

17th Legislative Assembly of the Northwest Territories

Standing Committee on Government Operations

Report on the Review of the
2013-2014 Public Accounts

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REPORT ON THE REVIEW OF THE 2013-2014 PUBLIC ACCOUNTS

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EXECUTIVE SUMMARY

The Standing Committee on Government Operations is pleased to present its third and final report on its review of the public accounts during the term of the 17th Legislative Assembly. The review of the 2013-2014 Public Accounts of the Northwest Territories took place in two parts this year:

1. On January 22 and 23, 2015, the Standing Committee examined the public accounts of the GNWT, with the assistance of staff from the Office of the Auditor General of Canada and the Office of the Comptroller General in the GNWT's Department of Finance.
2. On February 12, 2015, with the assistance of staff from NT Hydro, the Standing Committee reviewed the consolidated financial statements of the Northwest Territories Hydro Corporation (NT Hydro) and its subsidiary companies the Northwest Territories Power Corporation (NTPC) and the Northwest Territories Energy Corporation (03) Limited [NT Energy Corp. (03) Ltd.].

The Standing Committee thanks officials from the Offices of the Auditor General of Canada, the Comptroller General in the GNWT's Department of Finance and NT Hydro Corporation for appearing before the Committee.

The Standing Committee wishes to acknowledge the dramatic improvement made by the Department of Finance and all GNWT departments, boards and agencies, in the timely completion of the public accounts.

The practice of reviewing the public accounts fell out of favour with previous assemblies owing, in part, to the late completion of the public accounts. The GNWT has improved the timeliness of completion of the public accounts to the point where it may not be practically feasible to complete the public accounts any earlier than they are now being done.

The Standing Committee encourages continued improvement for those public agencies still struggling to complete their public accounts on time and encourages the GNWT, as a whole, to keep up the good work in the years to come.

2013-2014 RECOMMENDATIONS

As a result of this year's review of the 2013-2014 Public Accounts, the Standing Committee on Government Operations makes the following recommendations to the Government of the Northwest Territories:

1. The Standing Committee on Government Operations again recommends that the Minister of Finance provide the Committee with the interim public accounts by August 31st, in time for Committee review of the Government's business plans.
2. The Standing Committee on Government Operations again recommends that the Department of Finance continue to work with the Auditor General of Canada and GNWT departments, boards, and agencies to complete the interim and final public accounts at the earliest possible date each year and in time for their respective statutory reporting deadlines.
3. The Standing Committee on Government Operations again recommends that, as part of the standard reporting process, the Comptroller General include a list of public agencies in the consolidated public accounts that did not meet the deadline for completion of their audits.
4. The Standing Committee on Government Operations again recommends that the Government of the Northwest Territories continue to provide updated timetables or schedules for the environmental assessment of all known potentially contaminated sites for which the GNWT is responsible, to be included annually in the public accounts.
5. The Standing Committee on Government Operations recommends that, to enhance transparency, the Government of the Northwest Territories improve the quality-of-reporting in the public accounts, including providing a detailed explanation of how the government met the requirements of its *Fiscal Responsibility Policy* for the year in question.
6. The Standing Committee on Government Operations recommends that, in the interests of transparency and accountability, the Department of Finance share the findings and recommendations of the Internal Audit Bureau with the Committee in confidence, particularly where the Government of the Northwest Territories relies on those findings and recommendations as substantiation for actions taken.
7. The Standing Committee on Government Operations recommends that the Department of Finance require all public agencies to include a management discussion analysis in their year-end reports.

8. The Standing Committee on Government Operations recommends that the Government of the Northwest Territories provide a response to this report within 120 days.

**STANDING COMMITTEE ON
GOVERNMENT OPERATIONS**

**REPORT ON THE REVIEW OF THE
2013-2014 PUBLIC ACCOUNTS**

INTRODUCTION

About the Public Accounts

The Government of the Northwest Territories' (GNWT) provides an annual report to legislators and the public detailing how it has managed public money for a given fiscal year. These consolidated financial statements, also known as the public accounts, are prepared in accordance with Canadian public sector accounting standards and applicable sections of the *Northwest Territories Act (Canada)* and the territorial *Financial Administration Act* and its regulations. The public accounts constitute one important way that the territorial government accounts to its residents for the decisions it makes.

The Office of the Comptroller General, a branch of the Government of the Northwest Territories' (GNWT) Department of Finance, is responsible for preparation of the public accounts.

The public accounts are presented in four sections and provide an accounting of the full nature and extent of the financial affairs and resources for which the government is accountable.

Section I outlines the financial position (ie. Consolidated Statement of Financial Position; Consolidated Statement of Change in Net Debt) of the government reporting entity as at March 31, and the results of operations and its cash flows (ie. Consolidated Statement of Operations and Accumulated Surplus; Consolidated Statement of Cash Flows) for the fiscal year ended on March 31. This section also includes additional important information in the form of Notes to Consolidated Financial Statements (referred to in this report as "notes to the financial statements") and an unaudited narrative of key financial indicators affecting the GNWT's finances.

The government reporting entity, established under the financial accounting standards of the Public Sector Accounting Board of Canada, includes core GNWT departments and a number of public agencies and organizations controlled by the territorial government, such as territorial crown corporations, regional health authorities and education boards, local housing organizations and

other public agencies, such as Aurora College and the Northwest Territories Human Rights Commission. A list of the organizations included in the government reporting entity is included under Note 1 to the consolidated financial statements and is also included in this report under the part on timeliness of the public accounts.

Section II presents the non-consolidated, unaudited financial statements for GNWT departments, the Legislative Assembly, and Statutory Offices. This section shows the operating results of core government departments alone, separate from the territorial crown corporations, boards and agencies included in the consolidated financial statements. Also included in this section are notes to the non-consolidated financial statements.

Section III contains the financial statements of other entities and revolving and special purpose funds.

Section IV contains the financial statements of education boards and health and social services authorities.

Role of the Auditor

The Auditor General of Canada audits the GNWT's consolidated financial statements on an annual basis. The Auditor General also annually audits the public accounts of some of the GNWT's larger public agencies, such as the NT Hydro Corporation, the Northwest Territories Power Corporation, the NWT Housing Corporation, Aurora College and the Northwest Territories Business Development and Investment Corporation.

Smaller public agencies, such as regional health authorities and education boards are audited by independent auditors, upon whose work the Auditor General relies in carrying out its audit of the GNWT's consolidated financial statements.

The objective of the auditor is to provide an independent opinion on whether:

- The consolidated financial statements are presented fairly, in accordance with Canadian public sector accounting standards;
- The accounting principles in public sector accounting standards have been applied on a consistent basis;
- Proper books of account have been maintained and the consolidated financial statements are in agreement therewith; and
- Transactions coming to the notice of the auditor have, in all significant respects, been in accordance with specified authorities.

To achieve these objectives, the auditor undertakes a risk-based audit approach that focuses on significant risks of material misstatement and non-compliance

with significant authorities. Materiality is an important concept in auditing, related to the importance or significance of an amount, transaction or discrepancy. It is up to the auditor to determine, based on professional judgment, what errors in the public accounts are material.

For each department, board or agency whose books are audited, the independent auditor prepares an audit report that addresses each of the audit objectives. These reports are included in the public accounts along with the financial statements for each entity.

Role of the Legislative Assembly

The Legislative Assembly of the Northwest Territories' Standing Committee on Government Operations (SCOGO or "the Committee") has a mandate to review and report on the public accounts, to ensure that the GNWT's fiscal management practices and issues are publicly examined and that government accountability is scrutinized.

In the course of its review, the Committee makes recommendations to the government intended to improve financial management practices and reporting. The Committee looks forward to receiving the government's response to this review.

REVIEW OF THE GNWT PUBLIC ACCOUNTS FOR 2013-2014

Introduction

This is the Standing Committee on Government Operations' third and final report on its review of the public accounts during the term of the 17th Legislative Assembly. The review of the 2013-2014 Public Accounts of the Northwest Territories took place in two parts this year:

1. On January 22 and 23, 2015, the Standing Committee examined the public accounts of the GNWT, with the assistance of staff from the Offices of the Auditor General of Canada and the Comptroller General in the GNWT's Department of Finance.
2. On February 12, 2015, with the assistance of staff from NT Hydro, the Standing Committee reviewed the consolidated financial statements of the Northwest Territories Hydro Corporation (NT Hydro) and its subsidiary companies the Northwest Territories Power Corporation (NTPC) and the Northwest Territories Energy Corporation (03) Limited [NT Energy Corp. (03) Ltd.].

Acknowledgements

The Standing Committee wishes to thank the following officials for their travel to and appearances before the Standing Committee, which greatly contributed to the completion of another successful review:

Office of the Auditor General of Canada:

- Mr. Terry DeJong, Assistant Auditor General (Ottawa)
- Mr. Guy LeGras, Principal (Edmonton)

Office of the Comptroller General, GNWT Department of Finance (Yellowknife):

- Mr. Bill Merklinger, Comptroller General
- Ms. Louise Lavoie, Assistant Comptroller General

Northwest Territories Hydro Corporation (Hay River):

- Mr. Emmanuel DaRosa, President and CEO
- Ms. Judith Goucher, Chief Financial Officer

The Standing Committee on Government Operations is pleased to present this report on its review.

Timeliness of the Public Accounts

The *Financial Administration Act* s. 74 states that, unless the Legislative Assembly otherwise fixes a date, the public accounts for the fiscal year must be tabled on or before December 31st following the end of the fiscal year or, if the Legislative Assembly is not then in Session, not later than 15 days after the commencement of the next session of the Legislative Assembly.

Standing committee reviews of the public accounts did not take place during the 15th and 16th Legislative Assemblies. This was largely because the public accounts were not being completed in a timely manner in accordance with statutory requirements. This delay impeded past standing committee reviews and contributed to the discontinuation of the practice of reviewing the public accounts.

When the Standing Committee on Government Operations of the 17th Legislative Assembly reinstated the practice of annually reviewing the public accounts, which began with the *2011-12 Public Accounts*, they gave detailed consideration to the factors which had impeded past standing committee reviews.

The Committee found that a confluence of factors had contributed to delaying the government's completion of the public accounts. These included: significant changes to Canadian public sector accounting standards; implementation of the government's new SAM (System for Accountability and Management) Software;

and delays by some public agencies in meeting their statutory reporting requirements.

Since the Standing Committee re-established the practice of reviewing the public accounts, the GNWT, has shown dramatic improvement in completion times for the public accounts. The table below shows the deadlines and delivery dates for the interim and consolidated public accounts over the last five years.

	2009-10	2010-11	2011-12	2012-13	2013-2014
Interim Public Accounts Deadline for completion*	September 30, 2010	September 30, 2011	August 31, 2012	August 31, 2013	August 31, 2014
Interim Public Accounts Tabled	November 3, 2010	December 15, 2011	October 18, 2012	September 30, 2013	August 29, 2014
Consolidated Public Accounts Deadline	March 4, 2011	February 17, 2012	February 17, 2013	February 20, 2014	February 20, 2015
Consolidated Public Accounts Tabled	May 10, 2011	February 16, 2012	February 18, 2013	November 6, 2013	October 23, 2014

**Note: Section 51 of the Financial Administration Act requires completion of the Interim Public Accounts by September 30 following the end of the fiscal year and tabling at the earliest opportunity. The August 31 deadline was established at the request of the 17th Assembly SCOGO and, therefore, does not apply to previous years.*

Members acknowledge this notable achievement and commend the Comptroller General and his staff for their continued dedication to completion of the public accounts at the earliest possible date each year. The Committee feels that, with the completion of the 2013-2014 Public Accounts, the Department of Finance has improved the timeliness of the public accounts to the point where it might not be feasible to complete these reports any earlier than they are now.

Therefore, the Committee has chosen to repeat its recommendations in this area, with the intention of encouraging the Department of Finance to keep up the good work and to strive to meet these deadlines in future years.

Recommendation 1

The Standing Committee on Government Operations again recommends that the Minister of Finance provide the Committee with the interim public accounts by August 31st, in time for Committee review of the Government's business plans.

Recommendation 2

The Standing Committee on Government Operations again recommends that the Department of Finance continue to work with the Auditor General of Canada and GNWT departments, boards, and agencies to complete the interim and final public accounts at the earliest possible date each year and in time for their respective statutory reporting deadlines.

Having said this, the Committee notes again this year that there are particular agencies included within the government reporting entity that, for varying legitimate reasons, were unable to meet the submission deadline for their audited public accounts.

The Committee acknowledges receipt from the Minister of Finance, on January 23, 2015, of a list of the public agencies included in the consolidated financial statements, showing the deadlines for completion of their individual financial statements and the actual dates these were completed. The Committee has combined this list with the one received last year, to review progress over two years, and has attached the blended list to this report as Appendix A.

With respect to the individual agency deadlines, the Committee observed marked improvement over the previous year. In 2012-13, three of the twenty-five agencies listed requested an extension to their deadlines and met those extended deadlines. An additional eight agencies neither met their individual deadlines nor requested an extension. Of those eight agencies, two were more than one month late submitting their financial statements, and two were more than three months late.

For 2013-2014, three agencies (Aurora College, the NWT Business Development and Investment Corporation [BDIC] and the NWT Housing Corporation) requested extensions to their deadlines. Of these, only the BDIC was successful in meeting its extended deadline. In addition to Aurora College and the NWT Housing Corporation, two other agencies did not meet their deadlines: the Beaufort Delta Divisional Education Council and the South Slave Divisional Education Council. The financial statements for all four of the agencies that were late were completed within one month after the deadline.

The difficulty experienced by the NWT Housing Corporation in completing its financial statements on time is a source of ongoing concern for the Committee. Despite this concern, the Committee notes that the NWT Housing Corporation continues to make improvements to the timely submission of its financial statements. In 2012, its financial statements were signed off on November 9. In

2013, the sign-off date was October 23. For 2014, the NWT Housing Corporation's financial statements were completed by September 17.

With a deadline that falls at the end of June, there is room for even greater improvement. The Committee therefore encourages the NWT Housing Corporation to continue to improve the timeliness of its reporting, with the goal of meeting its statutory obligations. Should this prove impossible, the NWT Housing Corporation should seek approval for an extension to its deadline and provide the House with reasons for the delay.

The Committee reiterates its view that the timeliness of reporting as required by law is an important part of government accountability. In the past, the Committee has stressed the importance of appending the public agency deadline list to the public accounts, as part of the standard reporting process, so that it becomes part of the public record and offers further encouragement to public agencies to complete their financial statements on time.

In its response to last year's review, the Minister of Finance noted that:

"In January 2014, the GNWT reported to SCOGO on the timing of audit completions for all agencies that were consolidated within the 2012-13 Public Accounts. Going forward, the GNWT will include disclosure within the Public Accounts on any board or agency that fails to meet its reporting deadline."

The Committee notes that the failure to include the public agency deadline list in the 2014 Public Accounts was an oversight on the part of the Department of Finance and is reassured by the commitment to include this information in the public accounts going forward. The Committee's recommendation in this regard is repeated as a reminder of the importance of including this information in future public accounts.

Recommendation 3

The Standing Committee on Government Operations again recommends that, as part of the standard reporting process, the Comptroller General include a list of agencies in the consolidated public accounts that did not meet the deadline for completion of their audits.

SECTION 1: CONSOLIDATED FINANCIAL STATEMENTS AND GOVERNMENT INDICATORS

Independent Auditor's Report: A Clean Opinion

The Standing Committee reviewed the Independent Auditor's Report on the GNWT's consolidated financial statements, provided by the Auditor General of Canada, Mr. Michael Ferguson.

The Auditor General expressed the opinion that *"the consolidated financial statements present fairly, in all material respects, the financial position of the GNWT as at March 31, 2014, and the results of its operations, changes in its net debt, and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards."* This indicates that the consolidated public accounts were free from material misstatements.

Again this year, Members were pleased to see that the Auditor General's opinion on the public accounts contained no qualifications and was, therefore, a clean opinion.

As required by the federal *Northwest Territories Act*, the Auditor General reported that Canadian public sector accounting standards were applied on a basis consistent with that of the previous fiscal year.

The Auditor General also expressed the opinion that proper books of account were kept by the GNWT in 2013-2014 and that the consolidated financial statements are in agreement with those books.

Finally, the Auditor General reported that, in all significant respects, the transactions that came to his attention during the course of the audit were carried out in accordance with the GNWT's powers under the *Northwest Territories Act* (Canada) and its regulations, and the *Financial Administration Act* (NWT) and its regulations and the specific operating authorities of the territorial government and its departments, boards and agencies, as detailed in Note 1 to the consolidated financial statements.

During the course of its review, the Committee learned from the Auditor General that there were no new or revised accounting standards for the 2013-2014 fiscal year and was alerted to changes in public sector accounting standards that will be in effect for future years.

Consolidated Statement of Financial Position

The consolidated statement of financial position is the Government's "balance sheet" as at March 31, 2014. The key figures describing the financial position of

the GNWT are: financial assets, liabilities, net debt, non-financial assets, and the accumulated surplus.

Financial Assets

In 2013-2014, the GNWT's total financial assets increased by \$28.101 million (6.5%) to \$458.035 million from \$429.934 million in 2012-13. This compares with a 1.3% increase in total financial assets during the previous fiscal year:

- Cash and cash equivalents decreased by \$7.537 million (10.7%) to \$62.924 million from \$70.461 million in 2012-13.
- Portfolio investments increased by \$16.659 million (23.0%) to \$89.174 million from \$72.515 million. As indicated in Note 5 to the financial statements (*2013-2014 Public Accounts*, p. 23), of this \$89.174 million, \$89.108 million was held in marketable securities with a market value of \$92.183 million. The remaining \$66,000 was held in miscellaneous investments.
- Monies owing from the Government of Canada increased by \$6.158 million (28.0%) to \$28,154 million from \$21.996 million.
- Accounts receivable increased by \$6.121 million (9.8%) to \$68.304 million from \$62.183 million.
- Loans receivable increased by \$877,000 (14.6%) to \$61.141 million from \$60,264 million. Details on loans receivable are provided in Note 9 to the financial statements (*2013-2014 Public Accounts*, p. 26).
- Investment in the NWT Hydro Corporation increased by \$5.233 million (4.7%) to \$115.790 million from \$110.577 million.
- Charges were filed by the Workers' Safety and Compensation Commission against the Corporation and two of its employees regarding an event that occurred in 2013 while clearing a transmission line near Fort Smith. Notes indicate that it is too early to determine whether costs may be incurred by the Corporation as a result of these charges.

Liabilities

Liabilities are the Government's debts and financial obligations. Total liabilities increased by \$53.915 million (7.0%) to \$821.915 million in 2013-

2014 from \$768.0 million in 2012-13. This compares with a 13% decrease in liabilities during the previous fiscal year:

- Short term loans increased by \$39.947 million (38.1%) to \$144.909 million from \$104.962 million. According to Note 11 to the financial statements (*2013-2014 Public Accounts*, p. 28), the interest paid on short term loans in 2013-2014 was \$737,000.
- Accounts payable and accrued liabilities increased by \$43.117 (19.2%) to \$267.282 million from \$224.165 million. According to Note 12 to the financial statements (*2013-2014 Public Accounts*, p. 28), accounts payable included \$1.831 million to the NWT Hydro Corporation and \$2,000 payable to the Workers' Safety and Compensation Commission (total = \$1.833 million).
- Accrued liabilities include:

Trade.....	\$163.889 million
Other Liabilities.....	\$8.630 million
Employee and Payroll-related...	\$64.952 million
Environmental Liabilities.....	\$27.327 million
Accrued Interest.....	\$.651 million
Total	\$265.449 million

Note 21(a) to the financial statements on page 38 (*2013-2014 Public Accounts*) provides details on the liabilities associated with the remediation of contaminated sites for which the government is responsible. Since last year, the GNWT has identified an additional three sites requiring remediation, bringing the total to 129. The balance of the GNWT's share of the Giant Mine remediation is \$3.052 million (2013: \$3.162 million). The total owing to remediate sites for which costs are known is estimated at \$27.327 million (2013: \$23.183 million).

- Deferred revenue decreased by \$13.413 million (31%) to \$29.910 million from \$43.323 million. Per Note 13 to the financial statements (*2013-2014 Public Accounts*, p. 29), deferred revenue mainly consists of funds received from Canada for the construction of airports, bridges and highways. The amount of \$29.910 million breaks down to: Ministry of Finance - \$5,802 million; Building Canada Plan - \$18,870 million; Inuvialuit Implementation Fund - \$100 million; and non-federal - \$5,138 million.
- The amount owing to the Government of Canada decreased by \$16.085 million (13.8%) to \$100.832 million from \$116.917 million.

Per note 14 to the financial Statements (*2013-2014 Public Accounts*, p. 29), payables owing to the Government of Canada include excess income tax advanced, advances for projects on behalf of Canada and miscellaneous payables. Note 14 shows the repayment schedule for excess income tax advanced.

- There was a decrease in the government's capital lease obligations which were down \$1.150 million (26.6%) to \$3.181 million from \$4.331 million. Further detail on these lease obligations and associated interest expenses is provided in Note 15 to the financial statements (*2013-2014 Public Accounts*, p. 30).

Net Debt

Net debt represents the difference between the government's financial assets and its liabilities. The GNWT's net debt increased this year by \$25.814 million (7.6%) to \$363.880 million from \$338.066 million in 2012-13. This compares with a 26.2% decrease in net debt during the previous fiscal year.

Net debt is discussed in greater detail below under the heading *Consolidated Statement of Change in Net Debt*.

Non-financial Assets

The value of the government's non-financial assets increased by \$110.380 million (5.4%) to \$2,149,418,000 (\$2.15 billion) from \$2,039,038,000 (\$2.04 billion) in 2012-13. This compares with a 26.7% increase in the value of non-financial assets during the previous fiscal year.

Non-financial assets are made up of inventories, prepaid expenses and tangible capital assets (land, buildings, equipment, leasehold improvements, computers and other things – such as roads, bridges, airstrips, water and sewer works, ferries and medical and mobile equipment) that are used to provide services to the public. Schedule A (*2013-2014 Public Accounts*, Sec. 1, p. 42) provides a summary of tangible capital assets.

Accumulated Surplus or Deficit

The Government's accumulated surplus or deficit represents the net assets of the Government, and is calculated as the difference between the government's non-financial assets and its net debt.

The GNWT's accumulated surplus increased by \$84.566 million (5.0%) to \$1,785,538,000 (\$1.786 billion) in 2013-2014 from \$1,700,972,000 (\$1.701 billion) in 2012-13. This compares with an increase of 47.7% during the previous fiscal year.

The accumulated surplus is discussed in greater detail below under the heading *Consolidated Statement of Operations and Accumulated Surplus*.

Consolidated Statement of Change in Net Debt

In the Consolidated Statement of Change in Net Debt, those items affecting the net debt position of the Government are detailed. The GNWT started 2013-2014 with a net debt of \$338.066 million. The net debt for 2013-2014 increased by \$25.814 million, ending the fiscal year at \$363.880 million. This is a 7.6% increase over the course of the fiscal year.

The items that had the greatest impact contributing to the increase in the net debt include: an annual surplus, which came in at \$84.5 million, \$14.6 million lower than the budgeted \$99.1 million; and spending on the acquisition of tangible capital assets which exceeded the budget by \$90.9 million.

Consolidated Statement of Operations and Accumulated Surplus

The Statement of Operations and Accumulated Surplus indicates the surplus or deficit from operations for the year by reporting the income (revenues) the Government has realized, the cost of services provided (expenses), and the difference between the two (annual surplus). The accumulated surplus is the ongoing tally of the operating surpluses and deficits over the years.

- The GNWT's total revenues for 2013-2014 decreased by \$16.370 million to \$1,776,065,000 (\$1.776 billion) from \$1,792,435,000 (\$1.792 billion) in the previous fiscal year. This 0.9% decrease compares with a total revenue increase of 16.7% during the previous fiscal year.
 - Generally speaking, the grant from Canada and transfer payments were up by 2.8%, while own-source revenues, including corporate and personal income taxes were down by a total of 5.9%.
 - Overall revenues exceeded budget by \$45.110 million, a variance of 2.6%.

Expenses for 2013-2014 increased by \$72.794 million to \$1,696,732,000 (\$1.697 billion) from \$1,623,938,000 (\$1.624 billion) in 2012-13. This increase of 4.5% compares with a 5.9% increase in expenses during the previous fiscal year.

- Expenses increased in all spending categories, including general government, which is comprised of Aboriginal Affairs and Intergovernmental Relations, Executive, Finance and Human Resources.
 - This year, the environment and economic development portfolio had the smallest expenditure increase (0.6%) while the largest was in health, social services and housing (7.9%).
 - Overall expenses exceeded budget by \$58.343 million, a 3.6% variance.
- Despite the drop in revenues and increase in expenses, the GNWT still managed to finish 2013-2014 with an annual operating surplus of \$79.333 million, which is a decrease of \$89.164 million (52.9%) from the 2012-13 fiscal year end.
- Net investment income from the NWT Hydro Corporation was also down in 2013-2014, showing a 19.4% decrease from the previous year.

The GNWT finished 2013-2014 with a year-end accumulated surplus of \$1,700,972,000 (\$1.701 billion). This represents a 5% increase in the accumulated surplus from the start of the fiscal year to its end and compares with an 11.5% increase in the accumulated surplus from the start to the finish of 2012-2013.

Consolidated Statement of Cash Flow

The *Consolidated Statement of Cash Flow* reports the change in cash and cash equivalents in the year and how the Government financed its activities and met its cash requirements. The Consolidated Statement of Cash Flow itemizes the cash used by the Government during the fiscal year for operating, investing and capital transactions, and financing activities. The GNWT uses the indirect method for reporting this information. This method begins with the operating surplus/deficit and adds or deducts non-cash items.

- During the fiscal year, *operating transactions* provided the GNWT a net cash total of \$173.240 million, as compared with \$199.391 million in during the previous fiscal year.
- *Investing transactions* cost the GNWT a net total of \$16.114 million in 2013-2014. This is comparable to 2012-13, when the net total of cash used for investing transactions was \$18.752 million.

- *Capital transactions* (the acquisition and disposal of tangible capital assets), cost the GNWT \$203.414, as compared with \$141.729 million the previous year.
- *Financing activities* netted the GNWT cash in totalling \$38.751 million in 2013-2014, whereas they cost the GNWT \$36.224 million in 2012-13.
- The GNWT saw net decrease in *cash and cash equivalents* in 2013-2014, in the amount of \$7.537 million, compared to a net increase of \$2.686 million in the previous year.
- The GNWT started the 2013-2014 fiscal year with cash and cash equivalents totalling \$70.461 million, compared to \$67.775 million at the start of 2012-13.
- When the net decrease/increase is added to the government's figures for cash and cash equivalents at the start of each fiscal year, the result totals \$62.924 million and \$70.461 million for the end of the fiscal years 2013-2014 and 2012-13 respectively. These are the figures reported under Financial Assets on the first line of the *Consolidated Statement of Financial Position* (p. 11).

Key Notes to the Financial Statements – Note 21: Environmental Liabilities

Again this year, the Standing Committee reviewed the contaminated sites for which the GNWT is responsible. The following information about environmental liabilities is reported in the key notes:

- The GNWT has identified 129 sites (2013 – 126) potentially requiring environmental remediation as at March 31, 2014. Where an estimate can be determined for remediation costs, a liability is recorded in accordance with public sector accounting standards in the year in which the remediation costs become known.
- Total known remediation costs for sites for which the GNWT is responsible = \$27.327 million:
 - Giant Mine has been formally designated as contaminated under the *Environmental Protection Act* (NWT). The balance of the GNWT's share of the above-ground remediation is \$3.052 million.
 - 31 active or decommissioned landfill sites lie outside of incorporated communities. Further analysis is required to assess the extent, if any, of the GNWT's liability.
 - Of the 97 sites remaining, the majority have been investigated and are awaiting full environmental assessments. These include: 15

airports-related sites; 18 sewage lagoons; 14 fuel tank sites; and 10 highway sites. Known remediation costs for which the GNWT is responsible total \$24.275 million.

The Committee acknowledges the receipt of information on the status of sites with known or potential contamination for which the GNWT is responsible and appreciates the opportunity to review this information during the annual review of the public accounts. The Committee asks that Members continue to be provided with updated information at regular intervals.

Recommendation 4

The Standing Committee on Government Operations recommends that the Government of the Northwest Territories continue to provide updated timetables or schedules for the environmental assessment of all known potentially contaminated sites for which the GNWT is responsible, to be included annually in the public accounts.

Government Indicators – Fiscal Responsibility Policy

In last year's report, the Standing Committee took the opportunity to address matters respecting the GNWT's *Fiscal Responsibility Policy*. This important policy is intended to govern fiscal management and borrowing, setting limits and restrictions on government when managing or borrowing fiscal resources. For example:

- To finance infrastructure investment in accordance with the policy, the government must fund a minimum of 50% of infrastructure expenditures from cash generated from operating surpluses and 50% maximum through short- or long-term debt.
- If debt servicing payments exceed 5% of total revenues, the government is required to generate additional operating surpluses in the following two years so that by the third year the debt servicing payments are brought back below the 5% threshold.
- The government is prohibited from borrowing to pay for day-to-day operating requirements.

When this policy was implemented, the Minister of Finance and Chair of the Financial Management Board of the day indicated that the government will be held accountable to this policy by reporting on the debt management results of the government through the public accounts. With a view to increased public

accountability, the Committee asked that future public accounts include a detailed explanation, perhaps in the unaudited “government indicators” section, indicating how the government performed for that fiscal year vis-à-vis the *Fiscal Responsibility Policy*.

The government responded positively to this request, noting that “The GNWT will include additional information related to any borrowing activity undertaken under the *Fiscal Responsibility Policy* within the Public Accounts” [TD 94-17(5), p. 5].

The *Fiscal Responsibility Policy* identifies performance criteria against which government borrowing will be measured. In previous years, the GNWT has noted these performance criteria under the Government Indicators heading in Section 1 of the Public Accounts. This year, the GNWT has provided additional information on the performance of the GNWT’s borrowing against these criteria:

- I. Ratio of government debt to revenue: A decreasing ratio is a positive indicator that the rate of increase in consolidated revenue is greater than the rate of increase in total government debt, excluding guaranteed debt. *Objective*: In relation to the provinces, the NWT shall be in the lowest 4. *Outcome*: The NWT was ranked 3rd lowest among the provinces and territories from 2008-09 to 2012-13.
- II. Debt per capita ratio: A decreasing ratio is a positive indicator that the debt burden, on a per person basis is going down. *Objective*: In relation to the provinces, the NWT shall be in the lowest 5. *Outcome*: The NWT was ranked 5th lowest among the provinces and territories from 2008-09 to 2012-13.
- III. Debt servicing (interest) costs as a percentage of revenue: A measure of the extent to which government revenues are being applied to debt charges, rather than to programs, services, or tax reduction. *Objective*: In relation to the provinces and territories, the NWT shall be in the lowest 4. *Outcome*: In 2013, the NWT was ranked 2nd lowest among the provinces and territories.
- IV. Debt servicing payments as a percentage of revenue: A measure of the extent to which government revenues are being applied to debt charges and debt repayment, rather than on programs, services, or tax reduction. *Objective*: From year to year, payments on government debt, excluding public agency debt service payments, shall not exceed 5% of revenue. *Outcome*: In 2014, the NWT was at 0.61% of revenues. In 2013, the NWT was at 0.3% of revenues.

- V. Debt servicing payments as a percentage of 3-year moving GDP average:
A measure of debt growth in relation to economic growth. Ideally, economic growth exceeds the growth rate of public debt. A decreasing ratio reflects consistent improvement in the government's financial position.
Objective: In relation to the provinces, the NWT shall be in the lowest 4.
Outcome: In 2013, the NWT was ranked 2nd lowest (based on GDP nominal dollars, since 3 year moving GDP average is not yet available).

Improved Quality of Reporting = Transparency

The Standing Committee was pleased that the 2013-2014 Public Accounts provide information, based on measurable data, which reflects the GNWT's performance with respect to the *Fiscal Responsibility Policy*. The Committee notes the importance of making the information contained in the public accounts as clear as possible for interested readers with non-financial backgrounds. In the Committee's view, a commitment to transparency is synonymous with a commitment to improve the quality of reporting, especially for a non-expert audience.

As it happens, the C.D. Howe Institute produced a study during the writing of this report, entitled "*By the Numbers: The Fiscal Accountability of Canada's Senior Governments, 2015.*" This interesting study assesses the quality of financial information provided by Canada's federal, provincial and territorial governments with a view to improving the transparency of reporting. This study graded the quality of reporting in the Government of the Northwest Territories' public accounts at D+ with the observation that "*Although PSAB-consistent public accounts save the Northwest Territories from getting outright failing grades, its budgets would bewilder our idealized reader with multiple presentations of revenue and spending figures that no non-expert could possibly reconcile with the headline figures in their public accounts.*"¹ (Colin Busby and William B.P. Robson, C.D. Howe Institute, *By the Numbers: The Fiscal Accountability of Canada's Senior Governments*, 2015, p. 9).

The Standing Committee is encouraged by the improvement made to the 2013-2014 Public Accounts through the inclusion of information related to the government's performance under the *Fiscal Responsibility Policy*. The Committee would be interested in reviewing the data that is compiled with regard to the six performance measures identified above and in the *Fiscal Responsibility Policy*, so that the GNWT's ranking against these measures is clearly presented and described. The Committee encourages the government to review the CD Howe study and to consider further ways to improve on its quality of reporting in the public accounts.

Recommendation 5

The Standing Committee on Government Operations recommends that, to enhance transparency, the Government of the Northwest Territories improve the quality-of-reporting in the public accounts, including providing a detailed explanation of how the government met the requirements of its *Fiscal Responsibility Policy* for the year in question.

Transparency can be enhanced not only by the way in which information is presented, but in the information chosen to be presented to an audience. In any discussion on the importance of transparency, the Standing Committee would be remiss if it did not stress to the Minister of Finance the importance of sharing with the Standing Committee at least some of the findings and recommendations of the internal audit bureau.

The Committee appreciates why government needs to rely on the analysis and recommendations of the internal audit bureau and that this work must be unfettered by political influence. Nonetheless, where the government relies on the findings of the internal audit bureau to substantiate management decisions, the Standing Committee feels that the GNWT should be prepared to share these findings in confidence with the Standing Committee. This approach is consistent with the guiding principles of consensus government in the Northwest Territories.

Recommendation 6

The Standing Committee on Government Operations recommends that, in the interests of transparency and accountability, the Department of Finance share the findings and recommendations of the Internal Audit Bureau with the Committee in confidence, particularly where the Government of the Northwest Territories relies on those findings and recommendations as substantiation for actions taken.

SECTION II: NON-CONSOLIDATED FINANCIAL STATEMENTS

As previously indicated, Section II of the public accounts is comprised of the financial position and results of operations for GNWT departments, revolving funds and special purpose funds only. These are not audited. Some of the highlights from this section include:

Statement of Financial Position

- Financial assets increased 10.4% from \$222.570 million to \$245.676 million. The largest increases were in accounts receivable (18.8%) and monies due from the Government of Canada (28.0%).
- Liabilities increased 6.1% from \$713.943 million to \$757.519 million. The largest increases were in accounts payable and accrued liabilities (18.2%) and short-term loans (38%). The Standing Committee was advised that the government needed to borrow short term to meet its cash flow requirements throughout much of 2013-2014.
- Net debt increased to \$511.843 million from \$491.373 million. The statement of Changes in Net Debt shows that net debt increased because spending on tangible capital assets more than doubled from the previous year to \$115.345 million from \$56.179 million, while the annual surplus for the year dropped \$68.959 million (42.3%).
- The accumulated surplus, which is the difference between non-financial assets and net debt, increased by \$94.012 million from \$1.232 billion to \$1.326 billion.

Statement of Operations and Accumulated Surplus

- The annual surplus was \$94.012 million, 16.5% lower than the forecast amount of \$112.599 million. This compares with an annual surplus of \$162.971 million in the previous fiscal year and represents 5.76% of the government's total 2013-2014 revenues of \$1.632 billion.
- Total revenues exceeded the budget by \$22.425 million (1.4%).
- Total expenses exceeded the budget by \$40.728 million (2.7%).

Schedules

- Detailed results of operations are more fully disclosed in the supplementary schedules of these non-consolidated, unaudited financial statements. These schedules provide further details regarding the nature of revenues and expenses by department and include special warrants, interactivity transfers over \$250,000 and the write-off and forgiveness of debts and student loans.

SECTION III: SUPPLEMENTARY FINANCIAL STATEMENTS – OTHER ENTITIES

Section III contains financial statements for those entities listed in the table of contents, including Aurora College, BDIC, NWT Housing and Hydro Corporations, revolving, special purpose and other funds, and a variety of government agencies.

- This year's public accounts contain financial statements for two entities not included in last year's public accounts: the NWT Human Rights Commission and the Arctic Energy Alliance.
- All entities that had independent audits of their financial statements received "clean" opinions, with the exception of the Environment Fund. As was the case in 2012-13, the Environment Fund had a qualified opinion:
 - Environment Fund revenues derive from the Beverage Container Recycling Program and the Single-use Retail Bag Program. The Auditor must rely on the revenue amounts reported on claims filed by distributors, processing centres and bottle depots.
 - Because the Auditor does not separately audit the revenue reports, this is the basis for the "qualified" opinion.
- The Territorial Court Judges Registered Pension Plan Fund received a clean audit opinion. It is worth noting, however, that the pension fund has a deficit of \$777,600 which has more than doubled from \$334,500 in 2012-13.
- The following entities included in the public accounts are not audited, either because audits are not required under their legislation or their financial statements were not sufficiently detailed to warrant an audit:
 - The NWT Heritage Fund reported a balance of \$506,000 at the end of 2013-2014;
 - The financial statement for the Fur Marketing Service Revolving Fund indicates that the authorized limit for the fund was increased to \$1.5 million, from \$900,000 in 2012-13;
 - The Public Stores Revolving Fund reported a balance of \$143,400 at the end of 2013-2014.

SECTION IV: SUPPLEMENTARY FINANCIAL STATEMENTS BOARDS

- This section contains financial statements for the eight education boards and eight health and social services authorities.
- All of these boards have had independent audits done by a variety of accounting firms. Of these 16 boards, 13 had “qualified” opinions, explaining that because salaries/wages and benefits are calculated for the boards by the GNWT, they are not subject to complete audit verification. This was also the case with last year’s public accounts.
- Again this year, the opinion on the Sahtu DEC’s financial statement was additionally qualified on the basis that it was outside of the auditor’s scope to audit the transactions and balances of an accountable advance, the balance of which was \$276,819 as at the June 30 fiscal year end (2013: \$429,903).
- As was also the case last year, the three agencies with clean audit opinions are: Yellowknife Catholic Schools, YK District #1 and the Hay River Health and Social Services Authority.

The Standing Committee paid particular attention to the financial statements for the Beaufort-Delta Health and Social Services Authority and the Yellowknife Health and Social Services Authority. At their discretion, these authorities each included a “Management Discussion Analysis” providing additional detail related to the management challenges facing these authorities. Members found that the analysis was both interesting and enlightening and provided useful insight into the operations of each board.

The Standing Committee would like to commend these boards for the additional effort put into their financial statements. The Committee appreciates that some boards and entities face capacity challenges. Nonetheless, the Committee recommends that the Department of Finance require all public agencies to include a management discussion analysis in their year-end reports.

Recommendation 7

The Standing Committee on Government Operations recommends that the Department of Finance require all public agencies to include a management discussion analysis in their year-end reports.

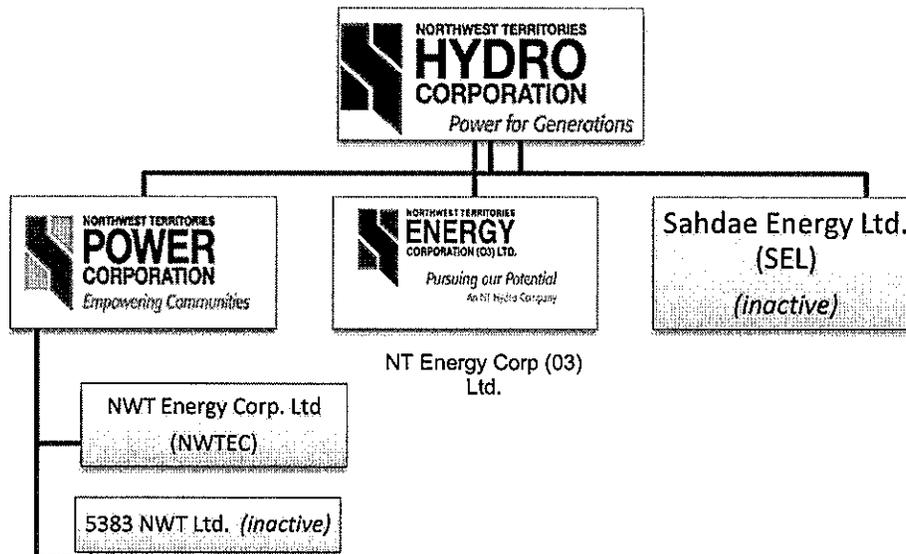
NT HYDRO AND ITS SUBSIDIARIES

This year, for the first time, the Standing Committee exercised its authority to request the appearance of a public agency before the Standing Committee as part of its review of the 2013-2014 Public Accounts.

Corporate Structure and Enabling Legislation

NT Hydro

NT Hydro is a public agency, established in 2007 under the *Northwest Territories Hydro Corporation Act*. It is 100% owned by the Government of the Northwest Territories. NT Hydro is a holding company for both the primary regulated business of the Northwest Territories Power Corporation (NTPC) and the primary unregulated business of NT Energy. NT Hydro owns 100% of the Northwest Territories Power Corporation (NTPC). NT Hydro also owns the Northwest Territories Energy Corporation (03) Ltd. and Sahdae Energy Ltd. (SEL).



The corporate structure allows for the possibility that other regulated companies may exist as subsidiaries of NTPC and other non-regulated companies may exist as subsidiaries of NT Energy. Additionally, as the situation may warrant, the structure allows other regulated or non-regulated companies to be established under NT Hydro as sister companies to NTPC and NT Energy (03) Ltd.

NTPC

NTPC is a wholly-owned subsidiary of NT Hydro. It is also a public agency and was established as such under the *Northwest Territories Power Corporation Act*.

NTPC operates hydroelectric, diesel, natural gas and solar power generation facilities to provide utility services in the NWT. NTPC distributes electricity to end-use consumers in 26 of the 33 communities in the Northwest Territories. It also supplies wholesale electricity to distributing utilities which, in turn, retail to customers in Yellowknife and Hay River. NTPC's facilities include hydroelectric, diesel, and natural gas generation plants, transmission systems and a number of isolated electrical distribution systems. NTPC also owns and operates alternative energy assets used for the supply of residual heat, solar power and co-generation.

NTPC activities are regulated by the Northwest Territories Public Utilities Board (PUB).

NTPC has two wholly-owned subsidiaries, the NWT Energy Corporation Ltd. (NWTEC) and 5383 NWT Ltd., which is inactive.

NWTEC

Under the authority of the *Northwest Territories Power Corporation Act*, NWTEC financed the Dogrib Power Corporation in 1996 for the construction of the 4.3 MW Snare Cascades hydro facility. NWTEC is also responsible for the operation, management and 50% shared ownership of a residual heat project in Ft. McPherson. The financial details of this joint-venture investment are contained in Note 26 (*NT Hydro Annual Report 2014*, p. 52).

NT Energy (03) Ltd. and Sahdae Energy Ltd. (SEL)

In addition to NTPC, NT Hydro owns NWT Energy Corporation (03) Ltd. (NT Energy) and Sahdae Energy Ltd (SEL). Both of these subsidiaries are incorporated under the *NWT Business Corporations Act*. In its *2009-10 Annual Report*, NT Hydro noted that the corporate structure of NT Energy and SEL "has been adopted to facilitate the development of hydro on an unregulated basis while protecting the GNWT's investment in the regulated activities of NTPC" (*NT Hydro Annual Report 2009-10*, p. 2). SEL's mandate is to pursue a hydro development project on Great Bear River to provide power to the potential Mackenzie Valley gas pipeline. However, in its current annual report (2014), NT Hydro advises that "SEL was inactive in fiscal 2014 and there are no current plans for activity in that subsidiary" (*NT Hydro Annual Report 2014*, p. 1).

In 2014, NT Energy (03) Ltd. signed an agreement with NTPC to provide transportation services for liquefied natural gas (LNG) to NTPC's Inuvik plant.

Auditor General's Opinion on NT Hydro:

The consolidated financial statements for NT Hydro include the accounts for NT Hydro and its wholly-owned subsidiaries: NTPC, NTEC (03), SEL, as well as NTPC's wholly-owned subsidiaries NWTEC and 5383 NWT Ltd. The Auditor General's opinion on the public accounts contains no qualifications and is, therefore, considered a "clean" opinion.

"In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Northwest Territories Hydro Corporation as at 31 March 2014, and the results of its operations, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles."

In reporting on other legal and regulatory requirements the Auditor General offers the opinion:

- That Canadian generally accepted accounting principles have been applied on a basis consistent with that of the previous year;
- Proper books of account have been kept by NT Hydro and its wholly-owned subsidiaries and that the consolidated financial statements are in agreement with these books; and
- That the transactions of NT Hydro and its wholly-owned subsidiaries that have come to the Auditor General's attention during the audit have been done in accordance with Part IX of the *Financial Administration Act of the Northwest Territories* and its regulations, the *NWT Hydro Corporation Act* and its regulations and the *Public Utilities Act* and the by-laws of NT Hydro and its wholly-owned subsidiaries.

In discussing the consolidated financial statements of NT Hydro and its subsidiaries with officials from the Auditor General's office and NT Hydro the Standing Committee was interested to learn that, NT Hydro was in the process of changing to Canadian public sector accounting standards and was working closely with the Office of the Auditor General on this initiative. The Standing Committee was also interested to learn, as a result of recent financial subsidies provided by the GNWT to the NWT Power Corporation, that the parent company, NT Hydro and the NWT Power Corporation, no longer meet the criteria for classification as a "government business enterprise" and will now be classified as an "other government organization." The change in accounting status means that NT Hydro will be fully consolidated in the GNWT's public accounts in 2014-2015.

CONTENTS OF NT HYDRO'S CONSOLIDATED PUBLIC ACCOUNTS

Consolidated Balance Sheet

Assets

NT Hydro's total assets are comprised of current assets (cash, accounts receivable, inventories and prepaid expenses); property, plant and equipment (net); and other non-current assets (regulatory assets; sinking fund investments; and intangible assets).

Current assets:

- NT Hydro's cash holdings dropped \$700,000 (34.7%) to \$1.315 million;
- Accounts receivable were down \$1.557 million (10.5%) to \$13.347 million in 2013-2014. An allowance for doubtful accounts is included in NT Hydro's accounts receivable for accounts over 90 days. The details of this are shown in Note 5 (*NT Hydro Annual Report 2014*, p. 36).
- The value of inventories was up \$540,000 (9.8%) to \$6.051 million in 2013-2014. According to Note 6 (*NT Hydro Annual Report 2014*, p. 36), inventories include fuel, materials, supplies and lubricants used by NTPC in the production of electricity. Materials, supplies and lubricants compose 95% of the value of inventories (ie. Total inventory value = \$6.051 million [\$5.763 million in materials, supplies and lubricants; \$288,000 in fuel])
- Prepaid expenses were up \$462,000 (78.3%) from to \$1.052 million in 2013-2014.

Property, plant and equipment, net:

- The net book value of property, plant and equipment increased \$18.613 million (5.7%) to \$343.976 million in 2013-2014. As indicated in Note 7 (*NT Hydro Annual Report 2014*, p. 37), property, plant and equipment values include the amortized values of electric power plants, transmission and distribution systems, warehouse, equipment, motor vehicles, general facilities and other utility assets, critical spare parts, construction in progress and engineering and other direct overhead expenses.

Other non-current assets:

- Regulatory assets increased \$3.734 million (19.2%) to \$23.228 million in 2013-2014. *A note about regulatory assets and liabilities:* As the

only NT Hydro subsidiary undertaking activities that are regulated by the Public Utilities Board, NTPC's accounting policies differ from those of unregulated utilities. Regulatory assets represent future revenues associated with certain costs, incurred in the current or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process. These liabilities reduce the future rate impact of disposal and remediation costs to customers.

- Sinking fund investments increased \$837,000 (14.7%) to \$6.513 million in 2013-2014. Sinking fund investments are held by a Trustee for the redemption of long-term debt. Because the sinking funds exist to fund the payout of long-term debt, sinking fund income is treated as a reduction of finance charges and is reflected in interest expense.
- Intangible assets decreased \$143,000 (12.4%) to \$1.007 million in 2013-2014.

Liabilities and Shareholder's Equity

NT Hydro's total liabilities are made up of current liabilities (accounts payable and accrued liabilities; short-term debt; and current portion of long-term debt); long-term debt (long-term debt net of sinking fund investments; sinking fund investments presented as assets; net lease obligations; and LNG capital lease obligation); and other non-current liabilities (regulatory liabilities; asset retirement obligations; deferred government contributions; and employee future benefits).

Current liabilities:

NT Hydro's current liabilities increased by \$15.183 million (65.3%) from \$23.239 million in 2012-13 to \$38.422 million in 2013-2014.

- Accounts payable and accrued liabilities increased \$3.151 million (21%) to \$18.113 million in 2013-2014 from \$14.962 million in 2012-13.
- Short-term debt increased \$11.909 million (199.2%) to \$17.888 million in 2013-2014 from \$5.979 million in 2012-13.
- The current portion of long-term debt increased \$123,000 (5.4%) from \$2.298 million in 2012-13 to \$2.421 million in 2013-2014.

Long-term debt:

NT Hydro's long-term debt decreased slightly, by a fraction of one percent, from \$188.386 million in 2012-13 to \$188.263 million in 2013-2014.

- Long-term debt net of sinking fund investments decreased \$3.157 million (1.7%) to \$117.247 million in 2013-2014 from \$180.404 million in 2012-13.

- Sinking fund investments presented as assets increased \$837,000 (14.7%) to \$6.513 million in 2013-2014 from \$5.676 million in 2012-13.
- The net lease obligation increased \$347,000 (15%) from \$2.306 million in 2012-13 to \$2.653 million in 2013-2014. The net lease obligation is related to the loan made by NWTEC to the Dogrib Power Corporation to finance the construction of the Snare River hydroelectric plant. NTPC has an initial 65-year lease for the plant. Upon consolidation, the loan receivable held by NWTEC is offset by the value of NTPC's capital lease obligation. A detailed explanation of this figure is found at Note 12 (*NT Hydro Annual Report 2014*, p. 39).
- The LNG capital lease obligation was recorded at \$1.85 million.

Other non-current liabilities:

NT Hydro's other non-current liabilities increased by \$1.493 million (2.8%) from \$52.521 million in 2012-13 to \$54.014 million in 2013-2014.

- Regulatory liabilities decreased \$1.668 million (4.6%) from \$36.262 million in 2012-13 to \$34.594 million in 2013-2014.
- Asset retirement obligations increased \$1.253 million (10.3%) from \$12.224 million in 2012-13 to \$13.477 million in 2013-2014. Asset retirement obligations include costs related to the disposal of generating plants on leased land, storage tank systems, and the associated piping for petroleum products in all communities served by NTPC. Asset retirement obligations also include the costs associated with remediation of environmental liabilities. NT Hydro estimates that it would cost \$20.727 million to clean up contamination at its 27 sites. The discounted present value of these obligations is \$7.972 million. NT Hydro estimates that over 75% of the contamination occurred when the Northern Canada Power Commission was controlled by the federal government. There is no provision recorded in NT Hydro's financial statements for a potential recovery from the federal government.
- Deferred government contributions increased by \$256,000 (9.6%) from \$2.678 million in 2012-13 to \$2.934 million in 2013-2014. Deferred government contributions include a capital contribution agreement with the GNWT for a photovoltaic preliminary design project in Colville Lake and funding from the Government of Canada for the same project through the ecoENERGY for Aboriginal and Northern Communities Program.
- Employee future benefits increased \$1.652 million (121.7%) from \$1.357 million in 2012-13 to \$3.009 million in 2013-2014.

Shareholder's equity:

Shareholder's equity in NT hydro increased by \$5.233 million (4.7%) from \$110.557 million in 2012-13 to \$115.79 million in 2013-2014. Shareholder's equity is reported as "investment" in the GNWT's public accounts.

**Consolidated Statement of Operations
and Comprehensive Income**

In the *Statement of Operations and Comprehensive Income*, revenues-expenses = earnings from operations. Interest income is added to this figure to provide "earnings before interest expense." From this, interest expenses are subtracted, to provide the net income and comprehensive income.

Revenues:

NT Hydro's total revenues were up \$2.726 million (2.7%) from \$101.171 million in 2012-13 to \$103.897 million in 2013-2014.

- NT Hydro's revenues from the sale of power increased by \$4.658 million (5.4%) from \$86.947 million in 2012-13 to \$91.605 million in 2013-2014.
- GNWT power sales contributions – The GNWT provided \$15.6 million to NTPC in 2012-13. \$4 million paid down a receivable set up by NTPC as at March 31, 2012, to retire the balances in the territory-wide Rate Stabilization Fund. The remaining \$11.6 million is recorded as revenues in 2012-13. In the second year of the agreement (2013-2014), NTPC recorded \$9.4 million in revenues.
- Other revenues include such things as contract work, pole rental, connection fees and heat revenues.
- Other government contributions were up 19.6% and included a number of one-year contributions for things such as the recovery of costs related to the NWT Hydro Strategy, water monitoring activities, a combined heat and power feasibility study, implementing LNG in Inuvik, etc. These are detailed in Note 19 (*NT Hydro Annual Report 2014*, p. 44).

Expenses:

NT Hydro's total expenses were up \$3.197 million (3.8%) from \$84.698 million in 2012-13 to \$87.895 million in 2013-2014.

- Expenses include things such as fuels and lubricants (down 1.4%), salaries and wages (up 4%), amortization (up 5.9%), and supplies and services (up 9.5%).

- The most notable increase was in travel and accommodation, which was up \$433,000 (22.2%) from \$1.953 million in 2012-13 to \$2.386 million in 2013-2014.

Earnings from operations:

The difference between revenues and expenses provides the earnings from operations. NT Hydro's earnings from operations dropped \$435,000 (2.6%) from \$16.473 million in 2012-13 to \$16.002 million in 2013-2014.

Net income and comprehensive income:

When interest income and expenses are factored into earnings from operations, this provides the figure for net income and comprehensive income. NT Hydro's net income and comprehensive income dropped by \$1.257 million (19.4%) to \$5.233 million in 2013-2014.

Consolidated Statement of Cash Flow

- Cash flows provided by operating activities were \$7.647 million (61.5%) higher at the end of 2014 than the year before.
- \$6.217 million (26.3%) more cash was used in investing activities in 2014 than the year before.
- Cash flows provided by financing activities decreased by \$2.777 million (23.5%) from 2012-13 to 2013-2014.
- There was a net decrease in cash of \$700,000 in 2014, as compared with a net increase of \$647,000 in 2013. This is a 34.7% decrease in cash at year end over the previous year.

CONCLUSION

The Standing Committee on Government Operations has a mandate to review the public accounts of the Government of the Northwest Territories. Members were grateful for the assistance provided by the Office of the Auditor General in support of this work. Members also appreciate the appearances before the Standing Committee and thoughtful answers to questions provided by staff from the Office of the Comptroller General in the Department of Finance and NT Hydro. The Standing Committee hopes to see the practice of undertaking a public review of the public accounts continued during the 18th Legislative Assembly, so that GNWT financial management practices and decisions continue to receive public scrutiny.

Recommendation 8

The Standing Committee on Government Operations recommends that the Government of the Northwest Territories provide a response to this report within 120 days.

Appendix A: Public Agencies Completion of Financial Statements

	Entity	2013 Due Date/ (extension)	2013 Completion Date	2014 Due Date/ (extension)	2014 Completion Date
1.	Beaufort Delta Divisional Education Council	28-Sep-12	27-Sep-12	30-Sep-13	16-Oct-13
2.	Commission scolaire francophone TNO	28-Sep-12	5-Oct-12	30-Sep-13	16-Sep-13
3.	Deh Cho Divisional Education Council	28-Sep-12	20-Sep-12	30-Sep-13	28-Sep-13
4.	Dettah District Education Authority	28-Sep-12	6-Nov-12	30-Sep-13	13-Sep-13
5.	Sahtu Divisional Education Council	28-Sep-12	18-Sep-12	30-Sep-13	20-Sep-13
6.	South Slave Divisional Education Council	28-Sep-12	22-Sep-12	30-Sep-13	05-Oct-13
7.	Yellowknife Catholic Schools District Education Authority	28-Sep-12	13-Sep-12	30-Sep-13	09-Sep-13
8.	Yellowknife Education No.1 District Education Authority	28-Sep-12	14-Sep-12	30-Sep-13	20-Sep-13
9.	Aurora College	28-Sep-13/ (27-Nov-13)	19-Nov-13	30-Sep-14/ (27-Nov-14)	15-Dec-14
10.	Beaufort Delta Health and Social Services Authority	29-Jun-13	5-Jun-13	30-Jun-14	23-Jun-14
11.	Deh Cho Health and Social Services Authority	29-Jun-13	10-Jul-13	30-Jun-14	24-Jun-14
12.	Fort Smith Health and Social Services Authority	29-Jun-13	25-Jun-13	30-Jun-14	20-Jun-14
13.	Hay River Health and Social Services Authority	29-Jun-13	8-Aug-13	30-Jun-14	25-Jun-14
14.	Sahtu Health and Social Services Authority	29-Jun-13	28-Jun-13	30-Jun-14	26-Jun-14
15.	Stanton Territorial Health Authority	29-Jun-13	12-Jul-13	30-Jun-14	30-Jun-14
16.	Yellowknife Health and Social Services Authority	29-Jun-13	25-Jun-13	30-Jun-14	24-Jun-14
17.	Tlicho Community Services Agency	29-Jun-13	28-Jun-13	30-Jun-14	27-Jun-14
18.	Arctic Energy Alliance	n/a	n/a	30-Jun-14	04-Jun-14
19.	Northwest Territories Business Development and Investment Corporation	29-Jun-13/ (29-Aug-13)	26-Aug-13	30-Jun-14/ (29-Aug-14)	22-Aug-14
20.	Northwest Territories Housing Corporation	29-Jun-13	23-Oct-13	30-Jun-14 (29-Aug-14)	17-Sep-14
21.	Northwest Territories Human Rights Commission	29-Jun-13	24-Jun-13	30-Jun-14	18-Jun-14
22.	Northwest Territories Opportunities Fund	29-Jun-13	30-Sep-13	30-Jun-14	24-Mar-14
23.	Northwest Territories Sport and Recreation Council	29-Jun-13	17-May-13	30-Jun-14	08-Jun-14
24.	Status of Women Council of the Northwest Territories	29-Jun-13	28-Jun-13	30-Jun-14	28-Jun-14
25.	Northwest Territories Heritage Fund	29-Jun-13	15-Jul-13	30-Jun-14	30-Jun-14
26.	Northwest Territories Hydro Corporation	29-Jun-13 (31-Jul-13)	31-Jul-13	30-Jun-14	25-Jun-14