



Public Accounts 2019-2020

Section I: Consolidated Financial Statements



Government of
Northwest Territories

PUBLIC ACCOUNTS
OF THE
GOVERNMENT OF THE NORTHWEST TERRITORIES
FOR THE YEAR ENDED MARCH 31, 2020

SECTION I
CONSOLIDATED FINANCIAL STATEMENTS

HONOURABLE CAROLINE WAWZONEK
Minister of Finance



**THE HONOURABLE MARGARET M. THOM
COMMISSIONER OF THE NORTHWEST TERRITORIES**

I have the honour to present the Public Accounts of the Northwest Territories 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, 2020.



Honourable Caroline Wawzonek
Minister of Finance

November 19, 2020

Public Accounts of the Government of the Northwest Territories

Table of Contents

Page

SECTION I

RESPONSIBILITY FOR FINANCIAL REPORTING

AUDITOR'S REPORT

Consolidated Statement of Financial Position	1
Consolidated Statement of Operations and Accumulated Surplus	2
Consolidated Statement of Change in Net Debt	3
Consolidated Statement of Cash Flow	4
Notes to Consolidated Financial Statements	5
Schedule A - Consolidated Schedule of Tangible Capital Assets	38
Schedule B - Consolidated Schedule of Segmented Information	39

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS



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.

Julie Mujcin, CPA, CGA
Comptroller General
Government of the Northwest Territories

November 19, 2020



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of the Northwest Territories

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Government of the Northwest Territories and its controlled entities (the Group), which comprise the consolidated statement of financial position as at 31 March 2020, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2020, and the consolidated results of its operations, consolidated changes in its net debt, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in Section I of the Public Accounts 2019-2020, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the consolidated financial statements, we have audited transactions of the Government of the Northwest Territories and its controlled entities coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are 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(a) to the consolidated financial statements

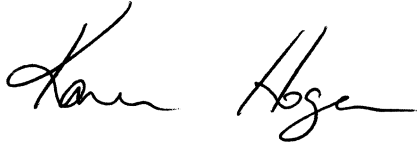
In our opinion, the transactions of the Government of the Northwest Territories and its controlled entities that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Government of the Northwest Territories and its controlled entities' compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Government of the Northwest Territories and its controlled entities to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.

A handwritten signature in black ink, appearing to read 'Karen Hogan', written in a cursive style.

Karen Hogan, CPA, CA
Auditor General of Canada

Ottawa, Canada
19 November 2020

Government of the Northwest Territories

Consolidated Statement of Financial Position

as at March 31, 2020

(thousands of dollars)

	2020 \$	2019 \$
Financial assets		
Cash	85,489	110,370
Portfolio investments (note 3)	110,372	82,430
Due from the Government of Canada (note 11)	97,253	75,528
Accounts receivable (note 5)	106,911	108,568
Inventories for resale	35,549	32,423
Loans receivable (note 6)	74,554	78,022
Sinking fund (note 7)	29,680	-
	539,808	487,341
Liabilities		
Short term loans (note 8)	470,238	333,519
Accounts payable and accrued liabilities (note 9)	333,159	312,565
Deferred revenue	40,114	22,091
Environmental liabilities and asset retirement obligations (note 10)	75,311	70,558
Due to the Government of Canada (note 11)	170,149	135,215
Capital lease obligations (note 12)	16,768	17,558
Long-term debt (note 12)	390,768	395,642
Liabilities under public private partnerships (note 13)	273,479	235,721
Pensions (note 14)	21,608	22,850
Other employee future benefits and compensated absences (note 15)	59,174	66,204
	1,850,768	1,611,923
Net debt	(1,310,960)	(1,124,582)
Non-financial assets		
Tangible capital assets (schedule A)	3,565,348	3,452,889
Inventories held for use	17,040	15,970
Prepaid expenses	9,180	13,647
	3,591,568	3,482,506
Accumulated surplus	2,280,608	2,357,924

Contractual obligations, rights, guarantees and contingencies (notes 17 and 18)

Approved:



Caroline Wawzonek
Minister of Finance



Julie Mujcin, 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, 2020

(thousands of dollars)

	2020 Budget \$	2020 Actual \$	2019 Actual \$
Revenues			
Grant from the Government of Canada <i>(note 2(m))</i>	1,309,300	1,309,278	1,256,289
Transfer payments <i>(note 19)</i>	258,649	236,090	210,071
	1,567,949	1,545,368	1,466,360
Taxation, non-renewable resource and general revenues			
Corporate and personal income taxes <i>(note 19)</i>	127,700	89,008	105,856
Other taxes <i>(note 19)</i>	142,809	133,036	124,528
General <i>(note 19)</i>	98,435	97,978	74,670
Income from portfolio investments	1,001	6,053	3,393
Non-renewable resource revenue	46,534	23,794	23,258
Sales	168,216	174,044	185,197
Recoveries	48,308	40,269	40,708
	633,003	564,182	557,610
Recoveries of prior years' expenses	3,000	13,951	13,625
	2,203,952	2,123,501	2,037,595
Expenses (schedule B) (note 20)			
Environment and Economic Development	161,059	165,318	155,987
Infrastructure	434,755	436,120	438,975
Education	363,255	381,655	362,535
Health, Social Services and Housing	640,192	693,568	606,392
Justice	127,573	129,176	129,544
General Government	379,342	371,244	320,464
Legislative Assembly and statutory offices	22,443	23,736	19,568
	2,128,619	2,200,817	2,033,465
Annual operating surplus (deficit)	75,333	(77,316)	4,130
Projects on behalf of third parties			
Expenses	(99,256)	(110,635)	(111,998)
Recoveries	99,256	110,635	111,998
Annual surplus (deficit)	75,333	(77,316)	4,130
Accumulated surplus at beginning of year	2,357,924	2,357,924	2,353,794
Accumulated surplus at end of year	2,433,257	2,280,608	2,357,924

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

Government of the Northwest Territories

Consolidated Statement of Change in Net Debt

for the year ended March 31, 2020

(thousands of dollars)

	2020 Budget \$	2020 Actual \$	2019 Actual \$
Net debt at beginning of year	(1,124,582)	(1,124,582)	(995,382)
Items affecting net debt:			
Annual surplus (deficit)	75,333	(77,316)	4,130
Acquisition of tangible capital assets (<i>schedule A</i>)	(357,494)	(269,627)	(280,365)
Amortization of tangible capital assets (<i>schedule A</i>)	158,710	153,648	146,662
Loss on sale of tangible capital assets	8,910	3,396	1,012
Proceeds on sale of tangible capital assets	-	124	284
	(114,541)	(189,775)	(128,277)
Consumption of inventories held for use	7,386	13,188	14,682
Purchase of inventories held for use	(7,164)	(14,258)	(16,234)
Change in prepaid expenses	(100)	4,467	629
	122	3,397	(923)
Change in net debt	(114,419)	(186,378)	(129,200)
Net debt at end of year	(1,239,001)	(1,310,960)	(1,124,582)

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, 2020

(thousands of dollars)

	2020 \$	2019 \$
Cash provided by (used for)		
Operating transactions		
Annual surplus (deficit)*	(77,316)	4,130
Items not affecting cash:		
Change in valuation allowances	8,946	5,945
Loss on tangible capital assets	3,396	1,012
Amortization	153,648	146,662
Inflation adjustment on real return bonds	3,810	2,709
	92,484	160,458
Changes in non-cash assets and liabilities:		
Change in due to/from the Government of Canada	13,209	5,882
Change in accounts receivable	(3,689)	12,581
Change in inventories for resale	(3,126)	(170)
Change in accounts payable	14,089	20,215
Change in environmental liabilities and asset retirement obligations	4,872	1,408
Change in deferred revenue	18,023	3,588
Change in pensions	(1,243)	(1,776)
Change in other employee future benefits and compensated absences	(7,030)	(7,553)
Change in inventories held for use	(1,070)	(1,552)
Change in prepaid expenses	4,467	629
Cash provided by operating transactions	130,986	193,710
Investing transactions		
Disposition of portfolio investments	27,904	15,707
Acquisition of portfolio investments	(55,846)	(10,457)
Loans receivable receipts	8,811	9,427
Loans receivable advanced	(8,984)	(10,083)
Sinking fund installments	(29,680)	-
Cash provided by (used for) investing transactions	(57,795)	4,594
Capital transactions		
Acquisition of tangible capital assets	(220,041)	(236,786)
Proceeds of disposition of tangible capital assets	124	284
Cash used for capital transactions	(219,917)	(236,502)
Financing transactions		
Net proceeds from short term loans	136,719	36,443
Repayment of capital lease obligations	(790)	(1,063)
Repayment of long-term financing	(8,684)	(20,109)
Repayment of public private partnerships	(5,400)	(2,600)
Cash provided by financing activities	121,845	12,671
Decrease in cash	(24,881)	(25,527)
Cash at beginning of year	110,370	135,897
Cash at end of year	85,489	110,370

*Total interest paid during the year \$42,905 (2019 - \$36,711)

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

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

1. AUTHORITY AND OPERATIONS

(a) Authority and reporting entity

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

The consolidated financial statements have been prepared in accordance with the *Northwest Territories Act* (Canada) and the *Financial Administration Act* of the Northwest Territories. The consolidated financial statements present summary information and serve as a means for the Government to show its accountability for the resources, obligations and financial affairs for which it is responsible. The following 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

- Arctic Energy Alliance
- Northwest Territories Sport and Recreation Council

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

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

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, 2020 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 16*) 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 consolidated 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 consolidated 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 consolidated financial statements of changes to such estimates and assumptions in future periods could be significant, although, at the time of preparation of these consolidated statements, the Government believes the estimates and assumptions to be reasonable.

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

(b) Cash

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

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Portfolio investments

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

(d) Inventories

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

(e) Loans receivable

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

(f) Sinking fund

The sinking fund is externally restricted cash held specifically for the purpose of repaying outstanding debt at maturity. The sinking fund is recorded at amortized cost.

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Tangible capital assets and leases

Tangible capital assets are buildings, roads, equipment, etc. whose life extends beyond the fiscal year, original cost exceeds \$50 and are intended to be used on an ongoing basis for delivering programs and services. Individual assets less than \$50 are expensed when purchased. Tangible capital assets are recorded at cost 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
Computers	10 years or less
Equipment	40 years or less
Roads and Bridges	75 years or less
Buildings and Leasehold Improvements	Buildings - 40 years or less; Leasehold improvements - the lesser of useful life or remaining lease term
Infrastructure and Other	40 years or less except for Electric power plants 100 years or less

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.

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Transfer payments

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

(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 or reassessments 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.

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 Grant from the Government of Canada (*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, carbon, tobacco, payroll and property taxes are levied under the authority of the *Petroleum Products and Carbon Tax Act*, the *Tobacco Tax Act*, the *Payroll Tax Act*, and the *Property Assessment and Taxation Act*, respectively. Fuel, carbon 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 finalized.

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 (n)*). All other expenses are recognized on an accrual basis.

(q) Environmental liabilities

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

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

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(t) Restricted assets

Restricted assets result from external restrictions imposed by an agreement with an external party, or through legislation of another government, that specify the purpose or purposes for which resources are to be used. Externally restricted inflows are recognized as revenue in a government's financial statements in the period in which the resources are used for the purpose or purposes specified. An externally restricted inflow received before this criterion has been met is reported as a liability until the resources are used for the purpose or purposes specified.

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) 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.

(v) 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.

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Future accounting changes

Financial instruments

The Public Sector Accounting Board (PSAB) issued PS 3450 Financial Instruments effective for fiscal years beginning on or after April 1, 2022. 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. There is no significant impact on the consolidated financial statements as a result of its application.

Other New Standards

Effective April 1, 2022, 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.

Effective April 1, 2022, the Government will be required to adopt PS 3280 Asset Retirement Obligations. 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 this standard on the consolidated financial statements.

Effective April 1, 2023, the Government will be required to adopt PS 3400 Revenue. This standard provides guidance on how to account for and report on revenue. Specifically, it differentiates between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations. There is no significant impact on the consolidated financial statements as a result of its application.

3. PORTFOLIO INVESTMENTS

	2020	2019
	\$	\$
Marketable securities (market value \$105,851; 2019 - \$84,218)	109,893	81,977
Miscellaneous investments	479	453
	110,372	82,430

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

4. DESIGNATED AND RESTRICTED ASSETS

Designated assets

Designated 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 14*). 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.

Other designated assets will be used for various purposes.

Restricted assets

Restricted assets include funds remitted to the Government, that are restricted for use in the Yellowknife Airport Capital Program, pursuant to the *Memorandum of Agreement* between the Government and Signatory Air Carriers. Restricted assets for Yellowknife Airport Improvement Fees at March 31, 2020 is \$7,420 (2019 - \$5,478) and is included in cash and deferred revenue.

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

4. DESIGNATED AND RESTRICTED ASSETS (continued)

	2020	2019
	\$	\$
<i>Student Financial Assistance Act</i>		
Student Loan Fund:		
Authorized limit for loans receivable	45,000	45,000
Less: Loans receivable balance (<i>note 6</i>)	(40,799)	(41,129)
Funds designated for new loans	4,201	3,871
<i>Northwest Territories Heritage Fund Act</i>		
Heritage Fund:		
Heritage Fund net assets	26,753	24,215
<i>Waste Reduction and Recovery Act</i>		
Environment Fund:		
Beverage Container Program net assets	5,140	4,244
<i>Pension Benefits Standard Act</i>		
Portfolio Investments for the Legislative Assembly Supplementary Retiring Allowance (<i>note 14</i>)		
Marketable securities (market value \$33,056; 2019 - \$34,604)	34,130	32,149
Cash and other assets (market value approximates cost)	1,057	138
	35,187	32,287
<i>Northwest Territories Business Development and Investment Act</i>		
Loan and Investment Funds	12,762	8,947
<i>Land Titles Act</i>		
Land Titles Assurance Fund net assets	4,923	4,743
Other		
Cash	560	690
	89,526	78,997

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

5. ACCOUNTS RECEIVABLE

	Accounts Receivable	Allowance for Doubtful Accounts	Net 2020	Net 2019
	\$	\$	\$	\$
General	79,594	(31,702)	47,892	45,978
Utilities	12,553	(482)	12,071	10,471
Non-renewable resource revenue	27,763	-	27,763	24,140
Government of Nunavut	8,563	(3)	8,560	13,279
Health related costs due from third parties	13,384	(6,504)	6,880	5,871
Revolving fund sales	3,147	-	3,147	7,980
Workers' Safety and Compensation Commission	598	-	598	849
	145,602	(38,691)	106,911	108,568

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

6. LOANS RECEIVABLE

	2020	2019
	\$	\$
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 5.20% and 6.11%, (2019 - between 5.33% and 6.46%) before valuation allowance of \$3,490 (2019 - \$3,527).	40,213	41,451
Northwest Territories Energy Corporation Ltd. loan to the Dogrib Power Corporation due July 2026, bearing interest at an annual rate of 9.6% (2019 - 9.6%), repayable in equal monthly payments of \$195 (2019 - \$195), secured by a \$4,000 guarantee and a restricted bank account.	11,076	12,290
Students Loan Fund loans due in installments to 2035, bearing fixed interest between 0.00% and 11.75%, (2019 - between 0.00% and 10.00%) unsecured, before valuation allowance and loan remissions of \$17,133 (2019 - \$16,837).	40,799	41,129
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%, (2019 - between 0.00% and 12.00%) before valuation allowance of \$9,538 (2019 - \$9,989).	12,613	13,486
Other	14	19
	104,715	108,375
Valuation allowances	(30,161)	(30,353)
	74,554	78,022

Interest earned on loans receivable during the year is \$4,045 (2019 - \$3,739).

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 \$7,511 (2019 - \$5,030).

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

7. SINKING FUND

The Sinking Fund was established on July 15, 2019 and includes cash held in a separate bank account for the purpose of retiring liabilities under public private partnerships (note 13) for the Tlicho All Season Road contract. As at March 31, 2020, the Sinking Fund balance is \$29,680; the carrying value approximates the market value. The weighted average effective rate of return for the year is 2.35%. Interest earned on the sinking fund during the year is \$381.

As part of the Tlicho All Season Road contract, the Government will make contributions of \$48,000 in 2021 and \$33,910 in 2022. In 2023, at the time of expected completion, the Government will use the Sinking Fund to make a lump sum payment to retire a portion of the related liability under public private partnerships as described in note 13.

8. SHORT TERM LOANS

Based upon operational needs, the Government may enter into short term borrowing arrangements with its banks. Short-term loans of \$470,238 (2019 - \$333,519) incurred interest at a weighted average year-end rate of 1.69% (2019 - 1.94%). Interest expense on short term loans included in operations and maintenance expenses is \$8,294 (2019 - \$5,141).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020 \$	2019 \$
Trade	218,269	192,748
Government of Nunavut	2	323
Other liabilities	8,752	7,425
Employee and payroll-related liabilities	103,286	109,306
Accrued interest	2,744	2,692
Workers' Safety and Compensation Commission	106	71
	333,159	312,565

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

10. 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 278 (2019 - 285) sites as potentially requiring environmental remediation at March 31, 2020.

Type of Site	2019 Liability \$	Remediation Expenditures \$	New Sites in 2020 \$	Change in Estimate \$	2020 Liability \$	Number of Sites
Abandoned mines ⁽¹⁾	10,638	(433)	-	-	10,205	8
Landfills ⁽²⁾	8,866	(523)	-	522	8,865	42
Abandoned infrastructure and schools ⁽³⁾	13,289	(1,487)	-	2,780	14,582	73
Airports, airport strips or reserves ⁽⁴⁾	3,465	(138)	700	440	4,467	26
Sewage lagoons ⁽⁵⁾	2,045	(165)	-	3	1,883	29
Fuel tanks and resupply lines ⁽²⁾	2,419	-	-	-	2,419	12
Abandoned lots and maintenance facilities ⁽³⁾	21,343	(893)	186	3,338	23,974	88
Total environmental liabilities	62,065	(3,639)	886	7,083	66,395	278
Asset retirement obligations	8,493	-	-	423	8,916	
Total	70,558				75,311	

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.

There were 11 (2019 - 3) 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 278 (2019 - 285) sites, there are 68 (2019 - 78) 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 2089), and the weighted average discount rate of 2.48% (2019 - 2.57%) for obligations to be settled in 10 years or less and 3.11% (2019 - 3.04%) for obligations to be settled in 10 years or more.

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

11. DUE TO (FROM) THE GOVERNMENT OF CANADA

	2020 \$	2019 \$
Due from Canada		
Projects on behalf of the Government of Canada	(34,430)	(22,112)
Miscellaneous receivables	(62,823)	(53,416)
	(97,253)	(75,528)
Due to Canada		
Excess income tax advanced	129,909	85,142
Advances for projects on behalf of the Government of Canada	25,060	23,013
Miscellaneous payables	15,180	27,060
	170,149	135,215
	72,896	59,687
The amounts due to the Government of Canada are non-interest bearing. The excess income tax advanced is repayable over the following years:		
		\$
	2021	31,472
	2022	53,436
	2023	45,001
		129,909

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

12. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

	2020 \$	2019 \$
Loans due to Canada Mortgage and Housing Corporation, repayable in annual installments until the year 2033, bearing interest at a rate of 6.97% (2019 - 6.97%), unsecured.	4,893	5,359
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 1.05% and 3.13% (2019 - between 1.05% and 3.13%), unsecured.	965	1,096
Mortgage payable to Canada Mortgage and Housing Corporation, repayable in monthly installments of \$7 (2019 - \$7) maturing June 2024, bearing interest at 3.30% (2019 - 3.30%), secured with real property.	366	445
Debentures, due 2025 to 2052, bearing interest between 3.82% and 6.00% (2019 - between 3.82% and 6.00%), unsecured.	90,000	90,000
Amortizing Debentures, due 2032 to 2047, bearing interest between 3.98% and 6.42% (2019 - between 3.98% and 6.42%), unsecured.	107,648	110,609
Series 1, 2 and 3 Debentures, repayable in monthly installments between \$69 and \$73 (2019 - between \$69 and \$73), maturing 2025 to 2026, bearing interest between 9.11% and 10.00% (2019 - between 9.11% and 10.00%), unsecured.	11,078	12,480
Deh Cho Bridge: Real return senior bonds with accrued inflation adjustment, maturing June 1, 2046, redeemable at the option of the issuer, bearing interest at 3.17% (2019 - 3.17%) payable semi-annually, unsecured.	176,560	176,439
	391,510	396,428
Unamortized premium, discount and issuance costs	(742)	(786)
Total long-term debt	390,768	395,642
Capital lease obligations	16,768	17,558
Total long-term debt and capital lease obligations	407,536	413,200

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

12. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (continued)

Long-term debt principal repayments due in each fiscal year for the next five years and thereafter are as follows:

	\$
2021	9,151
2022	9,229
2023	10,293
2024	10,921
2025	11,496
2026 and beyond	340,420
	391,510

Interest expense on long-term debt, included in operations and maintenance expenses, is \$20,611 (2019 - \$22,138).

Interest expenses related to capital lease obligations for the year is \$1,652 (2019 - \$1,692), at an implicit average interest rate of 9.60% (2019 - 9.55%). Capital lease obligations (expiring between 2021 and 2061) are based upon contractual minimum lease obligations for the leases in effect as of March 31, 2020.

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.

	2020 \$	2019 \$
Short term debt (note 8)	470,238	333,519
Long term debt (note 12)	391,510	396,428
Capital Lease Obligations (note 12)	16,768	17,558
Guarantees (note 18(a))	11,022	12,944
	889,538	760,449
Authorized borrowing limit	1,300,000	1,300,000
Available borrowing capacity before P3s	410,462	539,551
P3 debt (note 13)	273,479	235,721
Less sinking fund (note 7)	(29,680)	-
Available Borrowing capacity	166,663	303,830

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

13. LIABILITIES UNDER PUBLIC PRIVATE PARTNERSHIPS

The Government has entered into three contracts for the design, build, operation and maintenance of the Mackenzie Valley Fibre Link; the design, build, and maintenance of the Stanton Territorial Hospital Renewal, and the design, build and maintenance of the Tlicho All Season Road. Operations and maintenance provided by the partner cease at the repayment date at which time operational responsibility reverts to the Government.

The calculation of the Public Private Partnerships (P3) liabilities is as follows:

	2019 \$	Additions during the year \$	Principal Payments \$	2020 \$	Repayment date
Stanton Territorial Hospital Renewal	136,654	-	(3,000)	133,654	2048
Mackenzie Valley Fibre Link	77,700	-	(2,400)	75,300	2037
Tlicho All Season Road	21,367	43,158	-	64,525	2047
Total	235,721	43,158	(5,400)	273,479	

The details of the contracts under P3s are as follows:

	Partner	Date contract entered into	Scheduled/actual completion date	Interest rate
Stanton Territorial Hospital Renewal	Boreal Health Partnership	September 2015	November 2018	5.36%
Mackenzie Valley Fibre Link	Northern Lights General Partnership	October 2014	June 2017	6.52%
Tlicho All Season Road	North Star Infrastructure GP	February 2019	November 2022	6.53%

Estimated payments for each of the next five years and thereafter to meet P3 principal repayments are as follows:

	\$
2021	5,700
2022	6,000
2023	45,800*
2024	7,160
2025	7,100
2026 and beyond	201,719
	273,479

*Of the \$45,800, \$39,500 relates to the current Tlicho All Season Road liability (60% of the current liability). In 2023, the Government will make a lump sum payment of \$111.2 million from the Sinking Fund (note 7) to retire 60% of the Tlicho All Season Road liability at the expected time of completion.

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

13. LIABILITIES UNDER PUBLIC PRIVATE PARTNERSHIPS (continued)

The capital payments for Mackenzie Valley Fibre Link and Stanton Territorial Hospital Renewal are fixed, equal monthly payments for the privately financed portion of the costs of building the infrastructure. The scheduled principal payments for Tlicho All Season Road will include the lump sum payment of \$111.2 million in 2023 at the expected time of completion and then fixed equal monthly payments thereafter. P3 interest expense for the year is \$12,400 (2019 - \$7,700). Interest capitalized in the period as a function of construction or developing tangible capital assets relating to the Stanton Territorial Hospital Renewal is \$0 (2019 - \$2,700); Tlicho All Season Road is \$1,400 (2019 - \$400).

Tangible capital assets, commitments, and contractual rights related to P3 projects are disclosed in note 17 and schedule A.

14. PENSIONS

a) Plans' description

The Government administers Regular 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, Superintendent and Assistant Superintendents of the Yellowknife Catholic Schools. These Regular Pension Plans are contributory defined benefit registered pension plans and are pre-funded (Regular Funded). The funds related to these plans are administered by independent trust companies.

In addition to the Regular Pension Plans listed above, the Government administers Supplemental Pension Plans for the MLAs, Territorial Court Judges and Superintendent and Assistant Superintendents of the Yellowknife Catholic Schools that are non-contributory defined benefit pension plans and are non-funded (Supplemental Unfunded). The Government has designated assets for the purposes of meeting the obligations of the MLA Supplemental Pension Plan (note 4). The supplemental Pension Plan for the Yellowknife Catholic Schools Superintendents and Assistant Superintendents is not funded until the employee terminates their employment from Yellowknife Catholic Schools.

The Government is liable for all benefits. All Plans provide death benefits to spouses and eligible dependents. All Plans are indexed. Plan assets consist of Canadian and foreign equities, and Canadian fixed income securities, bonds and mortgages.

Benefits provided under all Plans are based on years of service and pensionable earnings. Plan benefits generally accrue as a percentage of a number of years of best average pensionable earnings.

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.

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

14. PENSIONS (continued)

b) Pension liability

	2020 Regular Funded \$	2020 Supplemental Non funded \$	2020 Total \$
Accrued benefit obligation	95,104	38,524	133,628
Pension fund assets - market-related value	(115,033)	-	(115,033)
Unamortized actuarial gains	1,913	1,100	3,013
Pension liability (asset)	(18,016)	39,624	21,608

	2019 Regular Funded \$	2019 Supplemental Non funded \$	2019 Total \$
Accrued benefit obligation	88,799	37,715	126,514
Pension fund assets - market-related value	(109,209)	-	(109,209)
Unamortized actuarial gains	4,702	843	5,545
Pension liability (asset)	(15,708)	38,558	22,850

Included in the pension asset of \$18,016 (2019 - \$15,708) is a deficit for accounting purposes of the Judges' plan in the amount of \$1,645 (2019 - \$1,963).

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

14. PENSIONS (continued)

c) Change in pension liability (asset)

	2020 Regular Funded \$	2020 Supplemental Unfunded \$	2020 Total \$
Opening balance	(15,708)	38,558	22,850
Change from cash items:			
Contributions from plan members	(2,876)	-	(2,876)
Contributions from Government	(5,907)	-	(5,907)
Benefit payments to plan members	(10,204)	(1,620)	(11,824)
Drawdown from plan assets	10,204	-	10,204
Change from cash items	(8,783)	(1,620)	(10,403)
Change from accrual items:			
Current period benefit cost	6,483	1,358	7,841
Amortization of actuarial gains	(1,347)	(353)	(1,700)
Change in valuation allowance	608	-	608
Interest on average accrued benefit obligation	4,479	1,776	6,255
Impairment on value of accrued pension asset	1,945	-	1,945
Extraordinary items	-	(95)	(95)
Expected return on average plan assets	(5,693)	-	(5,693)
Change from accrual items	6,475	2,686	9,161
Ending balance	(18,016)	39,624	21,608
	2019 Regular Funded \$	2019 Supplemental Unfunded \$	2019 Total \$
Opening balance	(12,340)	36,965	24,625
Change from cash items:			
Contributions from plan members	(2,779)	-	(2,779)
Contributions from Government	(5,500)	-	(5,500)
Benefit payments to plan members	(6,966)	(1,642)	(8,608)
Drawdown from plan assets	6,966	-	6,966
Change from cash items	(8,279)	(1,642)	(9,921)
Change from accrual items:			
Current period benefit cost	6,369	1,375	7,744
Amortization of actuarial (gains) losses	(1,063)	182	(881)
Change in valuation allowance	531	-	531
Interest on average accrued benefit obligation	4,263	1,678	5,941
Expected return on average plan assets	(5,189)	-	(5,189)
Change from accrual items	4,911	3,235	8,146
Ending balance	(15,708)	38,558	22,850

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

14. 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 \$4,435 (2019 - \$5,367). 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 \$832 (2019 - \$1,104).

In addition to the above, the Government contributed \$55,229 (2019 - \$52,158) to the Public Service Pension Plan. The employees' contributions to this plan were \$53,356 (2019 - \$51,133).

e) Changes to pension plans in the year

There have been no plan amendments, plan settlements and curtailments or temporary deviations from the plan in 2020.

f) Valuation methods and assumptions used in valuing pension liability

The following reflects the date of valuation for each plan for accounting purposes:

Pension Plan	Last Actuarial Valuation Accounting Date	Last Extrapolation Date
Legislative Assembly Retiring Allowance Plan	April 1, 2016	January 31, 2020
Judges Registered Plan	April 1, 2019	March 31, 2020
Retirement Plan for Employees of the Hay River Health and Social Services Authority	January 1, 2020	March 31, 2020
Retirement Plan for Employees of the Yellowknife Catholic Schools	June 30, 2019	June 30, 2019

Liability valuation method

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

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

14. PENSIONS (continued)

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

Asset valuation method

The asset valuation method for all the plans is generally market-related value. The market value of the pension assets is \$118,084 (2019 - \$112,050).

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.

<i>Actuarial assumptions</i>	Yellowknife Catholic Schools' plans	Hay River H&SS Authority plan	MLA's plans	Judges' plans
Expected rate of return on plan assets	4.75%	5.4%	4.8%	4.8%
Rate of compensation increase	2.0%	2.5%	2.0%	3.0%
Annual inflation rate	2.0%	2.0%	2.0%	2.0%
Discount rate	4.75%	5.4%	4.8%	4.8%

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

15. 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. Benefits that accrue under compensated absence benefits, excluding maternity and parental leave, were actuarially valued using the expected utilization methodology. Non-accruing benefits include maternity and parental leave and are recognized when leave commences.

Valuation results

The most recent actuarial valuation was completed as at February 15, 2019. The results were extrapolated to March 31, 2020. The effective date of the next actuarial valuation is March 31, 2022. The values presented below are for all of the benefits under the Compensated Absences and Termination Benefits for the consolidated Government.

	Severance and Removal \$	Compensated Absences \$	2020 \$	2019 \$
Changes in Obligation				
Accrued benefit obligations, beginning of year	47,197	10,895	58,092	50,544
Current period benefit cost	2,487	866	3,353	3,339
Interest accrued	1,374	336	1,710	1,833
Benefits payments	(7,291)	(5,480)	(12,771)	(9,426)
Plan amendments	-	-	-	86
Actuarial (gains)/losses	(4,285)	3,365	(920)	11,716
Accrued benefit obligations, end of year	39,482	9,982	49,464	58,092
Unamortized net actuarial gain/(loss)	8,090	(7,340)	750	444
Net future obligation	47,572	2,642	50,214	58,536
Other employee future benefits	7,103	-	7,103	6,118
Other compensated absences	-	1,857	1,857	1,550
Total employee future benefits and compensated absences	54,675	4,499	59,174	66,204

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

15. OTHER EMPLOYEE FUTURE BENEFITS AND COMPENSATED ABSENCES (continued)

	Severance and Removal \$	Compensated Absences \$	2020 \$	2019 \$
Benefits Expense				
Current period benefit cost	2,487	866	3,353	3,339
Interest accrued	1,374	336	1,710	1,833
Plan amendments	-	-	-	86
Amortization of actuarial (gain)/loss	(1,204)	590	(614)	(2,023)
	2,657	1,792	4,449	3,235

The discount rate used to determine the accrued benefit obligation is an average of 2.7% (2019 - 3.2%). The expected payments during the next five fiscal years are:

	Severance and Removal \$	Compensated Absences \$	Total \$
2021	7,844	1,625	9,469
2022	5,938	1,285	7,223
2023	4,867	1,104	5,971
2024	4,119	978	5,097
2025	3,726	888	4,614
	26,494	5,880	32,374

16. 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 and term deposits of \$17,815 (2019 - \$17,421) which include Public Trustees and Securities for land use permits and water licenses and oil and gas.

In addition to the 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 \$678,637 (2019 - \$640,051). The majority of these guarantees are held against water licenses issued to regulate the use of water and the deposit of waste.

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

17. CONTRACTUAL OBLIGATIONS AND RIGHTS

The Government has entered into agreements for, or is contractually committed to, the following payments subsequent to March 31, 2020:

	Expiry Date	2021 \$	2022 \$	2023 \$	2024 \$	2025 \$	2026+ \$	Total \$
Operational commitments	2048	142,670	78,717	43,510	16,729	1,326	7,431	290,383
RCMP policing agreement	2032	47,379	47,379	47,379	47,379	47,379	329,600	566,495
Commercial leases	2052	28,754	20,716	17,084	14,436	8,883	96,159	186,032
Equipment leases	2026	1,650	1,014	675	393	300	190	4,222
TCAs in progress at year end	2024	71,584	6,392	896	698	485	1,025	81,080
P3 Operational commitments	2049	10,961	11,973	15,394	16,624	17,548	473,787	546,287
P3 TCAs in progress at year end	2022	82,580	59,578	202	202	-	-	142,562
		385,578	225,769	125,140	96,461	75,921	908,192	1,817,061

Included within Commercial leases is a lease commitment of \$3.5 million per year over 30 years estimated to begin on November 21, 2022 that is subject to a CPI adjustment every five years. The adjustment will be equal to the average percentage increase or decrease in the CPI index over the preceding five years. As part of this lease commitment, the Government has a contractual right equal to annual profit sharing of 50% of the net income generated by the lessor less annual payments of \$528.

The Government has entered into agreements for, or is contractually entitled to, the following receipts subsequent to March 31, 2020:

	Expiry Date	2021 \$	2022 \$	2023 \$	2024 \$	2025 \$	2026+ \$	Total \$
Transfer Payments	2049	195,593	256,976	165,899	125,687	101,560	202,737	1,048,452
Regulatory Revenue	2026	1,154	809	809	629	151	9	3,561
Lease Revenue	2051	4,670	4,267	3,985	3,931	3,868	31,792	52,513
Licence Revenue	2039	439	371	292	240	131	512	1,985
Other	2043	5,804	727	662	656	619	10,534	19,002
		207,660	263,150	171,647	131,143	106,329	245,584	1,125,513

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

18. GUARANTEES AND CONTINGENCIES

(a) Guarantees

The Government has guaranteed residential housing loans to banks totaling \$380 (2019 - \$555) and indemnified Canada Mortgage and Housing for third party loans totaling \$8,203 (2019 - \$12,389). 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 one (2019 - three) outstanding loans to two Northern Community Futures organizations totaling \$339 (2019 - \$409). Loans provided 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 2020, one account in the amount of \$10 was assigned to BDIC (2019 - \$0).

The BDIC has two (2019 - two) outstanding irrevocable standby letters of credit totaling \$2,100 (2019 - \$2,100) that will expire in 2021. 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 (2019 - nil).

(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 \$106,630 (2019 - \$93,727). No provision for such claims has been made in these financial statements as it is not determinable that any future event will confirm that a liability has been incurred as at March 31.

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

19. TRANSFER PAYMENTS, TAXATION AND GENERAL REVENUE

	2020 \$	2019 \$
Transfer payments:		
Capital transfers	36,872	30,309
Canada Health and Social Transfer Reform Fund	66,757	64,741
Federal cost shared	97,394	77,267
Other	35,067	37,754
	236,090	210,071
Taxation:		
Corporate Income Tax	(8,781)	(4,753)
Personal Income Tax	97,789	110,609
	89,008	105,856
Other taxes:		
Cannabis	168	111
Carbon	12,611	-
Fuel	17,564	22,863
Tobacco	14,967	15,822
Payroll	42,906	43,445
Property and school levies	39,156	36,473
Insurance	5,664	5,814
	133,036	124,528
General:		
Lease	4,100	3,828
Regulatory	37,182	35,377
Sundry and other	48,868	28,341
Interest	7,658	6,678
Gain on disposition of assets	167	141
Grants in kind	3	305
	97,978	74,670
	556,112	515,125

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

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

20. EXPENSES

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

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

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2020

(All figures in thousands of dollars)

21. OVEREXPENDITURE

During the year 1 departments (2019 - 2) exceeded their operations vote by \$23 (2019 - \$5,958) and 0 departments (2019 - 2) exceeded their capital vote (2019 - \$4,597).

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 Legislative Assembly (operations)	\$23
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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".

22. SUBSEQUENT EVENTS

COVID-19

On March 22, 2020, the Government declared a public health emergency in response to the COVID-19 global pandemic. The Government implemented various programs and publicly announced supports and financial relief to individuals, businesses and organizations in response to the COVID-19 pandemic. The Government continues to assess and monitor the impact of COVID-19 on its financial condition, including the likelihood of decreased revenues and increased expenses as a direct result of the crisis. The magnitude and duration of COVID-19 is uncertain and, accordingly, it is difficult to reliably measure the potential future impact on the Government's financial position and operations.

Increase to borrowing limit

The Government of Canada approves the Government's borrowing limit pursuant to subsection 20(2) of the *Northwest Territories Act* (Canada). Effective June 12, 2020 the Government's borrowing limit was increased to \$1,800,000 by Order in Council P.C. 2020-0661, dated September 20, 2020.

Bond issuance

On September 29, 2020, the Government issued \$180,000 in bonds. The bonds are due September 29, 2051, with semi-annual interest payments at a coupon rate of 2.20% per year. The raised funds will be used to convert short-term debt to long-term debt.

Government of the Northwest Territories

Schedule A

Consolidated Schedule of Tangible Capital Assets

for the year ended March 31, (All figures in thousands of dollars)

	Land ⁵	Building and Leasehold Improvements ^{1,6}	Infrastructure and Other ^{1,2}	Roads and Bridges	Equipment ¹	Computers	Work in Progress ^{3,4}	2020	2019
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost of tangible capital assets, opening balance	23,363	1,911,286	801,778	1,737,970	262,587	150,480	494,881	5,382,345	5,116,867
Transfers	372	407,433	21,151	43,862	24,149	12,129	(509,096)	-	-
Acquisitions	-	116	268	-	2,446	-	266,797	269,627	280,365
Write-downs	-	-	-	-	-	-	-	-	(29)
Disposals	(2)	(3,927)	(2,870)	-	(6,752)	(2,675)	-	(16,226)	(14,858)
Cost of tangible capital assets, closing	23,733	2,314,908	820,327	1,781,832	282,430	159,934	252,582	5,635,746	5,382,345
Accumulated amortization, opening	-	(822,093)	(305,832)	(559,754)	(146,487)	(95,290)	-	(1,929,456)	(1,796,385)
Amortization expense	-	(59,695)	(22,531)	(46,219)	(13,428)	(11,775)	-	(153,648)	(146,662)
Disposals	-	2,496	1,456	-	6,453	2,301	-	12,706	13,591
Accumulated amortization, closing	-	(879,292)	(326,907)	(605,973)	(153,462)	(104,764)	-	(2,070,398)	(1,929,456)
Net book value	23,733	1,435,616	493,420	1,175,859	128,968	55,170	252,582	3,565,348	3,452,889

¹ Included in buildings and leasehold improvements, infrastructure and other, and equipment are assets under capital lease cost \$32,643 (2019 - \$34,018); accumulated amortization, \$11,644 (2019 - \$12,461); net book value, \$20,999 (2019 - \$21,557).

² Includes ferries, barges, airstrips, aprons, fuel distribution systems, park improvements, aircraft, water/sewer works, fences, signs, transmission and distribution systems and electric power plants.

³ Included in work in progress are costs related to P3 projects: Ticho All Season Road \$77,501 (2019 - \$32,145).

⁴ Not included in acquisitions of tangible capital assets on the statement of cash flow are non-cash items of \$49,585 (2019 - \$73,179).

⁵ Land with cost and net book value of \$0, market value \$249 (2019 - \$2,184) was contributed to third parties.

⁶ Included in buildings and leasehold improvements are capitalized costs for the Stanton Territorial Hospital Renewal P3 project \$321,211 (2019 - \$0).

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 ¹	Other Public Agencies ²	Total for All Segments	Adjustments ³	2020	2019
	\$	\$	\$	\$	\$	\$
Revenues						
Grant from the Government of Canada	1,309,278	-	1,309,278	-	1,309,278	1,256,289
Transfer payments	201,023	35,067	236,090	-	236,090	210,071
	1,510,301	35,067	1,545,368	-	1,545,368	1,466,360
Taxation, non-renewable resource and general revenues						
Corporate and personal income taxes	89,008	-	89,008	-	89,008	105,856
Other taxes	123,080	10,528	133,608	(572)	133,036	124,528
General	73,583	795,542	869,125	(771,147)	97,978	74,670
Income from portfolio investments	4,526	1,527	6,053	-	6,053	3,393
Non-renewable resource revenue	23,794	-	23,794	-	23,794	23,258
Sales	127,338	89,854	217,192	(43,148)	174,044	185,197
Recoveries	23,396	17,836	41,232	(963)	40,269	40,708
	464,725	915,287	1,380,012	(815,830)	564,182	557,610
Recoveries of prior years' expenses	14,044	-	14,044	(93)	13,951	13,625
	1,989,070	950,354	2,939,424	(815,923)	2,123,501	2,037,595
Expenses						
Grants and contributions	906,429	-	906,429	(649,749)	256,680	226,802
Operations and maintenance	633,690	392,163	1,025,853	(158,552)	867,301	803,068
Compensation and benefits	400,664	521,416	922,080	(2,917)	919,163	853,829
Change in valuation allowances	4,025	-	4,025	-	4,025	3,104
Amortization of tangible capital assets	117,412	36,190	153,602	46	153,648	146,662
	2,062,220	949,769	3,011,989	(811,172)	2,200,817	2,033,465
Annual operating surplus (deficit)	(73,150)	585	(72,565)	(4,751)	(77,316)	4,130
Projects on behalf of third parties						
Expenses	(110,635)	-	(110,635)	-	(110,635)	(111,998)
Recoveries	110,635	-	110,635	-	110,635	111,998
	(73,150)	585	(72,565)	(4,751)	(77,316)	4,130

¹ Departments consist of all those listed in Note 20 that begin with the word "Department" and the Legislative Assembly.

² Public agencies consist of those listed in Note 20 other than Departments and the Legislative Assembly.

³ 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, 2020**

**HONOURABLE CAROLINE WAWZONEK
Minister of Finance**

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Table of Contents

	Page
INTRODUCTION	5
EXECUTIVE SUMMARY - FINANCIAL HIGHLIGHTS	6
ANNUAL AND ACCUMULATED SURPLUS AND NET DEBT	9
REVENUES AND EXPENSES	10
REVENUES BY SOURCE	11
EXPENSES BY OBJECT	15
EXPENSES BY PROGRAM	17
GROSS DOMESTIC PRODUCT	19
FINANCIAL POSITION - FINANCIAL ASSETS	21
FINANCIAL POSITION - FINANCIAL LIABILITIES	22
NON-FINANCIAL ASSETS	24
CASH FLOWS	27
LONG-TERM DEBT BORROWING LIMITS	28
INDICATORS OF FINANCIAL CONDITION	30
OTHER FINANCIAL INDICATORS	36
RISKS AND UNCERTAINTIES	38
PUBLIC PRIVATE PARTNERSHIPS	39
COMPLETION OF ENTITIES CONSOLIDATED WITHIN THE PUBLIC ACCOUNTS	40

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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 of 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 (budget).

The consolidated results of operations for the fiscal year ending March 31, 2020 and the financial position as at March 31, 2020 are summarized below:

(\$ in thousands)

	Budget 2020	Actual 2020	Actual 2019
Total Revenue	2,203,952	2,123,501	2,037,595
Total Expense	2,128,619	2,200,817	2,033,465
Annual surplus (deficit)	75,333	(77,316)	4,130
Financial assets		539,808	487,341
<i>Less: Total liabilities</i>		1,850,768	1,611,923
Net debt		(1,310,960)	(1,124,582)
<u>Non-financial assets</u>		3,591,568	3,482,506

The 2020 consolidated financial statements report a deficit of \$77.3 million, which is \$152.6 million less than the original budget. Subsequent budget adjustments approved during the fiscal year are not reflected as the budget is presented in accordance with Public Sector Accounting Standards (PSAS). Budget adjustments made during the year typically reflect new information that is not known at the time the original budget is approved, as well as changes in revenues, expenses or both. Mid-year budget adjustments should be considered before any conclusions are drawn with respect to operational results.

Net debt increased by \$186.4 million in 2020, largely due to investment in capital infrastructure. This increase is mostly attributable to increases in short term borrowing and the financing related to public private partnerships (P3).

The Northwest Territories economy (real Gross Domestic Product) is estimated to have declined 8.8% in 2019, compared to the national rate of 1.7%. The 2019 real GDP decline is due to lower carat production from the diamond mines, and completion of the Stanton Hospital Renewal Project. These declines are slightly offset by an increase in oil and gas extraction.

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 revenues, that it shares with the federal government and Indigenous partner organizations, which reduces the fiscal benefit of non-renewable resource revenue 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 total 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 \$5.6 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 2020 fiscal year the Government has a net debt position of \$1.3 billion compared to net debt of \$1.1 billion at the end of the prior fiscal year. The net debt represents 61.7% 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 \$23.8 million in non-renewable resource revenues, decreased to 26.1% of total revenue in 2020 (26.9% - 2019). 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, 2020, the Government has a federally imposed borrowing limit of \$1.3 billion. Although the Government is currently under this limit, \$1.3 billion represents 59.1% of total expenses in 2020. 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.

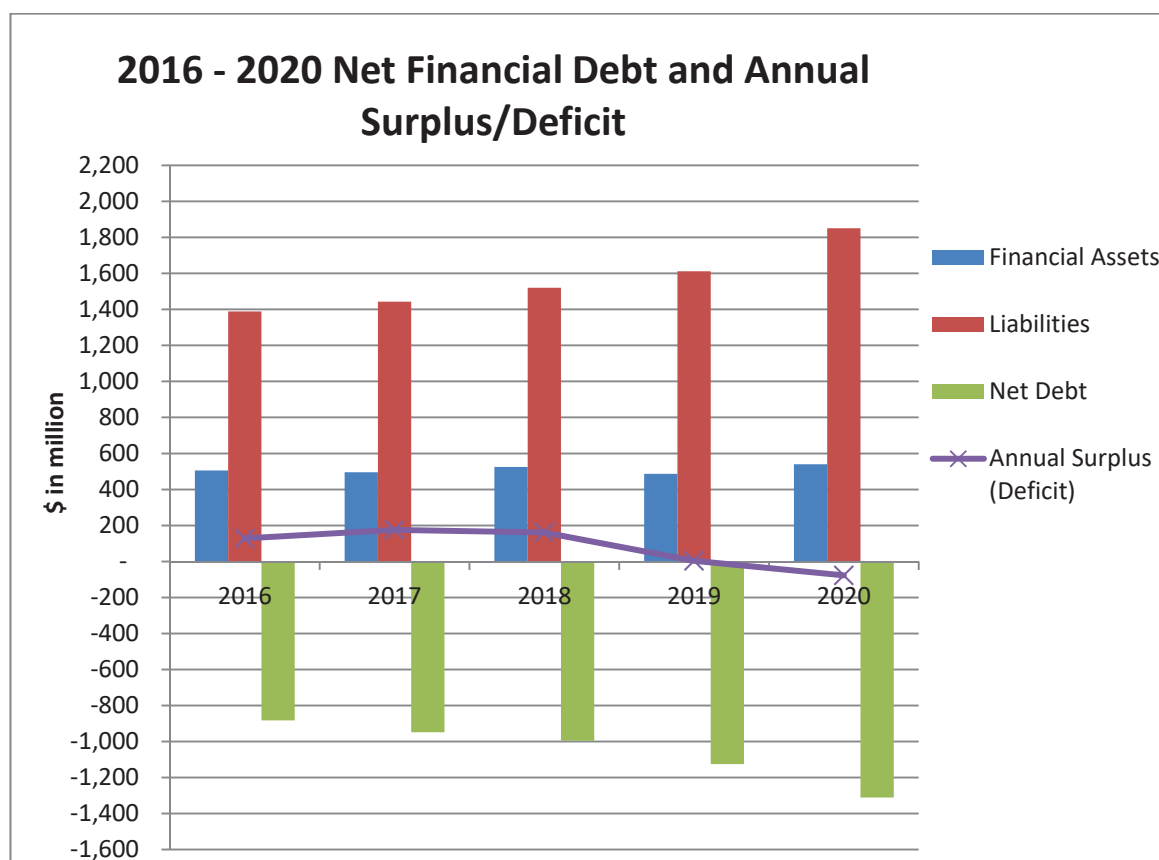
- ***Vulnerability*** – to assess the Government’s vulnerability, it is not necessary to look further than the Government’s limited own-source revenues and the volatility related to corporate and personal income taxes. The Government’s largest source of revenue is the grant and transfer payments from Canada which represent 72.8% of total revenue for the current year. The formula determining the Territorial Formula Financing Grant is established under federal legislation and will remain in effect until March 31, 2024.

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/DEFICIT 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 last five years, the Government's net debt has been increasing. This occurs as other factors that impact net debt do not impact annual surplus, most notably a reduction in cash or an increase in debt as the result of investing in infrastructure. 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/deficit at the end of each of the last five fiscal years.

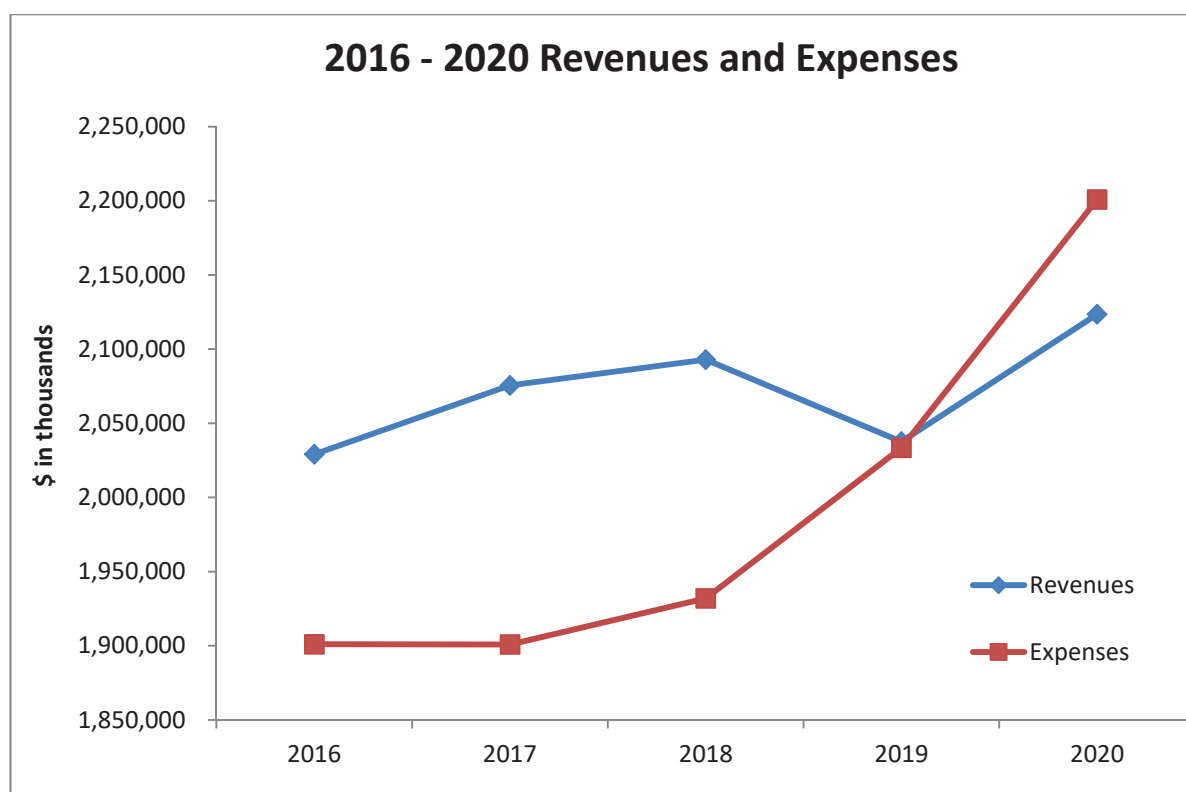


Net debt increased during the 2020 fiscal year largely due to investment in capital infrastructure. This increase continues to be mostly attributable to an increase in short term borrowing and the financing related to public private partnerships (P3).

Net debt is added to the Government's accumulated investment in non-financial assets (tangible capital assets/prepaid expenses/inventories held for use) resulting in 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.

REVENUES AND EXPENSES



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

In 2018, expenses began to increase to reflect the expenses from new revolving funds that started operating that year. In 2019, expenses increase due to an increase in operations in one of the Revolving Funds. In 2020, expenses increase due to collective agreement wage increases for all employees as well as increased Health and Social Services operational expenditures due to operating the new Stanton Hospital, compounded by including infrastructure investments deemed non capital related to the new Stanton Hospital. Revenue increases in 2020 due to a higher Territorial Formula Financing grant from Canada as a result of an increase in the Gross Expenditure Base.

REVENUES BY SOURCE

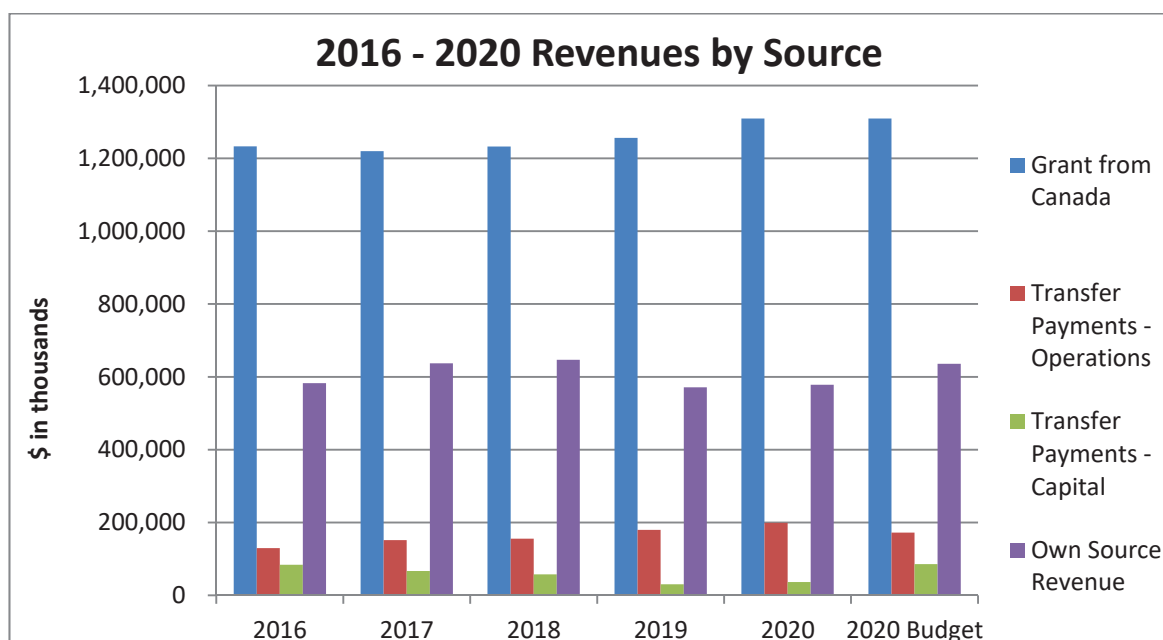
The Government funds programs and services through a combination of transfers from the federal government and own-source revenues. In order to assess the long-term sustainability of the present level of programs and services, various key indicators are monitored on an ongoing basis, including the following:

- Growth rates of revenues and expenditures;
- Changes in the net debt to revenue 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 depending on production and global commodity prices.

The Territorial Formula Financing Grant calculation is based on a 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 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 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 as revenue in the period during which the transfer is authorized and eligibility criteria are met, except when and to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. This is another significant factor that contributes to revenues being unpredictable. For large projects; 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.



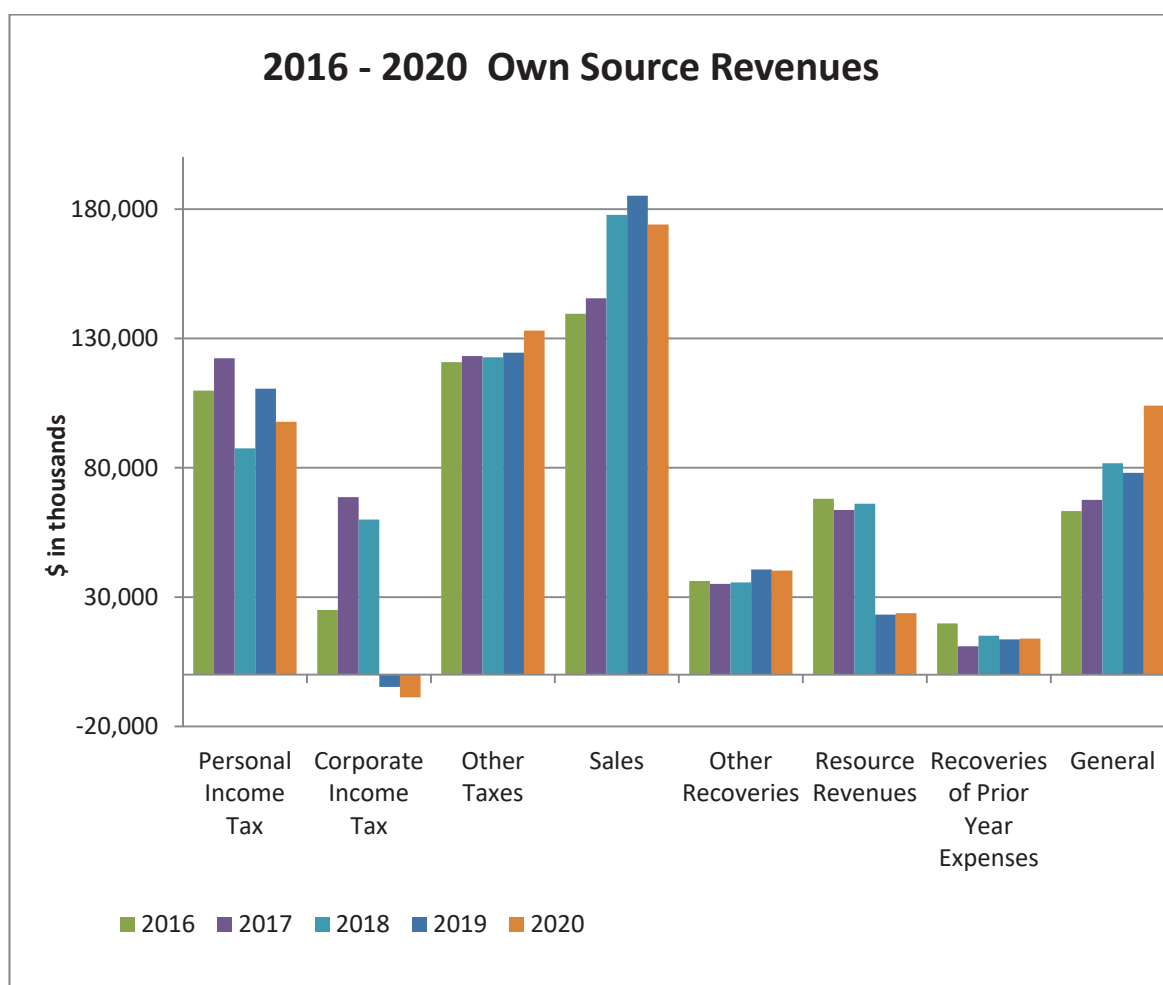
* Own source revenues include recoveries of prior year expenditures

Total revenue in 2020 is \$2.1 billion, a decrease of \$80.5 million or 3.7 per cent from the original budget. This decrease is primarily due to lower than budgeted transfer payments, non-renewable resource revenue and corporate and personal income taxes.

Territorial Formula Financing Grant from Canada

The Territorial Formula Financing Grant is \$1.3 billion in 2020, an increase of \$53.0 million from 2019. This is due to an increase in the Grant's Gross Expenditure Base of \$53.0 million. Eligible revenues and the resource revenue offset are flat compared to 2019.

The Territorial Formula Financing Grant 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 50 per cent of resource revenues, lagged by two years.



Own-Source Revenue

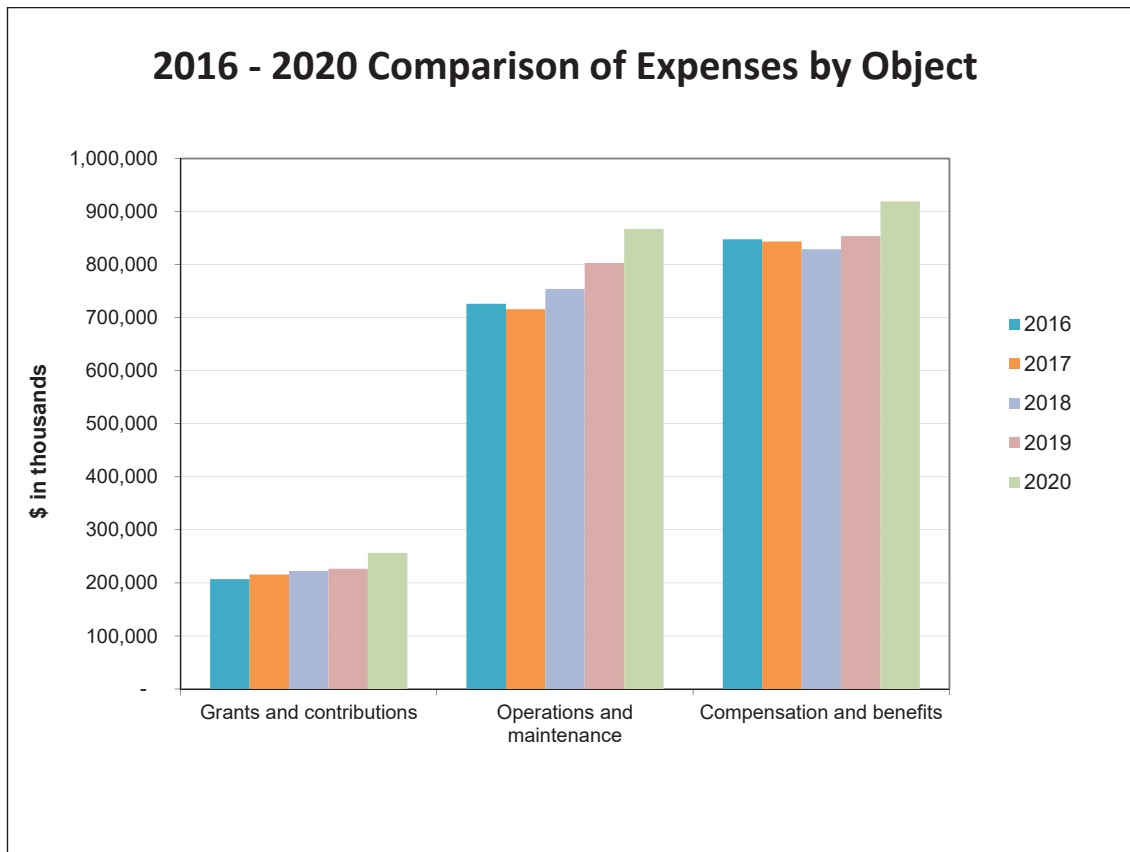
The Government's major own-source revenues, corporate and personal income tax, tobacco tax, fuel tax, and payroll tax (excluding non-renewable resource revenues), average approximately 26.1% of total revenues indicating a reliance on the Territorial Formula Financing Grant. Grants and transfer payments from Canada vary, accounting for approximately 72.8% 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 are proven to be fairly consistent over the years. Corporate income tax revenue is volatile as it is dependent upon a small base of significant taxpayers.

After a tax year ends, tax payers are required to file their income tax returns by the deadline: April 30 for personal income tax and six months after the corporation fiscal year-end for corporate income tax. Because of this delay, for a given tax year, the Government receives advance payments from Canada based on the federal estimate of the territorial tax to be collected by Canada Revenue Agency for that year. After tax payers file their income taxes, the actual territorial taxes collected are compared against the advance payments the Government received in the previous year. If the taxes collected exceed the advance payments, the Government receives an extra payment for the underpayment. Conversely, if the taxes collected fall short of the advance payments, the Government pays back the overpayment to Canada.

- In 2020, personal income tax revenues decreased by \$12.8 million from 2019 due to two factors: a \$4.6 million decrease in advance payments related to the current tax year and an \$8.2 million net reduction related to the previous year tax assessments.
- In 2020, corporate income tax revenues decreased by \$4.0 million from 2019 due to two factors: a \$14.3 million decrease in advance payments related to the current tax year offset by \$10.3 million in previous year tax assessments.

Non-renewable resource revenues increased in 2020 by \$0.5 million from 2019. Non-renewable resource revenues are subject to volatility and the revenue streams fluctuate annually based on production and work bid deposits that are forfeited. 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.

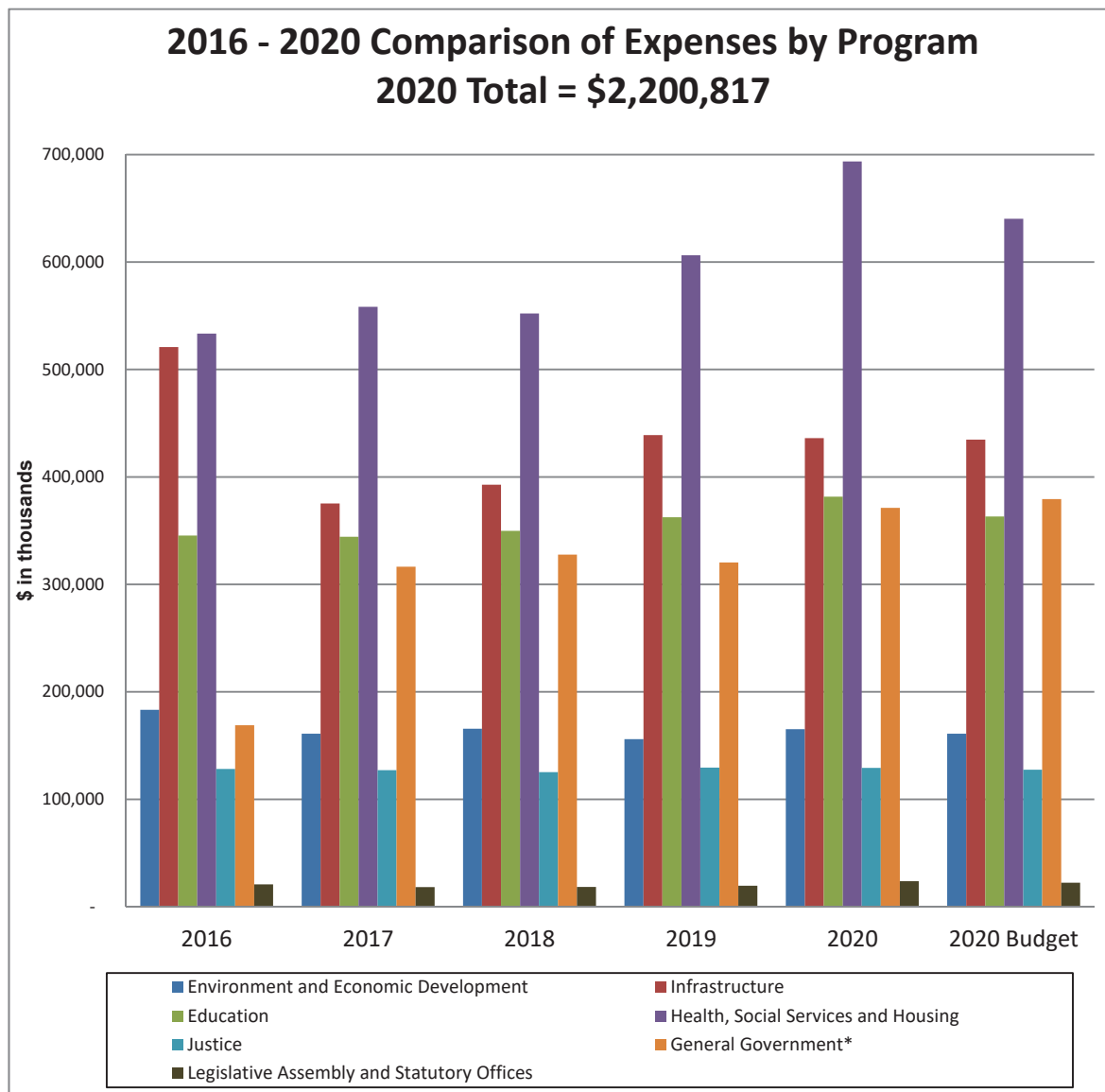
EXPENSES BY OBJECT

The graph above provides information on the consolidated Government's operations. Total expenses in 2020 are \$2.2 billion; this is 3.4% higher than budget and are 8.2% higher than 2019.

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 for operational expenses. The direct wages of the Government and its boards and agencies are vulnerable to inflation. Compensation and benefits also comprise a significant factor in determining the amount of grants and contributions given out to third parties.

EXPENSES BY PROGRAM

*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, social services and housing, general government and infrastructure), with the remaining budget allocated to justice, environment and economic development and the legislative assembly and statutory offices. 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 is \$165.3 million in 2020. This is \$4.3 million or 2.6% more than budgeted due to increased costs related to the Environment and Climate Change Canada Boreal Caribou Range Planning agreement.
- Infrastructure expense is \$436.1 million in 2020 which is consistent with the budgeted amount.
- Education expense is \$381.7 million in 2020. This is \$18.4 million or 5.1% more than budgeted mostly due to higher demand for payments related to the Income Assistance program.
- Health, social services and housing expense is \$693.7 million in 2020. This is \$53.4 million or 8.3% more than budgeted due to more than anticipated hospital and physician services provided to NWT residents outside the NWT, in addition to an increase in operations as a result of having to include infrastructure investments not deemed as capital and increased operational expenditures due to operating the new Stanton Hospital.
- Justice expense is \$129.2 million in 2020 which is consistent with the budgeted amount.
- General government expense is \$371.2 million in 2020. This is \$8.1 million or 2.1% less than budgeted largely due to the lower resource revenue transfers made to indigenous groups than budgeted.
- Legislative Assembly and statutory offices expense is \$23.7 million in 2020 which is consistent with the budgeted amount.

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.

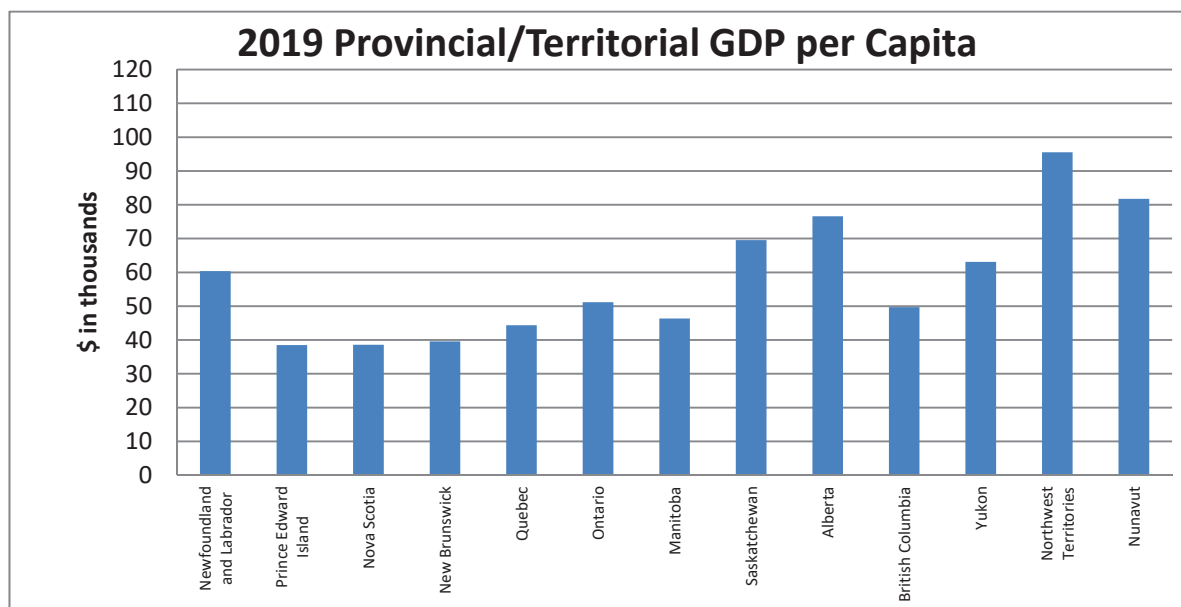
For the NWT, Statistics Canada estimated GDP is \$4.3 billion for 2019, which represents 8.8% decrease relative to prior year. This decline is due to lower carat production from the diamond mines, and completion of the Stanton Hospital Renewal Project. These declines are slightly offset by an increase in oil and gas extraction.

Real Gross Domestic Product at Basic Prices, calendar years 2018 and 2019
Canada, Provinces and Territories
Millions of Chained (2012) Dollars

	2019	2018	Percent Change
Canada	1,972,155	1,939,593	1.7
Northwest Territories	4,302	4,716	-8.8
Nunavut	3,156	2,974	6.1
Yukon	2,618	2,593	1.0
British Columbia	253,049	246,260	2.8
Alberta	334,172	336,281	-0.6
Saskatchewan	81,541	82,166	-0.8
Manitoba	63,487	62,863	1.0
Ontario	744,440	730,276	1.9
Quebec	377,043	367,075	2.7
New Brunswick	30,745	30,447	1.0
Nova Scotia	37,441	36,663	2.1
Prince Edward Island	6,052	5,789	4.5
Newfoundland and Labrador	31,588	30,383	4.0

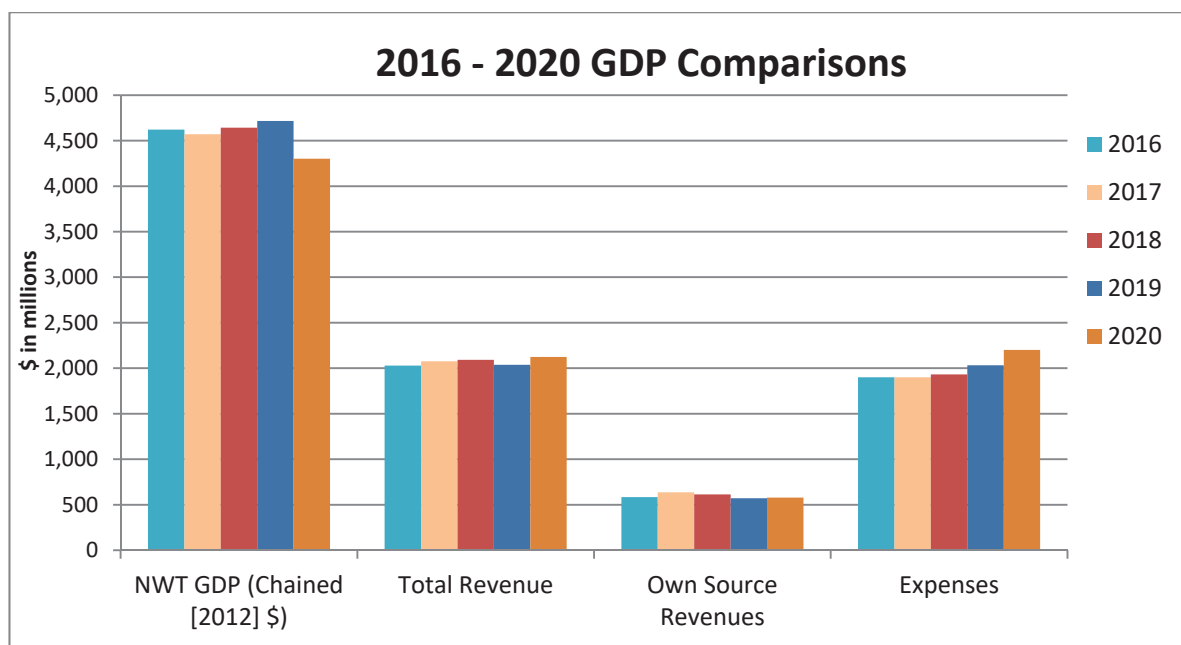
Source: Statistics Canada

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

GROSS DOMESTIC PRODUCT (continued)

Based on July 1, 2019 population estimates of Statistics Canada

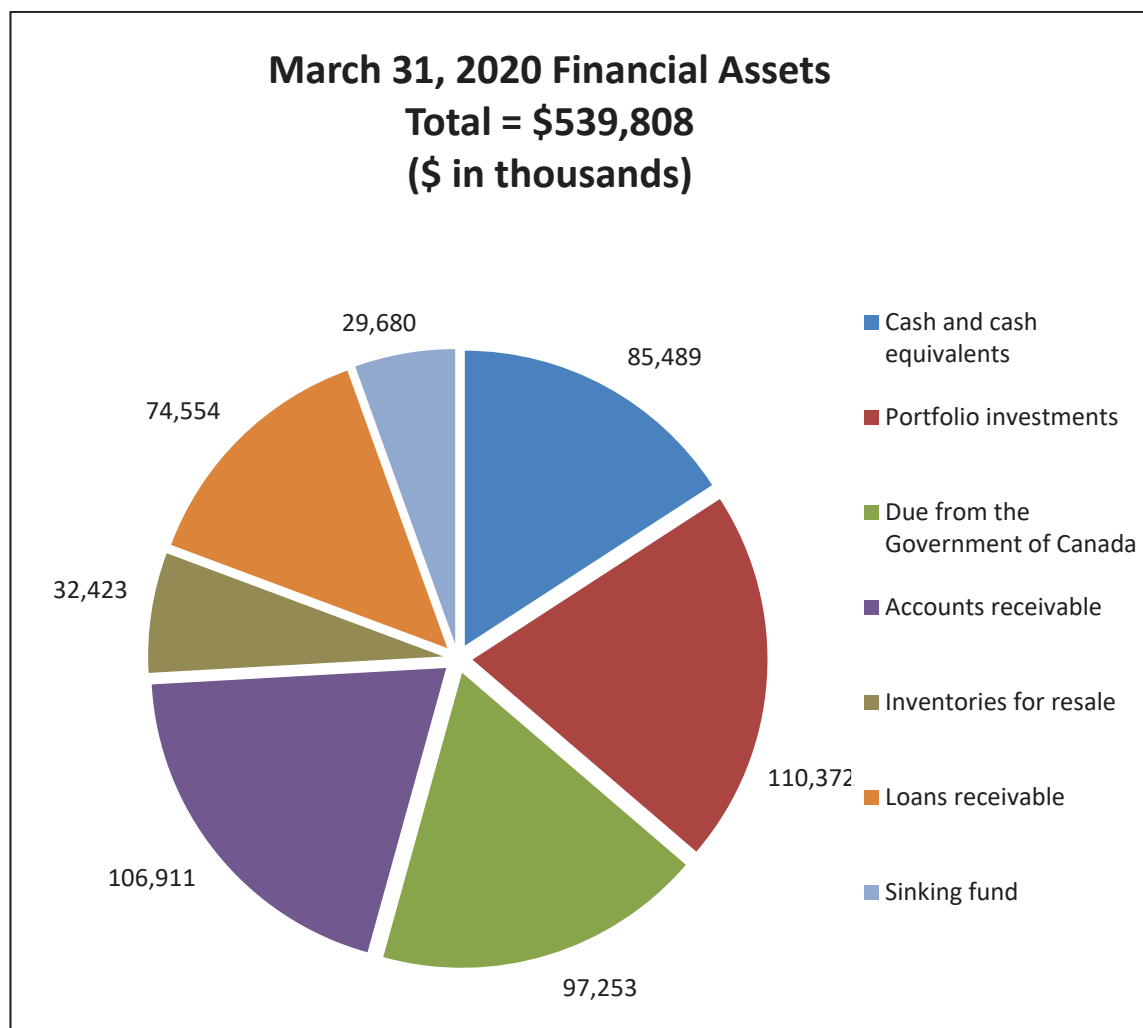
The NWT currently has the highest GDP per capita in Canada. This is an important indicator to note when considering GDP statistics as it shows that while the NWT has a relatively small population our economy is large by comparison.



* NWT GDP is based on a calendar year, while the balance of the information is based on the fiscal year end (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.

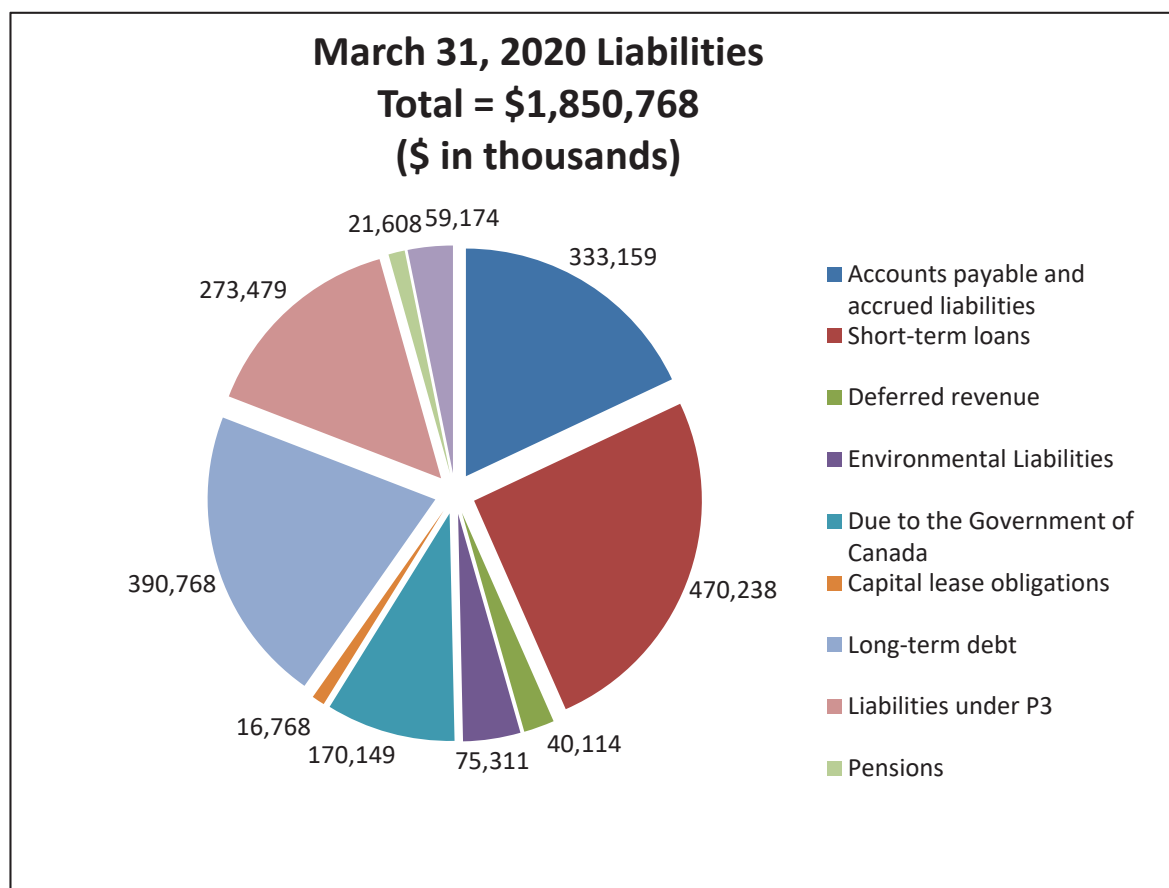


The above graph illustrates the composition of the Government's financial assets.

Approximately 15.8% 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 \$539.8 million in financial assets available to discharge liabilities of approximately \$1.9 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.

Environmental Liabilities

Environmental Liabilities are included within Liabilities. The nature of the Government's programs and services exposes the Government to costs associated with remediation of any site contamination that occurred as a result of government operations. These costs make up the Environmental Liabilities amount disclosed in the Public Accounts - Section I (note 10). In addition to its own sites, the liability may include contaminated sites where the Government has accepted responsibility. A summary of the 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 Public Sector Accounting Standards, as well as responsible stewardship. When a site is suspected of contamination, the first step is to determine if the contamination is above an environmental standard. If the investigation determines that an environmental standard has been exceeded then the site is included within the Government's inventory of contaminated sites.

Only sites that are non-operating or high priority due to a risk to human health or property are assigned a value. 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 assessments 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 in a systematic approach that considers risk, available resources, coordination of efforts and a short summer season.

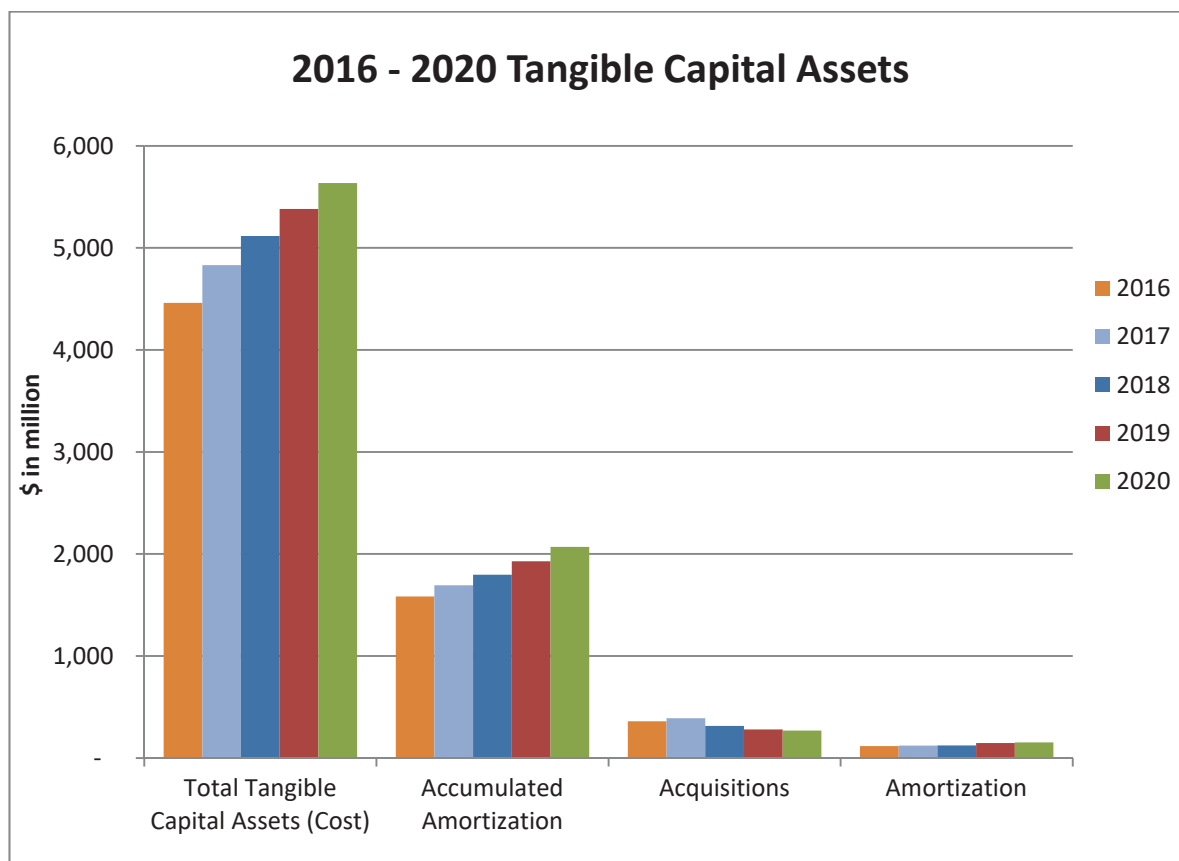
NON-FINANCIAL ASSETS

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 (TCAs) 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 of TCAs include roads, schools and hospitals.

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



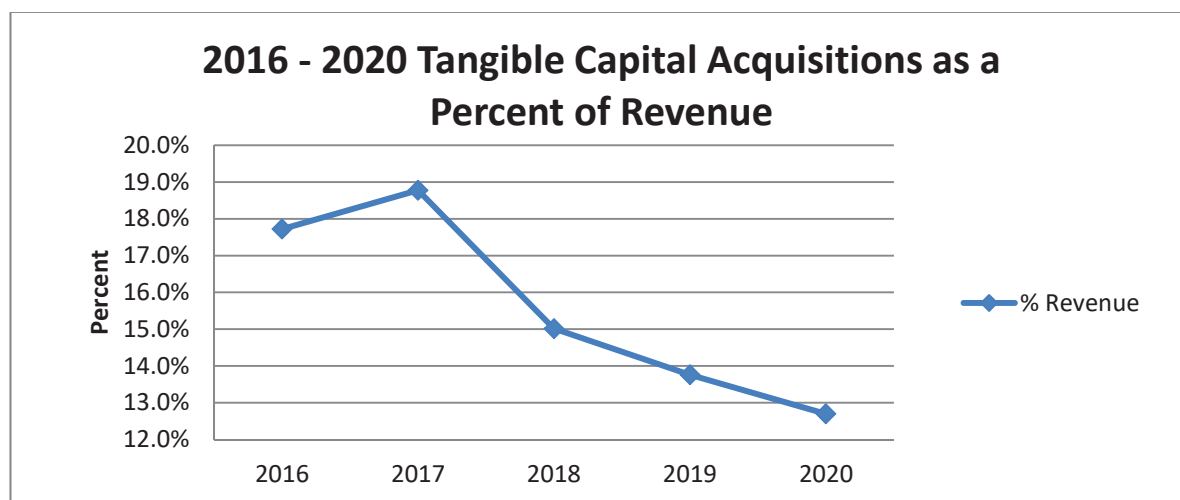
Tangible capital assets (at cost) do not include adjustments for contributions that may have been received to offset the cost. For further details regarding tangible capital assets refer to Schedule A in the Consolidated Financial Statements included in Section I of the Public Accounts.

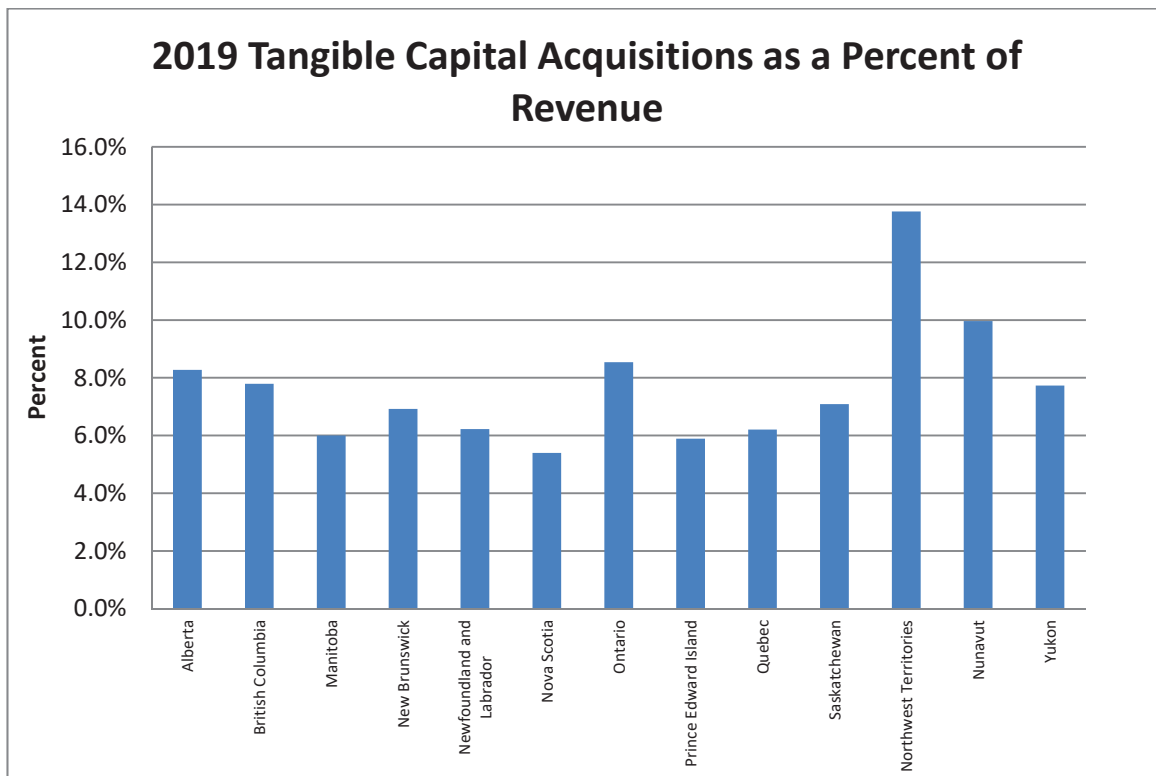
The Government plans its capital expenditures to ensure that existing tangible capital assets are replaced or expanded in a timely manner in conjunction with the Government's direction, priorities and fiscal strategy. The breakdown of capital investment categories is located in the Public Accounts – Section I (Schedule A).

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 is needed for replacement and growth. This illustrates a continued commitment to invest in NWT infrastructure (including education and health care facilities). In the 2020 fiscal year, the Government placed \$509.1 million worth of new assets into service (2019 - \$200.7 million). The most significant being the new Stanton Territorial Hospital.



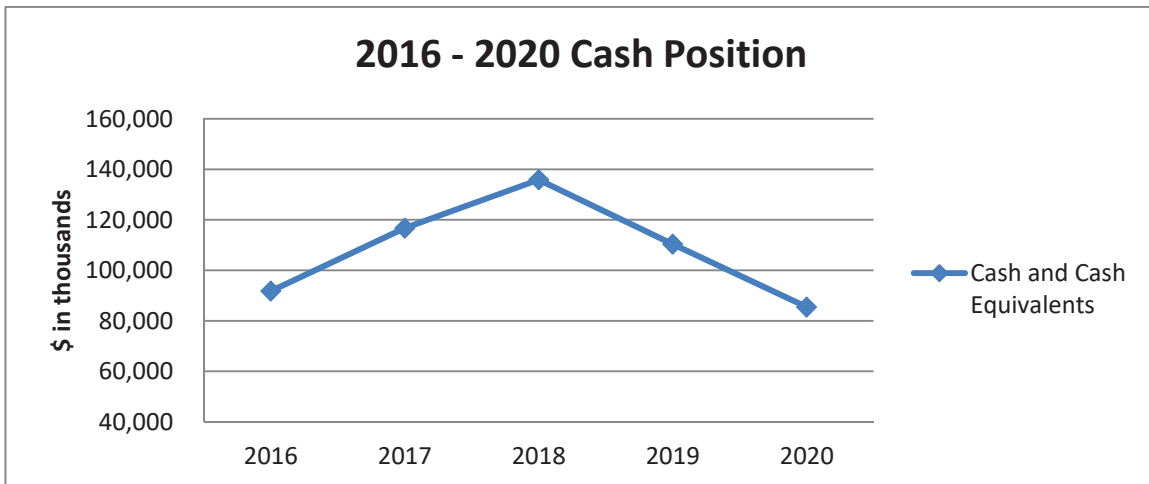


Source: Figures calculated based on 2018-19 Provincial/Territorial Public Accounts

In the past 5 years, the Government's acquisition of tangible capital assets as a percentage of revenue has ranged from 13.8% to 18.8%. In 2019, at 13.8%, the Government is the highest percentage of revenue invested in infrastructure compared to other Territories and Provinces.

CASH FLOWS

The statement of cash flow reports on the sources and uses of cash during the year. The Government's overall cash position decreased by \$24.9 million; from \$110.4 million in 2019 to \$85.5 million in 2020.

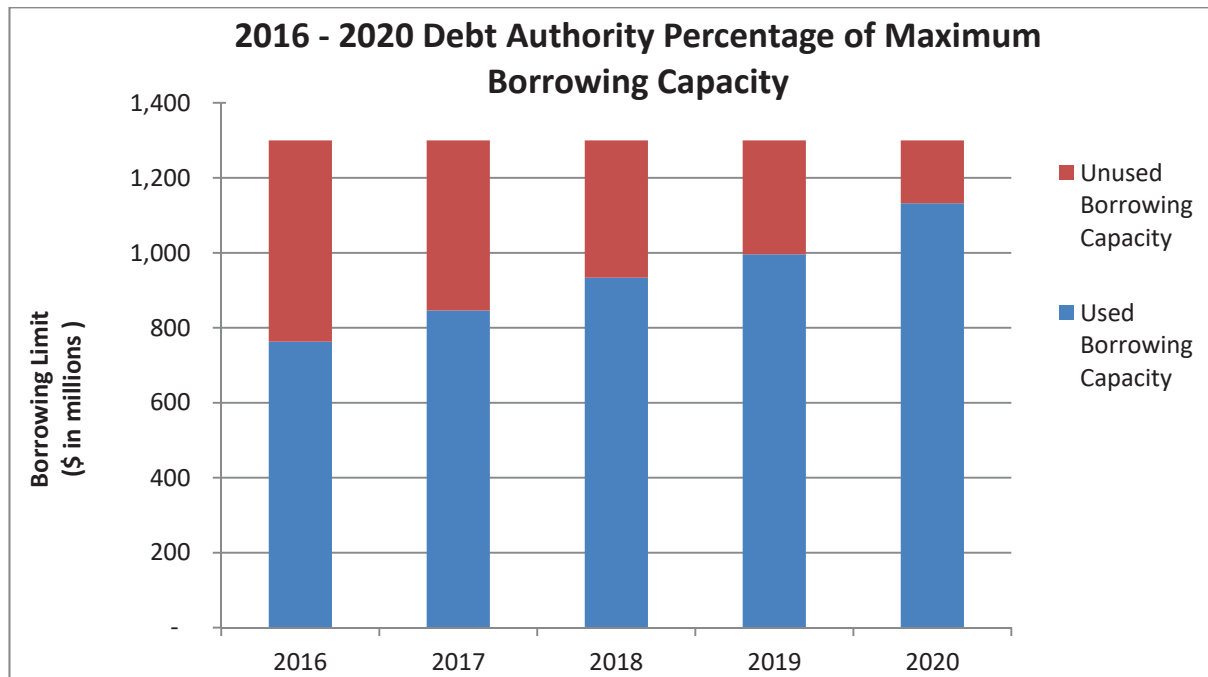


The primary source of cash is operations in public agencies and proceeds from short term loans. Cash is used to meet operational expenses, reduce liabilities and to pay for the Government's investment in infrastructure. More detail is available on the Statement of Cash Flows within the Section I of the Public Accounts.

LONG-TERM DEBT BORROWING LIMITS

The Government has a Fiscal Responsibility Policy which guides borrowing decisions while ensuring flexibility is provided to plan for its future infrastructure needs. The Government has obtained a credit rating of Aa1 from Moody's Investors Service which has been stable since 2007; 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.

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 12).



The NWT requires a significant investment in infrastructure. As part of its fiscal management strategy, the Government has a Fiscal Responsibility Policy which 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 holds 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.

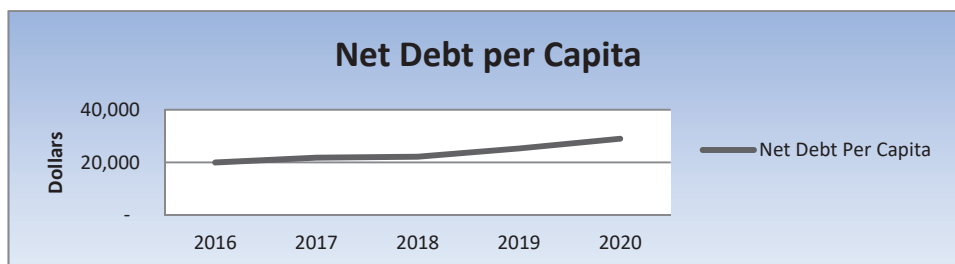
INDICATORS OF FINANCIAL CONDITION

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 employees, creditors, and others. The following assessment of the Government's financial condition considers three elements: sustainability, flexibility and vulnerability.

Specific Measures of the Fiscal Responsibility Policy

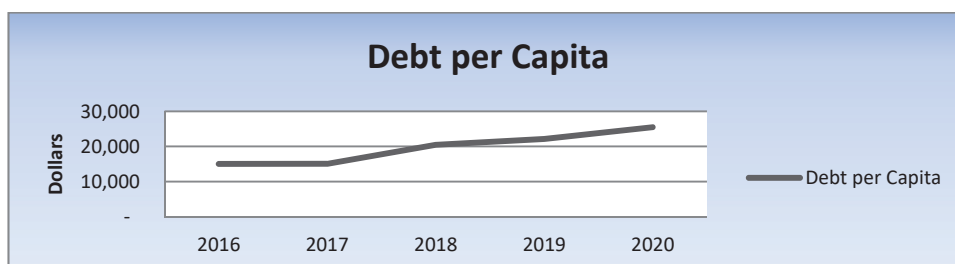
The Government's Fiscal Responsibility Policy requires that the following measures are to be assessed on a consolidated basis as part of its determination of the affordability of any proposed increases in its consolidated debt level.

- 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.



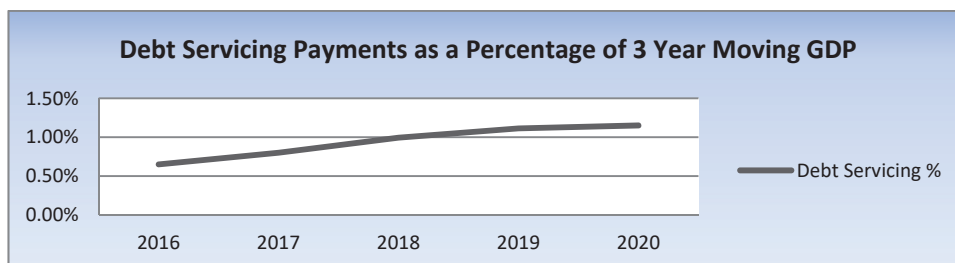
Net debt for the Northwest Territories increased by 14.7%, from \$25,317 per capita in 2019 to \$29,029 per capita in 2020. The increase is mainly due to the increase in short term borrowing and an increase in P3 obligations.

- 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.



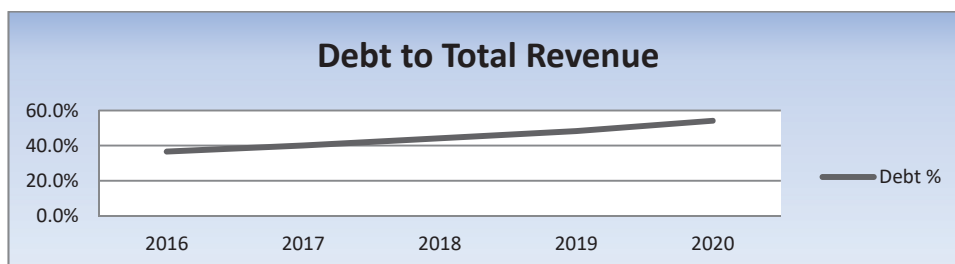
Debt per capita increased by 15.2%; from \$22,135 per capita in 2019 to \$25,492 per capita in 2020. As with net debt per capita, this is mainly due to the increase in short term borrowing and an increase in P3 obligations.

- iii) Debt servicing payments (interest and principal) as a percent of a 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.



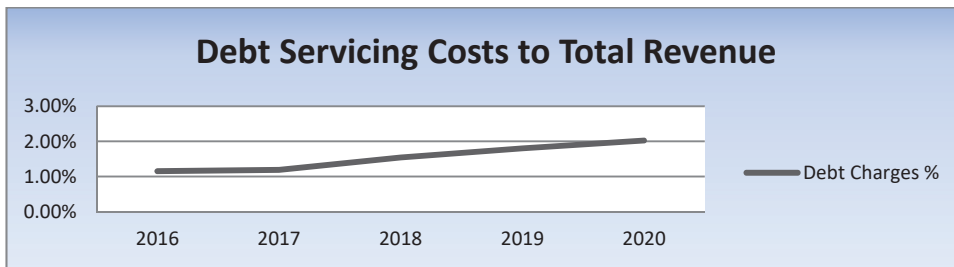
Debt servicing payments as a percentage of GDP for the Northwest Territories increased from 1.11% in 2019 to 1.15%, in 2020 due to the lower GDP and lower debt payments in 2020.

- iv) Debt to total revenue is an indicator of the change in debt in proportion to the change in revenue, where decreasing ratios are positive indicators 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.



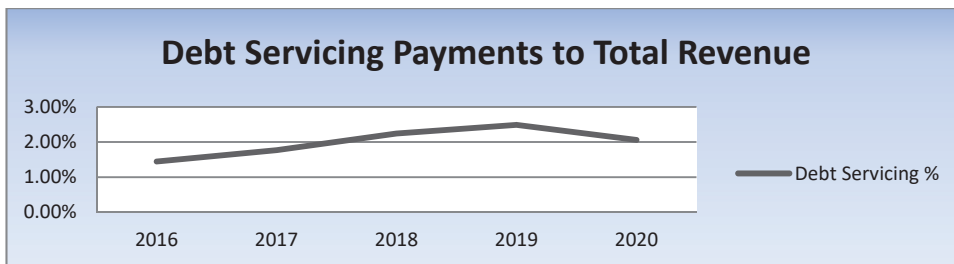
The Government's debt to total revenue has increased from 48.3% in 2019 to 54.2% in 2020 mainly due to the increase of P3 obligations and increase in short term borrowing. An increase in this ratio is slowly occurring as the Government has stagnant revenue while there has been an increase in debt.

- 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.



The Government's debt servicing costs to total revenue has increased from 1.8% in 2019 to 2.0% in 2020 due to increased short term borrowing and P3 debt.

- 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.



The Government's debt servicing payments to total revenue has decreased from 2.5% in 2019 to 2.1% in 2020. This is due to a slight increase in revenue with less debt service payments in 2020.

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 is able to fully meet the 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)

	2020	2019
	(\$ in Millions)	
Policy Provision 6(5)(a)- Debt Servicing Payments		
Revenues (Public Accounts - Section II, Schedule A, pg 36)	1,835	1,756
<i>Maximum Debt Servicing Payments- 5% of Revenues</i>	92	88
Debt Servicing Payments		
Short-Term Interest Expense (Public Accounts - Section II, note 7, pg 17)	8	5
Deh Cho Bridge (Public Accounts - Section II, note 12, pg 22)	9	9
P3 Debt Servicing (Public Accounts - Section II, note 13, pg 24)	14	10
Total Debt Servicing Payments	31	24
Actual Debt Servicing Payments as a % of Revenues	1.67%	1.38%
Provision 6(3)- Infrastructure Financing		
Capital Acquisitions (Public Accounts - Section II, Schedule 4, pg 47)	200	233
Less: P3 Items - Out of Scope (Public Accounts - Section II, pg 23)		
Stanton Territorial Hospital P3 (Health and Social Services)	-	(50)
Tlcho All Season Road (Public Accounts - Section II, pg 23)	(43)	(21)
<i>Cash Required for Infrastructure Investment Expenditures</i>	157	162
<u>Operating Cash Required</u>		
<i>Total Operating Cash Requirement for 50% of infrastructure investment</i>	78	81
<u>Cash Generated From Operations</u>		
Operating Surplus (Public Accounts - Section II, Statement of Operations, pg 2)	(71)	(25)
Add Non Cash Item - Amortization (Public Accounts - Section II, Statement of Cash Flow, pg 4)	117	110
<i>Total Operating Cash Available</i>	46	85
Net cash surplus (deficit) for 50% of Infrastructure Investment	(32)	4
Total Borrowing Requirement for Infrastructure		
Cash Required for total Infrastructure Investment Expenditures	157	162
Total Operating Cash Available	46	85
<i>Total Borrowing Requirement for 100% of Infrastructure Investments</i>	111	77

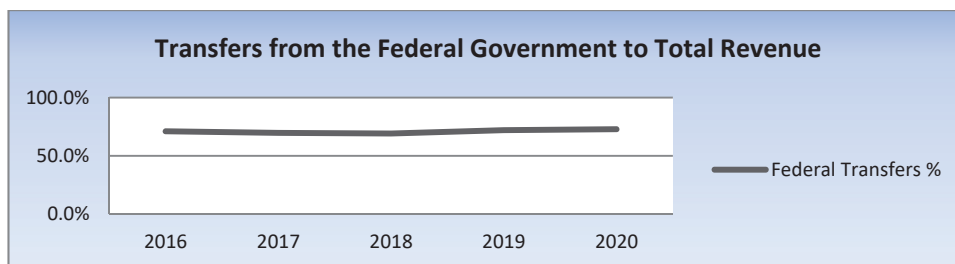
Conclusion

For the 2020 year, the Government is compliant with the Affordable Debt section of the Fiscal Responsibility Policy. Non-consolidated debt serving costs were 1.7% of non-consolidated annual revenue, which is less than the 5.0% limit.

The Government is not compliant with the Infrastructure Financing section of the policy, as the Government was not able to generate cash from operating surpluses to meet the minimum 50.0% requirement for infrastructure investments. The Government generated \$46.0 million of cash from operations within the non-consolidated Public Accounts; however, the Government was required to generate \$78.0 million under the policy.

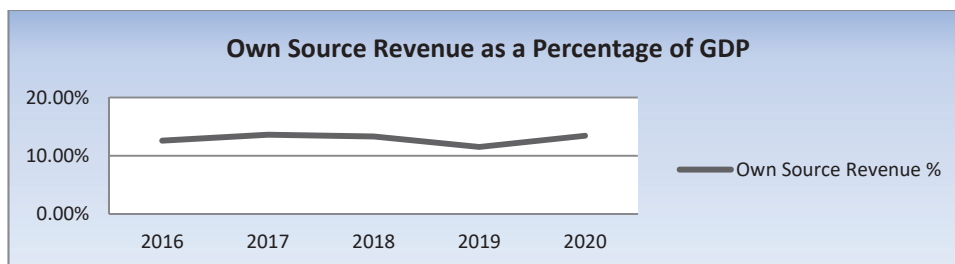
OTHER FINANCIAL INDICATORS

- 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.



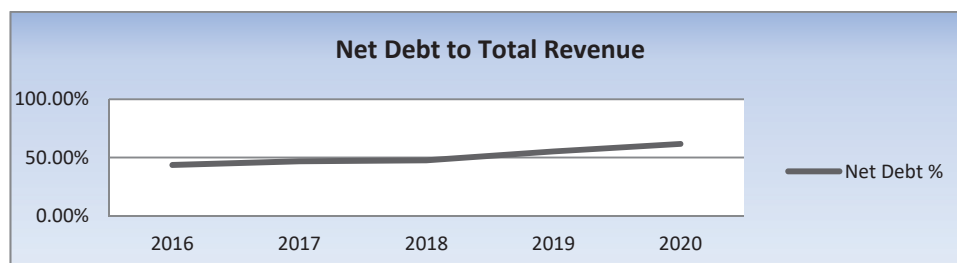
Total revenue from federal government transfers has increased slightly from 72.0% in 2019 to 72.8% in 2020. The total share of own source revenue is decreasing resulting in a continued reliance on the Territorial Formula Financing Grant from Canada.

- 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.



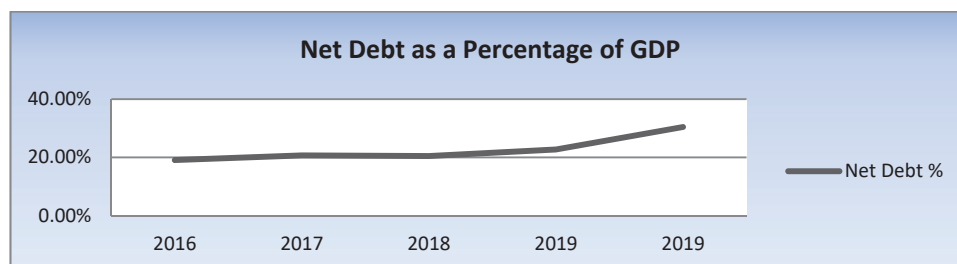
As indicated in the graph above, own source revenue as a percentage of GDP has remained relatively stable, with a small increase in 2020 due to the lower GDP and higher general revenue from 2019.

- 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 55.2% in 2019 to 61.7% in 2020 mainly due to the increase in short term borrowing and P3 obligations. An increase in this ratio is slowly occurring as the Government has stagnant revenue while there have been increases in net debt due to investment in tangible capital assets.

- 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.



Net debt for the Northwest Territories increased as a percentage of GDP from 22.7% in 2019 to 30.5% in 2020. The increase in this ratio is a result of increasing net debt on a shrinking economy.

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 natural 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;
- 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

P3 project under construction:

Tłıchq All-Season Road

The Government entered into an agreement with North Star Infrastructure GP on February 13, 2019 to design, build, operate and maintain the Tłıchq All-Season Road. Construction is anticipated to be completed in November 2022 with North Star Infrastructure GP operating and maintaining the new facility until 2047. Upon completion, there will be average operations and maintenance costs of \$6.0 million per year, totaling \$149.6 million for the duration of the contract, before indexing for the CPI.

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 Tłıchq All-season Road will not only provide year-round access to Whatì but will also increase the window of access to the communities of Gamètì and Wekweètì.

This project will maximize the involvement of Northern businesses. Road construction and maintenance will result in employment and training opportunities for Tłıchq and Northern residents.

(\$ in 000's)	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Annual Expenditures						
Government	279	2,271	4,682	3,546	2,198	12,976
P3 Partner	-	-	-	21,367	43,158	64,525
Total Annual Expenditures	279	2,271	4,682	24,913	43,356	77,501
Project cost not yet in service	279	2,550	7,232	32,145	77,501	

Additional detail on P3's is reflected in the Public Accounts – Section 1 (notes 13 and 17)

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-Sep-19		30-Aug-19
Commission scolaire francophone Territoires du Nord-Ouest	28-Sep-19		23-Sep-19
Dehcho Divisional Education Council	28-Sep-19		27-Sep-19
Dettah District Education Authority	28-Sep-19		27-Sep-19
N'dilo Divisional Education Council	28-Sep-19		25-Sep-19
Sahtu Divisional Education Council	28-Sep-19		25-Sep-19
South Slave Divisional Education Council	28-Sep-19		02-Aug-19
Yellowknife Catholic Schools	28-Sep-19		19-Sep-19
Yellowknife No.1 District Education Authority	28-Sep-19		10-Sep-19
Aurora College	28-Sep-19	27-Nov-19	21-Nov-19
Northwest Territories Health and Social Services Authority	29-Jun-20	28-Aug-20	25-Aug-20
Hay River Health and Social Services Authority	29-Jun-20		02-Jul-20
Tlicho Community Services Agency	29-Jun-20	28-Aug-20	27-Aug-20
Arctic Energy Alliance	29-Jun-20		23-Jun-20
Northwest Territories Hydro Corporation	29-Jun-20	28-Aug-20	23-Oct-20
Northwest Territories Business Development and Investment Corporation	29-Jun-20	28-Aug-20	27-Aug-20
Northwest Territories Heritage Fund	29-Jun-20	29-Jul-20	21-Jul-20
Northwest Territories Housing Corporation	29-Jun-20	28-Aug-20	27-Aug-20
Northwest Territories Human Rights Commission	29-Jun-20		26-Jun-20
Inuvialuit Water Board	29-Jun-20		08-Jun-20
Northwest Territories Sport and Recreation Council	29-Jun-20		26-May-20
Status of Women Council of the Northwest Territories	29-Jun-20	28-Aug-20	29-Jun-20
Northwest Territories Surface Rights Board	29-Jun-20		29-Jun-20