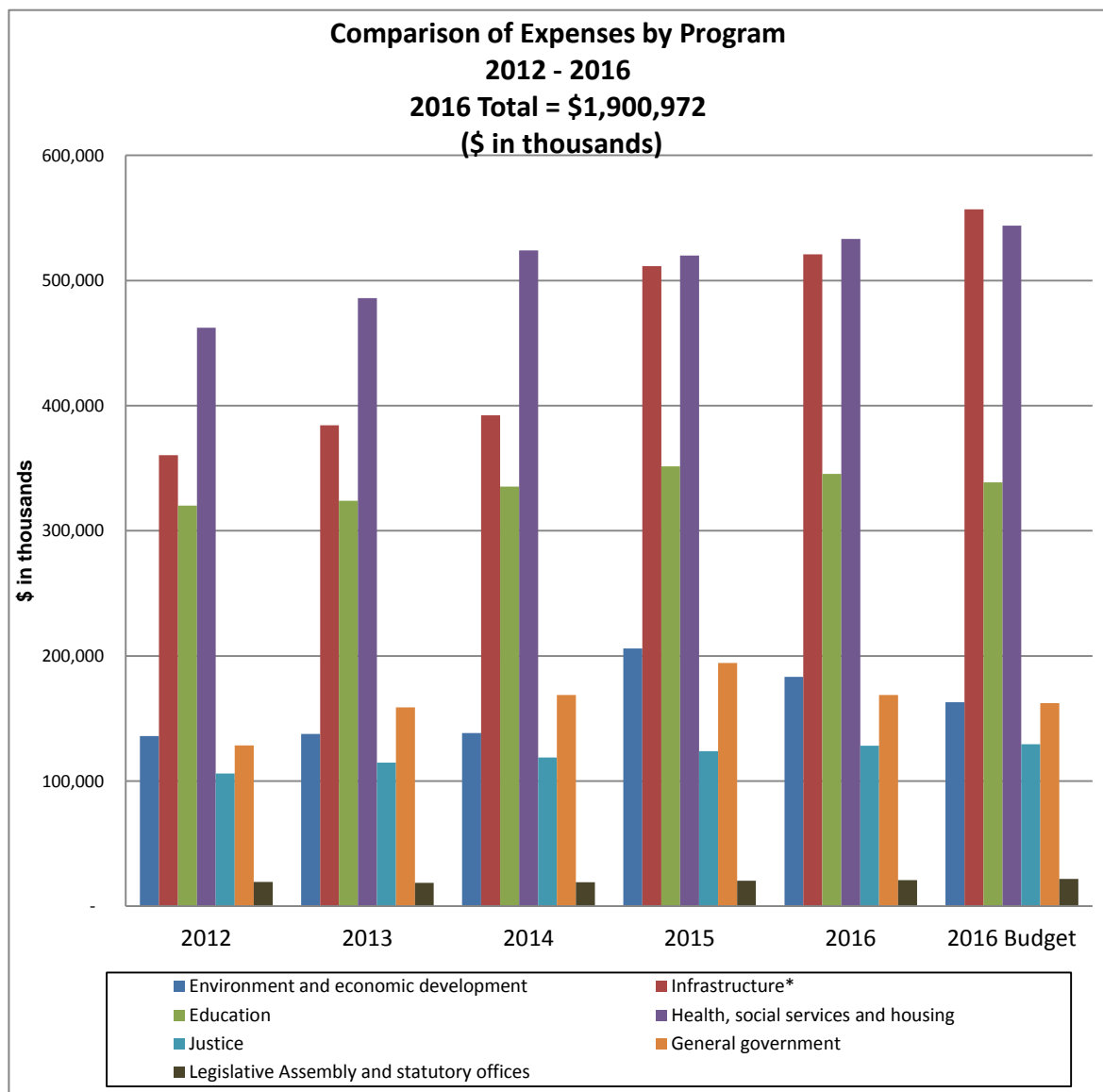
The above graph provides information on the consolidated government's operations. Total expenses in 2015-16 are \$1.9 billion, a decrease of \$15 million or 0.8% from budget. This decrease is due to vacant positions, decrease in fuel prices and unspent health and housing funding.

Grants and contributions from the GNWT to boards and agencies consolidated in Section I of the Public Accounts are reported under the operations and maintenance and compensation and benefits categories to better reflect the nature of the final expense types that resulted. This classification does not change the way that these Government organizations are funded as many of our social and educational programs are funded by contributions from the GNWT. Many components of these funding agreements with boards and agencies are fixed costs incurred by the recipients and as the major (or sole) provider of funds, the Government cannot vary the funding without affecting the level of output by these boards and agencies.

In addition, lease commitments and other contractual obligations, which are disclosed in the notes to the Consolidated Financial Statements, are long-term fixed costs over which there is little discretion to be exercised in the short-term.

The Government is also vulnerable to inflation both for operational expenses and as an important factor when negotiating compensation and benefits. Not only are the direct wages of the Government and its boards and agencies vulnerable to this, compensation and benefits also comprise a significant factor in determining the amount of grants and contributions given out to third parties.

## EXPENSES BY PROGRAM



\*Infrastructure now includes the Northwest Territories Hydro Corporation. Infrastructure in this example is the operations and maintenance portion of the expense, not the capital funds spent on purchasing or constructing infrastructure.

The Government spends the majority of its budget on social programs (education, health, support to community Governments, justice and housing), with the remaining budget allocated to infrastructure, natural resources and economic development. Any additional resources to improve a service often have to be made at the expense of other important needs. Balancing a budget entails not only controlling expenses but also finding the most effective and efficient mix of programs.

The following comparisons to budget are based on original plans and do not include supplementary appropriations/or budget adjustments.

- Environment and economic development expense was \$183 million in 2015-16. This was \$23 million or 11 per cent less than reported in the prior year. 2015-16 figures were \$20 million more than budgeted due to forest management wildfire costs.
- Infrastructure expense was \$521 million in 2015-16. This was \$9 million or 1.9 per cent higher than reported in the prior year. 2015-16 figures were \$36 million less than budgeted due to vacant positions, and decreases in fuel prices.
- Education expense was \$345 million in 2015-16. This was \$6 million or 1.8 per cent less than reported in the prior year. Conversely 2015-16 actual figures were \$6 million greater than budgeted due to an increase in income security and unbudgeted amortization in two Education Boards.
- Health, social services, and housing expense was \$533 million in 2015-16. This was \$13 million or 2.6 per cent higher than reported in the prior year. 2015-16 figures were \$11 million less than budgeted due to underspent ambulatory care costs and diagnostic and therapeutic services and underspent home ownership assistance grants and rental housing assistance.
- Justice expense was \$128 million in 2015-16. This was \$4 million or 3.4 per cent higher than reported in the prior year. 2015-16 figures were close to budgeted amounts.
- General government expense was \$169 million in 2015-16. This was \$26 million or 13 per cent less than reported in the prior year. 2015-16 figures were \$6 million more than budgeted due to an overall increase in contribution expenses.
- Legislative Assembly and statutory offices expense was \$21 million in 2015-16. This was \$0.4 million or 1.9 per cent higher than reported in the prior year. Legislative Assembly expenses were \$400k more than budgeted due to an increase in election and constituency related expenditures for the 2015 election year.

## GROSS DOMESTIC PRODUCT

Gross Domestic Product (GDP) represents the total unduplicated value of goods and services produced within the geographical boundaries of a country, province or territory, regardless of whether the factors of production involved are resident or non-resident. GDP is presented in chained dollars. Chained dollars are a real measure of GDP meaning pricing effects are excluded providing a direct comparison of the quantity of goods and services produced from year to year; GDP changes because the quantity of goods and services changes. Estimates of GDP are typically expressed at basic prices, which exclude the impact of taxes and subsidies in the estimate.

For the Northwest Territories (NWT), Statistics Canada estimated GDP was \$3.7 billion for 2015, which represents a 1.3% increase relative to the previous year. This rise was the result of an increase in capital investment (construction) in the 2015 calendar year.

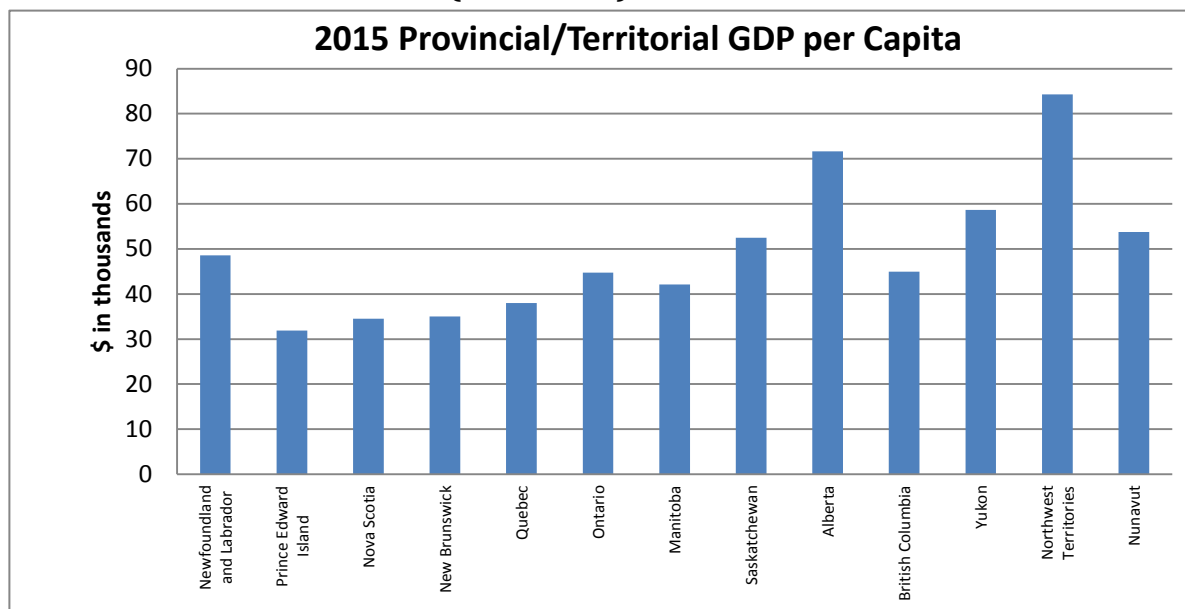
Real Gross Domestic Product at Basic Prices, calendar years 2014 and 2015  
Canada, Provinces and Territories  
Chained (2007) Dollars (\$ in millions)

	2015	2014	Percent Change
Canada	1,648,905	1,634,178	0.9
Northwest Territories	3,724	3,677	1.3
Nunavut	1,963	1,939	1.2
Yukon	2,193	2,332	-6.0
British Columbia	210,910	204,555	3.1
Alberta	299,603	311,083	-3.7
Saskatchewan	59,389	60,192	-1.3
Manitoba	54,609	53,462	2.1
Ontario	617,457	602,010	2.6
Quebec	313,676	309,852	1.2
New Brunswick	26,419	25,881	2.1
Nova Scotia	32,560	32,243	1.0
Prince Edward Island	4,675	4,614	1.3
Newfoundland and Labrador	25,688	26,159	-1.8

Source: Statistics Canada

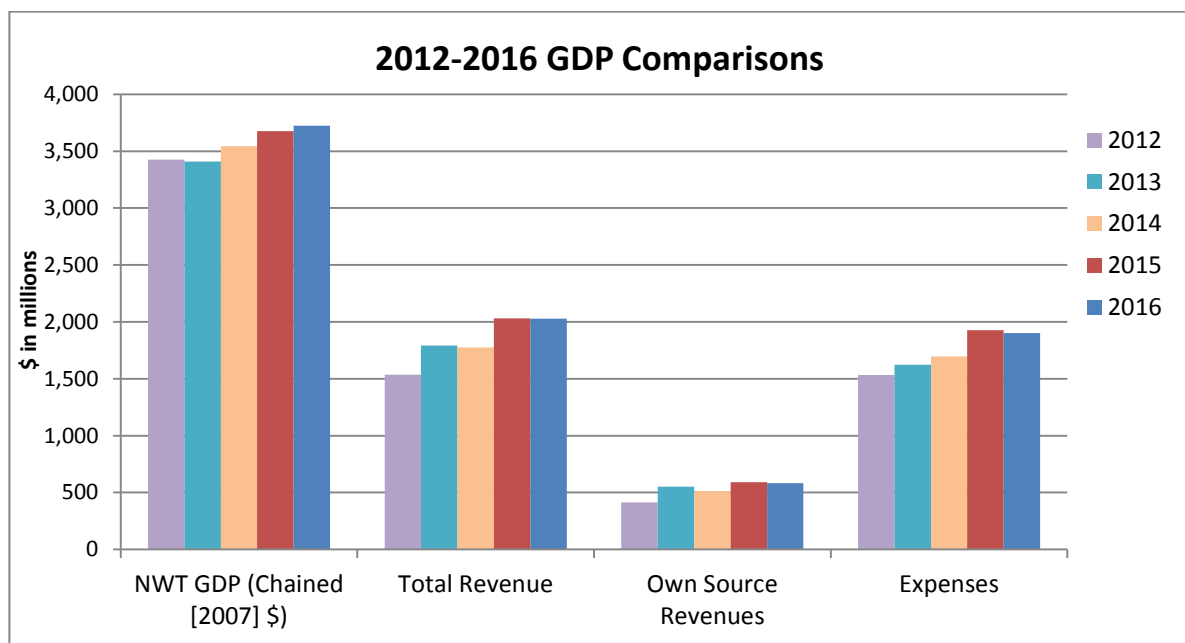
Note: Data will not sum to totals since chained dollars are not additive.

## GROSS DOMESTIC PRODUCT (continued)



Based on September 28, 2016 population estimates of Statistics Canada

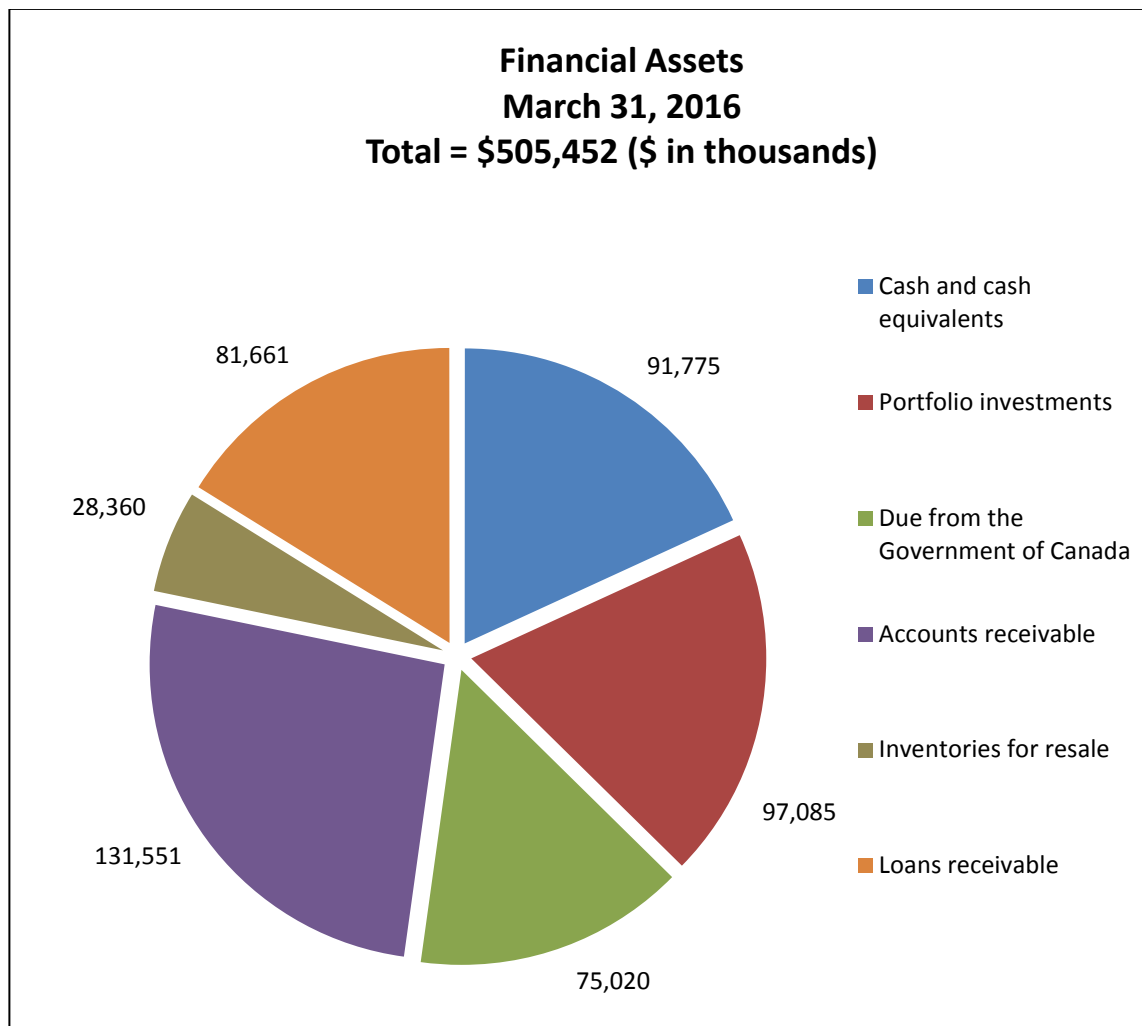
The NWT currently has the highest GDP per capita in Canada. This is an important indicator to note when considering GDP statistics as it shows that while the NWT has a relatively small population our economy is large by comparison.



\* NWT GDP is based on a calendar year, while the balance of the information is based on the fiscal yearend (March 31 of the following year).

## FINANCIAL POSITION- FINANCIAL ASSETS

Financial assets represent the amount of resources available to the Government that can be converted to cash to meet obligations or fund operations.

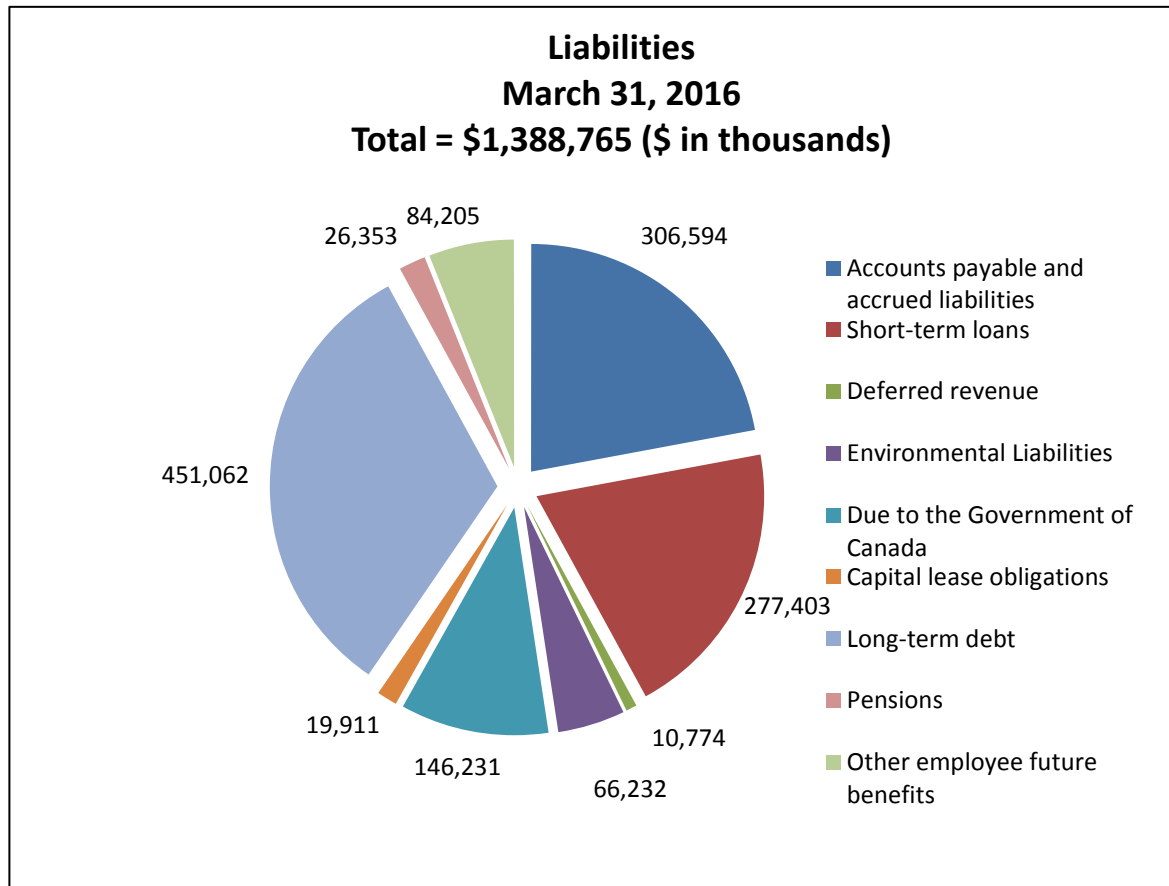


The above graph illustrates the composition of the Government's financial assets.

Approximately 18% of the GNWT's financial assets are cash. The balance of the financial assets is convertible to cash over time, varying from relatively short-term investments and inventory for resale to long term loans receivable. The balance of the financial assets will, over time, contribute to the GNWT's ability to discharge its liabilities as depicted on the following page.

## FINANCIAL POSITION- FINANCIAL LIABILITIES

Liabilities represent the obligations the Government has to others arising from past transactions or events.



The above graph illustrates the composition of the Government's liabilities.

The Government presently has approximately \$505 million in financial assets available to discharge liabilities of approximately \$1.389 billion. The gap between the Government's financial assets and its liabilities indicate that some of its future revenues will be required to meet these obligations. Additional analysis would be required to determine how much of the future revenues and how they will match up with maturing liabilities.

Many of the liabilities are not due in the short-term and will be settled at a later date. This fact, combined with longer term financial assets that provide cash at a later date and cash/accounts receivable that will be generated over future years through normal government operations and future generation of revenues will help meet these future obligations.



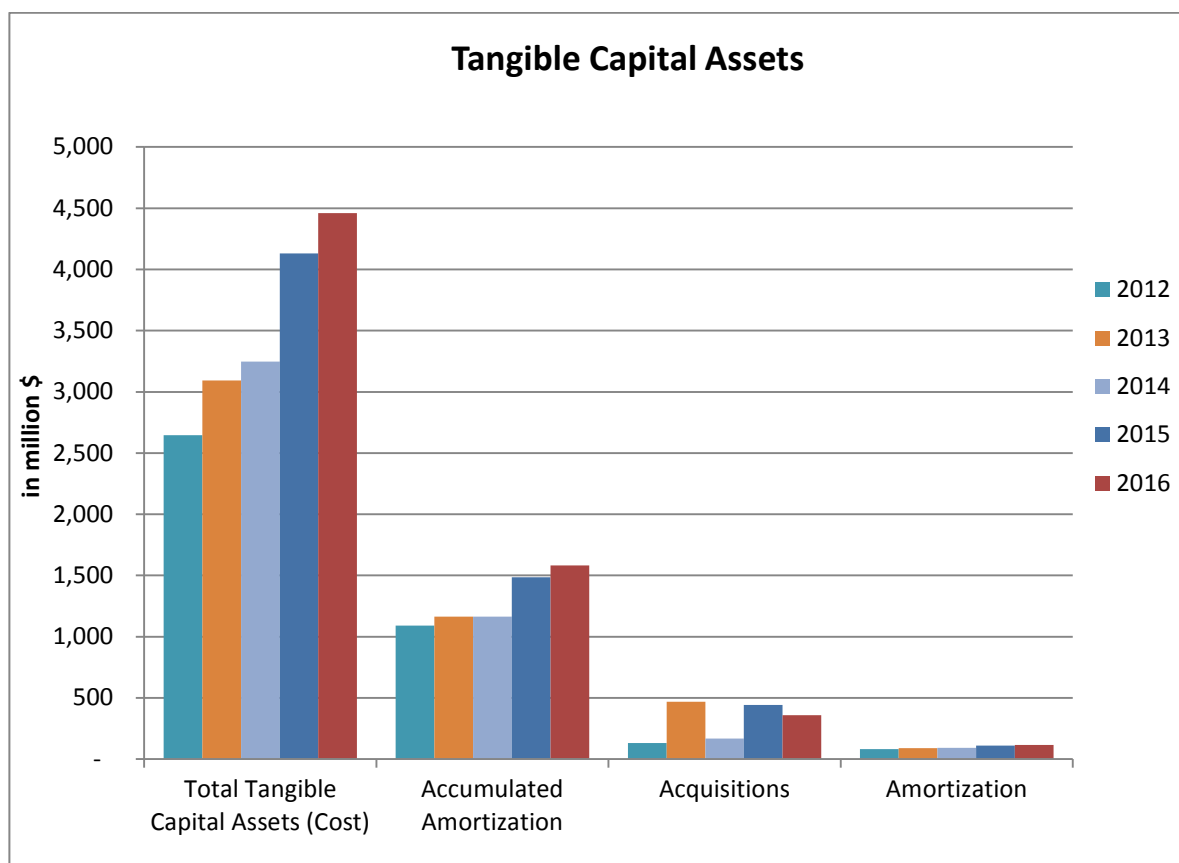
## NON- FINANCIAL ASSETS

Non- financial assets typically represent resources that the Government can use to provide services in the future. Non-financial assets consist primarily of tangible capital assets but also include inventories held for use and prepaid expenses.

### *Tangible Capital Assets*

Tangible capital assets include assets purchased or constructed by the Government and assets that were fully or partially contributed to the GNWT by Canada or other parties.

Under the Government's capitalization policy, assets valued at \$50,000 or more are capitalized and then expensed as amortization in the Consolidated Statement of Operations based on their estimated useful life.



*Tangible capital assets (at cost) do not include adjustments for contributions that may have been received to offset the cost. For further details regarding tangible capital assets refer to Schedule A in the Consolidated Financial Statements included in Section I of the Public Accounts.*

The Government plans its capital expenditures to ensure that existing tangible capital assets are replaced or expanded in a timely manner in conjunction with the Government's direction, priorities and fiscal strategy. The breakdown of capital

investment categories is located in Schedule A of the Consolidated Financial Statements.

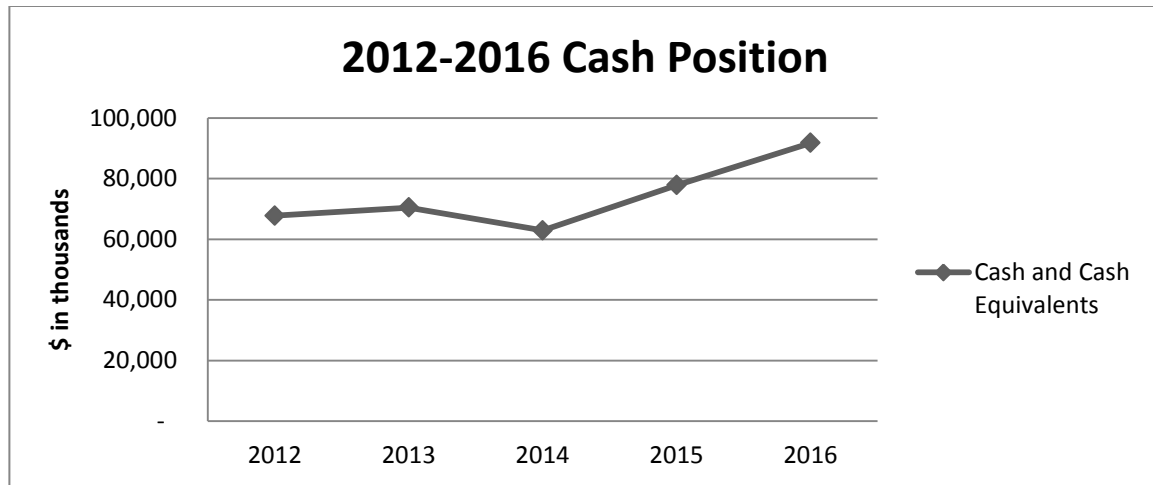
The government invests in infrastructure in two ways:

- By investing in government-owned capital; and
- By providing transfers to third parties, including municipalities, for capital purposes. Assets funded in this manner are disclosed as contributions, not as Government capital assets.

The GNWT is currently investing in tangible capital assets at a level that represents between 50% and 60% of the estimated investment needed for replacement and growth. In the 2016 fiscal year, the Government placed \$302 million worth of new assets into service (2015 - \$256 million). The most significant being the completed sections of the Inuvik-Tuk highway; this recognition is in keeping with the Government's policy of recognizing highway construction as it is built. No amortization will be taken on this highway until such time as it is available for use.

## CASH FLOWS

The statement of cash flow reports on the sources and uses of cash during the year. During the year, the Government's overall cash position increased by \$14 million; from \$78 million in 2014-15 to \$92 million in 2015-16.



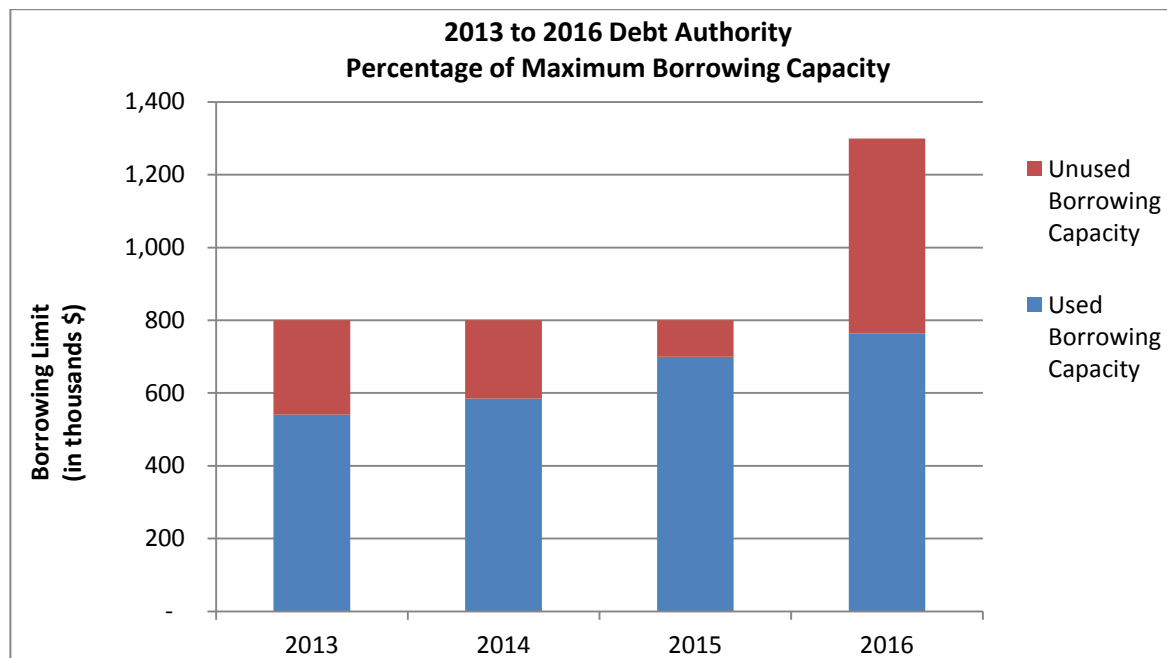
The primary source of cash was operations. Other sources of cash included disposition of portfolio investments and proceeds from short-term loans. The cash position is also impacted by the Government's \$263 million investment in tangible capital assets, representing its continued commitment to investment in the Territories' infrastructure (including education and health care facilities). More detail is available on the Statement of Cash Flows within the Section I of the Public Accounts.

## LONG-TERM DEBT BORROWING LIMITS

Since 2011-12, the borrowing limit of the GNWT has been established at \$800 million pursuant to subsection 20(2) of the *Northwest Territories Act*. In May 2015, due to pressures stemming from the general state of the economy and the Government's desire to address infrastructure deficits, the Government was successful in negotiating a new limit of \$1.3 billion for the 2015-16 fiscal year and beyond.

The Government has long recognized that debt would be needed at some future date if it was to address its infrastructure deficit. In anticipation of this requirement the Government implemented a Fiscal Responsibility Policy in 2005 (re-written and updated, effective January 2016) to guide borrowing decisions and allow flexibility in planning for its future infrastructure needs. As part of its fiscal management strategy, the Government has obtained a credit rating of Aa1 from Moody's Investors Service to assist in decisions that may be required related to any future debt instruments that the Government may consider. The current Capital Plan includes projects under the GNWT's Public-Private Partnership policy or projects that will be fully funded by the Government's revenues.

Consolidated debt, for purposes of the Territorial Borrowing Limit, includes borrowings of all Government organizations that are included within the Consolidated Public Accounts. Additional details are reflected in note 14 Section I of the Public Accounts.



The NWT requires a significant investment in infrastructure. To ensure ongoing fiscal sustainability, but still allow for necessary investments required to address high priority infrastructure needs, the Fiscal Responsibility Policy establishes an ongoing approach to finance the Government's infrastructure investments and requires that at least 50% of the Government's non-consolidated annual infrastructure investment, excluding Public-Private Partnership projects be financed by cash generated from operations (i.e. from operating surpluses). A maximum of 50% of the non-consolidated annual infrastructure investment, excluding public private partnership projects, may be financed by debt. In addition annual non-consolidated debt servicing payments (principal and interest) cannot exceed 5% of total non-consolidated revenues. This requires the Government to plan for and realize sufficient operating surpluses on an ongoing basis to finance 50% of capital investments as well as meet debt servicing payments on the amounts borrowed.

The Fiscal Responsibility Policy makes the Government accountable for its level of borrowing with the establishment of performance measures for debt management that ensure the total debt of the Government does not exceed the capacity of the Government to repay the debt as it becomes due. The GNWT policy on borrowing and performance measurement criteria, for management of debt, is to be reviewed and updated annually.

The seven debt management performance measures, as specified in the Fiscal Responsibility Policy, form part of the indicators of financial condition and are disclosed in the following section.

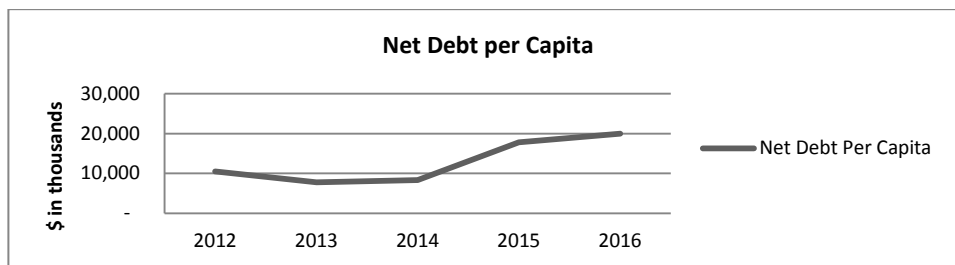
## INDICATORS OF FINANCIAL CONDITION

Financial condition describes a government's financial health or its ability to meet its existing financial obligations, both with respect to its service commitments to the public and its financial commitments to creditors, employees and others. The following assessment of the Government's financial condition considers three elements: sustainability, flexibility and vulnerability.

In years prior to 2014-15 the Consolidated Public Accounts did not include the impact of the Northwest Territories Hydro Corporation. The Northwest Territories Hydro Corporation has been fully consolidated from fiscal year 2014-15 and has been contributing to the increases in the data below. A trend will be more comparable over time.

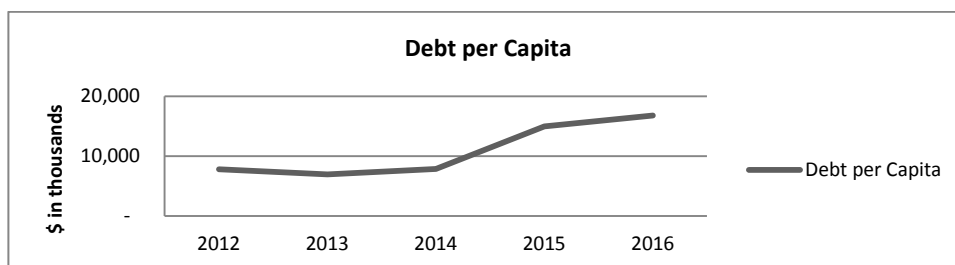
### Measures of the Fiscal Responsibility Policy

- i) Net debt per capita represents the net debt attributable to each Northwest Territories resident. A decrease in this ratio indicates the debt burden per resident has improved.



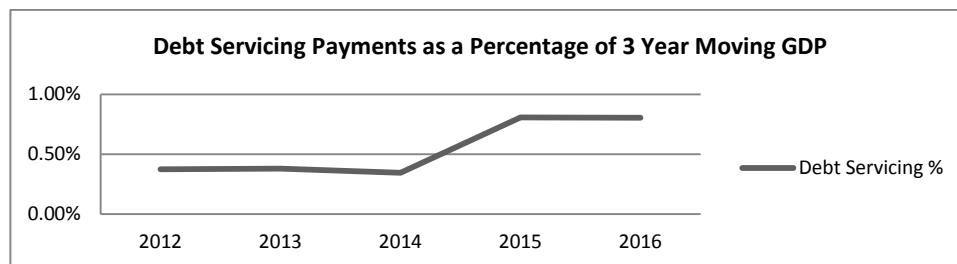
During 2015-16, net debt for the Northwest Territories increased by 11%, from \$17,834 per capita to \$19,984 per capita. The increase is mainly due to the inclusion of public private partnerships in long term debt and an increase in the amounts due to Canada for income taxes.

- ii) Debt per capita represents the debt attributable to each Northwest Territories resident. A decrease in this ratio indicates the debt burden per resident has been reduced.



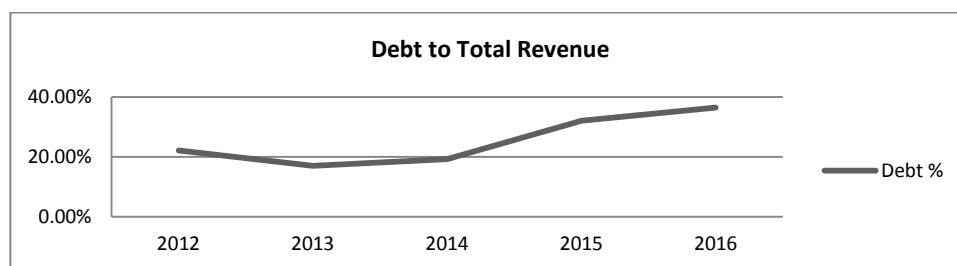
Debt per capita increased by 12%; from \$14,981 per capita in 2014-15 to \$16,782 per capita in 2015-16.

- iii) Debt servicing payments (interest and principle) as a percent of 3 year average Northwest Territories GDP is a measure of debt payments in relation to economic growth, where ideally, economic growth exceeds the growth rate of public debt payments. A decreasing ratio reflects a consistent improvement in financial position.



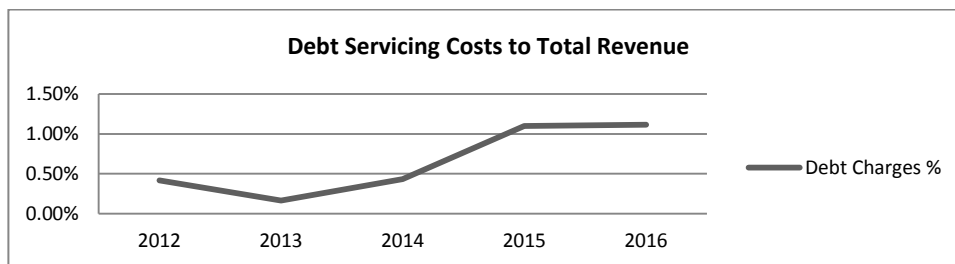
Debt servicing payments as a percentage of GDP for the Northwest Territories remained at 0.81% since 2014-15.

- iv) Debt to total revenue is an indicator of the change in debt in proportion to the change in revenue, where decreasing ratios are a positive indicator that the rate of increase in revenue is greater than the rate of increase in debt. A lower debt to revenue ratio indicates higher sustainability, as less time is required to eliminate debt.



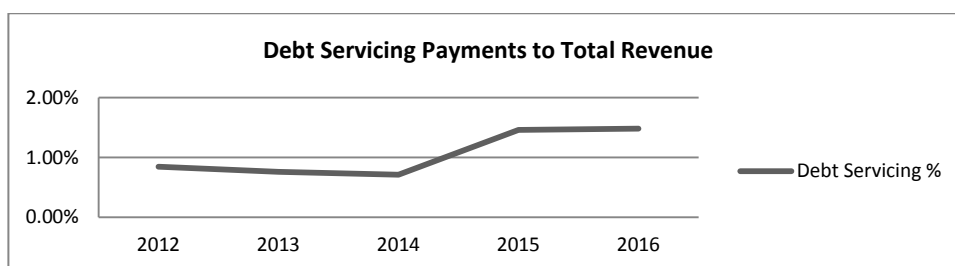
The Government's debt has increased from 32.14% in 2014-15 to 36.56% in 2015-16 mainly due to the inclusion of public private partnerships in long-term debt. An increase in this ratio indicates the Government's annual increase as percentage of revenue has not been sufficient to offset the percentage increase in debt.

- v) Debt servicing costs (interest) as a percentage of total revenue is a measure of the extent that Government revenues are being applied to debt charges, rather than to programs and services, or tax reduction. A lower debt charges ratio indicates an increased ability to borrow.



Prior to 2014-15, the GNWT was in the enviable position of having to expend less than 1% of its total revenues to service its debt load. In 2014-2015, the Government consolidated the Northwest Territories Hydro Corporation and increased debt charges to approximately 1.10% of total revenue and this further increased to only 1.12% in 2015-16, still a very manageable ratio.

- vi) Debt servicing payments (interest and principle) to total revenue ratio is a measure of the extent that Government revenues are being applied to debt repayment, rather than to programs and services, or tax reduction. A lower debt charges ratio indicates an increased ability to borrow. Per the *Fiscal Responsibility Policy*, this ratio shall not exceed 5%. The Government's fiscal responsibility for debt servicing payments was met by having debt payments of 1.48% of total revenues.

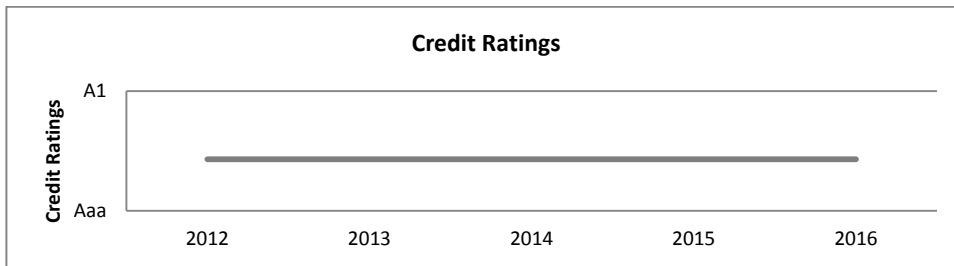


Increases starting in 2014-15 relate to the consolidation of the Northwest Territories Hydro Corporation.

The Government's debt servicing payments to total revenue has increased slightly from 1.46% in 2014-15 to 1.48% in 2015-16.



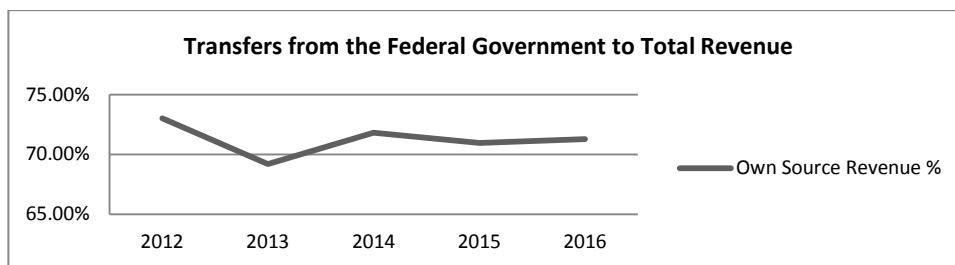
- vii)** The Government's credit rating is a measure of sound fiscal policies, adherence to these policies and current and future debt burden with the goal of maintaining the current investment grade rating.



As part of its fiscal management strategy, the Government has obtained a credit rating of Aa1 since 2006-07.

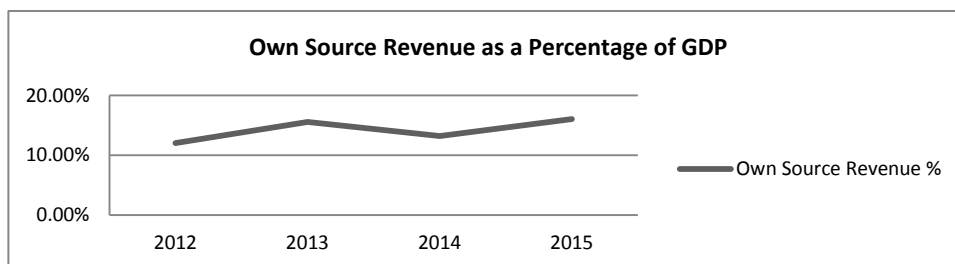
## **OTHER FINANCIAL INDICATORS**

- i) Transfers from the federal government as a percentage of total revenue is an indicator of the degree of vulnerability the Government has as a result of relying on federal government transfers. A decreasing ratio typically reflects that a Government is less reliant on transfers to fund its programs, making it less vulnerable.



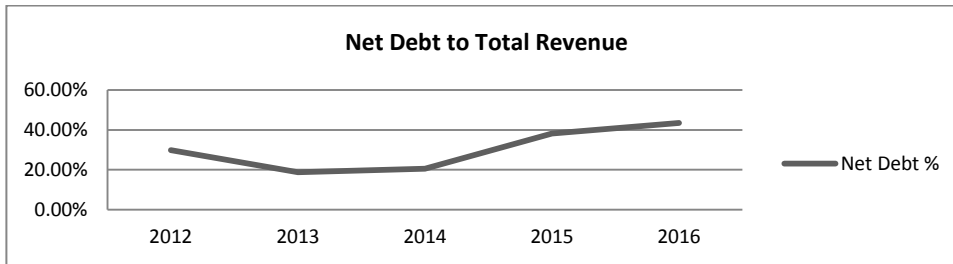
In 2015-16, 71% of total revenue came from federal government transfers. The total share of own source revenue has remained fairly stable over the past several years resulting in a continued reliance on the Territorial Formula Financing Grant from Canada.

- ii) Own source revenue to GDP measures the extent to which the Government is taking income out of the economy. An increase in this ratio indicates that the Government's own source revenue is growing faster than the economy, reducing the flexibility to increase revenue without slowing the growth of the economy.



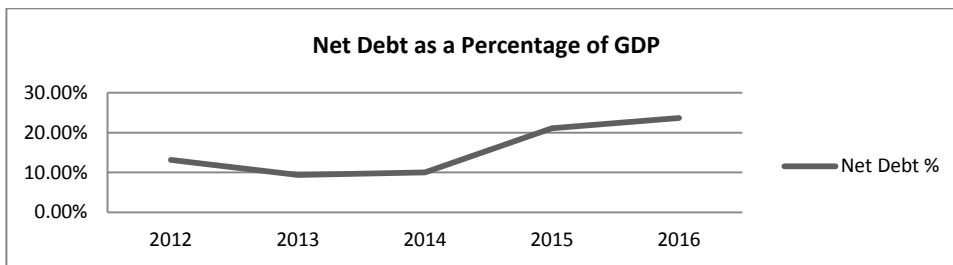
As indicated in the graph above, own source revenue as a percentage of GDP has remained relatively stable over the last five years.

- iii) Net debt to total revenue is an indicator of the change in debt in proportion to the change in revenue, where decreasing ratios are a positive indicator that the rate of increase in revenue is greater than the rate of increase in debt. A lower net debt to revenue ratio indicates higher sustainability, as less time is required to eliminate net debt.



The Government's net debt has increased from 38.26% in 2014-15 to 43.53% in 2015-16 mainly due to the inclusion of public private partnerships in long-term debt. An increase in this ratio indicates the Government's annual increase as percentage of revenue has not been sufficient to offset the percentage increase in debt.

- iv) Net debt as a percentage of the Territories GDP is a measure of debt growth in relation to economic growth, where ideally, economic growth exceeds the growth rate of public debt. A decreasing ratio reflects a consistent improvement in financial position.



During 2015-16, net debt for the Northwest Territories increased as a percentage of GDP from 21.14% to 23.72%.

## **RISKS AND UNCERTAINTIES**

The government is subject to risks and uncertainties that arise from variables which the government cannot directly control. These risks and uncertainties include:

- Changes in economic factors such as economic growth or decline, commodity and non-renewable resource prices, inflation, interest rates, marketplace competition, population change, personal income and retail sales;
- Exposure to interest rate risk, credit risk, and liquidity risk;
- Changes in transfers from the federal government;
- Utilization of government services;
- Other unforeseen developments including unusual weather patterns and nature and other disasters;
- Criminal or malicious attacks, both cyber and physical in nature, potentially resulting in business interruption, privacy breach and loss of, or damage to, information, facilities and equipment;
- Identification and quantification of environmental liabilities;
- Factors that could hinder the safe delivery of products and services;
- Outcomes from litigation, arbitration and negotiations with third parties;
- Changes in reported results where actual experience may differ from initial estimates as discussed in note 2 Section I of the Public Accounts; and
- Changes in accounting standards.

The Government uses a number of forecasts from banks and private industry when developing the underlying assumptions for fiscal forecasts both in budget development and throughout the fiscal year.

For the Government to meet its challenges of growth and remain competitive, attention is directed towards maintaining and investing in the Territories' infrastructure to allow for continued future growth.

## Compliance with Fiscal Responsibility Policy

The Fiscal Responsibility Policy states the Government will restrict infrastructure investments, excluding Public-Private projects (P3) as follows:

- a) A minimum of fifty per cent (50%) from the operating surpluses generated within the non-consolidated Public Accounts; and
- b) A maximum of fifty per cent from Government debt.

	2014-15	2015-16
	(\$ in Millions)	
<b><i>Fiscal Responsibility Policy Provision 6(5)(a)- Debt Servicing Payments</i></b>		
Revenues (Schedule A of Non-Consolidated Public Accounts)	1,819	1,814
<i>Maximum Debt Servicing Payments- 5% of Revenues</i>	91	91
Debt Servicing Payments		
Capital Leases	3	0
Deh Cho Bridge	9	8
Short-Term Interest Expense	1	1
Total Debt Servicing Payments	13	9
<b><i>Actual Debt Servicing Payments as a % of Revenues</i></b>	<b>0.71%</b>	<b>0.52%</b>
<b><i>Fiscal Responsibility Policy Provision 6(3)- Infrastructure Financing</i></b>		
Capital Acquisitions (Schedule 4 of Non-Cons. Public Accounts)	230	288
Less: P3 Items- Out of Scope		
Mackenzie Valley Fibre Link P3 (Finance)	-	(65)
Stanton Territorial Hospital P3 (Health and Social Services)	-	(14)
<i>Cash Required for Infrastructure Investment Expenditures</i>	230	209
<b><u>Operating Cash Required</u></b>		
Minimum cash required from operating surplus (50% of Acquisitions)	115	105
Debt Servicing Payments	13	9
<b><i>Total Operating Cash Requirements</i></b>	<b>128</b>	<b>114</b>
<b><u>Operating Cash Available</u></b>		
Operating Surplus (Non-Consolidated Statement of Operations)	95	110
Add Non Cash Item: Amortization of Tangible Capital Assets	79	84
<b><i>Total Operating Cash Available</i></b>	<b>174</b>	<b>194</b>
<b>Excess in cash generated from operating surplus</b>	<b>46</b>	<b>80</b>
Cash Required for Infrastructure Investment Expenditures	230	209
Total Operating Cash Available	174	194
<b><i>Borrowing Requirement for Infrastructure</i></b>	<b>56</b>	<b>15</b>

Conclusion – The parameters of the Fiscal Responsibility Policy have again been met for the 2015-2016 fiscal year. Non-Consolidated debt servicing costs are point five-two of a per cent (0.52%), of non-consolidated annual revenue, less than five per cent (5%) limit. And total operating cash required of \$114 compared to total operating cash available is \$194, resulted in an excess in cash generated of \$80.

## COMPLETION OF ENTITIES CONSOLIDATED WITHIN THE PUBLIC ACCOUNTS

The following table lists the consolidated entities and completion date of their audited financial statements.

Entity	Due Date	Extension Due Date	Completion Date
Beaufort Delta Divisional Education Council	30-Sep-2015	27-Nov-2015	26-Nov-2015
Commission scolaire francophone Territoires du Nord-Ouest	30-Sep-2015		21-Sept-2015
Dehcho Divisional Education Council	30-Sep-2015		12-Sept-2015
Dettah District Education Authority	30-Sep-2015		27-Oct-2015
N'dilo Divisional Education Council	30-Sep-2015	27-Nov-2015	26-Nov-2015
Sahtu Divisional Education Council	30-Sep-2015		24-Sept-2015
South Slave Divisional Education Council	30-Sep-2015		19-Sept-2015
Yellowknife Catholic Schools	30-Sep-2015		09-Sept-2015
Yellowknife No.1 District Education Authority	30-Sep-2015		08-Sept-2015
Aurora College	30-Sep-2015	27-Nov-2015	24-Nov-2015
Beaufort Delta Health and Social Services Authority	30-Jun-2016		28-Jun-2016
Dehcho Health and Social Services Authority	30-Jun-2016		30-Jun-2016
Fort Smith Health and Social Services Authority	30-Jun-2016		23-Jun-2016
Hay River Health and Social Services Authority	30-Jun-2016		29-Jun-2016
Sahtu Health and Social Services Authority	30-Jun-2016		22-Jul-2016
Stanton Territorial Health Authority	30-Jun-2016		28-Jun-2016
Yellowknife Health and Social Services Authority	30-Jun-2016		27-Jun-2016
Tlicho Community Services Agency	30-Jun-2016		29-Jun-2016
Arctic Energy Alliance	30-Jun-2016		30-Jun-2016
Northwest Territories Hydro Corporation	30-Jun-2016	29-Aug-2016	24-Aug-2016
Northwest Territories Business Development and Investment Corporation	30-Jun-2016	29-Aug-2016	29-Aug-2016
Northwest Territories Housing Corporation	30-Jun-2016	29-Aug-2016	23-Aug-2016
Northwest Territories Human Rights Commission	30-Jun-2016		03-Aug-2016
Inuvialuit Water Board	30-Jun-2016		15-Jun-2016
Northwest Territories Sport and Recreation Council	30-Jun-2016		10-Jul-2016
Status of Women Council of the Northwest Territories	30-Jun-2016		04-Jul-2016
Northwest Territories Surface Rights Board	30-Jun-2016		20-May-2016