



# Public Accounts 2017-2018

## Section I

### CONSOLIDATED FINANCIAL STATEMENTS



Government of  
Northwest Territories

**PUBLIC ACCOUNTS**  
**OF THE**  
**GOVERNMENT OF THE NORTHWEST TERRITORIES**  
**FOR THE YEAR ENDED MARCH 31, 2018**

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

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





**THE HONOURABLE MARGARET THOM  
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, 2018.

A handwritten signature in blue ink, reading "Robert C. McLeod".

Honourable Robert C. McLeod  
Minister, Finance

October 18, 2018



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# **Public Accounts of the Government of the Northwest Territories**

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#### **FINANCIAL STATEMENT DISCUSSION AND ANALYSIS**

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## RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of the Consolidated Financial Statements of the Government of the Northwest Territories (the Government), 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*.

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 results of its operations, the change in its net debt 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

October 18, 2018







## 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 2018, 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 2018, 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, sweeping horizontal line extending to the right.

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

18 October 2018  
Ottawa, Canada

# Government of the Northwest Territories

## Consolidated Statement of Financial Position

as at March 31, 2018

(thousands of dollars)

|  | 2018<br>\$       | 2017<br>\$       |
|--|------------------|------------------|
| <b>Financial assets</b>  |                  |                  |
| Cash   | 135,897          | 116,724          |
| Portfolio investments (note 3)                                       | 87,680           | 100,408          |
| Due from the Government of Canada (note 12)                          | 64,751           | 46,096           |
| Accounts receivable (note 5)   | 125,157          | 124,864          |
| Inventories for resale (note 6)                                      | 32,253           | 28,273           |
| Loans receivable (note 7)  | 79,260           | 79,249           |
|  | <b>524,998</b>   | <b>495,614</b>   |
| <b>Liabilities</b>   |                  |                  |
| Short term loans (note 8)  | 297,076          | 234,807          |
| Accounts payable and accrued liabilities (note 9)                    | 290,087          | 300,410          |
| Deferred revenue (note 10)   | 18,503           | 19,610           |
| Environmental liabilities and asset retirement obligations (note 11) | 70,033           | 72,285           |
| Due to the Government of Canada (note 12)                            | 118,556          | 125,828          |
| Capital lease obligations (note 13)                                  | 18,620           | 19,954           |
| Long-term debt (note 14)   | 413,042          | 419,618          |
| Liabilities under public private partnerships (note 15)              | 166,481          | 142,081          |
| Pensions (note 16)   | 24,625           | 25,396           |
| Other employee future benefits and compensated absences (note 17)    | 73,757           | 83,459           |
|  | <b>1,490,780</b> | <b>1,443,448</b> |
| <b>Net debt</b>  | <b>(965,782)</b> | <b>(947,834)</b> |
| <b>Non-financial assets</b>  |                  |                  |
| Tangible capital assets (schedule A)                                 | 3,290,882        | 3,117,522        |
| Inventories held for use (note 6)                                    | 14,418           | 14,579           |
| Prepaid expenses   | 14,276           | 8,585            |
|  | <b>3,319,576</b> | <b>3,140,686</b> |
| <b>Accumulated surplus</b>   | <b>2,353,794</b> | <b>2,192,852</b> |

Contractual obligations, rights, guarantees and contingencies (notes 19 and 20)

Approved:



Robert C. McLeod  
Minister of Finance



Jamie Koe, CPA, CGA  
Comptroller General

*The accompanying notes and schedules 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, 2018

(thousands of dollars)

|  | 2018<br>Budget<br>\$ | 2018<br>Actual<br>\$ | 2017<br>Actual<br>\$ |
|--|----------------------|----------------------|----------------------|
| <b>Revenues</b>  |                      |                      |                      |
| Grant from the Government of Canada <i>(note 2(m))</i> | 1,232,439            | 1,232,439            | 1,219,888            |
| Transfer payments <i>(note 21)</i>                     | 219,856              | 213,732              | 218,594              |
|  | <b>1,452,295</b>     | <b>1,446,171</b>     | <b>1,438,482</b>     |
| Taxation, non-renewable resource and general revenues  |                      |                      |                      |
| Corporate and personal income taxes <i>(note 21)</i>   | 196,991              | 147,536              | 190,938              |
| Other taxes <i>(note 21)</i>                           | 117,976              | 122,742              | 123,235              |
| General <i>(note 21)</i>                               | 79,180               | 74,693               | 64,516               |
| Income from portfolio investments                      | 675                  | 3,834                | 3,089                |
| Non-renewable resource revenue                         | 46,000               | 66,115               | 63,671               |
| Sales  | 148,408              | 147,245              | 145,532              |
| Recoveries   | 51,827               | 35,697               | 35,130               |
|  | <b>641,057</b>       | <b>597,862</b>       | <b>626,111</b>       |
| Recoveries of prior years' expenses                    | 3,000                | 15,042               | 10,966               |
|  | <b>2,096,352</b>     | <b>2,059,075</b>     | <b>2,075,559</b>     |
| <b>Expenses (schedule B) (note 22)</b>                 |                      |                      |                      |
| Environment and Economic Development                   | 159,124              | 165,736              | 161,094              |
| Infrastructure   | 378,424              | 359,025              | 375,248              |
| Education  | 338,193              | 349,812              | 344,288              |
| Health, Social Services and Housing                    | 578,357              | 552,168              | 554,206              |
| Justice  | 123,417              | 125,339              | 127,147              |
| General Government                                     | 335,080              | 327,681              | 320,522              |
| Legislative Assembly and statutory offices             | 19,336               | 18,372               | 18,320               |
|  | <b>1,931,931</b>     | <b>1,898,133</b>     | <b>1,900,825</b>     |
| <b>Annual operating surplus</b>                        | <b>164,421</b>       | <b>160,942</b>       | <b>174,734</b>       |
| Projects on behalf of third parties                    |                      |                      |                      |
| Expenses   | (73,546)             | (105,495)            | (84,299)             |
| Recoveries   | 73,546               | 105,495              | 84,299               |
| <b>Annual surplus</b>                                  | <b>164,421</b>       | <b>160,942</b>       | <b>174,734</b>       |
| Accumulated surplus at beginning of year               | 2,192,852            | 2,192,852            | 2,018,118            |
| <b>Accumulated surplus at end of year</b>              | <b>2,357,273</b>     | <b>2,353,794</b>     | <b>2,192,852</b>     |

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

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## Government of the Northwest Territories

### Consolidated Statement of Change in Net Debt

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for the year ended March 31, 2018

(thousands of dollars)

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|   | 2018<br>Budget<br>\$ | 2018<br>Actual<br>\$ | 2017<br>Actual<br>\$ |
|---|----------------------|----------------------|----------------------|
| <b>Net debt at beginning of year</b>                          | <b>(947,834)</b>     | <b>(947,834)</b>     | <b>(883,313)</b>     |
| Items affecting net debt:                                     |                      |                      |                      |
| Annual surplus  | 164,421              | 160,942              | 174,734              |
| Acquisition of tangible capital assets ( <i>schedule A</i> )  | (289,936)            | (305,915)            | (368,375)            |
| Amortization of tangible capital assets ( <i>schedule A</i> ) | 131,948              | 123,464              | 122,269              |
| Loss on sale of tangible capital assets                       | -                    | 2,406                | 5,049                |
| Proceeds on sale of tangible capital assets                   | -                    | 6,685                | 1,645                |
|   | 6,433                | (12,418)             | (64,678)             |
| Consumption of inventories held for use                       | 5,630                | 16,201               | 14,820               |
| Purchase of inventories held for use                          | (5,772)              | (16,040)             | (14,353)             |
| Change in prepaid expenses                                    | (100)                | (5,691)              | (310)                |
|   | (242)                | (5,530)              | 157                  |
| <b>Change in net debt</b>                                     | <b>6,191</b>         | <b>(17,948)</b>      | <b>(64,521)</b>      |
| <b>Net debt at end of year</b>                                | <b>(941,643)</b>     | <b>(965,782)</b>     | <b>(947,834)</b>     |

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*The accompanying notes and schedules 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, 2018

(thousands of dollars)

|  | 2018             | 2017             |
|--|------------------|------------------|
|  | \$               | \$               |
| <b>Cash provided by (used in)</b>                                    |                  |                  |
| <b>Operating transactions</b>  |                  |                  |
| Annual surplus*  | 160,942          | 174,734          |
| Items not affecting cash:  |                  |                  |
| Change in valuation allowances                                       | 3,687            | 2,007            |
| Loss on tangible capital assets                                      | 2,406            | 5,049            |
| Amortization   | 123,464          | 122,269          |
| Inflation adjustment on real return bonds                            | 2,139            | 3,494            |
|  | 292,638          | 307,553          |
| Changes in non-cash assets and liabilities:                          |                  |                  |
| Change in due to/from the Government of Canada                       | (25,927)         | 8,521            |
| Change in accounts receivable  | (799)            | 6,381            |
| Change in inventories for resale                                     | (3,980)          | 87               |
| Change in accounts payable   | (329)            | 8,177            |
| Change in environmental liabilities and asset retirement obligations | (2,459)          | 5,508            |
| Change in deferred revenue   | (1,107)          | 8,836            |
| Change in pensions   | (771)            | (957)            |
| Change in other employee future benefits and compensated absences    | (9,702)          | (746)            |
| Change in inventories held for use                                   | 161              | 467              |
| Change in prepaid expenses   | (5,691)          | (310)            |
| <b>Cash provided by operating transactions</b>                       | <b>242,034</b>   | <b>343,517</b>   |
| <b>Investing transactions</b>  |                  |                  |
| Disposition of portfolio investments                                 | 28,726           | 55,618           |
| Acquisition of portfolio investments                                 | (15,999)         | (58,941)         |
| Loans receivable receipts  | 9,695            | 10,647           |
| Loans receivable advanced  | (12,836)         | (9,936)          |
| <b>Cash provided by (used for) investing transactions</b>            | <b>9,586</b>     | <b>(2,612)</b>   |
| <b>Capital transactions</b>  |                  |                  |
| Acquisition of tangible capital assets                               | (280,302)        | (318,010)        |
| Proceeds of disposition of tangible capital assets                   | 6,685            | 1,645            |
| <b>Cash used for capital transactions</b>                            | <b>(273,617)</b> | <b>(316,365)</b> |
| <b>Financing transactions</b>  |                  |                  |
| Net proceeds from (repayment of) short term loans                    | 62,269           | (42,596)         |
| Repayment of capital lease obligations                               | (1,334)          | (794)            |
| Proceeds from long-term financing                                    | -                | 60,000           |
| Repayment of long-term financing                                     | (8,765)          | (16,201)         |
| Repayment of Public private partnerships                             | (11,000)         | -                |
| <b>Cash provided by financing activities</b>                         | <b>41,170</b>    | <b>409</b>       |
| <b>Increase in cash</b>  | <b>19,173</b>    | <b>24,949</b>    |
| <b>Cash at beginning of year</b>                                     | <b>116,724</b>   | <b>91,775</b>    |
| <b>Cash at end of year</b>   | <b>135,897</b>   | <b>116,724</b>   |

\*Total interest paid during the year \$29,499 (2017- \$23,942)

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

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# Government of the Northwest Territories

## Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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### 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 lists the organizations comprising the Government reporting entity, which are fully consolidated in the financial statements and their specific operating authority.

#### *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*

- Hay River Health and Social Services Authority
- Northwest Territories 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

#### *Northwest Territories Hydro Corporation Act*

- Northwest Territories Hydro Corporation (NT Hydro)

#### *Northwest Territories Surface Rights Board Act*

- Northwest Territories Surface Rights Board

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# Government of the Northwest Territories

## Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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### 1. AUTHORITY AND OPERATIONS (continued)

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

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, 2018 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 18*) 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 authority.

#### (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 environmental liabilities, 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.

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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#### 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.

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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#### 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 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 delivering 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                                 |
| Barges and Tugboats                            | 70 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 |

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 items inherited by right of the Crown, such as Crown lands, forests, water and mineral resources are not recognized in these financial statements.

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# Government of the Northwest Territories

## Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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### 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 any 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 (except maternity and parental leave) has been prepared using data provided by management and assumptions based on management's best estimates.

#### **(i) Contractual obligations and contingent liabilities**

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 contingent liabilities 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 or if the occurrence of the confirming future event is not determinable, the contingent liability is disclosed.

#### **(j) Contractual rights and contingent assets**

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 revenues. Contractual rights pertain to rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future when the terms of contracts or agreements are met.

The contingent assets of the Government are potential assets which may become actual assets when one or more future events occurs or fails to occur. If the future event is considered likely to occur and is quantifiable, an estimated asset is disclosed.

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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

##### **(k) 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.

##### **(l) Projects on behalf of third parties**

The Government undertakes projects for the Government of Canada, the Government of Nunavut and others. Where the agreement allows, the Government receives accountable advances and any unexpended balances remaining at year-end are recorded as liabilities in accounts payable and accrued liabilities or due to Canada, as applicable. Recoveries are accrued when expenses as allowed under the project contract, exceed advances and are recorded as receivables in accounts receivable or due from Canada, as applicable.

##### **(m) Grant from the Government of Canada**

Under *Federal-Provincial Fiscal Arrangements Act* (Canada), the Grant from the Government of Canada is based on the Territorial Formula Financing 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.

##### **(n) Transfer payments**

Transfers from the federal government are recognized as revenue in the period during which the transfer is authorized and eligibility criteria are met, except when and to the extent that the transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers meeting the definition of a liability are recognized as revenue as the liability is settled.

##### **(o) Taxes, regulatory, resource, and general 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* (Canada). 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* (Canada), 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.

Regulatory revenues, which are part of general revenues, are recognized on an accrual basis and include revenues for fines, fees, licenses, permits, and registrations. Amounts received prior to the end of the year, which relate to revenues that will be earned in a subsequent year, are recorded as deferred revenues and are recognized as revenue when earned.

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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

##### (o) Taxes, regulatory, resource, and general revenues (continued)

Non-renewable 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 Non-renewable 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 Non-renewable resource revenues collected by the Government (the remaining amount) from the Territorial Formula Financing Grant (*note 2(m)*) 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.

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.

##### (p) 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 up to 25 percent of the net fiscal benefit from Non-renewable resource revenues that is received by the Government (*note 2 (o)*). All other expenses are recognized on an accrual basis.

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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

##### **(q) 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.

##### **(r) 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.

##### **(s) 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.

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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

##### **(t) 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.

##### **(u) 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 \$50,000; 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 to the Government as opposed to being merely neutral in comparison with standard procurement processes. The operating and service costs, that are clearly identified in the agreements, are expensed as they are incurred.

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. The capital asset (classified as work in progress) and the corresponding liability are recorded based on the estimated percentage of completion. 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 imputed interest rate for the 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. When available for use, the P3 assets are amortized over their estimated useful lives.

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.



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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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

### (v) Future accounting changes

PS 3430 Restructuring Transactions. Effective April 1, 2018, this standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

#### *Financial instruments*

The Public Sector Accounting Board (PSAB) issued PS 3450 Financial Instruments effective for fiscal years beginning on or after April 1, 2021. 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.

#### *Other New Standards*

Effective April 1, 2021, 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.

PS 3280 Asset Retirement Obligations. Effective April 1, 2021, this standard provides guidance on how to account for and report liabilities for retirement of tangible capital assets.

The Government is currently assessing the impact of these standards on the consolidated financial statements.

### (w) Adoption of new accounting standards

Effective April 1, 2017, the Government adopted the PSA Handbook Sections PS 3420 - inter-entity transactions, PS 2200 - related party disclosures, and PS 3210 - assets. There was no significant impact on the consolidated financial statements as a result of adopting the new standards.

Effective April 1, 2017, the Government also adopted the PSA Handbook Sections PS 3320 - contingent assets and PS 3380 - contractual rights. These new sections define and establish guidance on disclosure for contingent assets and contractual rights. The impact of adopting these new standards is reflected in notes 19 and 20.

## 3. PORTFOLIO INVESTMENTS

|   | 2018          | 2017           |
|---|---------------|----------------|
|   | \$            | \$             |
| Marketable securities (market value \$88,626; 2017 - \$101,942) | 87,277        | 100,023        |
| Miscellaneous investments                                       | 403           | 385            |
|   | <b>87,680</b> | <b>100,408</b> |

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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#### 4. DESIGNATED AND RESTRICTED ASSETS

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

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 *Northwest Territories Heritage Fund Act*, the assets of the Heritage Fund are to be used to ensure that the future generations of people of the Northwest Territories benefit from on-going economic development, including the development of non-renewable resources.

Pursuant to the *Waste Reduction and Recovery Act*, the assets of the Environment Fund are to be used for purposes specified in the act including programs with respect to the reduction and 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 16*). 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).

Pursuant to 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. The regulations specifies that a Loans and Bonds Fund will be used to record the lending operations. BDIC is required to use a Venture Investment Fund to record the venture investment operations. Furthermore, BDIC is obligated to maintain a Capital Fund and Subsidy Fund.

In addition to these funds, the BDIC is required, 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.

Pursuant to the *Land Titles Act*, the assets of the Land Titles Assurance Fund are to be used to compensate owners for certain financial losses they incur due to real estate fraud or omissions and errors of the land registration system.

Pursuant to the *Memorandum of Agreement* between the Government and Signatory Air Carriers, the funds remitted to the Government are to be used for the Yellowknife Airport Capital Program.

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.

Other designated assets will be used for various purposes.

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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

|   | 2018<br>\$    | 2017<br>\$    |
|---|---------------|---------------|
| Student Loan Fund:  |               |               |
| Authorized limit for loans receivable   | 45,000        | 45,000        |
| Less: Loans receivable balance ( <i>note 7</i> )  | (40,953)      | (41,320)      |
| Funds designated for new loans  | <b>4,047</b>  | <b>3,680</b>  |
| Heritage Fund:  |               |               |
| Heritage Fund net assets  | <b>17,170</b> | <b>10,614</b> |
| Environment Fund:   |               |               |
| Beverage Container Program net assets   | <b>3,890</b>  | <b>2,557</b>  |
| Portfolio Investments for the Legislative Assembly Supplementary<br>Retiring Allowance ( <i>note 16</i> ) |               |               |
| Marketable securities (market value \$33,279; 2017 - \$32,995)  | 31,631        | 30,274        |
| Cash and other assets (market value approximates cost)  | 232           | 412           |
|   | <b>31,863</b> | <b>30,686</b> |
| BDIC:   |               |               |
| Loan and Investment Funds   | <b>6,836</b>  | <b>10,780</b> |
| Land Titles Assurance Fund:   |               |               |
| Land Titles net assets  | <b>4,539</b>  | <b>4,355</b>  |
| NT Hydro:   |               |               |
| Sinking Funds (market value approximates cost)  | <b>6,278</b>  | <b>5,800</b>  |
| YK Airport Revolving Fund:  |               |               |
| Yellowknife Airport Capital program   | <b>2,716</b>  | -             |
| Other:  |               |               |
| Cash  | 672           | 2,013         |
| Guaranteed investment certificate   | 785           | 778           |
|   | <b>1,457</b>  | <b>2,791</b>  |
|   | <b>78,796</b> | <b>71,263</b> |

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# Government of the Northwest Territories

## Notes to Consolidated Financial Statements

March 31, 2018

(All figures in thousands of dollars)

### 5. ACCOUNTS RECEIVABLE

|   | Accounts<br>Receivable<br>\$ | Allowance<br>for Doubtful<br>Accounts<br>\$ | Net<br>2018<br>\$ | Net<br>2017<br>\$ |
|---|------------------------------|---|-------------------|-------------------|
| General                                     | 62,369                       | (25,233)                                    | 37,136            | 41,290            |
| Utilities                                   | 11,174                       | (176)                                       | 10,998            | 9,220             |
| Non-renewable resource revenue              | 54,378                       | -   | 54,378            | 58,343            |
| Government of Nunavut                       | 10,006                       | (149)                                       | 9,857             | 8,344             |
| Health related costs due from third parties | 9,510                        | (3,633)                                     | 5,877             | 4,927             |
| Revolving fund sales                        | 6,002                        | -   | 6,002             | 2,176             |
|   | <b>153,439</b>               | <b>(29,191)</b>                             | <b>124,248</b>    | <b>124,300</b>    |
| Receivables from related parties:           |                              |   |                   |                   |
| Workers' Safety and Compensation Commission | 1,055                        | (146)                                       | 909               | 564               |
|   | <b>154,494</b>               | <b>(29,337)</b>                             | <b>125,157</b>    | <b>124,864</b>    |

### 6. INVENTORIES

|                                  | 2018<br>\$    | 2017<br>\$    |
|----------------------------------|---------------|---------------|
| <b>Inventories for resale:</b>   |               |               |
| Bulk fuels                       | 28,144        | 23,815        |
| Liquor products                  | 3,628         | 3,906         |
| Arts and crafts                  | 481           | 552           |
|                                  | <b>32,253</b> | <b>28,273</b> |
| <b>Inventories held for use:</b> |               |               |
| Materials and supplies:          |               |               |
| Housing                          | 2,657         | 3,009         |
| NT Hydro                         | 8,459         | 8,284         |
| Hospital supplies                | 3,023         | 3,150         |
| Public Stores                    | 194           | 136           |
| YK Airport                       | 85            | -             |
|                                  | <b>14,418</b> | <b>14,579</b> |
|                                  | <b>46,671</b> | <b>42,852</b> |

Inventory write-down for 2018 is \$195 (2017- \$300).

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

#### 7. LOANS RECEIVABLE

|  | 2018<br>\$     | 2017<br>\$     |
|--|----------------|----------------|
| 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 5.06% and 5.49%, (2017 between 5.06% and 5.62%) before valuation allowance of \$3,527 (2017 - \$5,363).     | 42,024         | 42,402         |
| Northwest Territories Energy Corporation Ltd. loan to the Dogrib Power Corporation due July 2026, bearing interest at an annual rate of 9.6% (2017 - 9.6%), repayable in equal monthly payments of \$195 (2017 - \$195), secured by a \$4,000 guarantee and a restricted bank account.   | 13,393         | 14,395         |
| Students Loan Fund loans due in installments to 2032, bearing fixed interest between 0.00% and 11.75%, (2017 - 0.00% and 11.75%) unsecured, before valuation allowance and loan remissions of 17,216 (2017 - \$17,697).  | 40,953         | 41,320         |
| 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 0.00% and 12.00%, (2017 -0.00% and 12.00%) before valuation allowance of \$10,552 (2017 - \$10,450). | 14,163         | 14,622         |
| Other  | 22             | 20             |
|  | <b>110,555</b> | <b>112,759</b> |
| Valuation allowances   | (31,295)       | (33,510)       |
|  | <b>79,260</b>  | <b>79,249</b>  |

Interest earned on loans receivable during the year is \$4,036 (2017 - \$4,280).

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 \$2,274 (2017 - \$2,519).

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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#### 8. SHORT TERM LOANS

Based upon operational needs, the Government may enter into short term borrowing arrangements with its banks. Short-term loans of \$297,076 (2017 - \$234,807) incurred interest at a weighted average year-end rate of 1.28% (2017 - 0.86%). Interest expense on short term loans included in operations and maintenance expenses is \$2,387 (2017 - \$2,072).

#### 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

|   | 2018<br>\$     | 2017<br>\$     |
|---|----------------|----------------|
| Trade                                       | 195,779        | 204,327        |
| Government of Nunavut                       | 188            | 158            |
| Other liabilities                           | 8,926          | 14,331         |
| Employee and payroll-related liabilities    | 81,674         | 80,755         |
| Accrued interest                            | 2,732          | 713            |
|   | <b>289,299</b> | <b>300,284</b> |
| Payable to related parties:                 |                |                |
| Workers' Safety and Compensation Commission | 788            | 126            |
|   | <b>290,087</b> | <b>300,410</b> |

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#### 10. DEFERRED REVENUE

|  | 2018<br>\$    | 2017<br>\$    |
|--|---------------|---------------|
| Government of Canada                                       |               |               |
| Ministry of Finance  | 4,061         | 5,842         |
| Building Canada Plan                                       | 2             | 256           |
| Ministry of Infrastructure and Communities                 | -             | 4,478         |
| Transport Canada   | -             | 350           |
| Canadian Northern Economic Development Agency              | 3,781         | 2,762         |
| Canadian Heritage  | 3,762         | -             |
| Public Health Agency of Canada                             | 85            | -             |
| Work deposits, commercial use permits and tourism licences | 1,857         | 934           |
| Mining Recorders   | 1,230         | 1,125         |
| NPR Limited Partnership                                    | 2,168         | 1,856         |
| Other  | 1,557         | 2,007         |
|  | <b>18,503</b> | <b>19,610</b> |

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Deferred revenue in the current year consists mainly of funds received from the Government of Canada for corporate income tax, improvements to highways and bridge rehabilitation.

# Government of the Northwest Territories

## Notes to Consolidated Financial Statements

March 31, 2018

(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 281 (2017 - 279) sites as potentially requiring environmental remediation at March 31, 2018.

| Type of Site  | 2017<br>Liability | Remediation<br>Expenditures | New Sites<br>in 2018 | Change in<br>Estimate | 2018<br>Liability | Number<br>of Sites |
|---|-------------------|-----------------------------|----------------------|-----------------------|-------------------|--------------------|
|   | \$                | \$                          | \$                   | \$                    | \$                |                    |
| Abandoned mines <sup>(1)</sup>                              | 13,315            | (126)                       | -                    | (2,246)               | 10,943            | 7                  |
| Landfills <sup>(2)</sup>                                    | 10,453            | (785)                       | 62                   | (78)                  | 9,652             | 44                 |
| Abandoned infrastructure<br>and schools <sup>(3)</sup>      | 14,069            | (2,036)                     | 1,712                | 304                   | 14,049            | 73                 |
| Airports, airport strips or<br>reserves <sup>(4)</sup>      | 1,704             | (119)                       | -                    | 2,221                 | 3,806             | 24                 |
| Sewage lagoons <sup>(5)</sup>                               | 2,618             | (252)                       | -                    | (12)                  | 2,354             | 29                 |
| Fuel tanks and resupply<br>lines <sup>(2)</sup>             | 2,443             | (6)                         | -                    | -                     | 2,437             | 12                 |
| Abandoned lots and<br>maintenance facilities <sup>(3)</sup> | 20,480            | (834)                       | 221                  | (644)                 | 19,223 *          | 92                 |
| <b>Total environmental<br/>liabilities</b>                  | <b>65,082</b>     | <b>(4,158)</b>              | <b>1,995</b>         | <b>(455)</b>          | <b>62,464</b>     | <b>281</b>         |
| <b>Asset retirement obligations</b>                         | <b>7,203</b>      | <b>-</b>                    | <b>-</b>             | <b>366</b>            | <b>7,569</b>      |                    |
| <b>Total</b>  | <b>72,285</b>     |                             |                      |                       | <b>70,033</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.

\*Includes estimated costs to perform due diligence related to identifying environmental contamination that may be transferred back to Canada under the *Northwest Territories Lands and Resources Devolution Agreement*.

There were 2 (2017 - 6) 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 281 (2017-279) sites, there are 79 (2017-80) 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.

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 3.12% for obligations to be settled in 10 years or less and 3.42% for obligations to be settled in 10 years or more.

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

|   | 2018            | 2017            |
|---|-----------------|-----------------|
|   | \$              | \$              |
| <b>Due from Canada</b>  |                 |                 |
| Projects on behalf of the Government of Canada  | (20,206)        | (13,522)        |
| Miscellaneous receivables   | (44,545)        | (32,574)        |
|   | <b>(64,751)</b> | <b>(46,096)</b> |
| <b>Due to Canada</b>  |                 |                 |
| Excess income tax advanced  | 55,794          | 65,961          |
| Advances for projects on behalf of the Government of Canada   | 18,484          | 22,620          |
| Miscellaneous payables  | 44,278          | 37,247          |
|   | <b>118,556</b>  | <b>125,828</b>  |
|   | <b>53,805</b>   | <b>79,732</b>   |
| The amounts due to the Government of Canada are non-interest bearing. The excess income tax advanced is repayable over the following years: |                 |                 |
|   |                 | \$              |
|   | 2019            | 32,699          |
|   | 2020            | 8,874           |
|   | 2021            | 13,939          |
|   | 2022            | 282             |
|   |                 | <b>55,794</b>   |

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#### 13. CAPITAL LEASE OBLIGATIONS

|           | 2018<br>\$    | 2017<br>\$    |
|-----------|---------------|---------------|
| Buildings | 679           | 997           |
| Equipment | 17,941        | 18,957        |
|           | <b>18,620</b> | <b>19,954</b> |

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Interest expense related to capital lease obligations for the year is \$1,769 (2017 - \$1,894), at an implicit average interest rate of 9.41% (2017 - 9.21%). Capital lease obligations (expiring between 2019 and 2061) are based upon contractual minimum lease obligations for the leases in effect as of March 31, 2018.

|   |                 |               |
|---|-----------------|---------------|
|   |                 | \$            |
|   | 2019            | 2,754         |
|   | 2020            | 2,396         |
|   | 2021            | 1,952         |
|   | 2022            | 1,886         |
|   | 2023            | 1,827         |
|   | 2024 and beyond | 41,231        |
| Total minimum lease payments            |                 | <b>52,046</b> |
| Less: imputed interest                  |                 | 33,426        |
| Present value of minimum lease payments |                 | <b>18,620</b> |

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#### 14. LONG-TERM DEBT

|  | 2018<br>\$     | 2017<br>\$     |
|--|----------------|----------------|
| Loans due to Canada Mortgage and Housing Corporation, repayable in annual installments until the year 2033, bearing interest at a rate of 6.97% (2017 - 6.97%), unsecured.   | 5,847          | 6,402          |
| 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% (2017 - 2.78% and 3.68%), unsecured. | 2,409          | 2,662          |
| Mortgage payable to Canada Mortgage and Housing Corporation, repayable in monthly installments of \$7 (2017 - \$7) maturing June 2024, bearing interest at 3.30% (2017 - 3.30%), secured with real property.                                   | 521            | 595            |
| Yellowknife Catholic Schools debentures, repayable in monthly installments of \$68 (2017 - \$68), including fixed interest at 5.73%, final installment due in April 2018, unsecured.   | 663            | 1,417          |
| Debentures, due 2025 to 2052, bearing interest between 3.82% and 6.00% (2017 - 3.82% and 6.00%), unsecured.  | 90,000         | 90,000         |
| Sinking Fund debenture, due October 2018, bearing interest at 6.33% (2017 - 6.33%), secured by sinking funds earning a weighted average effective rate of return of 0.48% (2017 - 0.48%).  | 10,000         | 10,000         |
| Amortizing Debentures, due 2032 to 2047, bearing interest between 3.98% and 6.42% (2017 - 3.98% and 6.42%), unsecured.   | 113,470        | 116,233        |
| Series 1, 2 and 3 Debentures, repayable in monthly installments between \$69 and \$73 (2017 - \$69 and \$73), maturing 2025 to 2026, bearing interest between 9.11% and 10.00% (2017 - 9.11% and 10.00%), unsecured.                           | 13,756         | 14,916         |
| Real return senior bonds with accrued inflation adjustment, maturing June 1, 2046, redeemable at the option of the issuer, bearing interest at 3.17% (2017 - 3.17%) payable semi-annually, unsecured.  | 177,209        | 178,277        |
|  | <b>413,875</b> | <b>420,502</b> |
| Unamortized premium, discount and issuance costs   | (833)          | (884)          |
|  | <b>413,042</b> | <b>419,618</b> |

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#### 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 and thereafter are as follows:

|                 | Long-term<br>Principal<br>\$ | Sinking Fund<br>Investment<br>\$ |
|-----------------|------------------------------|----------------------------------|
| 2019            | 20,103                       | 388                              |
| 2020            | 8,689                        | -                                |
| 2021            | 9,164                        | -                                |
| 2022            | 9,716                        | -                                |
| 2023            | 10,307                       | -                                |
| 2024 and beyond | 355,896                      | -                                |
|                 | <b>413,875</b>               | <b>388</b>                       |

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Interest expense on long-term debt, included in operations and maintenance expenses, is \$22,775 (2017 - \$20,689).

#### 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.

|  | 2018<br>\$     | 2017<br>\$     |
|--|----------------|----------------|
| Short term debt (note 8)                                     | 297,076        | 234,807        |
| Long term debt (note 14), net of sinking funds (note 4)      | 406,764        | 413,817        |
| Capital Lease Obligations (note 13)                          | 18,620         | 19,954         |
| Guarantees (note 20 (a))                                     | 15,166         | 17,404         |
|  | <b>737,626</b> | <b>685,982</b> |
| Authorized borrowing limit                                   | 1,300,000      | 1,300,000      |
|  | <b>562,374</b> | <b>614,018</b> |
| Available borrowing capacity before P3s                      | 166,481        | 142,081        |
| Future encumbrances relating to P3s long term debt (note 15) |                |                |
| <b>Available Borrowing capacity</b>                          | <b>395,893</b> | <b>471,937</b> |

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## Government of the Northwest Territories

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#### 15. LIABILITIES UNDER PUBLIC PRIVATE PARTNERSHIPS

The Government has entered into two contracts for the design, build, operate and maintenance of the Mackenzie Valley Fibre Link and the design, build, and maintenance of the Stanton Territorial Hospital Renewal.

The calculation of the P3 liabilities is as follows:

|                                      | 2017           | Additions<br>during<br>the year | Principal<br>Payment<br>s | 2018           | Repayment<br>date |
|--------------------------------------|----------------|---------------------------------|---------------------------|----------------|-------------------|
|                                      | \$             | \$                              | \$                        | \$             |                   |
| Stanton Territorial Hospital Renewal | 51,181         | 35,400                          | -                         | 86,581         | 2048              |
| Mackenzie Valley Fibre Link          | 90,900         | -                               | (11,000)                  | 79,900         | 2037              |
| <b>Total</b>                         | <b>142,081</b> | <b>35,400</b>                   | <b>(11,000)</b>           | <b>166,481</b> |                   |

The details of the contracts under public private partnerships are as follows:

| Contractor  | Date contract<br>entered into | Scheduled/ actual<br>completion date | Interest<br>rate |
|---|-------------------------------|--------------------------------------|------------------|
| Stanton Territorial<br>Hospital Renewal Boreal Health Partnership     | September 2015                | November 2018                        | 7.09%            |
| Mackenzie Valley<br>Fibre Link Northern Lights General<br>Partnership | October 2014                  | June 2017                            | 6.52%            |

Estimated loan principal repayments for each of the next five years and thereafter are as follows:

|                 | \$             |
|-----------------|----------------|
| 2019            | 2,900          |
| 2020            | 4,600          |
| 2021            | 4,800          |
| 2022            | 5,200          |
| 2023            | 5,500          |
| 2024 and beyond | 143,481        |
|                 | <b>166,481</b> |

The capital payments for P3 are fixed, equal monthly payments for the privately financed portion of the costs of building the infrastructure.

P3 interest expense is \$5,300 (2017-nil).

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## Government of the Northwest Territories

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#### 16. 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 (2017-19) active members of the MLAs plans is 52 (2017-51). 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 (2017-4) active members of the Judges' plans is 61 (2017-60). 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 151 (2017-146) plan members is 46 (2017-47) 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.

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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#### 16. PENSIONS (continued)

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

Yellowknife Catholic Schools has a defined benefit pension plan for its employees. The average age of the 143 (2017-157) plan members is 45 (2017-45) 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.

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 members with start dates before January 1, 2013, the normal retirement age remains age 60. Furthermore, contributions rates for current service for all members of the public service increased to an employer: employee cost sharing of 50:50 in 2017.

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

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#### 16.PENSIONS (continued)

##### b) Pension liability

|  | <b>2018<br/>Regular<br/>Funded<br/>\$</b> | <b>2018<br/>Supplemental<br/>Non funded<br/>\$</b> | <b>2018<br/>Total<br/>\$</b> |
|--|---|--|------------------------------|
| Accrued benefit obligation                 | 85,645                                    | 36,320   | 121,965                      |
| Pension fund assets - market-related value | (103,107)                                 | -  | (103,107)                    |
| Unamortized actuarial gains                | 5,122                                     | 645  | 5,767                        |
| <b>Pension liability (asset)</b>           | <b>(12,340)</b>                           | <b>36,965</b>                                      | <b>24,625</b>                |
|  | <b>2017<br/>Regular<br/>Funded<br/>\$</b> | <b>2017<br/>Supplemental<br/>Non funded<br/>\$</b> | <b>2017<br/>Total<br/>\$</b> |
| Accrued benefit obligation                 | 78,501                                    | 34,877   | 113,378                      |
| Pension fund assets - market-related value | (93,052)                                  | -  | (93,052)                     |
| Unamortized actuarial gains                | 4,963                                     | 107  | 5,070                        |
| <b>Pension liability (asset)</b>           | <b>(9,588)</b>                            | <b>34,984</b>                                      | <b>25,396</b>                |

Included in the pension asset of \$(12,340) (2017 - \$(9,588)) is a deficit for accounting purposes of the Judges' plan in the amount of \$1,884 (2017 - \$1,564).

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### 16. PENSIONS (continued)

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

|  | 2018<br>Regular<br>Funded<br>\$ | 2018<br>Supplemental<br>Unfunded<br>\$ | 2018<br>Total<br>\$ |
|--|---------------------------------|--|---------------------|
| <b>Opening balance</b>                         | <b>(9,588)</b>                  | <b>34,984</b>                          | <b>25,396</b>       |
| Change from cash items:                        |                                 |  |                     |
| Contributions from plan members                | (2,801)                         | -                                      | (2,801)             |
| Contributions from Government                  | (5,183)                         | -                                      | (5,183)             |
| Benefit payments to plan members               | (5,707)                         | (1,504)                                | (7,211)             |
| Drawdown from plan assets                      | 5,707                           | -                                      | 5,707               |
| <b>Change from cash items</b>                  | <b>(7,984)</b>                  | <b>(1,504)</b>                         | <b>(9,488)</b>      |
| Change from accrual items:                     |                                 |  |                     |
| Current period benefit cost                    | 6,335                           | 1,321                                  | 7,656               |
| Amortization of actuarial (gains) losses       | (764)                           | 550                                    | (214)               |
| Change in valuation allowance                  | 460                             | -                                      | 460                 |
| Interest on average accrued benefit obligation | 4,049                           | 1,614                                  | 5,663               |
| Expected return on average plan assets         | (4,848)                         | -                                      | (4,848)             |
| <b>Change from accrual items</b>               | <b>5,232</b>                    | <b>3,485</b>                           | <b>8,717</b>        |
| <b>Ending balance</b>                          | <b>(12,340)</b>                 | <b>36,965</b>                          | <b>24,625</b>       |
|  | 2017<br>Regular<br>Funded<br>\$ | 2017<br>Supplemental<br>Unfunded<br>\$ | 2017<br>Total<br>\$ |
| <b>Opening balance</b>                         | <b>(6,721)</b>                  | <b>33,074</b>                          | <b>26,353</b>       |
| Change from cash items:                        |                                 |  |                     |
| Contributions from plan members                | (2,832)                         | -                                      | (2,832)             |
| Contributions from Government                  | (5,126)                         | -                                      | (5,126)             |
| Benefit payments to plan members               | (4,412)                         | (1,446)                                | (5,858)             |
| Drawdown from plan assets                      | 4,412                           | -                                      | 4,412               |
| <b>Change from cash items</b>                  | <b>(7,958)</b>                  | <b>(1,446)</b>                         | <b>(9,404)</b>      |
| Change from accrual items:                     |                                 |  |                     |
| Current period benefit cost                    | 5,953                           | 1,254                                  | 7,207               |
| Amortization of actuarial (gains) losses       | (610)                           | 549                                    | (61)                |
| Prior period cost of plan amendment            | 18                              | -                                      | 18                  |
| Change in valuation allowance                  | 317                             | -                                      | 317                 |
| Interest on average accrued benefit obligation | 3,720                           | 1,553                                  | 5,273               |
| Expected return on average plan assets         | (4,307)                         | -                                      | (4,307)             |
| <b>Change from accrual items</b>               | <b>5,091</b>                    | <b>3,356</b>                           | <b>8,447</b>        |
| <b>Ending balance</b>                          | <b>(9,588)</b>                  | <b>34,984</b>                          | <b>25,396</b>       |



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#### 16. 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 \$5,914 (2017 - \$5,615). 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 \$2,930 (2017 - \$3,134).

In addition to the above, the Government contributed \$52,274 (2017 - \$55,331) to the Public Service Pension Plan. The employees' contributions to this plan were \$49,128 (2017 - \$47,004).

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

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

In 2013 the Authority amended the plan provisions effective 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, 2016 and the results were extrapolated to January 31, 2018. The effective date of the next actuarial valuation is April 1, 2020. The actuarial valuation for the Judge's plan was completed as of April 1, 2016 and the results were extrapolated to March 31, 2018. The effective date of the next actuarial valuation is April 1, 2019. The actuarial valuation for the Retirement Plan for Employees of the Hay River Health and Social Services Authority was completed as at January 1, 2018 and extrapolated to March 31, 2018. The effective date of the next actuarial valuation is January 1, 2019. The actuarial valuation for the Retirement Plan for Employees of the Yellowknife Catholic Schools was completed as at June 30, 2016 and the results were extrapolated to June 30, 2017. The effective date of the next actuarial valuation for the Yellowknife Catholic Schools plan is June 30, 2018.

###### *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.

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#### 16. 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 \$24,263 (2017 - \$23,145). The asset valuation method for the Judges' plans is market-related value. The market value of the regular Judges' regular plan is \$6,327 (2017 - \$5,889). 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 \$58,385 (2017 - \$52,062) and \$16,255 (2017 - \$13,113) 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 6 years (2017 - 7.0 years) for the MLA's plans, 1.7 years (2017 - 2.7 years) for the Judges' plans, 7.2 years (2017 - 7.0 years) for the Hay River Health and Social Services Authority plan and 13.7 years (2017 - 13.9 years) for the Yellowknife Catholic Schools plan.

| <i>Actuarial assumptions</i>           | <b>Yellowknife Catholic<br/>Schools' plans</b> | <b>Hay River H&amp;SS<br/>Authority plan</b> | <b>MLA's plans</b> | <b>Judges'<br/>plans</b> |
|--|--|--|--------------------|--------------------------|
| Expected rate of return on plan assets | 4.8%   | 5.5%   | 4.8%               | 4.1%                     |
| Rate of compensation increase          | 2.0%   | 2.5%   | 2.0%               | 3.5%                     |
| Annual inflation rate                  | 2.0%   | 2.0%   | 2.0%               | 2.0%                     |
| Discount rate                          | 4.8%   | 5.2%   | 4.8%               | 4.1%                     |

###### *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.

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#### 17. 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 February 17, 2017. The results were extrapolated to March 31, 2018. The effective date of the next actuarial valuation is March 31, 2019. The values presented below are for all of the benefits under the Compensated Absences and Termination Benefits for the consolidated Government.

|  | <b>Severance and<br/>Removal<br/>\$</b> | <b>Compensated<br/>Absences<br/>\$</b> | <b>2018<br/>\$</b> | <b>2017<br/>\$</b> |
|--|---|--|--------------------|--------------------|
| <b>Changes in Obligation</b>                               |   |  |                    |                    |
| Accrued benefit obligations,<br>beginning of year          | 50,711                                  | 13,650                                 | 64,361             | 62,299             |
| Current period benefit cost                                | 2,523                                   | 981                                    | 3,504              | 3,528              |
| Interest accrued   | 1,490                                   | 424                                    | 1,914              | 1,842              |
| Benefits payments  | (8,635)                                 | (4,269)                                | (12,904)           | (9,182)            |
| Plan amendments  | 5                                       | -                                      | 5                  | 54                 |
| Actuarial (gains)/losses                                   | (6,492)                                 | 143                                    | (6,349)            | 5,771              |
| Accrued benefit obligations,<br>end of year                | 39,602                                  | 10,929                                 | 50,531             | 64,312             |
| Unamortized net actuarial gain/(loss)                      | 15,775                                  | (1,624)                                | 14,151             | 9,087              |
| Net future obligation                                      | 55,377                                  | 9,305                                  | 64,682             | 73,399             |
| Other employee future benefits                             | 7,666                                   | -                                      | 7,666              | 8,628              |
| Other compensated absences                                 | -                                       | 1,409                                  | 1,409              | 1,432              |
| Total employee future benefits<br>and compensated absences | <b>63,043</b>                           | <b>10,714</b>                          | <b>73,757</b>      | <b>83,459</b>      |

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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

|                                       | Severance and<br>Removal<br>\$ | Compensated<br>Absences<br>\$ | 2018<br>\$   | 2017<br>\$   |
|---------------------------------------|--------------------------------|-------------------------------|--------------|--------------|
| <b>Benefits Expense</b>               |                                |                               |              |              |
| Current period benefit cost           | 2,523                          | 981                           | 3,504        | 3,528        |
| Interest accrued                      | 1,490                          | 424                           | 1,914        | 1,842        |
| Plan amendments                       | 5                              | -                             | 5            | 54           |
| Amortization of actuarial (gain)/loss | (1,427)                        | 192                           | (1,235)      | (1,952)      |
|                                       | <b>2,591</b>                   | <b>1,597</b>                  | <b>4,188</b> | <b>3,472</b> |

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The discount rate used to determine the accrued benefit obligation is an average of 3.8% (2017- 3.3%). The expected payments during the next five fiscal years are:

|      | Severance and<br>Removal<br>\$ | Compensated<br>Absences<br>\$ | Total<br>\$   |
|------|--------------------------------|-------------------------------|---------------|
| 2019 | 8,841                          | 2,112                         | 10,953        |
| 2020 | 6,808                          | 1,651                         | 8,459         |
| 2021 | 5,765                          | 1,399                         | 7,164         |
| 2022 | 4,996                          | 1,243                         | 6,239         |
| 2023 | 4,377                          | 1,148                         | 5,525         |
|      | <b>30,787</b>                  | <b>7,553</b>                  | <b>38,340</b> |

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# Government of the Northwest Territories

## Notes to Consolidated Financial Statements

March 31, 2018

(All figures in thousands of dollars)

### 18. 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.

|  | 2018<br>\$    | 2017<br>\$    |
|--|---------------|---------------|
| Bequest - South Slave Divisional Education Council                           | 339           | 80            |
| Correctional institutions and other  | 466           | 463           |
| Government of New Brunswick  | 721           | 721           |
| Natural Resources  | 45            | 236           |
| Public Trustee   | 5,934         | 5,527         |
| Patient funds - Health and Social Services Authorities                       | 234           | 241           |
| Securities - land use permits and water licences and oil<br>and gas deposits | 7,451         | 7,236         |
| Territorial and Supreme Courts   | 993           | 775           |
|  | <b>16,183</b> | <b>15,279</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 \$662,899 (2017- \$579,221). The majority of these guarantees are held against water licenses issued to regulate the use of water and the deposit of waste.

### 19. CONTRACTUAL OBLIGATIONS AND RIGHTS

Contractual obligations are obligations of the Government to others that will become liabilities in the future when the terms of those contracts or agreements are met.

The Government has entered into agreements for, or is contractually committed to, the following payments subsequent to March 31, 2018:

|                              | Expiry<br>Date | 2019<br>\$     | 2020<br>\$     | 2021<br>\$     | 2022<br>\$     | 2023<br>\$    | 2024+<br>\$    | Total<br>\$      |
|------------------------------|----------------|----------------|----------------|----------------|----------------|---------------|----------------|------------------|
| Operational commitments      | 2048           | 136,007        | 64,345         | 46,505         | 38,719         | 22,285        | 7,047          | 314,908          |
| RCMP policing agreement      | 2032           | 44,206         | 43,979         | 43,902         | 43,902         | 43,902        | 395,118        | 615,009          |
| Commercial leases            | 2040           | 25,330         | 21,673         | 15,892         | 12,138         | 8,121         | 11,746         | 94,900           |
| Equipment leases             | 2026           | 1,879          | 1,428          | 588            | 377            | 212           | 530            | 5,014            |
| TCAs in progress at year end | 2022           | 106,904        | 10,858         | 8,244          | 2,249          | -             | -              | 128,255          |
| Operational payments P3      | 2048           | 6,642          | 10,642         | 10,942         | 11,242         | 11,542        | 362,946        | 413,956          |
| TCA Construction P3          | 2020           | 76,004         | -              | -              | -              | -             | -              | 76,004           |
|                              |                | <b>396,972</b> | <b>152,925</b> | <b>126,073</b> | <b>108,627</b> | <b>86,062</b> | <b>777,387</b> | <b>1,648,046</b> |

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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#### 19. CONTRACTUAL OBLIGATIONS AND RIGHTS (continued)

Contractual rights are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future.

The Government has entered into agreements for, or is contractually entitled to, the following receipts subsequent to March 31, 2018:

|                    | Expiry<br>Date | 2019<br>\$ | 2020<br>\$ | 2021<br>\$ | 2022<br>\$ | 2023<br>\$ | 2024+<br>\$ | Total<br>\$ |
|--------------------|----------------|------------|------------|------------|------------|------------|-------------|-------------|
| Transfer Payments  | 2028           | 71,165     | 78,901     | 73,350     | 103,816    | 107,923    | 304,933     | 740,088     |
| Regulatory Revenue | 2021           | 144        | 144        | 60         | -          | -          | -           | 348         |
| Lease Revenue      | 2047           | 4,699      | 4,452      | 4,318      | 4,093      | 3,809      | 36,902      | 58,273      |
| Licence Revenue    | 2037           | 687        | 468        | 209        | 148        | 100        | 488         | 2,100       |
| Other              | 2043           | 1,260      | 624        | 419        | 239        | 219        | 4,371       | 7,132       |
|                    |                | 77,955     | 84,589     | 78,356     | 108,296    | 112,051    | 346,694     | 807,941     |

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#### 20. GUARANTEES AND CONTINGENCIES

##### (a) Guarantees

The Government has guaranteed residential housing loans to banks totaling \$751 (2017 - \$870) and indemnified Canada Mortgage and Housing for third party loans totaling \$14,415 (2017 - \$16,534). 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.

The Northwest Territories Business Development and Investment Corporation (BDIC) has four outstanding loans to three Northern Community Futures organizations totaling \$471 (2017 - \$538). 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 2018, no accounts were assigned to BDIC (2017 - \$0).

The BDIC has three (2017 - four) outstanding irrevocable standby letters of credit totaling \$2,101 (2017 - \$2,155) that will expire by 2019. 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 (2017 - nil).

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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#### 20. GUARANTEES AND CONTINGENCIES (continued)

##### (b) 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 \$80,208 (2017 - \$67,027). 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.

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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

|   | 2018<br>\$ | 2017<br>\$ |
|---|------------|------------|
| Transfer payments:                            |            |            |
| Capital transfers                             | 57,919     | 66,774     |
| Canada Health and Social Transfer Reform Fund | 62,109     | 60,933     |
| Federal cost shared                           | 65,626     | 59,048     |
| Other   | 28,078     | 31,839     |
|   | 213,732    | 218,594    |
| Taxation:                                     |            |            |
| Corporate Income Tax                          | 60,006     | 68,616     |
| Personal Income Tax                           | 87,530     | 122,322    |
|   | 147,536    | 190,938    |
| Other taxes:                                  |            |            |
| Fuel  | 20,925     | 21,288     |
| Tobacco                                       | 15,598     | 15,336     |
| Payroll                                       | 42,633     | 43,643     |
| Property and school levies                    | 38,417     | 37,839     |
| Insurance                                     | 5,169      | 5,129      |
|   | 122,742    | 123,235    |
| General:                                      |            |            |
| Lease   | 4,913      | 5,875      |
| Regulatory                                    | 34,082     | 32,602     |
| Sundry and other                              | 28,153     | 19,206     |
| Interest                                      | 6,094      | 5,555      |
| Gain on disposition of assets                 | 1,008      | 835        |
| Grants in kind                                | 443        | 443        |
|   | 74,693     | 64,516     |
|   | 558,703    | 597,283    |

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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.



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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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#### 22. 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<br>Department of Industry, Tourism and Investment<br>NWT Business Development and Investment Corporation<br>Northwest Territories Heritage Fund<br>Arctic Energy Alliance<br>Inuvialuit Water Board         |
| Infrastructure                             | Department of Infrastructure<br>Department of Lands<br>Northwest Territories Hydro Corporation<br>Northwest Territories Surface Rights Board  |
| Education                                  | Department of Education, Culture and Employment<br>Aurora College<br>All Divisional Education Councils in the NWT<br>All District Education Authorities in the NWT<br>Tlicho Community Services Agency (education portion)                                  |
| Health, social services, and housing       | Department of Health and Social Services<br>All Health and Social Services Authorities in the NWT<br>Tlicho Community Services Agency (health portion)<br>Northwest Territories Housing Corporation<br>Status of Women Council of the Northwest Territories |
| Justice                                    | Department of Justice   |
| General Government                         | Department of Executive and Indigenous Affairs<br>Department of Finance<br>Department of Municipal and Community Affairs<br>Northwest Territories Sport and Recreation Council  |
| Legislative Assembly and statutory offices | Legislative Assembly<br>Northwest Territories Human Rights Commission   |

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## Government of the Northwest Territories

### Notes to Consolidated Financial Statements

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March 31, 2018

(All figures in thousands of dollars)

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#### 23. OVEREXPENDITURE

During the year 1 department (2017 - 4) exceeded their operations vote by \$496 (2017 - \$5,423) and 1 department (2017 - 2) exceeded their capital vote by \$33 (2017 - \$2,169) .

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 Industry, Tourism and Investment (operations) | \$496 |
| Department of Legislative Assembly (capital)                | \$33  |

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".

#### 24. SUBSEQUENT EVENTS

In October 2018, an apartment building located in Yellowknife and owned by the Government was destroyed by a fire. The building was leased to the YWCA. The YWCA is in the process of providing assistance to the affected families. The financial impact on the Government is being assessed and the full extent is uncertain at this time.

#### 25. 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)**

|  | <b>Land<sup>7</sup></b> | <b>Buildings <sup>1</sup></b> | <b>Infrastructure<br/>and Other<sup>1,2,3,4</sup></b> | <b>Leasehold<br/>Improvements</b> | <b>Equipment<sup>1</sup></b> | <b>Computers<sup>3</sup></b> | <b>Work in<br/>Progress<sup>5,6</sup></b> | <b>2018</b>      | <b>2017</b>      |
|--|-------------------------|-------------------------------|---|-----------------------------------|------------------------------|------------------------------|---|------------------|------------------|
|  | <b>\$</b>               | <b>\$</b>                     | <b>\$</b>   | <b>\$</b>                         | <b>\$</b>                    | <b>\$</b>                    | <b>\$</b>                                 | <b>\$</b>        | <b>\$</b>        |
| Cost of tangible capital assets, opening balance | 22,649                  | 1,689,268                     | 2,301,500   | 43,933                            | 262,227                      | 132,687                      | 358,022                                   | 4,810,286        | 4,461,282        |
| Transfers  | 348                     | 81,360                        | 169,750   | -                                 | 11,461                       | 10,527                       | (273,446)                                 | -                | -                |
| Acquisitions                                     | -                       | 521                           | 172   | 98                                | 770                          | 4                            | 304,350                                   | 305,915          | 368,375          |
| Write-downs                                      | -                       | -                             | -   | -                                 | -                            | -                            | (246)                                     | (246)            | -                |
| Disposals  | -                       | (2,518)                       | (2,821)   | (871)                             | (20,879)                     | (1,599)                      | -   | (28,688)         | (19,371)         |
| Cost of tangible capital assets, closing         | 22,997                  | 1,768,631                     | 2,468,601   | 43,160                            | 253,579                      | 141,619                      | 388,680                                   | 5,087,267        | 4,810,286        |
| Accumulated amortization, opening                | -                       | (697,217)                     | (742,168)   | (33,966)                          | (139,370)                    | (80,043)                     | -   | (1,692,764)      | (1,583,172)      |
| Amortization expense                             | -                       | (41,194)                      | (57,521)  | (1,284)                           | (12,159)                     | (11,306)                     | -   | (123,464)        | (122,269)        |
| Disposals  | -                       | 1,880                         | 3,379   | 871                               | 12,119                       | 1,594                        | -   | 19,843           | 12,677           |
| Accumulated amortization, closing                | -                       | (736,531)                     | (796,310)   | (34,379)                          | (139,410)                    | (89,755)                     | -   | (1,796,385)      | (1,692,764)      |
| <b>Net book value</b>                            | <b>22,997</b>           | <b>1,032,100</b>              | <b>1,672,291</b>                                      | <b>8,781</b>                      | <b>114,169</b>               | <b>51,864</b>                | <b>388,680</b>                            | <b>3,290,882</b> | <b>3,117,522</b> |

<sup>1</sup> Included in buildings, infrastructure and equipment are assets under capital lease (cost \$34,018 (2017 - \$33,792); accumulated amortization, \$11,593 (2017 - \$10,502); net book value, \$22,425 (2017 - \$23,290)).

<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> P3 project cost for Mackenzie Valley Fibre Link of \$66,212 was included in Computers last year now moved to Other.

<sup>4</sup> Included in infrastructure are capitalized costs for P3 project Mackenzie Valley Fibre Link \$95,036 (2017 - \$66,212)

<sup>5</sup> Included in work in progress are costs related to P3 projects: Stanton Territorial Hospital Renewal \$238,732 (2017 - \$146,176) and Mackenzie Valley Fibre Link \$0 (2017 - \$28,824) .

<sup>6</sup> Not included in acquisitions of tangible capital assets on the statement of cash flow are non-cash items of \$25,613 (2017- \$50,365).

<sup>7</sup> Land with cost and net book value of \$0, market value \$3,329 (2017- \$772) 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> | 2018             | 2017             |
|---|--------------------------|------------------------------------|------------------------|--------------------------|------------------|------------------|
|   | \$                       | \$                                 | \$                     | \$                       | \$               | \$               |
| <b>Revenues</b>                           |                          |                                    |                        |                          |                  |                  |
| Grant from the Government of Canada       | 1,232,439                | -                                  | 1,232,439              | -                        | 1,232,439        | 1,219,888        |
| Transfer payments                         | 185,654                  | 28,078                             | 213,732                | -                        | 213,732          | 218,594          |
|   | <b>1,418,093</b>         | <b>28,078</b>                      | <b>1,446,171</b>       | <b>-</b>                 | <b>1,446,171</b> | <b>1,438,482</b> |
| Taxation and general revenues             |                          |                                    |                        |                          |                  |                  |
| Corporate and personal income taxes       | 147,536                  | -                                  | 147,536                | -                        | 147,536          | 190,938          |
| Other taxes                               | 113,068                  | 10,151                             | 123,219                | (477)                    | 122,742          | 123,235          |
| General                                   | 85,840                   | 686,866                            | 772,706                | (698,013)                | 74,693           | 64,516           |
| Income from portfolio investments         | 2,680                    | 1,154                              | 3,834                  | -                        | 3,834            | 3,089            |
| Non-renewable resource revenue            | 66,115                   | -                                  | 66,115                 | -                        | 66,115           | 63,671           |
| Sales                                     | 88,510                   | 91,297                             | 179,807                | (32,562)                 | 147,245          | 145,532          |
| Recoveries                                | 20,536                   | 16,924                             | 37,460                 | (1,763)                  | 35,697           | 35,130           |
|   | <b>524,285</b>           | <b>806,392</b>                     | <b>1,330,677</b>       | <b>(732,815)</b>         | <b>597,862</b>   | <b>626,111</b>   |
| Recoveries of prior years' expenses       | 15,394                   | -                                  | 15,394                 | (352)                    | 15,042           | 10,966           |
|   | <b>1,957,772</b>         | <b>834,470</b>                     | <b>2,792,242</b>       | <b>(733,167)</b>         | <b>2,059,075</b> | <b>2,075,559</b> |
| <b>Expenses</b>                           |                          |                                    |                        |                          |                  |                  |
| Grants and contributions                  | 796,970                  | 5,787                              | 802,757                | (580,066)                | 222,691          | 216,046          |
| Operations and maintenance                | 565,779                  | 310,024                            | 875,803                | (151,431)                | 724,372          | 715,991          |
| Compensation and benefits                 | 369,439                  | 463,653                            | 833,092                | (8,083)                  | 825,009          | 843,510          |
| Change in valuation allowances            | 2,597                    | -                                  | 2,597                  | -                        | 2,597            | 3,009            |
| Amortization of tangible capital assets   | 94,960                   | 28,502                             | 123,462                | 2                        | 123,464          | 122,269          |
|   | <b>1,829,745</b>         | <b>807,966</b>                     | <b>2,637,711</b>       | <b>(739,578)</b>         | <b>1,898,133</b> | <b>1,900,825</b> |
| <b>Annual operating surplus (deficit)</b> | <b>128,027</b>           | <b>26,504</b>                      | <b>154,531</b>         | <b>6,411</b>             | <b>160,942</b>   | <b>174,734</b>   |
| Projects on behalf of third parties       |                          |                                    |                        |                          |                  |                  |
| Expenses                                  | (105,495)                | -                                  | (105,495)              | -                        | (105,495)        | (84,299)         |
| Recoveries                                | 105,495                  | -                                  | 105,495                | -                        | 105,495          | 84,299           |
| <b>Annual surplus (deficit)</b>           | <b>128,027</b>           | <b>26,504</b>                      | <b>154,531</b>         | <b>6,411</b>             | <b>160,942</b>   | <b>174,734</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.

**GOVERNMENT OF THE NORTHWEST TERRITORIES  
FINANCIAL STATEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2018**

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

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## **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 as well as the Government. Collectively, these entities are 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 the results within the Public Accounts and includes a discussion on these results compared to the original plan (budgets). The consolidated results of operations for the fiscal year ending March 31, 2018 and the financial position as at March 31, 2018 are summarized below:

(\$ in thousands)

|                                | <b>Budget 2018</b> | <b>Actual 2018</b> | <b>Actual 2017</b> |
|--------------------------------|--------------------|--------------------|--------------------|
| Total Revenue                  | 2,096,352          | 2,059,075          | 2,075,559          |
| Total Expense                  | 1,931,931          | 1,898,133          | 1,900,825          |
| <b>Annual Surplus</b>          | <b>164,421</b>     | <b>160,942</b>     | <b>174,734</b>     |
| Financial assets               |                    | 524,998            | 495,614            |
| <u>Less: Total liabilities</u> |                    | 1,490,780          | 1,443,448          |
| <b>Net debt</b>                |                    | <b>(965,782)</b>   | <b>(947,834)</b>   |
| <u>Non-financial assets</u>    |                    | 3,319,576          | 3,140,686          |

The 2018 consolidated financial statements report a surplus of \$161 million, \$3 million less than was originally budgeted. Subsequent budget adjustments approved during the fiscal year are not reflected in the budget presented in accordance with Public Sector Accounting Standards (PSAS). 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 \$18 million in 2018. Debt was incurred to finance capital infrastructure and support working capital requirements for programs, services and initiatives. This increase is largely attributable to the financing related to public private partnerships (P3) for work done on the Stanton Territorial Hospital renewal project and an increase in short term borrowing.

The territorial economy grew by 5.2% in 2017 as measured by real GDP. This is higher than the national average rate of 3.3%. This growth was a result of an increase in the diamond mine industry due to the first full year production of a new diamond mine.

The Government's own source revenues are directly linked to the Northwest Territories (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 Government. However as the Government relies on federal transfers for the majority of its revenues the overall linkage between the economy and the Government's revenues does not appear very strong.

The NWT continues to manage growth in spending, while making targeted investments to encourage economic growth and address infrastructure needs. Cumulative infrastructure investments of \$5.09 billion focusing on health care, education and transportation have made the NWT 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 Government's fiscal health measures up from this standpoint. This suggests the following conclusions:

- ***Sustainability*** – at the end of the 2018 fiscal year the Government had a net debt of \$966 million compared to net debt of \$948 million at the end of the prior fiscal year. The net debt represents 47% of total revenue. Future investments in infrastructure and operations cannot be sustained at the present level without incurring more debt.
- ***Flexibility*** – pertains to the Government's ability to increase its financial resources. The majority of revenue comes from the Territorial Formula Financing Grant from the Government of Canada. The Government's own-source revenues, net of \$66 million in non-renewable resource revenues, decreased from 27% of total revenue in 2017 to 26% in 2018; sales and taxes are a major source of fluctuation. The Government's limited flexibility to increase taxes combined with a small tax base makes a significant increase in own source revenues unlikely in the short term.

At March 31, 2018, the Government has a federally imposed borrowing limit of \$1.3 billion. Although the Government is currently under this limit, \$1.3 billion represents only 68% of total 2018 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.

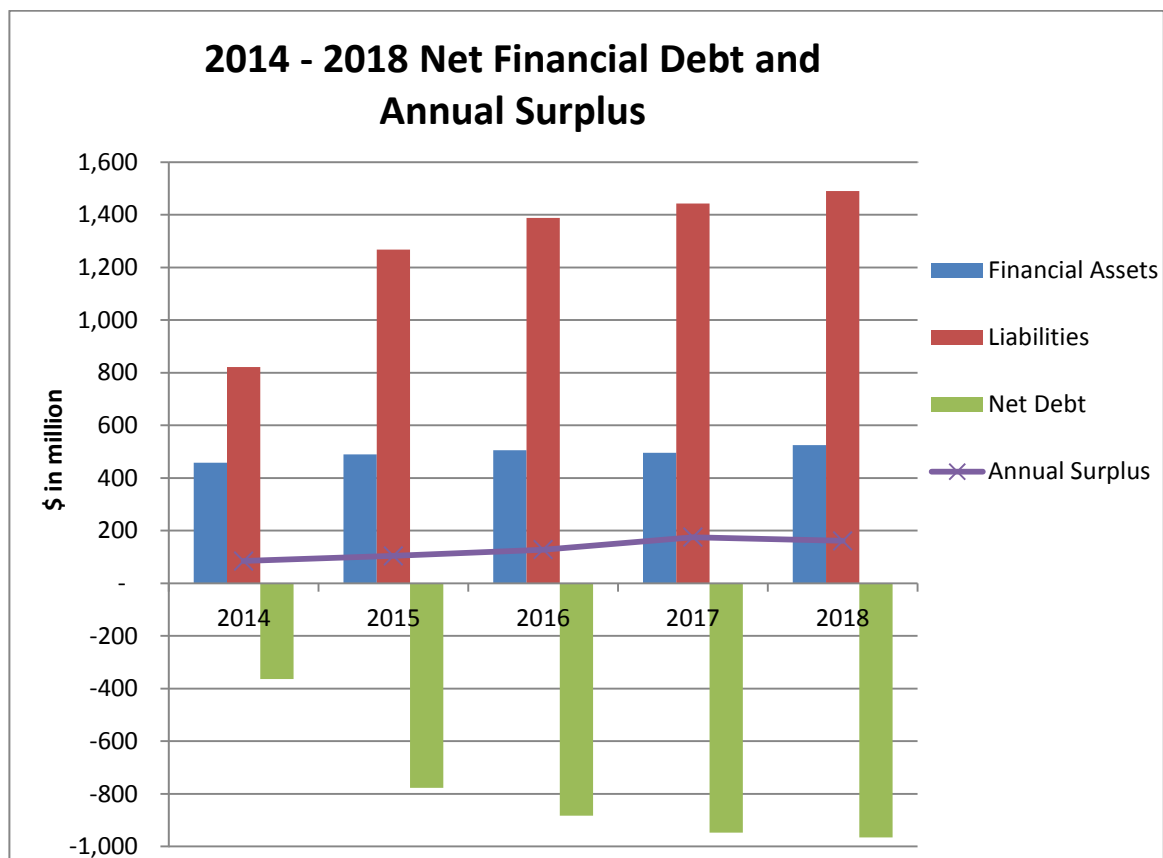
- ***Vulnerability*** – to assess the Government’s vulnerability, it is not necessary to look further than the Government’s limited own-source revenues and the volatility related to corporate and personal income taxes. The Government’s largest source of revenue is the grant and transfer payments from Canada which represent 70% of total revenue for the current year. 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 Government cannot sustain the current level of investment in infrastructure and operations without incurring more debt. The Government has limited flexibility to raise new revenues, and 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 deducting all liabilities of the Government. Net debt results when liabilities are more than financial assets. The Government is in a net debt position as 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 which 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 2018 fiscal year primarily due to financing related to P3 work done on Stanton Territorial Hospital renewal project and an increase in short term borrowing.

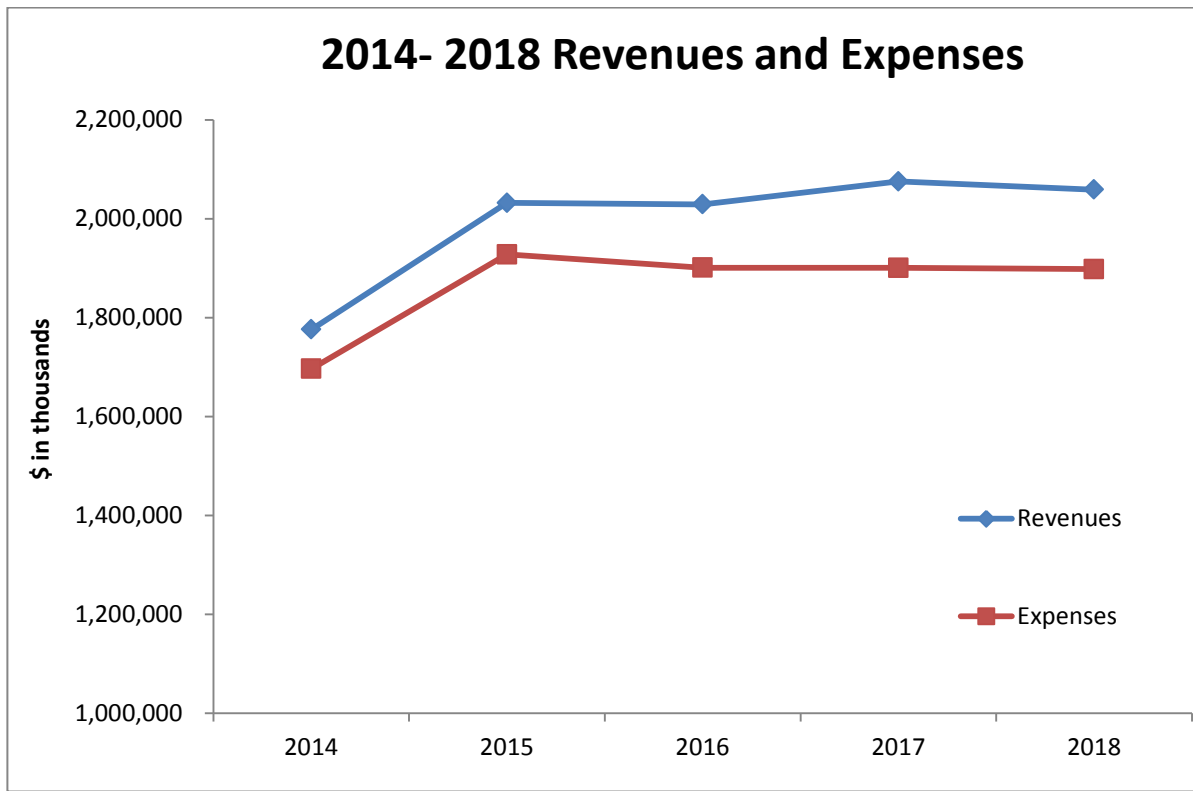
Net debt is subtracted from the Government's accumulated investment in non-financial assets (tangible capital assets/prepaid expenses/inventories held for use) to produce the accumulated surplus balance at the end of the year.

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 (NT Hydro) operations in the 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.

## REVENUES AND EXPENSES



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

Revenues and expenses have remained fairly flat over the years with a comparative increase in the 2015 fiscal year when the Government first consolidated NT Hydro on a line by line basis. This inclusion proportionately increased Government's revenues and expenses. These are described in more detail on the following pages.

## **REVENUES BY SOURCE**

The Government funds 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 programs and services, various key indicators are monitored on an ongoing basis, including the following:

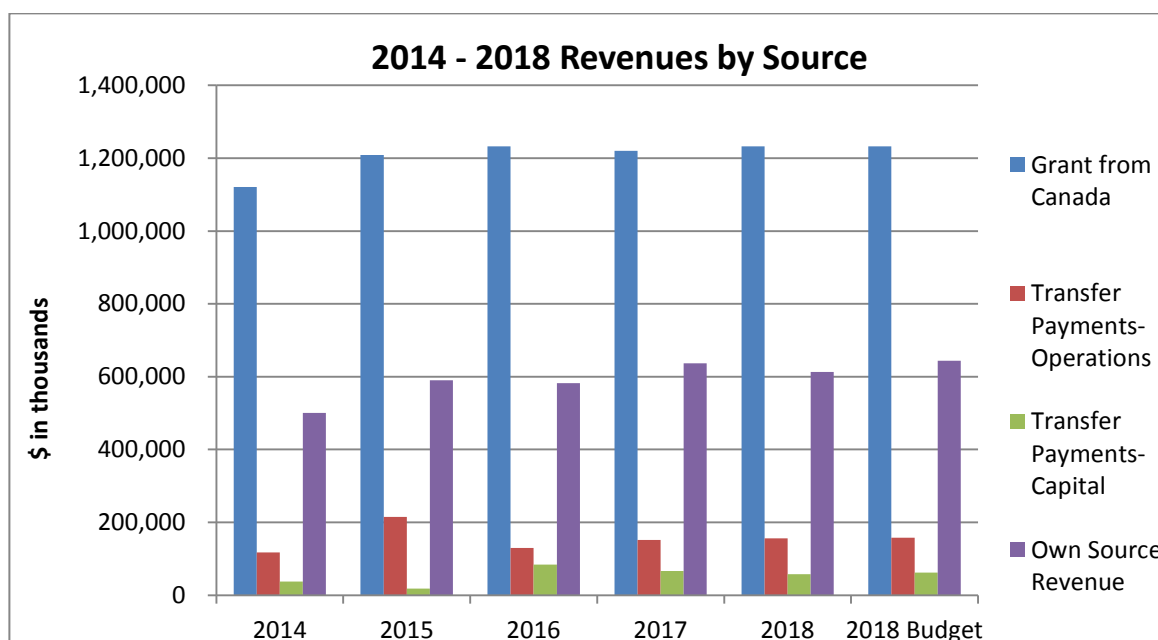
- Growth rates of revenues and expenditures;
- Changes in the net debt ratio; and
- Impacts of one-time (or non-recurring) events.

The most significant factor that contributes to revenues being more unpredictable than expenses in any given year is volatility in corporate income tax. NWT corporate income tax revenues are volatile as the majority of corporate income tax revenues are generated by a small number of resource based tax payers, whose taxable income fluctuates 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, which includes a two year lag. 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 PSAS. This is another significant factor that contributes to revenues being unpredictable. For large projects that are cost shared, revenue is recognised as the asset is put into service; 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 over future years as the asset is amortized.





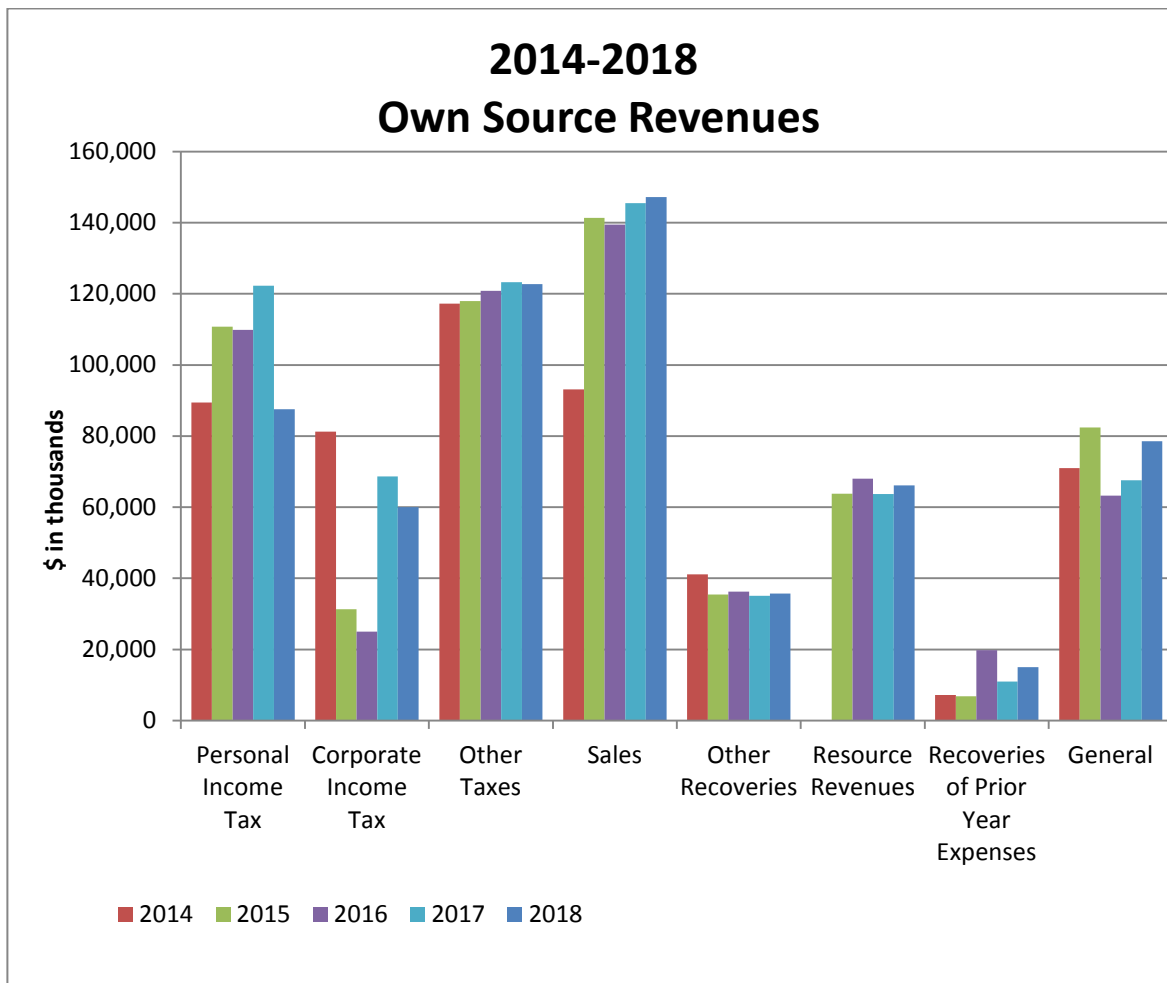
\* Own source revenues include recoveries of prior year expenditures

Total revenue in 2018 was \$2.059 billion, a decrease of \$37 million or 1.8 per cent from the original budget. This decrease is primarily due to a decrease in personal and corporate income taxes.

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

The Grant from Canada was \$1.232 billion in 2018, an increase of \$13 million over 2017, due to increase in the Gross Expenditure Base (\$28 million), partially offset by higher eligible revenues, net of the change in the resource revenue offset (\$16 million).

The Grant from Canada is an annual formula-based calculation to fill the fiscal gap between the Government'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 Government, 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 Government could have raised in revenues at national average tax rates and reducing that amount by a 30 per cent economic development incentive. The resource revenue offset reduces the amount of the grant by the amount of resource revenues shared with the federal government, which is lagged two years.



### *Own Source Revenue*

The Government's major own-source revenues, corporate and personal income tax, tobacco tax, fuel tax, payroll tax, and excluding non-renewable resource revenues, have averaged approximately 27% of total revenues indicating a reliance on the Grant from Canada. Grants and transfer payments from Canada vary, accounting for approximately 70% of total revenues for the current year.

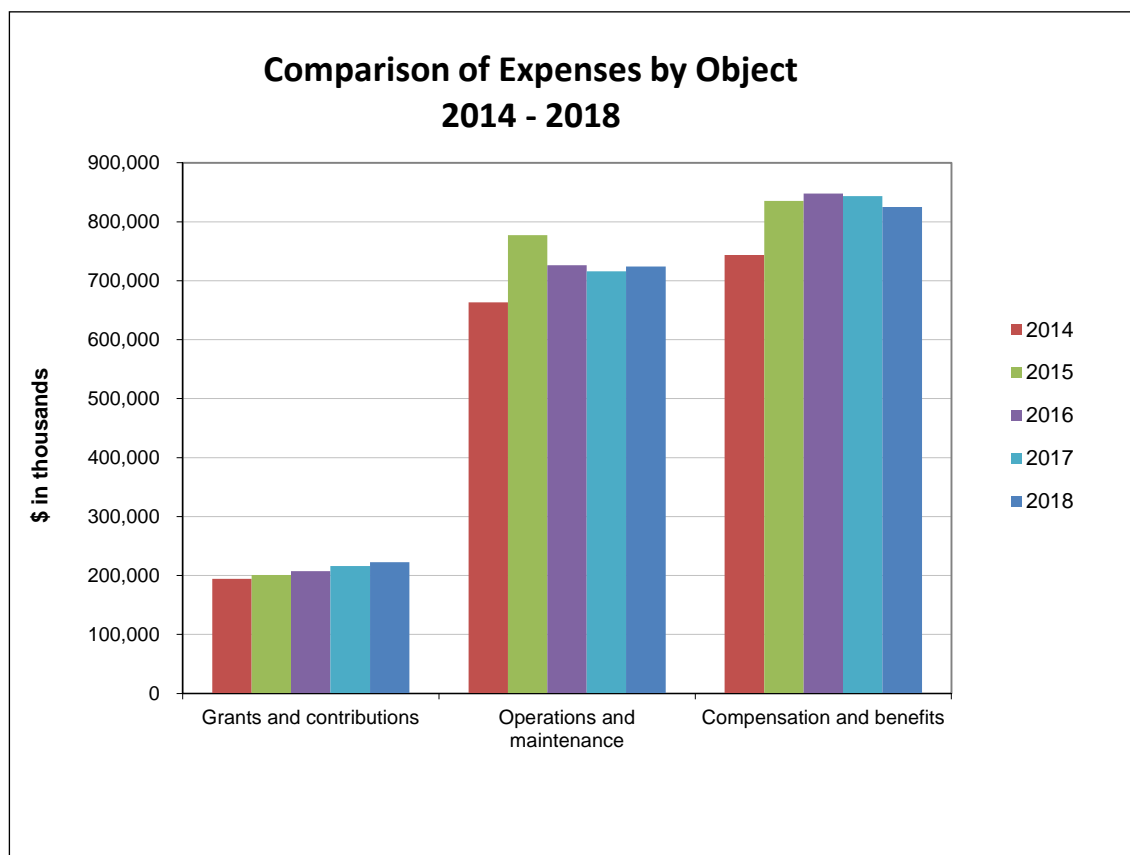
With the exception of corporate income tax, personal income tax and non-renewable resource revenues, other own-source revenues have proven to be fairly consistent over the years. Corporate income tax revenue is dependent upon a small base of significant taxpayers that accounts for the volatile nature of this tax revenue.

Personal income tax revenues declined \$34.8 million from 2017 due to a \$20.0 million reduction in payments based on Finance Canada's income tax revenue estimate and \$14.8 million of prior year income tax adjustments.

Non-renewable resource revenues are subject to volatility and the 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 indigenous partners (signatories to the Northwest Territories Lands and Resources Devolution Agreement) are used to fund infrastructure, pay down debt and contribute to the NWT Heritage Fund.

Also of note, the 2015 fiscal year introduced non-renewable resource revenues and the inclusion of NT Hydro.

## EXPENSES BY OBJECT



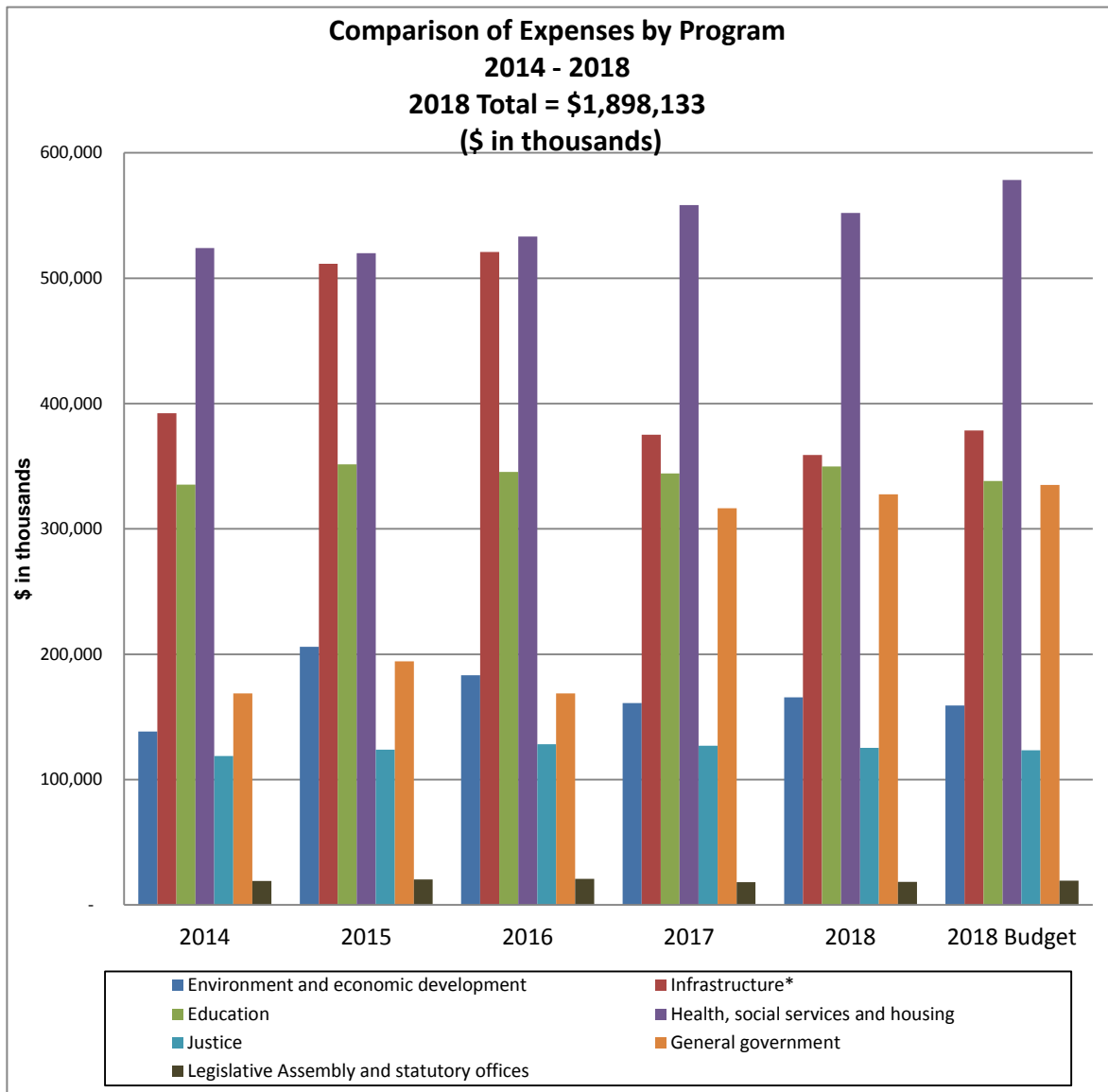
The above graph provides information on the consolidated government's operations. Total expenses in 2018 are \$1.9 billion; this is \$34 million or 1.7% less than budgeted. This decrease is attributable to vacant positions, decreases in fuel prices and unspent infrastructure funding.

Grants and contributions from the Government to boards and agencies consolidated in Section I of the Public Accounts are reported under two categories (operations and maintenance, compensation and benefits) to better reflect the nature of the final expense types. 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 Government. 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



\*Starting 2015 Infrastructure includes 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.

\*\*Prior to 2017 the expenses for the Department of Municipal and Community Affairs and the Northwest Territories Sport and Recreational Council were part of Infrastructure; these expenditures are now included in General Government

The Government spends the majority of its budget on social programs (education, health, support to community Governments, infrastructure and housing), with the remaining budget allocated to justice, 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 \$166 million in 2018. This was \$7 million or 4.2% more than budgeted due to forest management wildfire costs.
- Infrastructure expense was \$359 million in 2018. This was \$19 million or 5.1% less than budgeted due to savings in operational expenses including NTPC which had an \$8 million reduction in actual expenses in 2018.
- Education expense was \$350 million in 2018. This was \$12 million or 3.4% more than budgeted due to increased funding from the Canada – NWT agreement and increased spending in Educational Authorities for operational expenses.
- Health, social services and housing expense was \$552 million in 2018. This was \$26 million or 4.5% lower than budgeted due to savings in operational expenses.
- Justice expense was \$125 million in 2018 which is consistent with the budgeted amount.
- General government expense was \$328 million in 2018. This was \$7 million or 2.2% less than budgeted due to the timing of resource revenue transfer to indigenous groups.
- Legislative Assembly and statutory offices expense was \$18 million in 2018. This was \$1 million or 5.0% less than budgeted due to a decrease in pension expense.

## 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, Statistics Canada estimated GDP was \$3.9 billion for 2017, which represents a 5.2% increase relative to prior year. This growth was a result of an increase in the diamond mine industry due to the first full year production of a new diamond mine.

Real Gross Domestic Product at Basic Prices, calendar years 2016 and 2017

Canada, Provinces and Territories

Millions of Chained (2007) Dollars

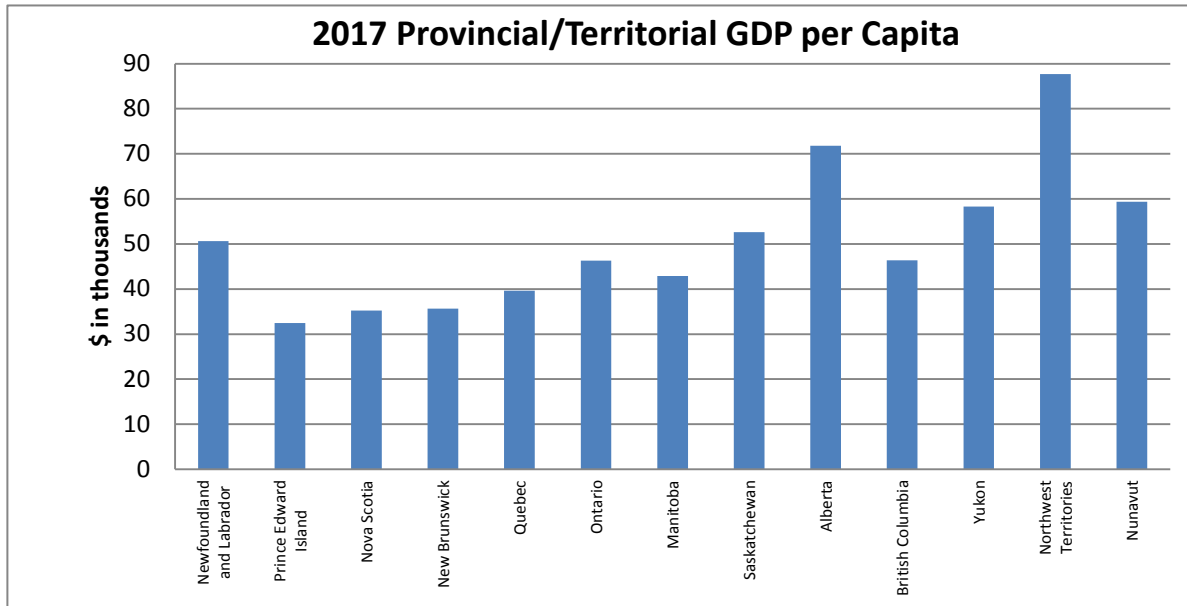
|                           | 2017      | 2016      | Percent Change |
|---------------------------|-----------|-----------|----------------|
| Canada                    | 1,740,589 | 1,684,239 | 3.3            |
| Northwest Territories     | 3,941     | 3,745     | 5.2            |
| Nunavut                   | 2,228     | 1,966     | 13.3           |
| Yukon                     | 2,312     | 2,345     | -1.4           |
| British Columbia          | 228,195   | 219,553   | 3.9            |
| Alberta                   | 304,709   | 290,613   | 4.9            |
| Saskatchewan              | 60,592    | 58,904    | 2.9            |
| Manitoba                  | 57,250    | 55,628    | 2.9            |
| Ontario                   | 651,932   | 634,258   | 2.8            |
| Quebec                    | 328,688   | 318,868   | 3.1            |
| New Brunswick             | 27,363    | 26,841    | 1.9            |
| Nova Scotia               | 33,470    | 33,066    | 1.2            |
| Prince Edward Island      | 4,883     | 4,733     | 3.2            |
| Newfoundland and Labrador | 26,773    | 26,221    | 2.1            |

Source: Statistics Canada

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

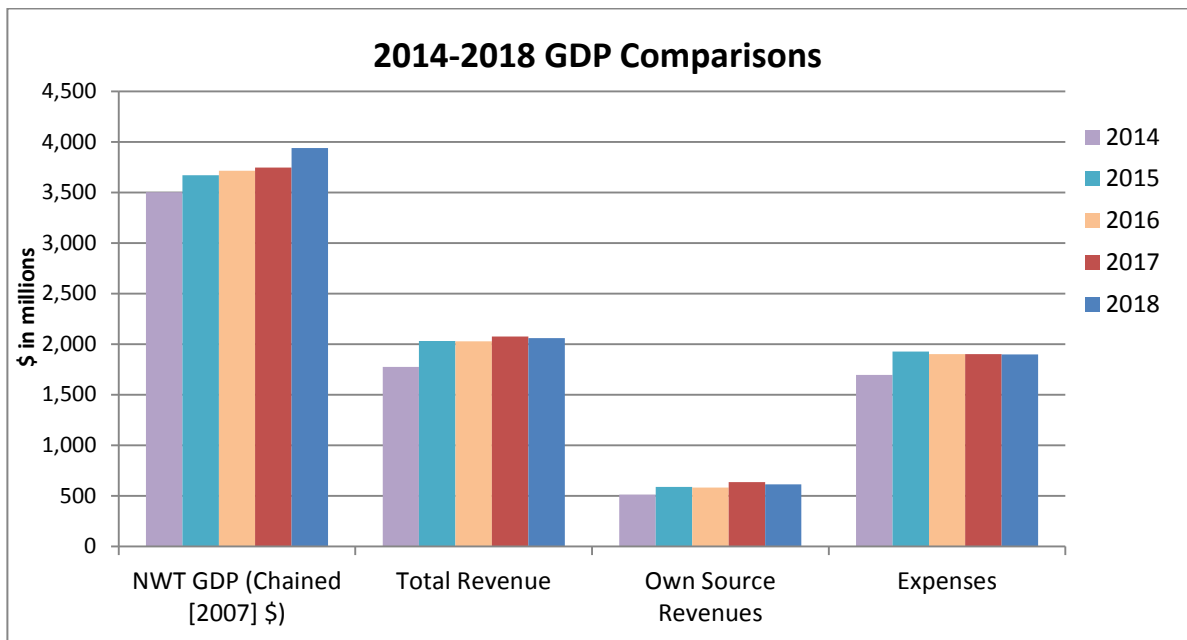


## GROSS DOMESTIC PRODUCT (continued)



Based on July 1, 2017 population estimates of Statistics Canada

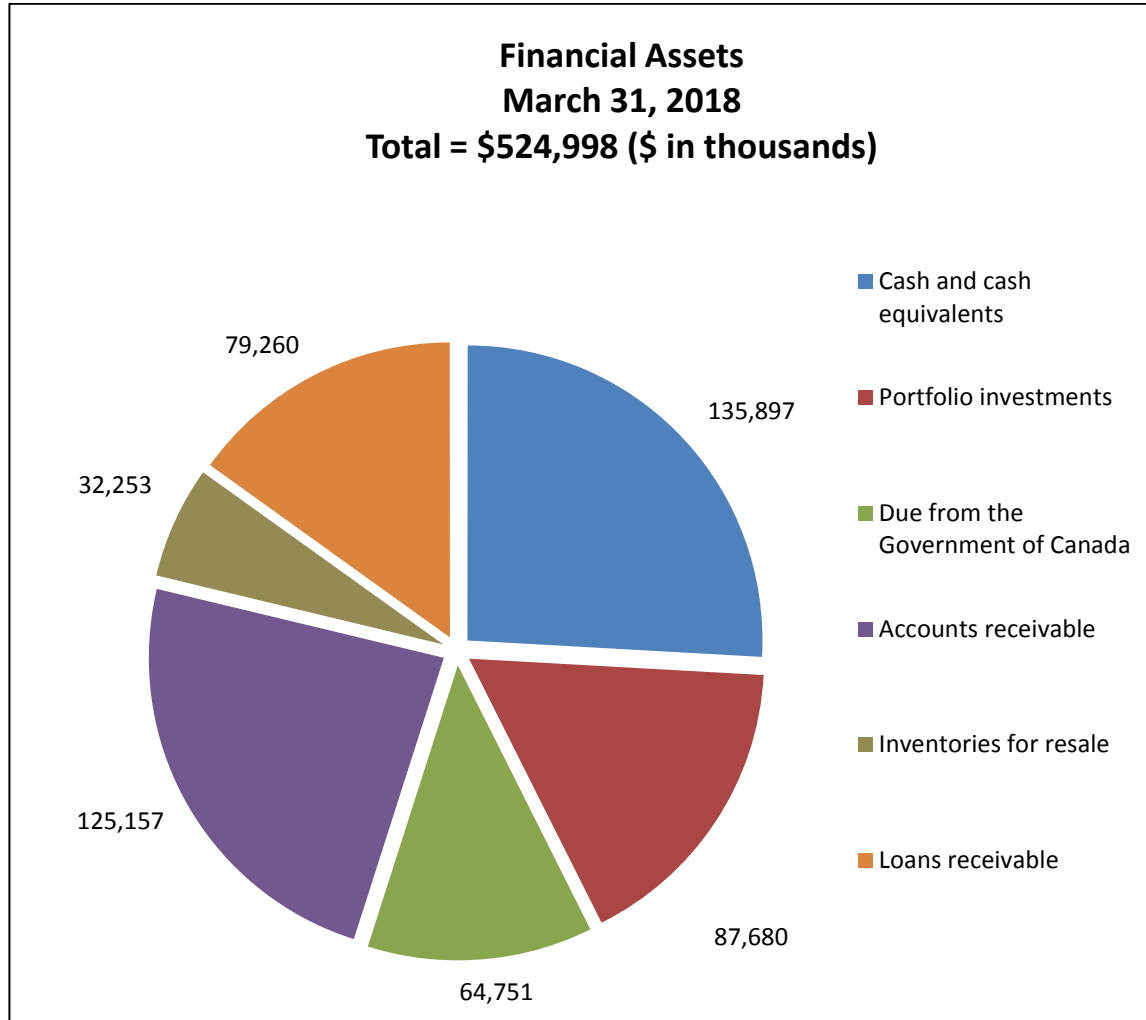
The NWT currently has the highest GDP per capita in Canada. This is an important indicator to note when considering GDP statistics as it shows that while the NWT has a relatively small population our economy is large by comparison.



\* 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.

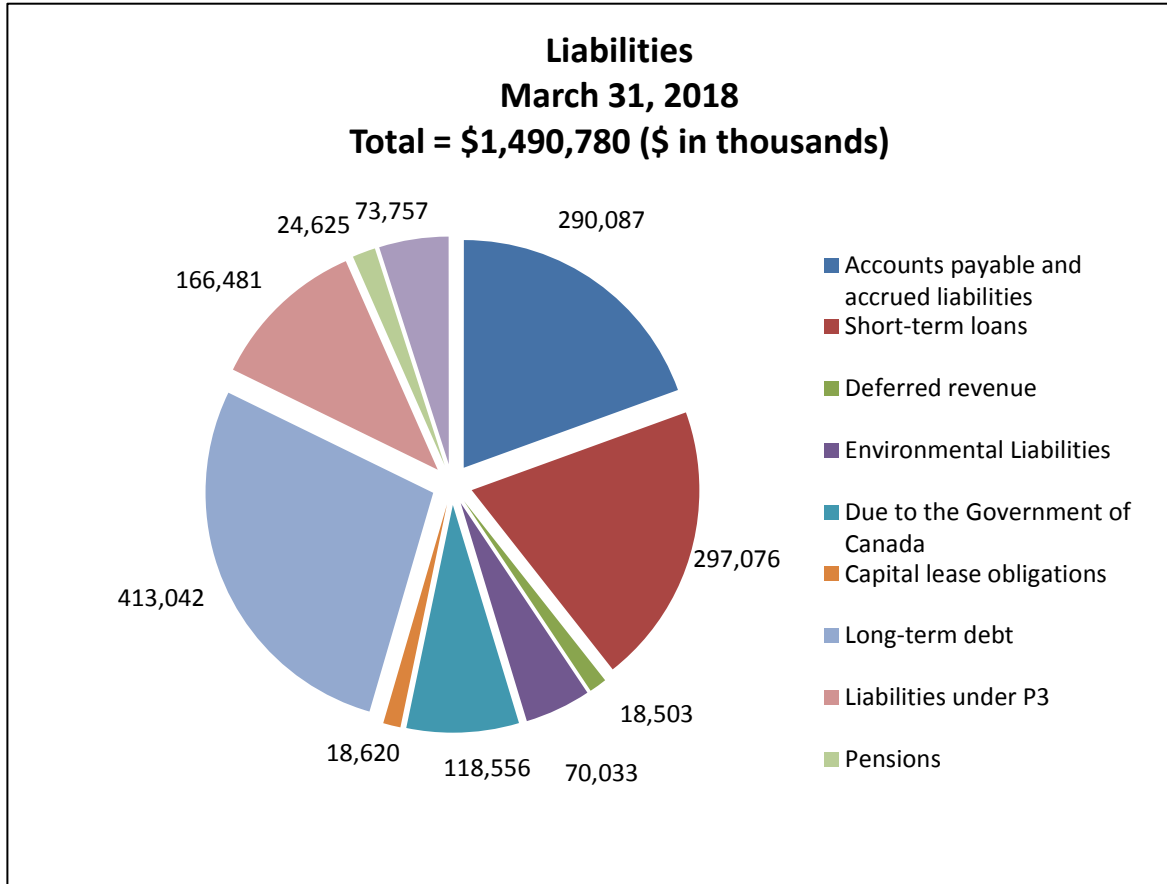


*The above graph illustrates the composition of the Government's financial assets.*

Approximately 26% of the Government'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 Government'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 \$525 million in financial assets available to discharge liabilities of approximately \$1.491 billion. The gap between the Government's financial assets and its liabilities indicates that some of its future revenues will be required to meet these obligations.

Many of the liabilities are not due in the short-term and will be settled at a later date. Non-financial assets will provide cash at a later date, cash/accounts receivable will also generate cash over future years and future generation of revenues will help meet these future obligations.

### *Environmental Liabilities*

Environmental Liabilities are included within the Financial Liabilities disclosed on the preceding page. The nature of the Government's programs and services exposes the Government to costs associated with remediation of any site contamination that occurs as a result of government operations. These costs make up the Environmental Liabilities amount disclosed in the Public Accounts - Section I (note 11). In addition to its own sites, the liability also includes contaminated sites where the Government has accepted responsibility and includes sites resulting from default by a third party. In the case of a third party, the cost of remediation is unrecoverable costs in excess of any security held. A summary of Government's policy with respect to Environmental Liabilities can be found in the Public Accounts – Section I (note 2q).

The process used by the Government to include a contaminated site is based upon PSAS, as well as responsible stewardship. When a site is suspected of contamination, the first step is to determine if there is contamination above an environmental standard. If the investigation determines that an environmental standard has been exceeded and costs to remediate the site will exceed \$50,000, then the site is included within the Government's inventory of contaminated sites.

Only sites that are non-operating or high priority due to the risk to human health or property are assigned a value on the inventory. Before the value can be calculated the Government must first determine the appropriate action to be taken: remediation, monitoring or risk management. The Government's best estimates of the action to be taken are based upon further assessment performed by third parties or from similar remediation actions that Government can rely upon. If no basis exists to estimate full remediation costs, the value of the liability is limited to estimates of the known costs to be incurred for next steps.

Where the costs of remediation may be shared with a third party, such as Canada, only the Government's share of the remediation costs has been recorded.

The Government works to address required remediation of contaminated sites assigned a value in a systematic approach that considers risk, available resources, coordination of efforts and a short summer season.

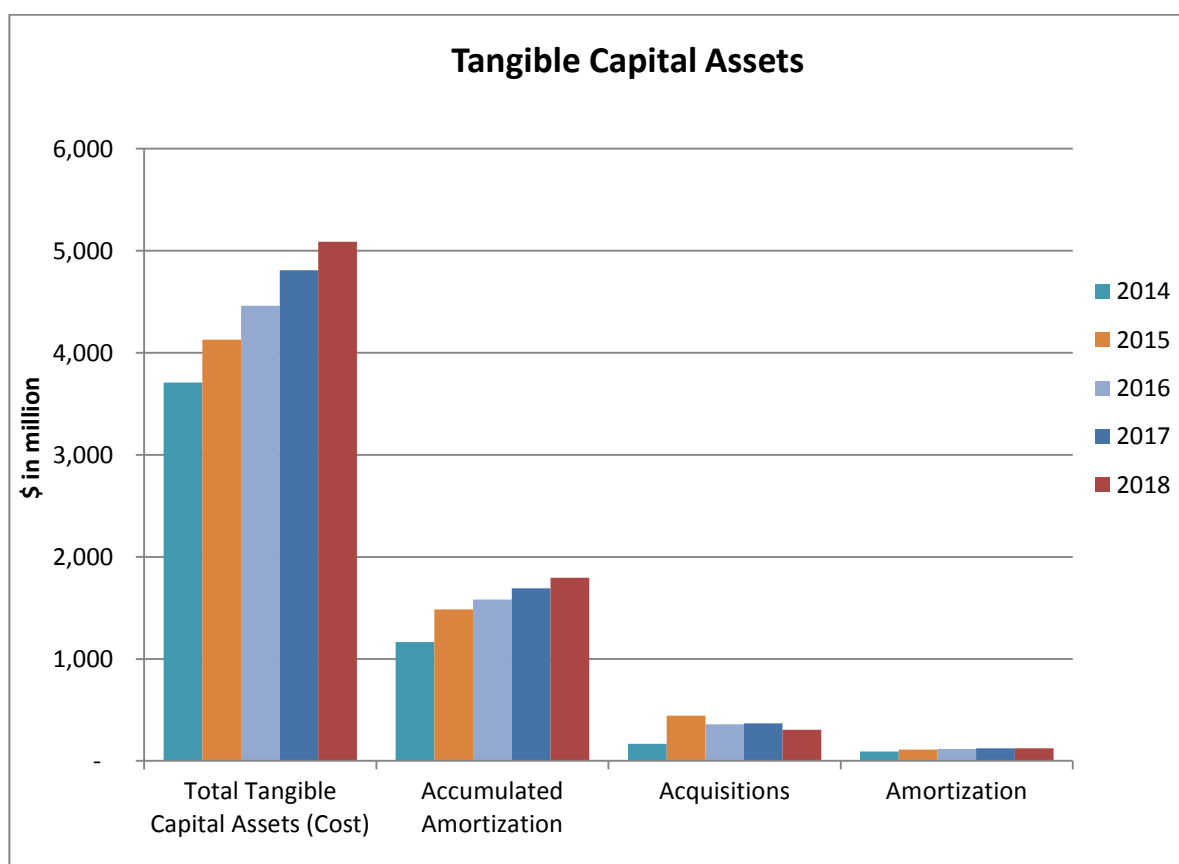
## NON- FINANCIAL ASSETS

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 Government by Canada or other parties. Examples include roads, schools and hospitals.

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.

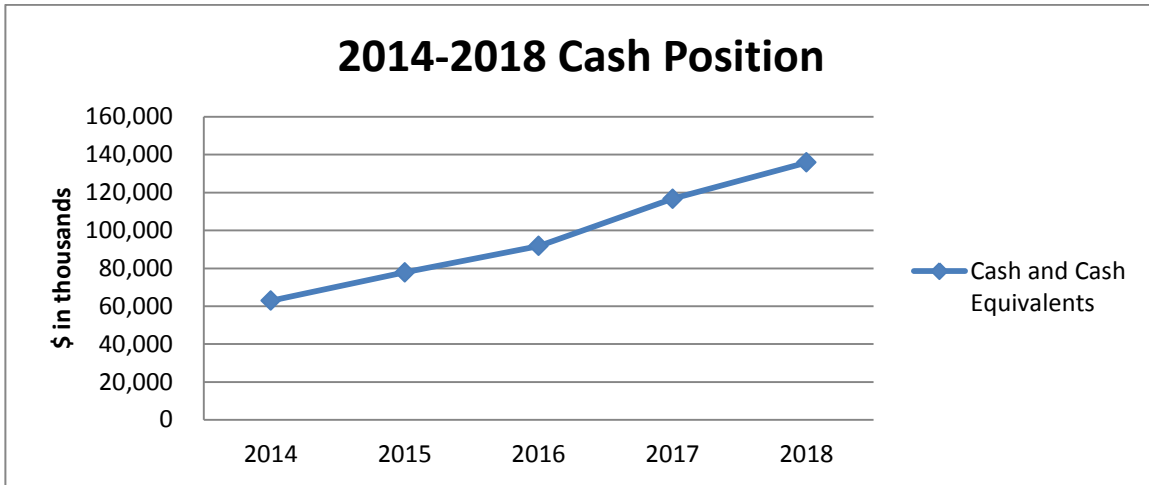
The government invests in infrastructure in three ways:

- By investing in government-owned capital;
- By entering into public private partnerships (P3) agreements; 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 Government is currently investing in tangible capital assets at a level that represents about 50% to 60% of the estimated investment needed for replacement and growth. This illustrates a continued commitment to invest in NWT infrastructure (including education and health care facilities). In the 2018 fiscal year, the Government placed \$273 million worth of new assets into service (2017 - \$251 million). The most significant being the completion of the remaining piece of the Mackenzie Valley Fibre Link (MVFL) P3 and the completion of the Norman Wells Health centre and Long Term Care Facility.

## CASH FLOWS

The statement of cash flow reports on the sources and uses of cash during the year. The Government's overall cash position increased by \$19 million; from \$117 million in 2017 to \$136 million in 2018.

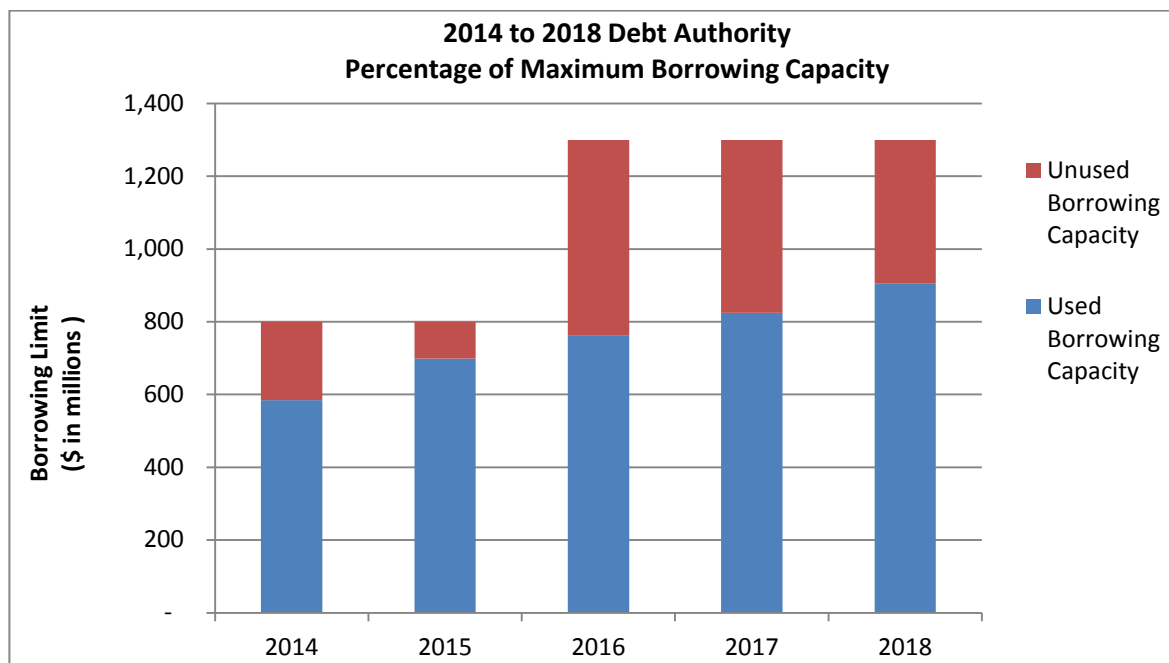


The primary source of cash was operations. Other sources of cash included a disposition of portfolio investments and proceeds from short-term loans. Cash is used to meet operational expenses, reduce liabilities and to pay for the Government's investment in infrastructure. More detail is available on the Statement of Cash Flows within the Section I of the Public Accounts.

## LONG-TERM DEBT BORROWING LIMITS

The Government has long recognized that debt is needed in the future to address infrastructure needs. The Government has a Fiscal Responsibility Policy which guides borrowing decisions while ensuring flexibility is provided to plan 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 Government's P3 policy or projects that will be fully funded by the Government's revenues. There are no approved capital investments that require the Government to issue debt directly.

Consolidated debt, for purposes of the territorial borrowing limit, includes borrowings of all Government organizations that are included within the Consolidated Public Accounts. The borrowing limit is currently \$1.3 billion, as established pursuant to subsection 20(2) of the *Northwest Territories Act*. Additional detail is reflected in the Public Accounts – Section I (note 14).



The NWT requires a significant investment in infrastructure. The Fiscal Responsibility Policy requires the Government to plan for, and achieve sufficient operating surpluses to finance annual infrastructure investments, as well as meet debt servicing payments.

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 Fiscal Responsibility Policy establishes seven debt management performance measures which are to be assessed annually in the Public Accounts. The measures are required to be evaluated on a consolidated basis to ensure consideration is given to debt affordability of the entire Government Reporting Entity. The following section discloses this commitment to reporting on these performance measures.

## INDICATORS OF FINANCIAL CONDITION

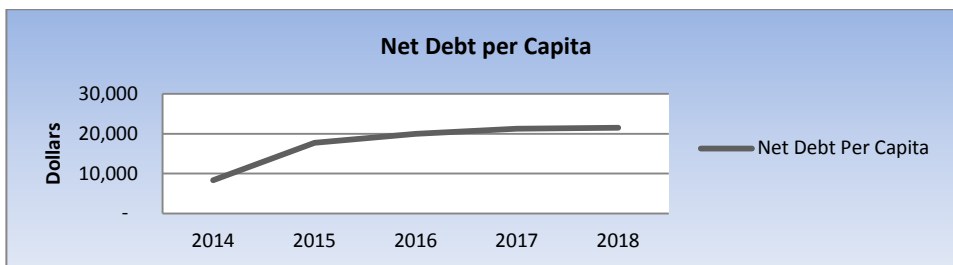
Financial condition describes a government's financial health or its ability to meet its existing financial obligations, both with respect to its service commitments to the public and its financial commitments to creditors, employees and others. The following assessment of the Government's financial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

In years prior to 2015 the Consolidated Public Accounts did not include the impact of NT Hydro. NT Hydro has been fully consolidated from fiscal year 2015 and has been contributing to the changes in the data below since that time.

### *Specific Measures of the Fiscal Responsibility Policy*

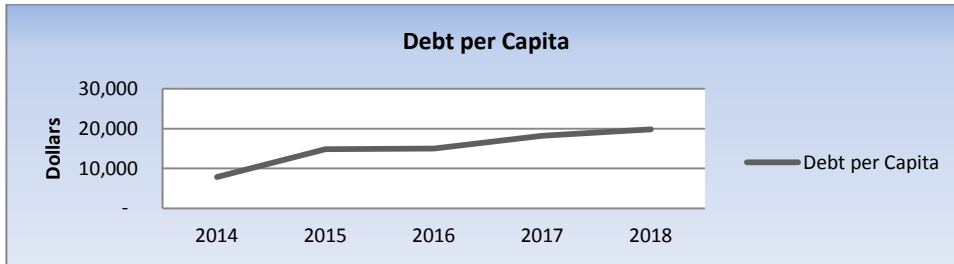
The Government's Fiscal Responsibility Policy requires that the following measures are to be assessed on a *consolidated basis* as part of its determination of the affordability of any proposed increase in its consolidated debt level.

- 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, while an increase means the debt burden per resident has risen.



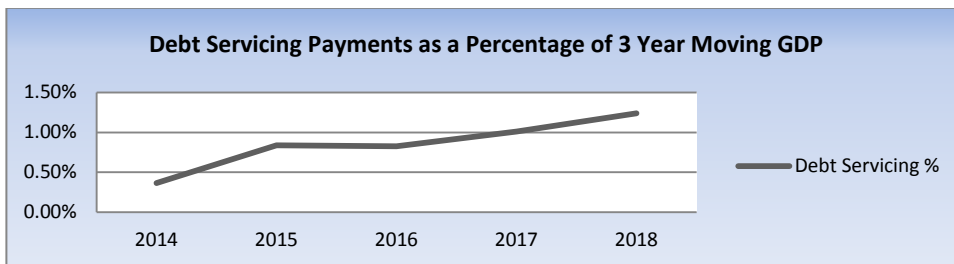
During 2018, net debt for the Northwest Territories increased by 0.8%, from \$21,314 per capita to \$21,492 per capita. The increase is mainly due to the increase in public private partnerships obligations and increase in short term borrowing.

- 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, while an increase means the debt burden has risen.



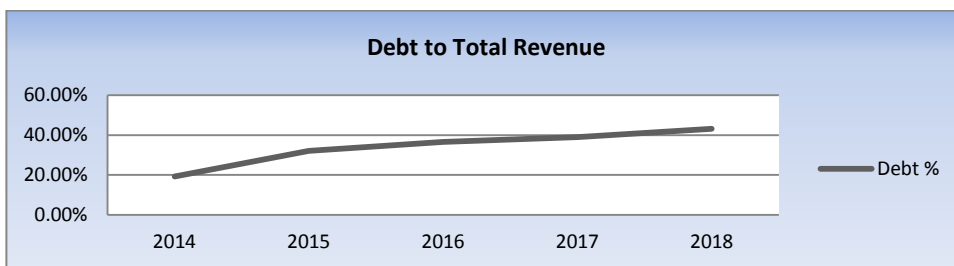
Debt per capita increased by 8.6%; from \$18,230 per capita to \$19,801 per capita. As with net debt per capita, this is mainly due to the increase in P3 obligations and short term loans.

- iii) Debt servicing payments (interest and principal) 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, while an increase reflects deterioration in the financial position.



Debt servicing payments as a percentage of GDP for the Northwest Territories increased from 1.01% in 2017 to 1.24%, in 2018 due to the first balloon payment for Mackenzie Valley Fibre Link debt servicing of \$10 million.

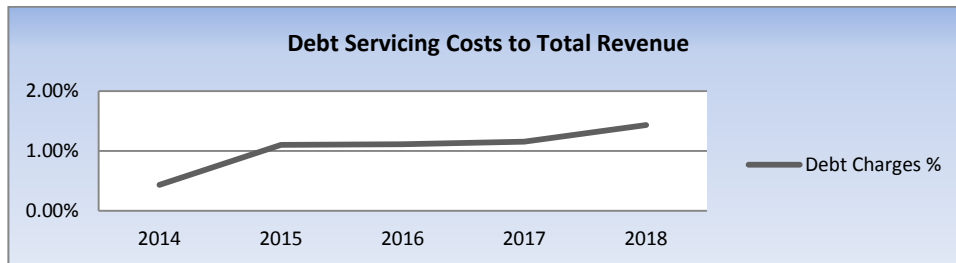
- iv) Debt to total revenue is an indicator of the change in debt in proportion to the change in revenue, where decreasing ratios are a positive indicator that the rate of increase in revenue is greater than the rate of increase in debt. A lower debt to revenue ratio indicates higher sustainability,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



The Government's debt to total revenue has increased from 39.06% in 2017 to 43.21% in 2018 mainly due to the increase of public private partnerships

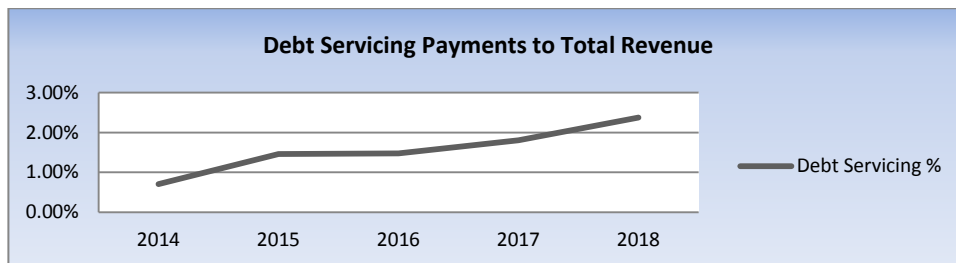
obligations and increase in short term borrowing. An increase in this ratio is slowly occurring as the Government's has stagnant revenue while there has been an increase in debt.

- 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 2015, the Government was in the enviable position of having to expend less than 1% of its total revenues to service its debt load. In 2015, the Government consolidated the Northwest Territories Hydro Corporation and increased debt charges to approximately 1.10% of total revenue and this has further increased to 1.43% during 2018, still a very manageable ratio.

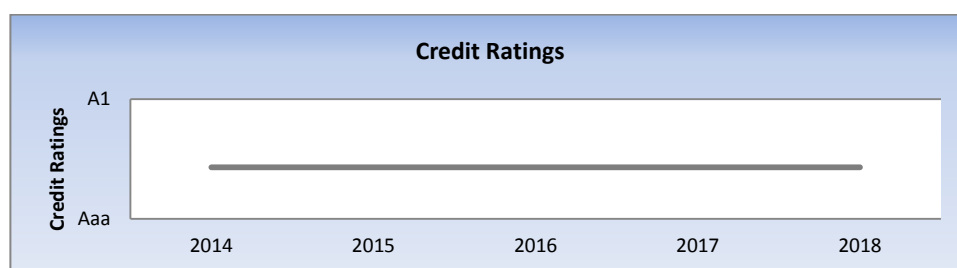
- vi) Debt servicing payments (interest and principal) to total revenue ratio is a measure of the extent that Government revenues are being applied to debt repayment, rather than to programs and services, or tax reduction. A lower debt charges ratio indicates an increased ability to borrow.



Increase from 2014 to 2015 reflects the full consolidation of the Northwest Territories Hydro Corporation in 2015.

The Government's debt servicing payments to total revenue has increased from 1.80% in 2017 to 2.37% in 2018. The economy is not growing at the same rate as public debt. This is often the case when governments invest in large infrastructure projects to stimulate the economy; there can be a lag before an impact is evident.

- 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 2007.

### ***Compliance with Fiscal Responsibility Policy***

In addition to the measures which are required to be monitored under the Fiscal Responsibility Policy there are two additional measures which require assessment to ensure the government was able to meet the full policy requirements.

The policy states the government will restrict infrastructure investments, excluding P3 projects 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 percent from government debt.

The policy also states that the government must ensure *non-consolidated* debt service payments shall not exceed five per cent (5%) of total non-consolidated annual revenues.

In order to assess if these two policy objectives have been met, it is important to review the information on a *non-consolidated* basis in accordance with the policy. That is, if the Government itself, without including factors from public agencies, generated enough cash during the fiscal year to satisfy these objectives.

**Fiscal Responsibility Policy Compliance**

(All calculations based on Section II of the Public Accounts - Non Consolidated Financial Statements)

**2018      2017**

(\$ in Millions)

**Policy Provision 6(5)(a)- Debt Servicing Payments**

|   |              |              |
|---|--------------|--------------|
| Revenues (Public Accounts - Section II, Schedule A, pg 34)        | 1,840        | 1,857        |
| <i>Maximum Debt Servicing Payments- 5% of Revenues</i>            | 92           | 93           |
| <b>Debt Servicing Payments</b>                                    |              |              |
| Short-Term Interest Expense (Public Accounts - Section II, pg 16) | 2            | 2            |
| Deh Cho Bridge (Public Accounts - Section II, pg 20)              | 10           | 9            |
| P3 Debt Servicing (Public Accounts - Section II, pg 21)           | 16           | -            |
| <b>Total Debt Servicing Payments</b>                              | 28           | 11           |
| <b>Actual Debt Servicing Payments as a % of Revenues</b>          | <b>1.54%</b> | <b>0.59%</b> |

**Provision 6(3)- Infrastructure Financing**

|  |            |            |
|--|------------|------------|
| Capital Acquisitions (Public Accounts - Section II, Schedule 4, pg 45) | 260        | 323        |
| Less: P3 Items- Out of Scope (Public Accounts - Section II, pg 21)     |            |            |
| Mackenzie Valley Fibre Link P3 (Finance)                               | -          | (26)       |
| Stanton Territorial Hospital P3 (Health and Social Services)           | (35)       | (37)       |
| <b>Cash Required for Infrastructure Investment Expenditures</b>        | <b>225</b> | <b>260</b> |

**Operating Cash Required**

|  |            |            |
|--|------------|------------|
| Minimum cash required from operating surplus (50% of Acquisitions less out of scope items) | 113        | 130        |
| Debt Servicing Payments  | 28         | 11         |
| <b>Total Operating Cash Requirement</b>  | <b>141</b> | <b>141</b> |

**Operating Cash Available**

|   |            |            |
|---|------------|------------|
| Operating Surplus (Public Accounts - Section II, Statement of Operations, pg 2)               | 127        | 155        |
| Add Non Cash Item - Amortization (Public Accounts - Section II, Statement of Cash Flow, pg 4) | 95         | 89         |
| <b>Total Operating Cash Available</b>   | <b>222</b> | <b>244</b> |

**Operating Cash Generated Exceeding 50% of Capital Acquisitions**

|  |          |           |
|--|----------|-----------|
| Cash Required for Infrastructure Investment Expenditures | 225      | 260       |
| Total Operating Cash Available                           | 222      | 244       |
| <b>Borrowing Requirement for Infrastructure</b>          | <b>3</b> | <b>16</b> |

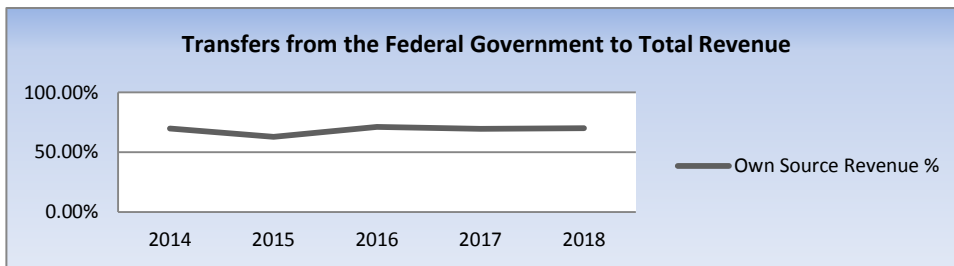
### *Conclusion*

The parameters of the Fiscal Responsibility Policy have again been met for the 2018 fiscal year. Non-consolidated debt servicing costs are 1.54% of non-consolidated annual revenue, which is less than the 5% limit. Total operating cash required under the FRP was \$141 million, while the government was able to generate operating cash of \$222 million during the year.

Compared to the total cash required for infrastructure investments less any P3 projects of \$225 million, the government then was required to borrow a modest \$3 million to fund this high level of investment.

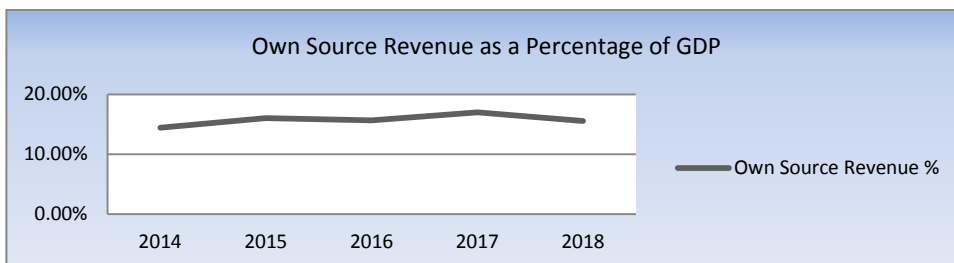
## **OTHER FINANCIAL INDICATORS**

- 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 2018, 70% 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.

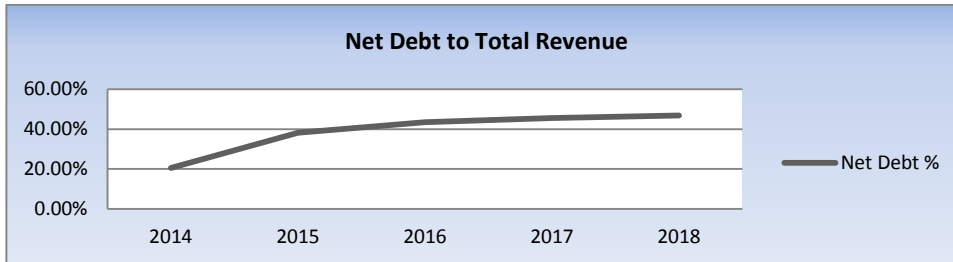
- ii) Own source revenue to GDP measures the extent to which the Government is taking income out of the economy. An increase in this ratio indicates that the Government's own source revenue is growing faster than the economy, reducing the flexibility to increase revenue without slowing the growth of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

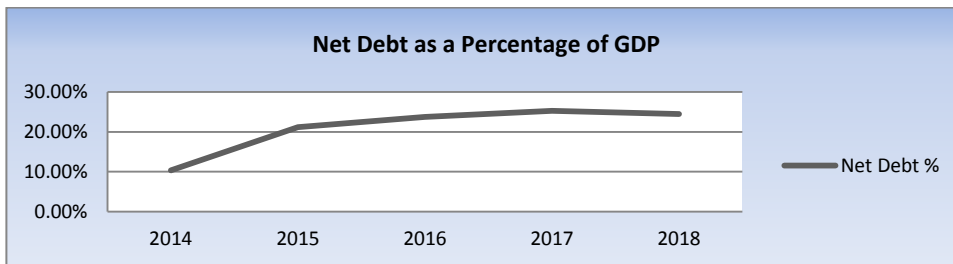


- iii)** Net debt to total revenue is an indicator of the change in debt in proportion to the change in revenue, where decreasing ratios are a positive indicator that the rate of increase in revenue is greater than the rate of increase in debt. A lower net debt to revenue ratio indicates higher sustainability,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



The Government's net debt to total revenue has increased from 45.67% in 2017 to 46.90% in 2018 mainly due to the increase of public private partnership obligations and increase in short term borrowing. An increase in this ratio is slowly occurring as the Government's has stagnant revenue while there has been an 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 2018, net debt for the Northwest Territories decreased as a percentage of GDP from 25.31% to 24.50%.

## **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 the Public Accounts – Section I (note 2) 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.

## PUBLIC PRIVATE PARTNERSHIPS

The Government is currently involved in two P3 projects:

### 1. Mackenzie Valley Fibre Link (MVFL)

The Government entered into an agreement with Northern Lights General Partnership (NLGP) 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 completed in March 2017 with service commencement in June 2017 with the NLGP operating and maintaining the system until 2037. The total cost of construction was \$95 million. This project has operations and maintenance costs of \$3 million per year which will total \$64 million for the duration of the contract, before indexing for the CPI.

The MVFL will support more efficient and effective delivery of government programs and services such as health care and education to the communities. It will also provide new opportunities for business, including in the e-commerce and high-tech sectors, and allow for the expansion of the Inuvik Satellite Station Facility.

| (\$ in 000's)                          | 2014-15       | 2015-16       | 2016-17       | 2017-18  | Total           |
|--|---------------|---------------|---------------|----------|-----------------|
| Project Expenditures                   |               |               |               |          |                 |
| Government                             | 4,135         | -             | -             | -        | 4,135           |
| P3 Partner                             | 26,582        | 38,425        | 25,893        | -        | 90,900          |
| Total Expenditures                     | <b>30,717</b> | <b>38,425</b> | <b>25,893</b> | -        | <b>95,035</b>   |
| Portion of asset put into service      |               |               | (66,212)      | (28,823) | <b>(95,035)</b> |
| <b>Project cost not yet in service</b> | <b>35,935</b> | <b>69,235</b> | <b>28,823</b> | -        | -               |

### 2. Stanton Renewal Project (Stanton)

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. The total cost of construction is \$292 million, with 60% of the construction cost financed by the Government and 40% financed by BHP. The amount partially financed by BHP is payable starting at the in-service date over a thirty year term. Upon completion, there will be operations and maintenance costs of \$8 million per year, totaling \$229 million for the duration of the contract, before indexing for the CPI.

The Stanton Renewal Project was put in place to replace the existing Stanton Territorial Hospital in Yellowknife. The project is the largest ever undertaken by the Government and residents of the NWT will benefit from

a state of the art hospital built to current national standards. The new 280,000 square-foot facility will have a larger enhanced emergency department and medical laboratory; enhanced additional space for diagnostic imaging and improved medical technology to modernize hospital operations. It will also have additional space for ambulatory care including specialist clinics, medical day care and dialysis; and more space for support services such as sterile reprocessing and biomedical engineering.

| (\$ in 000's)                          | 2015-16       | 2016-17        | 2017-18       | 2018-19 | Total at<br>March 31,<br>2018 | Project<br>Budget |
|--|---------------|----------------|---------------|---------|-------------------------------|-------------------|
| Projected Expenditures                 |               |                |               |         |                               |                   |
| Government                             | 27,000        | 68,200         | 56,900        | TBD     | 152,100                       |                   |
| P3 Partner                             | 13,700        | 37,400         | 35,400        | TBD     | 86,500                        |                   |
| <b>Total Projected Expenditures</b>    | <b>40,700</b> | <b>105,600</b> | <b>92,300</b> |         | <b>238,600</b>                | <b>350,000</b>    |
| Portion of asset put into service      | -             | -              | -             |         |                               |                   |
| <b>Project cost not yet in service</b> | <b>40,700</b> | <b>105,600</b> | <b>92,300</b> |         |                               |                   |

Additional detail on P3's is reflected in the Public Accounts – Section 1 (notes 15 and 19)

### 3. Tlcho All-Season Road

On January 11, 2017 the federal government announced conditional funding for the Tlcho All-season Road through the P3 Canada Program, with Canada providing up to 25 per cent of construction costs.

All-season roads are critical to adapting the NWT transportation system to the impacts of climate change, helping support more reliable infrastructure. By replacing the southern section of the existing winter road serving the region, the Tlcho All-season Road will not only provide year-round access to Whati but will also increase the window of access to the communities of Gameti and Wekweeti.

This project will maximize the involvement of Northern businesses. Road construction and maintenance will result in employment and training opportunities for Tlcho and Northern residents. It is anticipated that the contract will be a 29 year contract, with 4 years of construction and 25 years of operations. Preferred Proponent is anticipated to be announced in November 2018 and financial close taking place in February 2019.

| (\$ in 000's)                          | 2015-16    | 2016-17      | 2017-18      | 2018-19    | Total        |
|--|------------|--------------|--------------|------------|--------------|
| Project Expenditures                   |            |              |              |            |              |
| Government                             | 279        | 2,271        | 4,682        | TBD        | 7,232        |
| P3 Partner                             | -          | -            | -            | TBD        | -            |
| <b>Total Projected Expenditures</b>    | <b>279</b> | <b>2,271</b> | <b>4,682</b> | <b>TBD</b> | <b>7,232</b> |
| Portion of asset put into service      | -          | -            | -            |            |              |
| <b>Project cost not yet in service</b> | <b>279</b> | <b>2,550</b> | <b>7,232</b> | <b>TBD</b> |              |

## 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                           | 28-Sept-17 |                    | 04-Aug-17       |
| Commission scolaire francophone Territoires du Nord-Ouest             | 28-Sept-17 |                    | 18-Sept-17      |
| Dehcho Divisional Education Council                                   | 28-Sept-17 |                    | 30-Sept-17      |
| Dettah District Education Authority                                   | 28-Sept-17 |                    | 21-Sept-17      |
| N'dilo Divisional Education Council                                   | 28-Sept-17 |                    | 15-Sept-17      |
| Sahtu Divisional Education Council                                    | 28-Sept-17 |                    | 27-Sept-17      |
| South Slave Divisional Education Council                              | 28-Sept-17 |                    | 28-Jul-17       |
| Yellowknife Catholic Schools  | 28-Sept-17 |                    | 12-Sept-17      |
| Yellowknife No.1 District Education Authority                         | 28-Sept-17 |                    | 12-Sept-17      |
| Aurora College  | 28-Sept-17 | 27-Nov-17          | 22-Nov-17       |
| Northwest Territories Health and Social Services Authority            | 29-Jun-18  | 28-Aug-18          | 28-Aug-18       |
| Hay River Health and Social Services Authority                        | 29-Jun-18  |                    | 26-Jun-18       |
| Tlicho Community Services Agency                                      | 29-Jun-18  |                    | 29-Jun-18       |
| Arctic Energy Alliance  | 29-Jun-18  |                    | 19-Jun-18       |
| Northwest Territories Hydro Corporation                               | 29-Jun-18  |                    | 26-Jun-18       |
| Northwest Territories Business Development and Investment Corporation | 29-Jun-18  | 28-Aug-18          | 27-Aug-18       |
| Northwest Territories Housing Corporation                             | 29-Jun-18  | 28-Aug-18          | 28-Aug-18       |
| Northwest Territories Human Rights Commission                         | 29-Jun-18  |                    | 13-Jul-18       |
| Inuvialuit Water Board  | 29-Jun-18  |                    | 15-Jun-18       |
| Northwest Territories Sport and Recreation Council                    | 29-Jun-18  |                    | 25-Jun-18       |
| Status of Women Council of the Northwest Territories                  | 29-Jun-18  |                    | 31-May-18       |
| Northwest Territories Surface Rights Board                            | 29-Jun-18  |                    | 14-Jun-18       |