Division of Assets and Liabilities

of the

Government of the Northwest Territories

As at March 31, 1999

Report and Recommendations

Prepared by the Northern Representatives Committee

January, 1999

Acknowledgements

This Report is the result of a collaborative effort of representatives of the Government of the Northwest Territories, the Office of the Interim Commissioner, the Western Coalition and Nunavut Tunngavik Incorporated. Together these representatives, listed below, formed the Northern Representatives Committee.

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This Report and Recommendations on the Division of Assets and Liabilities of the Government of the Northwest Territories is respectfully submitted to the Government of the Northwest Territories and the Interim Commissioner of Nunavut, January, 1999.

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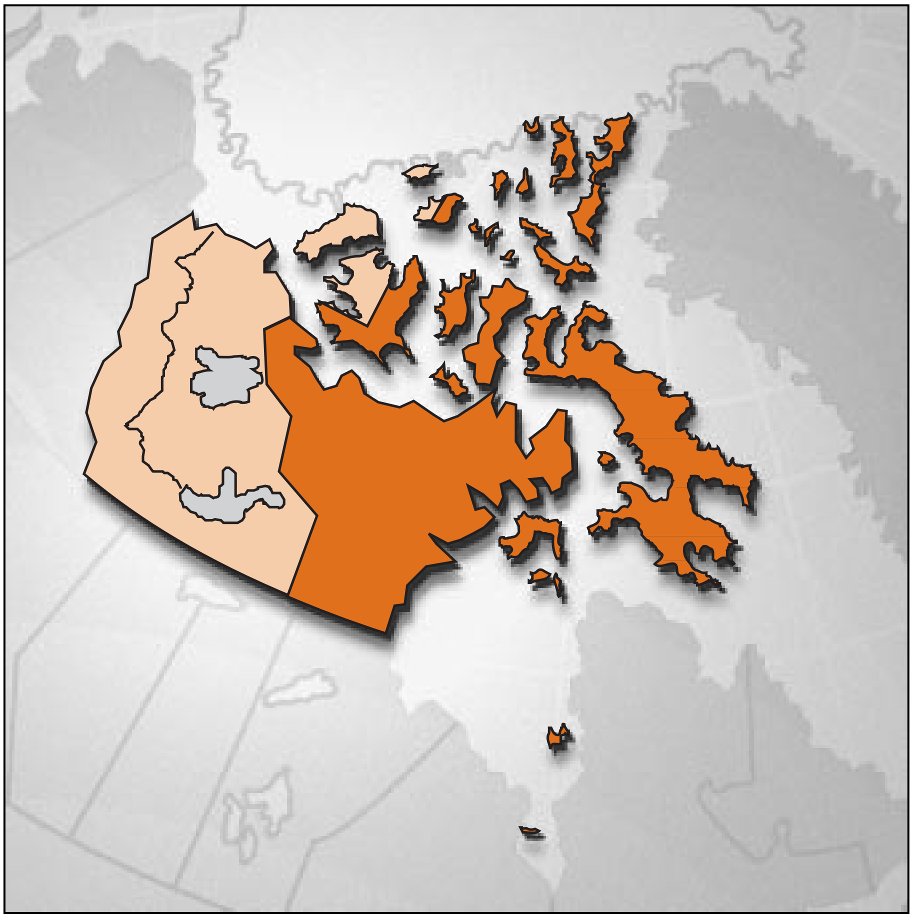
PART A:

Context and Objectives



Introduction/Overview

1.1 THE CREATION OF NUNAVUT

The *Nunavut Act* comes into full force on April 1, 1999. On that date the Government of Nunavut becomes a legal entity. The *Nunavut Act* consequentially amends the Northwest Territories Act to redefine the Northwest Territories to exclude the geographic Nunavut territory as of April 1, 1999.

The creation of Nunavut will require the assignment of a share of the assets and liabilities of the Government of the Northwest Territories (GNWT) to the Government of Nunavut. Section 73(1) of the *Nunavut Act* empowers the Interim Commissioner of Nunavut to enter into an agreement with the GNWT on the division of governmental assets and liabilities. This agreement is subject to federal Governor-in-Council approval.

Pursuant to the *Nunavut Act,* the federal Minister of Indian Affairs and Northern Development instructed the Interim Commissioner of Nunavut to enter into a preliminary agreement with the GNWT, setting out the general framework for an agreement and a set of principles to be applied in the division of assets and liabilities.

In March 1997, the GNWT produced a document entitled *Preliminary Report: Division of Assets and Liabilities,* providing information on the assets and liabilities to be divided, and proposing possible methods of division to be further evaluated. That document provided a starting point for discussion on the division of assets and liabilities.

1.2 THE NORTHERN REPRESENTATIVES COMMITTEE

In the fall of 1997, a Northern Representatives Committee (the Committee), comprised of representatives of the Office of the Interim Commissioner (OIC), the GNWT, Nunavut Tunngavik Incorporated (NTI) and the Western Coalition, was formed.

As a first step, and in accordance with the letter of instruction from the Minister of DIAND to the Interim Commissioner, the Committee developed a Memorandum of Understanding (MOU) setting out the general framework for an agreement and a set of principles to be applied in the division process. The MOU was signed by the Interim Commissioner of Nunavut and the Minister of Finance on behalf of the Government of the Northwest Territories on June 29, 1998.

The work on division of assets and liabilities proceeded in accordance with the terms and principles set out in the Memorandum of Understanding. A Working Group was structured to evaluate in detail how the process of division should be implemented in each of the relevant governmental organizations, and to report back to the Committee on its recommendations. Those analyses, and the resulting deliberations of the Committee, have led to this Report.

1.3 OTHER DIVISION ACTIVITIES

In creating two new territories there is a myriad of issues to be dealt with, of which the division of assets and liabilities is only one. To address many of these issues multi-party forums have been established with GNWT, Office of the Interim Commissioner and Federal Government representation. Often, NTI and Western Coalition representation is also included. Some of the larger issues addressed in other forums are:

- The ongoing funding requirements of the two new territories, which have been addressed through formula financing negotiations with Finance Canada
- The one-time transitional costs of dividing the Northwest Territories into two new territories and creating a new Government of Nunavut, which are the subject of separate negotiations with DIAND
- The legislative implications and requirements for establishing the new territory of Nunavut, many of which are being worked out with Justice Canada and DIAND
- The requirement to ensure Territorial Legislation is adequately mirrored or amended, as is deemed appropriate, for use in Nunavut, which is being co-ordinated by the Department of Justice of the GNWT.
- The labour relations issues associated with creating two public services, which is being co-ordinated by the Financial Management Board Secretariat of the GNWT.
- The temporary reliance of the two new governments on each other (e.g. computer systems support and program delivery support), which is being co-ordinated by the GNWT's Division Secretariat and is the subject of a contracting back protocol between the GNWT and the OIC.
- The arrangement for the legal assignment of all contractual obligations that extend past division, which is being co-ordinated by the GNWT's Financial Management Board Secretariat.
- The division of cultural and historic assets, which is being co-ordinated by the GNWT Department of Education, Culture and Employment and the Nunavut Department of Culture and Youth.
- The establishment of a process to allow access to and transfer of documentation, records, libraries etc., which is being co-ordinated by the GNWT's Division Secretariat in conjunction with representatives from Nunavut.

The substance of the issues being addressed at these various negotiating forums is linked in varying degrees. It has been necessary as discussions on division of assets and liabilities proceeded to track other negotiations to ensure that there was no duplication or gaps in the issues being addressed.

1.4 STRUCTURE OF THIS REPORT

This Report provides the reader with an analysis of the issues examined by the Committee as well as its recommendations. The Report is organized as follows:

Part A presents the Context and Objectives for the division of assets and liabilities:

Chapter 1 provides the historical context behind the division of assets and liabilities, introduces the Northern Representatives Committee and outlines its objectives, and discusses other related and parallel activities in respect of division.

Chapter 2 first elaborates on the mandate and objectives for the work, then defines the scope of that mandate in terms of the definition of "government" to be adopted for purposes of the Committee's work. This then determines which organizations are subject to Committee review (and eventual intergovernmental agreement). Thirdly, Chapter 2 sets out the principles that the Committee followed in developing its proposals for dividing assets and liabilities;

Part B presents the Committee's Approach and Methodology:

Chapter 3 introduces the conceptual framework and methods that the Committee developed for application to all the organizations subject to asset and liability division. A process for the division of assets and liabilities is described. The subsequent sections define each step in the process, explaining and illustrating how it would contribute to the construction of the new balance sheets for the two territories.

Part C applies the proposed approach to the relevant Governmental Operations and Enterprises:

Chapter 4 discusses the application of the framework and methodologies to the assets and liabilities of the departmental (core) operations of the GNWT;

Chapter 5 examines the application of the framework and methodologies to the government enterprises that fall within the scope of the Committee's work;

Part D covers a number of Other Important Issues:

Chapter 6 defines categories of adjustments that might occur after division and that would affect the values used for division purposes, and sets out timeframes and a process for dealing with such adjustments. The issue of contingent liabilities - that is, potential liabilities that are presently identifiable but whose ultimate outcome and quantification cannot be determined at this time - is also covered here.

Chapter 7 outlines a mechanism and a process for dealing with matters where the Parties chose to resort to a third party to help them achieve resolution of any dispute.

Chapter 8 deals with the practical aspects of putting the Committee's recommendations into practice; and the implementation steps it envisages both before and after April 1, 1999.

Part E summarizes the Committee's Conclusion and Recommendations:

Chapter 9 presents the Committee's conclusion in regard to its work and proposes that the OIC and the GNWT enter into an Intergovernmental Agreement based on the recommendations contained in this report.

Part F presents five Appendices:

Appendices are introduced and discussed at appropriate points in the Report, starting with Appendix A, a summary of the Acronyms and Definitions used throughout this Report.

Mandate, Scope and Principles

2.1 MANDATE

The main objective, and the starting point for the Committee's mandate, is found in Section 73(1)(c) of the Nunavut Act, as follows:

> "73(1) The Interim Commissioner may, with the approval of the Governor in Council, enter into agreements
>
> > (c)...with the Government of the Northwest Territories for the division of its assets and liabilities between Nunavut and the Northwest Territories, including rights and obligations arising under a contract entered into by the Government of the Northwest Territories; …"

This intention was further elaborated in an April 17, 1997 letter to the Interim Commissioner from the Minister of Indian Affairs and Northern Development, setting out the Interim Commissioner's basic responsibilities and in particular:

> "Discussions with the GNWT, in consultation with NTI and the Government of Canada, must begin as soon as practicable towards the conclusion of an agreement on the division of governmental assets and liabilities. It is expected that you will enter into a preliminary agreement with the GNWT, which will set out the general framework for an agreement and a set of principles to be applied in the division of assets, and liabilities, which have been agreed to by the Parties. The preliminary agreement should be based upon the general principles set out in the relevant parts of Chapter 9 of the *Footprints 2* report, and relevant principles derived from the Canadian Institute of Chartered Accountants, Public Sector Accounting and Auditing Board, as may be modified or elaborated upon by agreement of the Parties."

As indicated in Section 1.2 above, early in 1998 the Committee developed and proposed, and the Parties accepted, a framework and statement of principles. These along with an outline of proposed methodologies were set out in the Memorandum of Understanding, signed by the Interim Commissioner and the GNWT in June (1998). That MOU is attached at *Appendix B* for reference purposes.

In light of these requirements and developments, the Committee perceived its mandate to include the following elements:

- To develop, analyze and propose specific methodologies for the division of assets and liabilities of the GNWT, consistent with the agreed principles;
- To illustrate the application of such methodologies so as to provide explicit guidance for the creation of new balance sheets for the two territories;

- To recommend a process for planning and implementing the recommendations; and
- To develop and propose a formal Agreement, separate from this Report, embracing the Committee's recommendations, consistent with the requirements of Section 73(1)(c) as well as the Interim Commissioner's and the GNWT's explicit responsibilities as outlined in the Minister's letter.

While Section 73(1)(c) of the Nunavut Act refers directly to the development of intergovernmental agreements on division of assets and liabilities, there are relevant provisions elsewhere in the Act as well. For instance, Section 76.06(1):

> *General rule - duplication,* provides for the automatic creation of separate Nunavut entities, "… for every public office or public body established or continued by an ordinance of the Northwest Territories … with the same powers, duties or functions [in Nunavut as has been the case in the NWT]."

There are provisions for exceptions or adjustments to this general rule, and Section 76.06(3) invites the GNWT and Interim Commissioner to draw up a list of offices or bodies that would be covered.

The relevance of this comes clear in Section 76.06(4), explicitly titled *"Assets and Liabilities":*

> (4) To the extent that the assets and liabilities of an office or body referred to in subsection (1) *[General rule - duplication],* or any funds that it administers, are not subject to paragraph 73(1)(c) *[intergovernmental agreement]*, they continue, on and after the day that Section 3 comes into force [April 1, 1999], to be assets and liabilities of the office or body of the Northwest Territories, or funds administered by it, until they are fairly divided between that office or body and the corresponding office or body in Nunavut."

The Act then describes *"Mechanisms for division"* (Section 76.06(5)), and *"Principles for division"* (Section 76.06(6)), to apply to the relevant bodies or offices.

Thus the Act provides for the duplication, continuance and separate procedures for dividing the assets and liabilities, of all government-created entities *that are not dealt with in this Report and the intergovernmental agreement that results from it (i.e., an Agreement under Section 73(1)(c)).* Consequently, the Committee needed to carefully consider what its scope or coverage would be, as discussed below.

2.2 SCOPE

As noted previously, Section 73(1)(c) mandates the Interim Commissioner to enter into an agreement with the GNWT for the division of its (the government's) assets and liabilities. However, the Act does not define government, nor does it specify which organizations are to be included therein. Thus the Committee's first challenge involved determining which organizations were to be affected by its recommendations on division of assets and liabilities.

At one level, the Committee recognized that virtually every public office or body that exists in the NWT has been created or continued under a statute or ordinance of the GNWT. This includes a wide variety of professional and service organizations operating in the NWT whose duplication, continuance and division are specifically addressed in Section 76 of the Nunavut Act. The Committee concluded that its work on division should not apply to such organizations. Division would be for the organizations to handle themselves, at least in the first instance, and this would include any division of their assets and liabilities.

Rather, the Committee determined that its focus should be on organizations normally thought of as being "government" in the sense of involving public funding and/or provision of services consistent with the GNWT's legislative mandates and authorities.

In order to ensure that it had a complete list of organizations delivering government programs and services, or receiving funding from government to do so, the Committee referred in the first instance to the Public Accounts of the Government of the Northwest Territories. The Public Accounts are prepared in accordance with the guidelines of the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants (CICA).

In addition the GNWT also provides funding to a broad range of health, education, social services and community-based organizations that it either has created or enabled for purposes of delivering a program or service. The question facing the Committee was which of these organizations should be considered as being within its scope and thus covered by its recommendations.

To help answer that question, the Committee developed a series of criteria that could be associated with various government organizations. This was to help the Committee sort through the various organizations operating in the public arena in the NWT, so that its definition of "the government's assets and liabilities" would be consistent with proper public accounting (PSAAB) pronouncements, public perception of the territorial government's "domain," and the relevant provisions of the Nunavut Act. The Committee recognized that as it successively applied these criteria certain organizations would be excluded from its scope and thus not subject to its recommendations on division of assets and liabilities.

Criterion 1: Is the organization accountable to the GNWT?

If an organization depends either in full or in part on the public treasury for its ongoing operations, then there is usually some measure of accountability required. The PSAAB recommendations define accountability as “being answerable to”. This could range from simply having to submit a report to a minister indicating how government funds were used, to reporting directly to the Legislative Assembly in respect of not only demonstrating compliance with funding arrangements or government regulations, but also management’s overall actions, operations and administration.

Under this criterion, organizations that do not receive any direct government funding and that have no other ownership ties to government would be excluded from the Committee’s scope. For purposes of this Report, this would mean that organizations such as private, professional and service organizations not funded by government would not be subject to the Committee’s recommendations on division. Examples would include the Law Society of the Northwest Territories, the Certified General Accountants of the Northwest Territories and the Northwest Territories Registered Nurses Association.

Criterion 2: Have the Parties agreed that the organization should be dealt with separately?

This criterion recognizes that the Parties to the Nunavut Political Accord have the authority to exclude a particular organization from the general division of assets and liabilities process, if, in their estimation, it is preferable to negotiate division of these assets and liabilities through a separate process.

In the context of the Committee’s work, two organizations have specifically been identified for separate treatment:

Northwest Territories Power Corporation
Workers’ Compensation Board

As a result of this criterion, in this Report the Committee does not make specific recommendations with respect to division of these two organizations.

Criterion 3: Does the GNWT own or control the organization?

This criterion is one of the means prescribed in the PSAAB recommendations for determining whether an organization is or is not part of “government”. It consists of two tests: one on ownership; one on control. It is important to note that organizations that meet either test are deemed to be part of government.

The first test concerns ownership. Evidence of ownership would be indicated where the GNWT either holds a majority of the organization’s voting shares (or is otherwise in a position to appoint a majority of the members of the governing body), or holds title to the net assets of the organization, such that it can reallocate them without additional legislation being necessary.

The test for control, like ownership, also examines the GNWT's ability to appoint the organization's governing body or senior management. In addition, this test also focuses on the financial autonomy of the organization. Financial autonomy entails the authority to set revenue, expenditure and resource allocation policies, without requiring the consent of others or changes to existing legislative provisions. For example, where an organization can decide to spend more than the government's contribution, and is responsible for covering any resulting deficit, or alternatively can spend less and retain the resulting surplus, then the organization has financial autonomy.

On the basis of this criterion, the Committee's view was that the following key organizations should be excluded from any further consideration, and thus deemed to be outside of its scope for purposes of division. This list may not be exhaustive, but applying these criteria to other such organizations would yield the same results.

Municipalities and other similar forms of local government
Municipalities and other similar forms of local government (hamlets, towns, etc.), although created under territorial legislation and partially funded by the GNWT, are not owned or controlled or directly accountable to the GNWT. Thus they are not part of "territorial government" per se, nor do their assets and liabilities belong to the territory for disposal or division purposes.

Municipalities (etc.) operate in a specified geographic area, manage their own affairs independently under their various authorities and are governed by officials elected by the local community. Their own separate balance sheets are in place and are specific to one or other of the two territories. Thus the Committee's view was that the respective communities' assets and liabilities should continue to exist as they are, and each community should continue to assume the benefits and burdens associated with them.

Public Trustee for the Northwest Territory
The Public Trustee manages investments on behalf of Estates and Trusts. Although the Public Trustee is appointed by and accountable to the government for the administration of the Estates and Trusts, the investments under the trustee's administration are not accessible to the GNWT and are not included in the consolidated accounts of the GNWT. These accounts remain the property of the estates and trusts for which they are managed and thus should not be subject to the division process envisaged in this Report. However, Nunavut may establish its own Public Trustee in which case the estates and trusts of families and individuals residing in Nunavut could be transferred to that authority.

Legislative Assembly Retiring Allowances Fund
Territorial Court Judges' Registered Pension Plan
The net assets of The Legislative Assembly Retiring Allowances Fund and the Territorial Court Judges' Registered Pension Plan in effect belong to the members of the respective fund or plan. The GNWT has no claim or accessibility to these funds, even if their financial statements appear in the Public Accounts. Consequently, these organizations are not considered part of the Committee's responsibility in the division process. (Further comments are made later in the Report: See Section 4.3.11)

RECOMMENDATION 1

The Committee recommends that the following organizations should be considered outside of its scope for purposes of division of the Northwest Territories Government's assets and liabilities:

Northwest Territories Power Corporation
Workers' Compensation Board
Municipalities and other forms of local government
Public Trustee for the Northwest Territories
Legislative Assembly Retiring Allowances Fund
Territorial Court Judges' Registered Pension Plan

With the above exceptions, then, the assets and liabilities of all (other) governmental operations and enterprises will be assessed, and recommendations made respecting their division, in the remainder of this Report.

2.3 PRINCIPLES

As noted earlier, the Committee had proposed and the Memorandum of Understanding included a Statement of Principles. These principles were intended to guide the work of the Committee, underpinning both its recommendations and the consequential intergovernmental agreement.

They are as follows:

1. The division of assets and liabilities should be performed in good faith and in a manner that can be demonstrated as equitable to the residents of the two Territories.
2. The process of dividing the assets and liabilities should recognize that the allocation between the various regions by the Legislative Assembly, of the capital budget of the Government of the Northwest Territories, was made through an open and democratic process.

3. The division of assets and liabilities should be premised on the division of the NWT and the subsequent operation of the two territories, and should not detract from either government's ability to provide adequate public services for residents recognizing the existing scope and quality of such services.

4. The process of, and methodologies for, division of assets and liabilities should be conceptually sound, practical, transparent, open, timely, and based on full disclosure of information.

5. Disruptions to the operations of the two territorial governments and the number of administrative transactions between the two governments should be minimized.

6. Division of assets and liabilities should be tied to geography as much as possible.

7. Where physical assets are divided, every effort should be made to avoid the unnecessary movement of goods.

8. The benefits and burdens associated with legal instruments and liabilities connected to physical assets should usually follow the ownership of the asset.

9. Physical assets that are held in a single location to facilitate their circulation and consumption in a variety of regions and communities in the NWT should be fairly and equitably divided.

10. Financial assets of the GNWT and liabilities that are not tied to specific physical assets should be divided fairly and equitably.

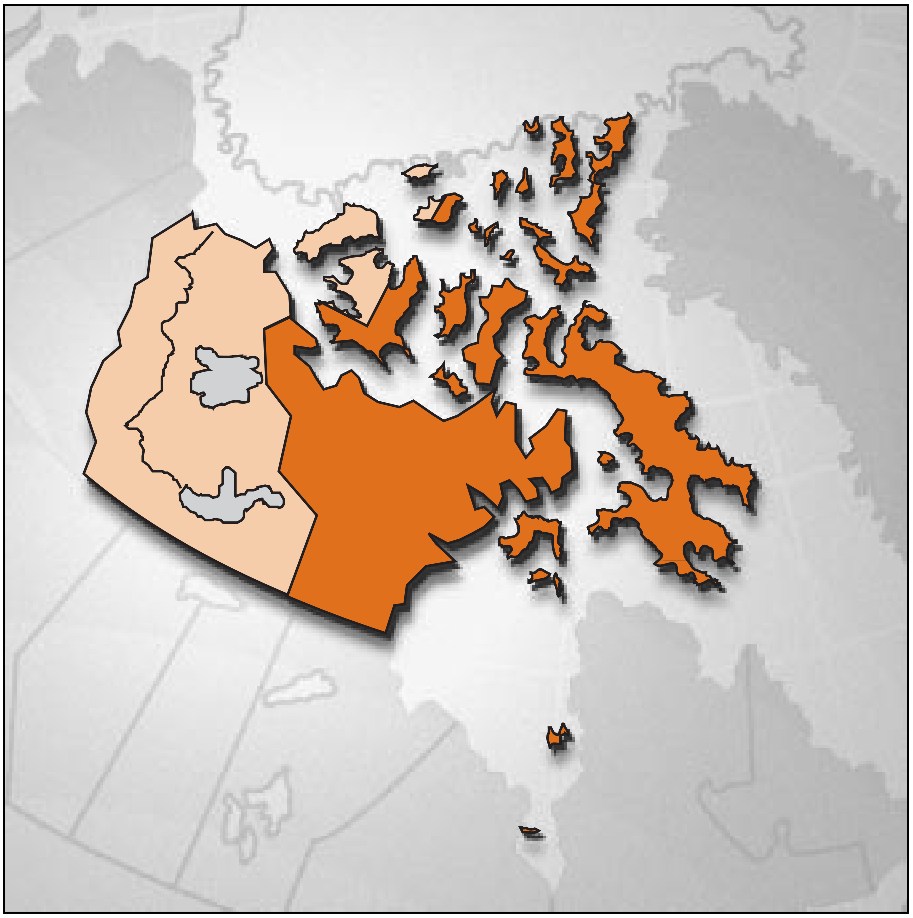
11. Physical assets outside the NWT and intellectual property should be divided equally.

12. The division of assets and liabilities should recognize the federal obligation to provide reasonable transitional and incremental funding.

B

PART B:

Approach and Methodology



Chapter 3 A Framework and Method for Division

3.1 BASIC APPROACH: THREE STEPS

The starting point adopted by the Committee for purposes of dividing assets and liabilities is the statement of financial position (also referred to as the balance sheet) of the organizations subject to division. The statements of financial position present the assets, liabilities and accumulated surplus/deficit of the organization.

As the Committee considered how best to apply the Principles to the division of the range of governmental assets and liabilities, it recognized that a key element would be the ultimate sharing, between the two territories, of the Government's accumulated surplus or deficit as at March 31, 1999. Further, this sharing should be determined on a basis of equity or fairness, consistent with the principles outlined earlier.

Thus the Committee developed a basic framework for effecting the division of assets and liabilities of the organizations subject to division, consisting of three steps:

Step 1 • Establish a sharing, or **apportionment**, between the two territories, of the accumulated surplus or deficit, that the signatories agree to be equitable;

Step 2 • Establish an **allocation**, between the two territories, of the asset and liability items that the signatories agree to be practicable; and

Step 3 • Establish an **adjustment** mechanism that will bring the net value of the assets and liabilities allocated to each territory in the allocation process in Step 2 into conformity with the respective accumulated surplus or deficit apportioned to each territory resulting from the apportionment process in Step 1.

This meant establishing in advance the proportion of net assets or net liabilities (accumulated surplus or deficit) that would, in the final analysis, be attributed or "apportioned" to each territory. What specific assets and liabilities would be allocated to, or placed on, one territorial balance sheet or the other would be determined on practical grounds (geographic or administrative realities, for example). The resulting net values allocated would, in the end, have to be reconciled with each territory's agreed (apportioned) share of the accumulated surplus or deficit.

Illustration of the Three-Step Approach

Each of these steps will be explained in detail and illustrated in the balance of this Chapter. This will include the proposed criteria for apportionment (Step 1) to be applied to each organization or entity - in general terms, how each entity would be treated.

This is done by applying the three step approach to a theoretical balance sheet, similar in structure to that of the GNWT (Exhibit 3-1). The three-step approach will apply in a similar fashion to all organizations subject to division.

Exhibit 3-1 Theoretical Balance Sheet

As at March 31, 19XX (000s)

Assets	
Due from Canada	$ 85,000
Accounts receivable	60,000
Inventories	40,000
Prepaid expenses	5,000
	190,000
Designated cash and investments	20,000
Loans receivable	40,000
Capital assets, at nominal value	-
Total Assets	**$ 250,000**
Liabilities	
Bank overdraft	$10,000
Short-term loans	50,000
Accounts payable and accruals	120,000
Deferred revenue	5,000
	185,000
Pension liabilities	20,000
Employee termination benefits	19,000
Provision for pay equity settlement	25,000
Total Liabilities	**$ 249,000**
Accumulated Surplus	**$ 1,000**
Total Liabilities and Accumulated Surplus	**$ 250,000**

Step 1 - Apportionment of Accumulated Surplus

Apportionment of the accumulated surplus/deficit is the first step in the framework for division. Using the theoretical balance sheet introduced above, the accumulated surplus of $1 million must be apportioned between the two territories. For this illustration, it will be **assumed** that the parties have agreed to share the accumulated surplus on a 50/50 basis, that is 50% to Territory 1 and 50% to Territory 2. Hence, in this example, the accumulated surplus would be apportioned as follows:

Exhibit 3-2 Theoretical Apportionment of Accumulated Surplus

As at March 31, 19XX (000s)

	Total (000s)	Territory 1	Territory 2	Basis of Apportionment
Accumulated Surplus	$1000	$500	$500	50/50

This step establishes in advance the net value that each territory must end up with after the assets and liabilities have been allocated, which is the next step in the process. If the allocation process (Step 2) produces net values different from these, an adjustment amount will be required between the two territories, as illustrated later in this Chapter.

Step 2 - Allocation of Assets and Liabilities

Again, for illustrative purposes, the theoretical balance sheet introduced earlier is used to show how the allocation of assets and liabilities works. For purposes of this illustration, two methods are used to allocate each asset or liability account to one territory or the other:

- the preferred method is the geographical location of the asset and liability (which is arbitrarily set for purposes of this illustration);

- the second (default) method will be the same 50/50 ratio used in Step 1 to apportion the accumulated surplus.

The results of the allocation process appear as Exhibit 3-3.

Exhibit 3-3 Theoretical Allocation of Assets and Liabilities

As at March 31, 19XX (000s)

	Total	Territory 1	Territory 2	Basis of Allocation
Assets				
Due from Canada	$ 85,000	$ 42,500	$ 42,500	50/50
Accounts receivable	60,000	35,000	25,000	GEO
Inventories	40,000	10,000	30,000	GEO
Prepaid expenses	5,000	2,000	3,000	GEO
	190,000	89,500	100,500	
Designated cash and investments	20,000	10,000	10,000	50/50
Loans receivable	40,000	30,000	10,000	GEO
Total Assets	**$ 250,000**	**$ 129,500**	**$ 120,500**	
Liabilities				
Bank overdraft	$ 10,000	5,000	5,000	50/50
Short-term loans	50,000	25,000	25,000	50/50
Accounts payable and accruals	120,000	70,000	50,000	GEO
Deferred revenue	5,000	2,800	2,200	GEO
	185,000	102,000	82,200	
Pension liabilities	20,000	6,000	14,000	GEO
Employee termination benefits	19,000	5,000	14,000	GEO
Provision for pay equity settlement	25,000	12,500	12,500	50/50
Total Liabilities	**$ 249,000**	**$ 126,300**	**$ 122,700**	
Accumulated Surplus	**$ 1,000**			
Net Assets (Net Liabilities) Allocated		**$ 3,200**	**$ (2,200)**	

GEO - based on geographic location

In Exhibit 3-3, Territory 1 ends up with net assets (assets greater than liabilities) of $3.2 million while Territory 2 ends up with net liabilities (liabilities greater than assets) of $2.2 million. The adjustment of the net assets or net liabilities allocated to each territory to the amount of accumulated surplus apportioned to each is the object of Step 3, the adjustment amount, which is discussed below.

Step 3 - Adjustment Amount

In the theoretical example above, the net value of assets and liabilities allocated in Step 2 does not correspond to the amount of accumulated surplus apportioned to each territory in Step 1. This arises because each territory has ended up, through the practical allocation of assets and liabilities, with either more or less than its "fair share" of the accumulated surplus as determined in Step 1. In this Report, such a difference between the apportionment of accumulated surplus and the allocation of assets and liabilities is referred to as the Adjustment Amount.

Exhibit 3-4 illustrates how the Adjustment Amount works to reconcile the amount of accumulated surplus or deficit apportioned to each territory with the net assets or net liabilities allocated to it.

Exhibit 3-4 Theoretical Determination of Adjustment Amount

As at March 31, 19XX (000s)

		Territory 1	Territory 2
Step 1:	Apportionment of Accumulated Surplus Exhibit 3-2	$500	$500
Step 2:	Net Assets (Liabilities) Allocated Exhibit 3-3	$3,200	$(2,200)
Step 3:	Adjustment Amount	$(2,700)	$2,700

To summarize Exhibit 3-4, Territory 1 was apportioned $500,000 as its share of the accumulated surplus at the date of division. However, after the allocation of specific assets and liabilities was completed, it ended up with net assets of $3.2 million, for a difference of $2.7 million. Territory 2 has the reverse situation - it ended up with net liabilities of $2.2 million after the allocation process was complete, whereas it was apportioned (entitled to) $500,000 as its share of the accumulated surplus, for a corresponding difference of $2.7 million.

Consequently, in order to reconcile the net value of assets less liabilities received as a result of the allocation process with the amount of accumulated surplus that each territory was apportioned, and to respect the principle of fairness and equity which is central to the division process, Territory 1 will need to reflect an amount payable (a liability) of $2.7 million to Territory 2, and Territory 2 will record a corresponding amount receivable (an asset) of $2.7 million from Territory 1. In this fashion, the value of net assets allocated to each territory will correspond exactly to its apportioned share of the accumulated surplus at division.

From an accounting perspective, subsequent recording of the Adjustment Amount on each territory's balance sheet, as either an account payable or an account receivable, will bring the individual opening balance sheets back into balance, as can be seen from Exhibit 3-5.

Exhibit 3-5 Theoretical Opening Balance Sheets

As at April 1, 19XX (000s)

Assets	**Territory 1**	**Territory 2**
Due from Canada	$ 42,500	$ 42,500
Account receivable from Territory 1	-	**2,700**
Accounts receivable	35,000	25,000
Inventories	10,000	30,000
Prepaid expenses	2,000	3,000
	89,500	103,200
Designated cash and investments	10,000	10,000
Loans receivable	30,000	10,000
Total Assets	**$ 129,500**	**$ 123,200**
Liabilities		
Bank overdraft	$ 5,000	$ 5,000
Short-term loans	25,000	25,000
Account payable to Territory 2	**2,700**	-
Accounts payable and accruals	70,000	50,000
Deferred revenue	2,800	2,200
	105,500	82,200
Pension liabilities	6,000	14,000
Employee termination benefits	5,000	14,000
Provision for pay equity settlement	12,500	12,500
Total Liabilities	**$ 129,000**	**$ 122,700**
Accumulated Surplus	**500**	**500**
Total Liabilities and Accumulated Surplus	**$ 129,500**	**$ 123,200**

RECOMMENDATION 2

The Committee recommends a three-step approach for effecting the division of assets and liabilities as follows:

Step 1 • Establish a share, or ***apportionment****, between the two territories, of the accumulated surplus or deficit, that the signatories agree to be equitable;*

Step 2 • Establish an ***allocation****, between the two territories, of the asset and liability items that the signatories agree to be practicable; and*

Step 3 • Establish an ***adjustment*** *mechanism that will bring the net value of the assets and liabilities allocated to each territory in the allocation process in Step 2 into conformity with the respective accumulated surplus or deficit apportioned to each territory resulting from the apportionment process in Step 1.*

3.2 APPORTIONING THE ACCUMULATED SURPLUS/DEFICIT

Having now established the basic three-step approach to be used for division and having illustrated how it works through a theoretical example, the Committee proceeded to examine how this approach would work in relation to the organizations to be divided. It thus began by focusing on the application of Step 1, the sharing of the accumulated surplus/deficit.

The Committee considered that the appropriate sharing of accumulated deficits or surpluses depended to some extent on the nature of the organization. In general, all of the organizations to be divided, i.e., those remaining after applying the criteria in the previous Chapter, have benefited from government financing, and thus have a financial link to the surpluses or deficits of the GNWT over time. However, the more autonomous and geographically specific an organization has been, the weaker is the case for sharing its accumulated surplus or deficit between territories and the stronger the case for considering it as "already divided". In the latter case, the organization would simply carry on "as is", in the territory where it resides and functions.

In order to decide which of the organizations to be divided might best be subjected to a general apportionment rule, or left to stand on their own on the basis of their separate geographical status, the Committee decided to apply the following test:

Does the organization operate on a pan-territorial basis?

If an organization has pan-territorial responsibilities for providing a function of government, it is likely to have acquired assets and incurred liabilities in both territories in the course of conducting its affairs. When this is the case, its accumulated surplus/deficit should be apportioned using the general apportionment rule, as described in Section 3.2.2.

On the other hand, if an organization provides services exclusively in one or the other of the new territories, it is quite likely that it was created specifically to serve that territory. Or, it may be that decentralization of government functions has, over time, resulted in separate organizations that are now providing the functions of government exclusively to one territory or the other. It would thus seem appropriate that the benefit of the assets acquired and the burden of the liabilities incurred continue to be identified with the residents of that territory. Consequently, such organizations may be best left as they are on a geographical basis (i.e., be considered to be "already apportioned"). This is elaborated further in Section 3.2.1.

3.2.1 Apportionment on a Geographical Basis

The Committee recognized that after applying the criteria which appear in Chapter 2, regarding accountability, ownership and control, a number of organizations that qualify as "government" would be left to be apportioned, either on a geographical basis or according to the general apportionment rule. This would include, at a minimum:

- the non-consolidated financial statements (departmental operations) of the GNWT
- the enterprises that the GNWT owns or controls,
- the territorial educational and health organizations that the GNWT funds.

Applying the test on territorial operations described in the previous section to the above organizations, the Committee judged that the following should be deemed "already separately apportioned", based on the fact that they are and have been operating uniquely in one or the other territory, and with sufficient autonomy to justify leaving them "as they are" and separate, for apportionment purposes:

Divisional Educational Councils and Authorities
Hospitals and Health Boards

Divisional Educational Councils, District Education Authorities, Hospitals/Health Boards are dependent on government contributions for their capital and operating requirements and are accountable to the Legislative Assembly through the appropriate Minister. These organizations all operate in a distinct territory and are governed by local boards. Once approvals for operating and capital funds have been granted, the GNWT normally would not access or reallocate funds or capital property, although

the GNWT does hold title to the latter in most cases. Finally, each organization is responsible for its spending decisions, and can retain surpluses but must also absorb deficits. Educational Councils also have limited ability to raise revenues at the local level through school taxes. As a result of their distinct territorial operations, local stewardship and financial autonomy, they were deemed to be best apportioned using the geographical apportionment method.

Aurora College and Nunavut Arctic College

Aurora College and Nunavut Arctic College, although normally treated as part of the GNWT financial reporting entity for Public Accounts purposes, have, since 1995, pursued an independent path for division purposes under the Public Colleges Act. Hence, for these organizations, division has already effectively taken place. Although accountable for the funding received through the Minister of Education, Culture and Employment, each of these organizations has its own locally elected governing body and primarily serves a distinct territory. Furthermore, each college is responsible for its spending decisions, i.e., can retain any surplus and must absorb any deficit, and has the ability to raise funds by setting its tuition fees and pursuing third-party contracts. Consequently, the Committee viewed these organizations as already having been apportioned under the geographical apportionment method.

Northwest Territories Development Corporation Subsidiaries and Venture Investments

With the exception of Arctic Canada Trading Ltd., each subsidiary company and venture investment of the Northwest Territories Development Corporation (NWTDC) is unique to one of the new territories. Consistent with the Committee's position regarding division of organizations that operate in a single territory, each of these subsidiary companies and venture investments should be apportioned, and its assets and liabilities allocated to the territory in which it operates, without any adjustment being necessary. Treatment of the NWTDC is discussed further in Section 5.5.

RECOMMENDATION 3

The following entities should be considered as already divided on a geographic basis, and thus their individual balance sheets should be left as they are, with their accumulated deficits or surpluses considered as *already apportioned and their assets and liabilities as already allocated:*

District Educational Councils and Authorities
Hospitals and Health Boards
Aurora College and Nunavut Arctic College
Northwest Territories Development Corporation Subsidiaries (except Arctic Canada Trading Ltd.) and Venture Investments

3.2.2 Establishing a General Apportionment Rule (For Remaining Organizations)

In deciding on an appropriate general apportionment rule for the accumulated surplus or deficit of the remaining governmental organizations to be divided within the scope of this Report, the Committee considered several options. One approach that has been suggested is the “historic” or benefits/costs approach. Under this approach, one would attempt to recreate annual revenue, expenditure and surplus/deficit accounts for each territory back through history. The allocation of the current accumulated surplus/deficit would be the sum of the historical annual allocations for each territory.

Quite apart from the impracticality and likely contentious nature of such an exercise, the Committee believed that, even if it could be done, it would not be appropriate. This approach would basically “imagine” that the two territories had been governed separately throughout history, contrary to fact, and that the individual territories would have made the same financing and other related decisions.

Another approach would have been a simple apportionment based on population. However, this would ignore historical and important realities respecting the distribution of service requirements and their costs, which vary considerably from region to region.

Thus, the Committee decided to establish its own approach to the division of assets and liabilities that reflected the circumstances of the territories.

The Committee recognized that one of the fundamental purposes of government is to provide programs and services to meet the public needs of its constituents as effectively and as equitably as possible. Further, it considered that in a democracy, expenditure allocation decisions over time are a sound proxy for expenditure requirements. From this perspective, the Committee agreed that some measure of the historical expenditures between the two territories would yield an equitable and practical basis for apportioning accumulated surplus or deficit.

The "HER"

In order to find an acceptable quantitative measure for this concept, the Committee looked at recent allocations of expenditures, taking practicable limits in terms of time and cost into account. The GNWT had conducted a division costing analysis, which identified the geographical beneficiary of program expenditures on an east and west basis. This analysis provided a starting point.

For purposes of this historical allocation, government financial outlays (expenditures) were identified as falling into one of two categories:

- *capital expenditures*, for the construction of infrastructure and acquisition of equipment and repayment of debt; and
- *operations and maintenance (O&M) expenditures*, to provide the funding necessary for the public services activities of government.

O&M expenditures for the 1996-97 fiscal year had been tracked geographically at the transaction level. In the case of capital expenditures, recognizing their variable and uneven nature, a 10-year historical period ending in 1996-97 was tracked. Based on the results of these analyses, and given what is known about the relative costs and socio-economic circumstances of the two territories, the Committee agreed to accept these data as the basis or proxy for measuring the historical allocation of expenditures in each territory. The resultant ratio of expenditures by territory, or the Historical Expenditure Ratio (HER), is computed in Exhibit 3-6.

The fundamental premise underlying the HER is that it represents an equitable and practical estimate of the relative expenditures made on behalf of each territory. Thus, under this approach, if expenditures over time exceed revenues (thereby creating an accumulated deficit), that accumulated deficit would be shared by the territories on the same ratio as the historical expenditures. If a surplus existed, it would similarly be shared using the same historical expenditure ratio.

The Committee then examined the question of whether the same approach and ratio would also be appropriate for the apportionment of the accumulated surplus or deficit of the government enterprises. The Committee noted that, for the most part, these organizations exist to deliver government programs or other executive functions of government. In many cases, these enterprises are set up as separate legal entities primarily for administrative convenience or to satisfy the requirements of external funding agencies, such as Canada Mortgage and Housing Corporation (CMHC). The Committee further noted that the government's capital and operating contributions to these enterprises are recorded as annual expenditures in the GNWT's departmental operating accounts and hence are reflected in the accumulated surplus/deficit of the GNWT. The accumulated surplus/deficit of each enterprise, as the case may be, either adds to or reduces the accumulated deficit of the GNWT.

The Committee therefore concluded that the HER should be used to apportion the accumulated surplus/deficit of the other organizations subject to the general apportionment rule, even if some of these are separate legal entities.

Exhibit 3-6 Calculation of Historical Expenditure Ratio (HER)

O&M Expenditures	East	West	Total
1996-97 Final Expenditures	$ 383,582,759	$ 491,653,272	$ 875,236,031
1996-97 East/West Split for O & M	44.44%	55.56%	100.00%
Capital Expenditures			
10-year Capital Expenditure History	764,033,731	865,407,269	1,629,441,000
Average East/West Split for last 10 years	46.89%	53.11%	100.00%
1996-97 Expenditures allocated east/west using 10-year ratio	**82,540,200**	**93,491,800**	**176,032,000**
Total 1996-97 Expenditures	**$ 466,122,958**	**$ 585,145,073**	**$ 1,051,268,031**
The HER	44.34%	55.66%	100.00%

A detailed reconciliation to the Public Accounts can be found at Appendix C.

Validation of the HER

As noted above, the HER is the key determinant in the apportionment of the accumulated surplus or deficit of the GNWT and the other organizations subject to division. The Committee therefore considered it imperative that an independent professional opinion be sought as to the accuracy of the analyses leading to the establishment of the HER.

Consequently, the Office of the Auditor General (OAG) was requested to provide assurance that these analyses are accurate and reliable for the Committee's purposes. The terms of reference for its involvement, as well as the reports issued by the OAG appear as Appendix C to this Report. The calculations shown in Exhibit 3-6 have been influenced by the work of the OAG, and are supported by their Report.

Apportionment Using the HER

The purpose of developing the general apportionment rule (HER) was to provide a basis for apportioning the net value (i.e., accumulated surplus or deficit) of all remaining governmental operations, embracing the main government departments, various funds and some government enterprises. The following organizations are included in this group:

- GNWT Departments
- Fur Marketing Services Revolving Fund
- Granular Program Revolving Fund
- Northwest Territories Liquor Commission
- Petroleum Products Revolving Fund
- Public Stores Revolving Fund
- Student Loan Fund

The above organizations deliver the executive and program functions of government and are not separate legal entities. They are accountable, owned and controlled by the GNWT. Their assets, liabilities and operations are generally recorded in the Consolidated Revenue Fund. Also:

- Northwest Territories Housing Corporation
- Northwest Territories Business Credit Corporation
- Northwest Territories Development Corporation (Headquarters)
- Arctic Canada Trading Ltd.

These organizations are legal corporate entities that depend on the government's contribution for their operations; they are accountable to and owned and controlled by the GNWT. These organizations are referred to in legislation and government documents as either "government enterprises" or "public agencies". In certain instances adjustments are proposed (in Chapter 5) with respect to the treatment of tangible capital assets and their associated liabilities, in order to make that treatment consistent with that of departmental operations.

RECOMMENDATION 4

The HER should be used to apportion the accumulated surplus or deficit of the government's departmental operations and, subject to adjustments recommended in Chapter 5, government enterprises that are within the Committee's scope and which have not been separately divided on the geographical basis.

Summary of Status of Organizations for Division Purposes

To this point, the Committee has established and applied criteria to determine which organizations would be subject to division, and if so, on what basis. Before proceeding to discuss the question of allocating the assets and liabilities of various organizations, it would be appropriate at this point to summarize the treatment accorded various organizations for purposes of division. This information appears as Exhibit 3-7.

Exhibit 3-7 Status of Organization for Division Purposes

Name of the Organization	Excluded from Scope	Apportioned Geographically	Apportioned by General Rule (HER)
Legislative Assembly Retiring Allowances Fund	X		
Territorial Court Judges' Registered Pension Plan	X		
Public Trustee for the Northwest Territories	X		
Municipalities and Other Forms of Local Government	X		
Northwest Territories Power Corporation	X		
Workers Compensation Board	X		
Northwest Territories Development Corporation - Subsidiaries and Venture Investments		X	
Aurora College and Nunavut Arctic College		X	
Divisional Educational Councils and Authorities		X	
Hospitals and Health Boards		X	
Non-consolidated (Departmental) Accounts			X
Fur Marketing Services Revolving Fund			X
Granular Program Revolving Fund			X
Northwest Territories Liquor Commission			X
Petroleum Products Revolving Fund			X
Public Stores Revolving Fund			X
Northwest Territories Housing Corporation			X
Northwest Territories Business Credit Corporation			X
Northwest Territories Development Corporation - Headquarters			X
Arctic Canada Trading Ltd.			X

3.3 ALLOCATION OF ASSETS AND LIABILITIES

Having determined how best to apportion the accumulated surplus or deficit of the organizations to be divided, the Committee turned its attention to appropriate methodologies for allocating the assets and liabilities of these organizations.

The Memorandum of Understanding sets out a number of methodologies and approaches that could be used under different circumstances for allocating assets and liabilities, i.e., for placing or assigning each asset and liability on either the Government of Nunavut or new western territory opening balance sheet at April 1, 1999.

In determining what methodologies would be appropriate for allocating assets and liabilities, the Committee was guided by the Principles that appear in Chapter 2 of this Report. Using these Principles, two methodologies emerged as the most appropriate and useful for the allocation of assets and liabilities.

The first is geographic location, where the residency of an asset or liability can be territorially identified, and it would be costly to move the asset or reassign the liability. In such situations the particular asset or liability should be allocated to the eastern or western territory on the basis of where it is located. A prime example of the application of this methodology is the treatment of oil inventories or social housing. In other situations, such as housing loans, municipal debentures and student loans, geographical association should also be used for allocation purposes

The second methodology that is proposed in the allocation of the assets and liabilities is the HER. This may be appropriate for financial assets and liabilities which have no particular geographic identity and no policy basis to govern allocation. The most obvious examples of this are cash balances, short-term loans and the provision for pay equity settlement. In the case of the latter, since neither the actual amount nor the timing of this provision can be accurately predicted at this time, it has been allocated to each territory on the same basis (ratio) as the apportionment of the accumulated surplus, i.e., the HER.

RECOMMENDATION 5

Each asset or liability should be allocated first on the basis of geography, or, if that is not possible, using the HER.

3.4 THE ADJUSTMENT AMOUNT

Earlier in this chapter, a theoretical example was used to illustrate how the adjustment amount works to reconcile the agreed share of accumulated surplus or deficit apportioned to a territory with the net assets or net liabilities that it ends up with after the allocation process is complete.

The adjustment amount concept will operate in the same manner with respect to the assets and liabilities of the GNWT departmental operations and the government enterprises that are subject to apportionment under the HER rule. In the case of the organizations divided on the geographical basis, the accumulated surplus or deficit apportioned to the appropriate territory would always be equal to the net assets or net liabilities allocated, such that there would be no adjustment.

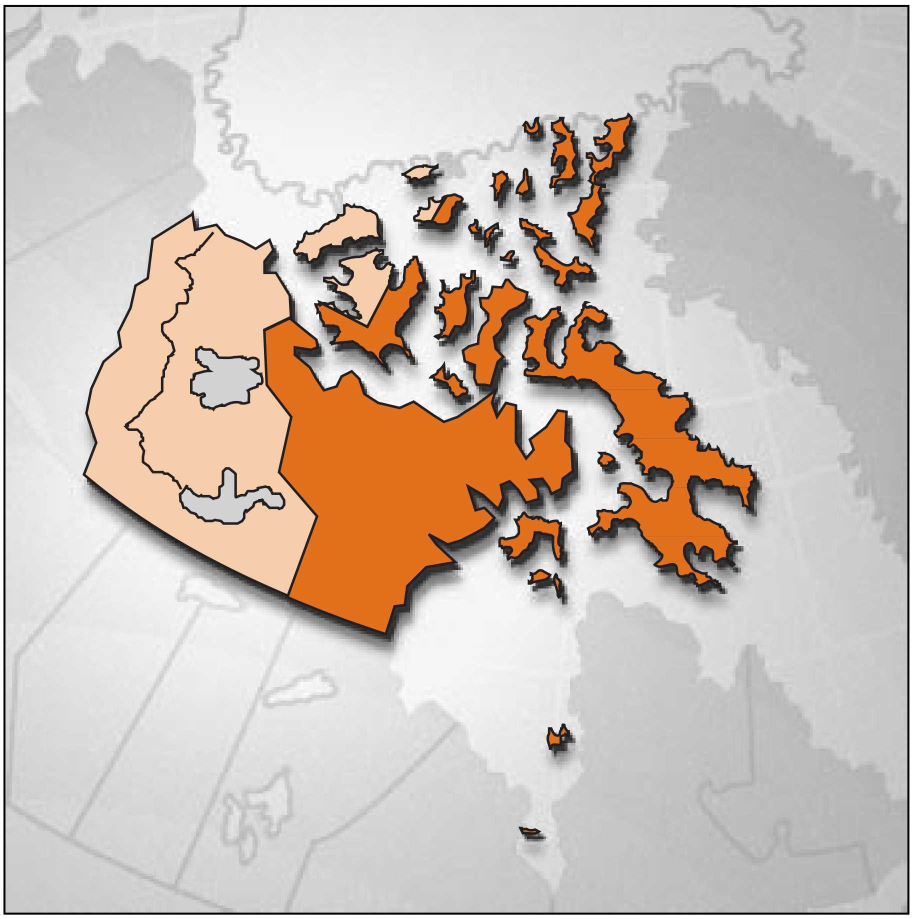
RECOMMENDATION 6

Any difference (Adjustment Amount) resulting from the apportionment of accumulated surplus/deficit and the allocation of assets and liabilities should be settled by the creation of an account payable/account receivable between the two territories.

C

PART C:

Application to Departmental Operations and Government Enterprises



4.1 INTRODUCTION

This Chapter describes the application of the apportionment and allocation methodologies to the non-consolidated (departmental) operations of the GNWT. For purposes of this section, these organizations are included:

- Government Departments
- Fur Marketing Service Revolving Fund
- Granular Program Revolving Fund
- Northwest Territories Liquor Commission
- Petroleum Products Revolving Fund
- Public Stores Revolving Fund
- Student Loand Fund

The necessary starting point for the apportionment of the accumulated surplus/deficit and the allocation of assets and liabilities of the departmental operations is the non-consolidated balance sheet of the GNWT. Exhibit 4-1 shows the types of assets and liabilities and the magnitude of these assets and liabilities and the accumulated surplus/deficit as at March 31 for each of the last two fiscal years.

The balance sheet identifies the value of assets and liabilities, and the resulting accumulated surplus or deficit of the Government at a given point in time.

The balance sheet lists assets first, followed by liabilities and the composition of the accumulated surplus or deficit. In their respective parts, the assets and liabilities are listed in their order of liquidity i.e. which can most easily be converted to cash or need to be paid, respectively, in the next 12 months.

Exhibit 4-1 Non-consolidated Balance Sheet of the GNWT

As at March 31 (000s)

	1998	1997
Assets		
Cash and short term deposits (4.3.1)	$ -	$ -
Due from Canada	157,936	22,899
Accounts receivable (4.3.2)	61,516	59,493
Inventories (4.3.3)	38,094	36,903
Prepaid expenses	5,247	4,140
Current portion of loans receivable	6,678	18,432
	269,471	141,867
Designated cash and investments (4.3.4)	17,928	17,224
Loans receivable (4.3, 5,6,7)	47,065	55,198
Capital assets, at nominal value of $1 (4.5)	-	-
Total Assets	**$ 334,464**	**$ 214,289**
Liabilities		
Bank overdraft (4.3.1)	12,312	7,199
Short-term loans (4.3.1)	49,301	59,691
Accounts payable and accruals (4.3.8)	124,034	116,486
Current portion of long term liabilities	10,716	13,162
Deferred revenue	992	2,053
	197,355	198,591
Pension liabilities (4.3.9)	15,497	15,249
Employee leave, termination benefits (4.3.11)	16,770	19,455
Provision for pay equity settlement (4.3.10)	25,000	-
Total Liabilities	**$ 254,622**	**$ 233,295**
Accumulated Surplus (Deficit)	**$ 79,842**	**$ (24,356)**
Total Liabilities and Accumulated Deficit	**$ 334,464**	**$ 214,289**

4.2 APPORTIONMENT OF THE ACCUMULATED SURPLUS/DEFICIT

As of March 31, 1998, the GNWT had an accumulated surplus of $79.8 million. This is a net amount comprised of the accumulated operating surplus of the territory since inception and the balance in the Petroleum Products Stabilization Fund. It is not necessary to separate these items for purposes of apportionment, since it is the net accumulated surplus/deficit that is being apportioned.

As noted in Section 3.2, the Committee concluded that using historical expenditures by territory (the HER) was conceptually the soundest, most equitable and practical method for apportioning the accumulated surplus/deficit of the GNWT.

RECOMMENDATION 7

The Committee proposes that the non-consolidated accumulated surplus/deficit of the GNWT be apportioned using the HER (refer to Exhibit 3-6 for details of calculations).

4.3 ALLOCATION OF ASSETS AND LIABILITIES

Having now established the ratio that would be used to apportion the accumulated surplus/deficit of the GNWT departmental operations (Step 1 in the basic framework), the Committee then went on to examine which methodology to apply for allocating the various asset and liability items.

4.3.1 Cash and Short Term Deposits/ Bank Overdrafts and Short Term Loans

The Consolidated Revenue Account is the Bank Account of the GNWT. It is not a single bank account but includes, among others:

- Regional Consolidated Revenue Accounts used by regions to pay bills and deposit revenues;
- Departmental Transfer Accounts used by departments to deposit revenues which are then transferred to the Consolidated Revenue Account;

- The Payroll Account into which funds are transferred from the Consolidated Revenue Account each month to cover the payroll of the GNWT; and
- Other Transfer Accounts used to deposit revenues, which are transferred to the Consolidated Revenue Account.

Short-term Deposits are deposits in interest-bearing securities that generate revenue for the GNWT. When there is a surplus of cash relative to the immediate requirements of the Government, a portion of the Consolidated Revenue Account is converted to short-term Deposits.

The reverse situation is when the Bank is in an overdraft (negative cash balance) position. In certain cases, short-term bank loans may be necessary to bridge temporary cash shortfalls. In such cases, the bank overdraft and the short-term bank loans appear as a liability on the balance sheet.

RECOMMENDATION 8

As cash on hand at any point in time (whether positive or negative) does not lend itself to any meaningful association with either western or eastern operations, it should be allocated using the HER.

4.3.2 Accounts Receivable

Accounts receivable are amounts owed to the Government by individuals and organizations. It also includes the amount owed by Canada under the existing financing agreements.

The amounts owed by individuals or organizations could be for taxes assessed, services rendered/provided and judgments by the courts.

The coding structure in the GNWT's Financial Information System (FIS) is such that most receivables related to operations can be allocated on an east/west basis.

For those receivables that do not lend themselves to an appropriate east/west allocation an alternative allocation should be found, such as the HER.

The Committee recognizes that there may be legal or other impediments (contracts, assignments, etc.) to the allocation of accounts receivable. Such impediments should be taken into account in the allocation process.

RECOMMENDATION 9

Accounts receivable should be allocated on a geographic basis using the data contained in the GNWT's Financial Information System. Where this is not possible or practical, for legal or other reasons they should be allocated using the HER.

4.3.3 Inventories

The GNWT maintains inventory records for Petroleum Products, Granular Products, Liquor Inventory and Public Stores. The physical inventories associated with these funds are maintained in locations in both the east and the west.

RECOMMENDATION 10

The allocation of inventories should be based on location or the intended destination, since it is the most pragmatic approach due to the cost of relocation in comparison to the value of the inventory, particularly in the case of Petroleum Products.

4.3.4 Designated Cash and Investments

A portfolio of cash and investments is separately maintained by the GNWT as required under legislation to fund the Members of the Legislative Assembly (MLAs') and Judges' supplementary pension liabilities and to provide cash for the future issue of student loans.

The Legislative Assembly of the GNWT approves the gross amount of student loans, which may be outstanding at a given time during the fiscal year. A portion of the designated cash and investments is allocated for the provision of student loans up to the limit established through legislation.

Both the MLAs' and Judges' Supplementary Pension Plans are fully funded by the balance of the designated cash and investments. The MLAs' supplementary plan is governed by the Legislative Assembly Supplementary Retiring Allowance Act (SRAA) which was closed to new members effective with the commencement of the 13th Assembly in November 1995. In future, it will only exist for the payment of pensions to former members. This plan will not be duplicated in Nunavut; therefore there is no requirement to allocate any of the associated designated cash and investments to Nunavut.

RECOMMENDATION 11

The amount of the designated cash and investments available to fund student loans should be allocated on the same ratio as the allocation of student loans outstanding as described later in this Chapter (see Section 4.3.6).

The portion of the portfolio associated with the Judges' Supplementary Pension Plan should be allocated on the same basis as the allocation of the pension liabilities as described later in this section. The designated cash and investments related directly to the Legislative Assembly Supplementary Retiring Allowances Act shall be retained by the western territory.

4.3.5 Municipal Debentures

Municipal debentures are loans provided to communities in exchange for a debenture as promise to pay. Repayments are required on an annual basis and are a combination of interest and principal. The amount of principal which will be received in the next fiscal year is reclassified as current for financial statement presentation purposes.

At March 31, 1998, the municipal loans outstanding are shown in Exhibit 4-2.

Exhibit 4-2 Distribution of Municipal Debentures

As at March 31, 1998 (000s)

Municipality	East	West
Yellowknife	$ -	$ 109
Fort Smith	-	3,008
Fort Simpson	-	301
Inuvik	-	3,079
Norman Wells	-	905
Iqaluit	2,817	-
Broughton Island	193	-
Pond Inlet	100	-
Totals	**$ 3,110**	**$ 7,402**

RECOMMENDATION 12

Municipal debentures should be allocated based on the geographic location of the community that issued the debenture.

4.3.6 Student Loans

Remissible Student Loans are available to qualifying students for attendance at post-secondary educational institutions. Once the borrower meets specific criteria, the loan may qualify for remission (i.e. the borrower is not required to repay the loan). The loans receivable amount recorded on the balance sheet is the total amount of the loans outstanding less an estimate of the amount that may eventually be remitted and/or written off as bad debts.

RECOMMENDATION 13

The outstanding amount of student loans should be allocated based on the territory in which the student resided at the time of application for the loan.

4.3.7 Other Long-term Assets

Other Long-term Assets include Agreements for Sale and Working Capital Advances to the NWT Business Credit Corporation (BCC).

An agreement for sale is the financing formerly provided by the Government on the sale of Government housing to employees if they were unable to secure financing from the bank. The title of the house remains with the government until full payment is made.

RECOMMENDATION 14

Since a structure (e.g. a house) is located in a particular territory, the associated loan receivable should be allocated to that territory.

The Government provides a working capital advance to the BCC, which is used to finance loans to small business in various communities in both the east and the west. The working capital advance is interest bearing. The amount of the advance is recorded in the financial statements. The limit of this advance is established by legislation. The most pragmatic way to split this advance would be according to the loan portfolio east/west ratio based on information provided by the BCC. These loans are recorded net of a provision for losses.

The provision for losses has two components. The first is loan specific. A provision for the full amount of non-performing loans is recorded. The second component is an estimate of provision for the balance of the loans receivable.

RECOMMENDATION 15

The Working Capital Advance should be allocated based on the ratio of the net loans receivable as recorded in the financial statements of the BCC.

4.3.8 Accounts Payable and Accrued Liabilities

Accounts payable are amounts owed by the Government to individuals and organizations. It also includes any amount owed to Canada under the existing financing agreement.

The coding structure in the GNWT's Financial Information System (FIS) is such that most payables related to program expenditures can be split on an east/west basis.

Those accounts payable that do not lend themselves to such an allocation should be allocated using the HER.

RECOMMENDATION 16

Accounts payable and Accrued liabilities should be allocated on a geographic basis using the data contained in the GNWT's Financial Information System. Where this is not possible or practical, they should be allocated using the HER.

4.3.9 Pension Liabilities

The Government accrues liabilities for pensions for judges and MLAs under the Judges' Supplemental Pension Plan and the Legislative Assembly Supplementary Retiring Allowance Act (SRAA) Plan. An investment portfolio of designated cash and investments offsets the liabilities associated with the supplementary pension plans. The funds are administered by independent trust companies.

The SRAA was closed to new members effective with the commencement of the 13th Assembly in November 1995 and in future will only exist for the payment of pensions to former members. The SRAA will not exist in Nunavut after division and therefore, the west will maintain all the assets and liabilities relating to the SRAA after division.

The Judges' Supplemental Pension Plan will continue after division. There may be some Territorial Judges who will continue in the same capacity with Nunavut. The liabilities associated with those individuals will have to be assumed by Nunavut. As stated in Section 4.3.4 (Recommendation 10), the appropriate amount of designated cash and investments will also be allocated to Nunavut.

RECOMMENDATION 17

The GNWT will continue to administer the assets and liabilities associated with the SRAA. Should Nunavut establish a supplementary plan for its Judges, the assets and liabilities associated with those judges who transfer to the Nunavut Government will be transferred.

4.3.10 Employee Leave and Termination Benefits Liabilities

At each year-end, the GNWT accrues the following Employee Leave and Termination Benefits Liabilities for each employee:

- Employee Leave (including Annual, Furlough, Lieu Time and Cafeteria Benefits)
- Resignation Severance
- Retirement Severance/Supplementary Retirement
- Ultimate Removal

These benefits are tracked by the GNWT on an individual employee basis using the Government Human Resource Information System (GHRIS). GHRIS has various sort capabilities. For the purposes of allocating this liability at division, Compensation Services will sort these liabilities by region, based on which government the employee ends up working for post-division. In effect, the liability will follow the employee, with the post-division employer being ultimately responsible for funding these costs.

It should be noted that any portion of such costs arising out of pre-division employment will have been shared by both territories through the apportionment process. As in the case of all line items in the GNWT financial statements, any discrepancy that might result between the two territories after the allocation of the employee benefits will be addressed in the calculation of the final Adjustment Amount.

There may be costs associated with a few specific situations involving laying off staff as a direct result of division. These costs are not part of existing liability calculations as these are based on resignation, not lay-off entitlements. The Committee believes that these are clearly transition costs, as contemplated in the Nunavut Political Accord, and payable by the Federal Government.

For employees fulfilling a corporate role within headquarters, the associated liabilities will be distributed to whichever territory they end up working for. Should neither territory retain the employee, the transitional lay off cost should be the responsibility of the federal government, in the Committee's view.

RECOMMENDATION 18

The employee leave and termination benefit liabilities should follow the employee and be assumed by that employee's post-division employer.

4.3.11 Provision for Pay Equity Settlement

The GNWT has included, in the 1997-98 financial statements, a $25 million provision for the settlement of the pay equity dispute. The GNWT has chosen to implement a gender neutral job evaluation system to ensure that the applicable provisions of the Canadian Human Rights Act are adhered to and that the Union of Northern Workers or Public Service Alliance of Canada can make no future claims regarding inequitable payment by the Government. Using that job evaluation system, the GNWT has identified what it feels is a fair and affordable pay equity settlement and has included that settlement as part of its offer during the current collective bargaining session. This settlement offer has now been withdrawn, as the UNW would not negotiate on the issue as part of collective bargaining. The GNWT hopes that this issue can still be settled and that the liability will be paid out by March 31, 1999. If not, this liability will need to be allocated.

The liability was accumulated over a number of years and relates to wage differentials among hundreds of different male or female dominated job groups. The positions in these job groups do not fall in any particular geographic area but are located throughout headquarters, regional and community operations. Geographic work location is not relevant to allocation of the liability as many of the staff affected would have worked in various locations including headquarters, where their services benefited the entire territory. Thus this liability should be allocated using the HER.

RECOMMENDATION 19

If the pay equity issue is not resolved prior to April 1, 1999, the liability should be allocated using the HER.

4.4 TREATMENT OF CONTINGENT LIABILITIES

A contingent liability is defined as an existing condition or situation involving uncertainty as to possible loss to the Government that will ultimately be resolved when one or more future events occur or fail to occur. Contingencies include, but are not limited to, pending or threatened litigation, threat of expropriation of assets and guarantees of the indebtedness of others. Contingent liabilities are disclosed in notes to the financial statements until such time as a dollar value can reasonably be estimated and the event which will result in the liability has occurred (or failed to occur). The March 31,1998 financial statements of the GNWT make mention of four types of contingent liabilities, each of which is discussed below.

4.4.1 Pay Equity

The GNWT has established and booked a provision of $25 million for the settlement of the pay equity dispute. Notwithstanding this, there will still be a requirement to disclose the possibility that the amount currently provided for may not be coincide with (may be less or more than) the liability which may result from the ultimate resolution of the dispute.

Both Governments will be party to this dispute after division and as such would both be required to disclose this provision in their respective financial statements. Should the issue be resolved after division, and the amount of the settlement be greater or lesser than the $25 million provision currently made by the GNWT, then a post-division adjustment would be required and would be dealt with as detailed in Chapter 6 of this report.

RECOMMENDATION 20

If the pay equity issue remains outstanding at division, each government will continue to disclose a contingency in its respective financial statements. The disclosure would indicate that although a provision has been made in the financial statements, there remains the potential that the ultimate resolution of the issue could result in a payment that is more or less than the amount already provided for. Any discrepancy between the amount provided for and the ultimate amount of the settlement under this claim which is entered into after April 1, 1999, and is agreed to between the two governments, should be shared on the basis of the HER.

4.4.2 Loan Guarantees on Behalf of Third Parties

The GNWT is guarantor of external debt incurred by the NWT Housing Corporation and the NWT Power Corporation.

The Government is not liable to pay third part debts that it has guaranteed unless default occurs. Therefore, contingent liabilities are simply disclosed in the notes to the financial statements. Where the Government is able to accurately quantify the dollar value of these contingencies that information is also disclosed in the note.

At March 31, 1998, the GNWT's exposure in respect of such guarantees, as detailed in Note 16 to its financial statements was as follows:

Debentures issued by the NWTPC	$119,587,000
Loans payable by the NWTHC	$ 88,400,000

RECOMMENDATION 21

The contingencies related to loan guarantees should be reported in the financial statements of both territories beginning in fiscal year 1999-2000, to the extent that they apply in each territory. The contingent liability in respect of the guarantees of the loans of NWT Housing Corporation should be allocated on the same basis as the loans in the Corporation. (See Section 5.3.2)

As to the NWT Power Corporation Debentures the responsibility for the guarantees will depend on the outcome of deliberations regarding its post-division status.

4.4.3 Environmental Liabilities

The GNWT could be liable for the remediation of contamination caused by various sites situated on Commissioner's Land. The Government recognizes its responsibility for the safety of residents of the NWT from all forms of hazards including environmental ones.

Any discussion of potential environmental liabilities must include the fact that it is very hard to quantify the potential impact. An inventory of those potential sites that have been identified lists over 600 sites that could, potentially, contain an environmental liability and may require remediation. The Government faces the problem that the cost to conduct environmental audits of these sites is beyond its financial capacity. Without these audits, potential remediation costs will not be known. However, those potential costs could be of an order of magnitude well beyond the financial capacity of the current GNWT or the two successor governments. The Federal-territorial financing arrangements have no provision for these costs so there is no capacity to fund environmental clean-ups. There are also questions regarding who might be responsible for remediation; the federal government, the GNWT, occupants of Commissioner's Land, etc.

The fact that the GNWT inherited many programs from the Federal Government suggests that the federal government may continue to have some liability for any future remedial costs.

It is assumed that where either territory does not have adequate funding to remediate any environmental liability, the territory will approach the federal government for additional funding under the Formula Financing Agreement.

RECOMMENDATION 22

The Committee recommends that the territory in which the site exists should assume responsibility for any associated environmental liability that is not the responsibility of another party (e.g. the federal government).

4.4.4 Canadian Blood Agency (CBA) and the Canadian Blood Services (CBS)

The GNWT has recently become a party to an agreement with the federal, provincial and Yukon governments which would make the GNWT contingently liable for any lawsuits that may arise as a result of actions taken by the CBA or the CBS, to each of which the NWT appoints a member.

The GNWT's potential exposure would be 0.25% of the uninsured portion of any award made by the courts regarding a claim against the CBA. This percentage is based on the rate of consumption of blood on the part of the NWT, relative to the other jurisdictions in Canada. The GNWT's potential exposure related to the CBS is based on the percentage of the GNWT population to the rest of Canada (approximately 0.2% at March 31, 1998).

It is expected that the Nunavut Government will become a party to this agreement and its share of any potential payment would be calculated on the basis of the federal/provincial/territorial formula. The exact percentage is unknown at this time.

As no estimate can reasonably be made as to the amount which the GNWT and the Government of Nunavut would be exposed to, the potential for exposure is simply disclosed in the notes to the financial statements.

RECOMMENDATION 23

After division both governments will include a note to their respective financial statements which discloses the potential exposure to a share of any liability related to a suit launched against the CBA or the CBS. Allocations shall be made in accordance with formulae established in the CBA and CBS agreements.

4.5 TANGIBLE CAPITAL ASSETS

One issue that emerged early on in the Committee's deliberations about the apportionment of accumulated surplus/deficit was the treatment of tangible (physical) capital assets. It is common practice in government accounting (and in the GNWT) not to record the cost of physical assets such as infrastructure, buildings, vehicles and equipment on the balance sheet, but rather to show them at a nominal value of one dollar. These assets are generally funded out of operating revenue and treated as expenditures in the year of acquisition. As such, their costs have been included in each year's operating results and are reflected in the accumulated surplus/deficit of the GNWT departmental operations at the date of division. (It is also recognized that some assets have been gifted or transferred by the federal government.)

As a result of annually expensing the full capital cost of tangible capital asset acquisition/construction, the ongoing funding requirement for replacement and expansion of this capital infrastructure is included in the original level of the negotiated Formula Financing Gross Expenditure Base of each territory.

In considering how to treat tangible capital assets for purposes of apportionment and allocation, the Committee deliberated whether it would be appropriate to attempt to inventory the tangible capital assets of the GNWT and determine their value. The factors that the Committee took into account included:

- The allocation of capital spending over the years has been made on the basis of relative need and should have resulted in equitable asset distribution. This is supported by the 10-year capital expenditure analysis developed in the calculation of the HER. This analysis showed capital spending had been distributed approximately 47% east and 53% west over the past ten years. Considering population differences, capital cost differences and relative infrastructure requirements, this appears equitable.

- Capital spending has been expensed annually. In the federal-territorial financing arrangements, capital spending is provided for in the "Gross Expenditure Base" of each territory, which is escalated annually. This funding is then available for replacement and expansion of the asset base of each territory.
- The identification process for such assets would be difficult and time-consuming since the government does not maintain perpetual records of such assets.
- The appraisal process would likely take a great deal of time and effort to complete and would be extremely costly, given the broad range of asset types involved and their geographical dispersion, the availability of qualified professionals to perform the task, and the absence of genuine market conditions to establish value. Such an exercise would be inconsistent with the instructions from *Footprints 2* where overly complex approaches to dividing assets and liabilities are discouraged.

Following this analysis, the Committee concluded that it was neither practical nor cost-effective to attempt to value the capital assets of the GNWT departmental operations and to restate its accumulated surplus/deficit for purposes of apportionment. In effect, the Committee accepted that physical assets would be valued at one dollar and would be assumed by each territory on the basis of where they were located, without adjustment. This approach was termed the "as-is, where-is" basis.

RECOMMENDATION 24

The Committee recommends that each new territory assume ownership of the tangible capital (physical) assets of departmental operations within its territory on an as-is, where-is basis, without further adjustment being made.

4.6 ILLUSTRATION OF METHODOLOGIES

Exhibit 4-3 illustrates the results of applying the recommended methodologies to the non-consolidated accounts of the GNWT if division had taken place on either March 31, 1997 or March 31, 1998.

Readers should be aware that this exhibit is provided solely for purposes of better understanding of the mechanics of the apportionment and allocation processes. This exhibit has been constructed using geographical ratios appropriate for the dates in question. The ratios to be used for the geographical allocation of assets and liabilities at March 31, 1999 will be determined subsequent to a detailed analysis of the appropriate balance sheet accounts at that date. The application of those ratios could yield very different results than those appearing in Exhibit 4-3.

Readers should note that although the adjustment amount is referred to here as an amount due from one territory to the other, it would likely be settled for the most part by an exchange or reallocation of assets and/or liabilities.

Exhibit 4-3 Illustrative Divided Balance Sheet, GNWT (Non-consolidated)

Assets	As at Mar. 31/98 $000s	Method	East $000s	West $000s	As at Mar. 31/97 $000s	Method	East $000s	West $000s
Due from Canada	157,936	HER	70,029	87,907	22,899	HER	10,153	12,746
Accounts receivable	61,516	GEO	19,839	41,677	59,493	GEO	19,216	40,277
Inventories	38,094	GEO	28,629	9,465	36,903	GEO	28,232	8,671
Prepaid expenses	5,247	GEO	2,208	3,039	4,140	GEO	1,742	2,398
Current portion - loans receivable	6,678	GEO	903	5,775	18,432	GEO	2,493	15,939
Designated cash and investments	17,928	GEO	161	17,767	17,224	GEO	238	16,986
Loans receivable	47,065	GEO	10,135	36,930	55,198	GEO	13,965	41,233
Total Assets	**334,464**		**131,904**	**202,560**	**214,289**		**76,039**	**138,250**
Liabilities								
Bank overdraft	12,312	HER	5,459	6,853	7,199	HER	3,192	4,007
Short term loans	49,301	HER	21,860	27,441	59,691	HER	26,467	33,224
Accounts payable and accruals	124,034	GEO	48,659	75,375	116,486	GEO	45,696	70,790
Current portion - long-term liabilities	10,716	GEO	1,140	9,576	13,162	GEO	4,307	8,855
Deferred revenue	992	GEO	221	771	2,053	GEO	458	1,595
Pension liabilities	15,497	GEO	-	15,497	15,249	GEO	-	15,249
Employee termination benefits	16,770	GEO	3,562	13,208	19,455	GEO	4,984	14,471
Note payable	-		-	-	5,350	GEO	2,372	2,978
Provision for pay equity settlement	25,000	HER	11,085	13,915	-	HER	-	-
Total Liabilities	**254,622**		**91,986**	**162,636**	**238,645**		**87,476**	**151,169**
Allocation of Net Assets (Liabilities)			39,918	39,924			(11,437)	(12,919)

Accumulated Surplus (Deficit) **79,842** HER **35,402**

334,464

5.1 INTRODUCTION

This Chapter will address the division of the government enterprises, as established in Section 2.2 on Scope. These enterprises are:

Northwest Territories Housing Corporation;

Northwest Territories Business Credit Corporation; and

Northwest Territories Development Corporation.

Each of these enterprises is discussed separately in the following sections.

5.2 BASIS OF APPORTIONMENT /ALLOCATION

5.2.1 Treatment of tangible capital assets

The treatment of tangible capital assets in the GNWT's departmental operations led the Committee to discuss how physical assets of the government enterprises should be treated for division purposes. By contrast with the departmental operations, the government enterprises follow the same accounting practices as the private sector in regard to tangible capital assets. They record tangible capital assets at cost when acquired and depreciate them over their estimated useful lives. This lack of uniformity in accounting practices for tangible capital assets between the departmental operations and the government enterprises presented a particular issue for the Committee.

In analyzing this issue, the Committee took the following factors into account:

- The insurable value of the tangible capital assets of the GNWT departmental operations has been estimated to be approximately 10 times the net book value at March 31, 1997 of the tangible capital assets of the government enterprises subject to division.
- Given the disparity in values, it would be inconsistent and somewhat illogical to take into account the tangible capital assets of the government enterprises and at the same time not account for the much more significant value of the tangible capital assets of the departmental operations.

Following this analysis, the Committee concluded that it was important that tangible capital assets be treated on a consistent and equitable fashion for purposes of division. The Committee had previously accepted that the value of tangible capital assets related to the GNWT's non-consolidated financial statements would not be brought into the accounts for division purposes. It therefore made sense that the same treatment should be applied to the tangible capital assets of the other organizations subject to division. Where such assets appear at cost or some other basis on the balance sheets of these organizations, their values should be set aside for purposes of establishing the amount of accumulated surplus/deficit to be apportioned using the HER.

Notwithstanding the treatment proposed above, the Committee recognized that the tangible capital assets of each organization would be allocated territorially on the "as-is, where-is" basis. Therefore, after division, each new territorial organization where tangible capital assets were previously recorded should reflect on its balance sheet its share of such tangible capital assets.

RECOMMENDATION 25:

The Committee recommends that the recorded value of the tangible capital assets and the associated liabilities of the government enterprises subject to division be set aside for purposes of apportioning their accumulated surplus/deficit using the HER. The tangible capital assets of these enterprises should be apportioned and allocated on an "as-is, where-is" basis, without further adjustment.

The Committee further recommends that, post-division, all tangible capital assets and associated liabilities should be recorded on the balance sheets of the relevant territorial entities on the basis of their recorded value, by territory, prior to division.

5.2.2 Apportionment of Accumulated Surplus/Deficit and Allocation of Assets and Liabilities

As mentioned in Section 3.2, the Committee's conclusion in regard to the apportionment of the accumulated surplus/deficit of the government enterprises was to consider their individual accumulated surplus or deficit as adding to or reducing the accumulated surplus/deficit of the GNWT's non-consolidated (departmental) operations. Consequently, the accumulated surpluses or deficits of the government enterprises, as adjusted for the setting aside of their tangible capital assets and associated liabilities, should be apportioned on the same basis as the departmental operations, that is, using the HER.

As to the allocation of assets and liabilities, the methodologies developed for use in the GNWT's departmental operations (geographic allocation and the HER) should generally be used.

5.3 NORTHWEST TERRITORIES HOUSING CORPORATION (NWTHC)

5.3.1 Profile

The Northwest Territories Housing Corporation (NWTHC) was established in 1974 to develop, maintain and manage public housing programs in the Territories. Some of these programs are operated through cost-sharing agreements with CMHC. The Corporation's housing portfolio consists primarily of public housing, senior citizens' housing, lease/purchase housing and staff housing.

In 1997/98, NWTHC received capital and operating subsidies from the GNWT totalling $98 million compared to $105 million in 1996/97. These contributions are used to finance housing construction; fund mortgages; and pay operating costs. In addition, the Corporation received $96.8 million from CMHC in 1997/98 ($65 million in 1996/97) to fund contributions to local housing corporations and to cover the costs of repairs and additions to land and buildings.

In 1997/98 the NWTHC took over CMHC's portfolio of social housing in the north. This resulted in a significant increase in the level of assets related to housing and the associated liabilities, which appear on the books of the NWTHC.

Exhibit 5-1 Northwest Territories Housing Corporation Summary Balance Sheet

As at March 31 (000s)

	1998	1997
Assets		
Housing projects		
Land and buildings	$ 407,267	$ 170,286
Mortgages receivable	18,942	16,674
Property and equipment	9,292	10,070
Cash and short-term investments	26,066	60,567
Accounts receivable	8,232	2,292
Total Assets	**$ 469,799**	**$ 259,889**
Liabilities		
Long-term debt and accrued interest	$ 333,758	$ 93,409
Unapplied contributions	8,221	33,877
Trade and other accounts payable	9,291	22,992
Total Liabilities	**$ 351,270**	**$ 150,278**
Equity of the GNWT	**$ 118,529**	**$ 109,611**
Total Liabilities and Equity	**$ 469,799**	**$ 259,889**

5.3.2 Apportionment of Accumulated Surplus

NWTHC had $118.5 million of equity at March 31, 1998, built up over 24 years through capital contributions from the GNWT to fund housing construction, and debt repayment. This equity in the Corporation in effect represents the net value of assets held by the GNWT less the related obligations, made possible by the government's annual contributions. As discussed in Section 3.2, the accumulated surplus of NWTHC is really a component of the overall accumulated surplus/deficit of the GNWT for division purposes. Therefore, its accumulated surplus at March 31, 1999 should be apportioned using the same (HER) ratio.

It is important to note that the accumulated surplus of $118.5 million includes $426.2 million of investment in the Corporation's housing projects and $9.3 million in property and equipment. Consistent with the recommendation in Section 5.2 above, the accumulated surplus of the NWTHC needs to be adjusted to reflect setting aside these assets before apportioning the residual accumulated surplus.

Another factor to take into account before apportioning NWTHC's accumulated surplus is the long-term debt of $330.1 million to CMHC on the housing projects. This debt is directly associated to the tangible capital assets discussed in the paragraph above. The servicing of this debt is funded externally, through contributions directly from CMHC and from the Federal Government, through Formula Financing. Consequently, the accumulated surplus of the NWTHC needs to be further adjusted to reflect setting aside this debt before apportioning the residual accumulated surplus.

The net impact of setting aside the tangible capital assets and the associated long-term debt reduces the accumulated surplus of the NWTHC at March 31, 1998 to $13.1 million, as illustrated in Exhibit 5-2.

Exhibit 5-2 Northwest Territories Housing Corporation
Adjustment of Accumulated Surplus for Apportionment Purposes

Accumulated surplus, March 31, 1998 ($000s)			$118.5
Deduct: Net book value of:	- Housing projects	$ 426.2	
	- Property and equipment	9.3	
		435.5	
Add: Long-term debt to CMHC		330.1	105.4
Accumulated surplus to be apportioned			$ 13.1

It should be noted that this adjustment of accumulated surplus for apportionment purposes has no impact on the allocation of the underlying assets and liabilities. The tangible capital assets and the associated debt will still revert to the respective territories based on the geographic location of the tangible capital assets at March 31, 1999, as discussed later in this section.

After division, in creating its opening balance sheet, the organization responsible for social housing in each territory should record its share of the long-term debt. Depending on accounting principles followed, it could also record its share of the housing projects and other tangible capital assets. In this fashion, the total accumulated surplus post-division would correspond to the pre-division amount.

RECOMMENDATION 26

The Committee recommends that, for apportionment purposes, the accumulated surplus of NWTHC be adjusted for the net book value of housing projects and other tangible capital assets and related long-term debt. The residual accumulated surplus should then be apportioned using the HER.

After division, the organization responsible for social housing in each territory should record its share of the net book value of housing projects and other tangible capital assets and associated long-term debt.

5.3.3 Allocation of Assets and Liabilities

As outlined earlier under "Treatment of tangible capital assets", the Corporation's housing projects and the associated debt, and property and equipment would be assumed by each new territory on an as-is, where-is basis. This is consistent with the treatment of tangible capital assets in other organizations being divided. It is also consistent with the principle of using geographic location as the preferred methodology for allocation. Allocating these assets would be the first step in the allocation exercise.

Items such as accounts receivable and trade payables may also be identifiable by territory as they likely relate to specific properties or regions. These should also be allocated geographically.

Other assets and liabilities such as cash and short-term investments and unapplied contributions could be allocated by territory using the HER.

RECOMMENDATION 27

To the fullest extent possible, the NWTHC's housing projects and associated debt, property and equipment and accounts receivable and payable should be allocated based on geographical location. Other assets, which are not location-specific, should be allocated using the HER.

5.3.4 Adjustment Amount

Any difference between the value of the assets less the liabilities allocated to each territory, in relation to the amount of accumulated surplus apportioned to each territory, would represent an adjustment amount, that is, an amount owing by one territory to the other. As was noted previously in regard to the accounts of the GNWT, the adjustment amount may be settled by an exchange or reallocation of assets and liabilities.

RECOMMENDATION 28

Any difference between the value of accumulated surplus of NWTHC apportioned to each territory and the value of net assets allocated to it will constitute an adjustment amount, and should be reflected as an amount receivable/payable between the territories.

Exhibit 5-3 shows the results of applying these methodologies to the NWTHC March 31 1998 balance sheet, had division occurred on April 1, 1998.

Exhibit 5-3 Illustrative Divided Balance Sheet - NWTHC

As at March 31, 1998 (000s)

		Methodology	East	West
Assets				
Cash	$ 1,975	HER	$ 876	$ 1,099
Short term investments	24,091	HER	10,682	13,409
Accounts receivable	8,232	GEO	-	8,232
Total Assets	**$ 34,298**		**$ 11,558**	**$ 22,740**
Liabilities				
Accounts payable	$10,858	GEO	$2,114	$8,744
Due to GNWT	2,100	GEO		2,100
Unapplied contributions	8,221	HER	3,645	4,576
Total Liabilities	**$ 21,179**		**$ 5,759**	**$ 15,420**
Net Assets from Allocation			**5799**	**7370**
Accumulated Surplus using HER	**$ 13,119**	HER	**5,817**	**7,302**
Adjustment Amount			**$ 18**	**$ (18)**

5.4 NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION (BCC)

5.4.1 Profile

The Northwest Territories Business Credit Corporation (BCC) was established on October 1, 1991 for the purpose of providing financing to new or existing business enterprises in the NWT. The BCC provides direct loans and loan guarantees.

The BCC received a Contribution from the GNWT in the amount of $785,000 in 1998 ($792,000 in 1997). This contribution is paid to offset the administrative expenses incurred by the BCC. The BCC also receives an interest bearing, Working Capital Advance from the GNWT, which is used for providing loans. The balance of the advance at March 31, 1998 was $28.287 million.

Exhibit 5-4 Northwest Territories Business Credit Corporation Summary Balance Sheet

As at March 31 (000s)

	1998	1997
Assets		
Cash	$ 139	$ 282
Net loans receivable	26,245	21,904
Capital assets (net)	10	12
Accounts receivable	122	-
Total Assets	$ 26,516	$ 22,198
Liabilities		
Accounts payable	$ 132	$ 11
Advance from GNWT	28,287	24,237
Total Liabilities	28,419	24,248
Deficit	**(1,903)**	**(2,050)**
Total Liabilities and Accumulated Deficit	**$ 26,516**	**$ 22,198**

Discussion

At March 31, 1998 net loans receivable of the BCC stood at $26.2 million. The allowance for losses on impaired loans was $5.1 million. This allowance is comprised of a specific component for loans known to be impaired based on standard criteria, and a general provision which is calculated at 2% of loans receivable, net of the specific allowance, to reflect management's best estimate for losses on loans which cannot yet be specifically identified. The general allowance is determined based on historical loss experience, aggregate exposure in particular industries or geographical regions, and prevailing economic conditions.

5.4.2 Apportionment of Accumulated Deficit

The BCC had an accumulated deficit of slightly more than $1.9 million at March 31, 1998. Since the GNWT provides an administrative contribution to cover all administrative expenses, the deficit is directly related to the performance of all loans provided over the life of the BCC. As discussed earlier in Section 3.2, the BCC in effect delivers a government program through a corporate structure, and as such its deficit should be considered as a component of the overall accumulated surplus/deficit of the GNWT, and apportioned using the same (HER) ratio.

As was the case with the NWTHC, the BCC also follows the accounting principle of recording its tangible capital assets at cost and depreciating them annually. The balance of tangible capital assets on the BCC balance sheet at March 31, 1998 was $10,000. Had those tangible capital assets been accounted for using the same principles as in the Departmental Operations of the GNWT, the impact would have been to increase the accumulated deficit of the Corporation by $10,000 to $1.913 million for purposes of apportionment. It should be noted that this adjustment of accumulated deficit for division purposes does not affect the allocation of the tangible capital assets. The most appropriate allocation approach would still apply, i.e., geographical location.

After division, in creating its opening balance sheet, the appropriate authority in each territory should record its share of the tangible capital assets, with a corresponding offset to its accumulated deficit.

Exhibit 5-5 Northwest Territories Business Credit Corporation Adjustment of Accumulated Deficit for Apportionment Purposes

Accumulated deficit, March 31, 1998 (000s)	$(1,903)
Deduct: Net book value of capital assets	10
Adjusted accumulated deficit to be apportioned	$(1,913)

RECOMMENDATION 29

The Committee recommends that the accumulated deficit of the BCC, as revised by the setting aside of tangible capital assets, be apportioned using the HER.

After division, in creating its opening balance sheet, the appropriate authority in each territory should record its share of the tangible capital assets.

5.4.3 Allocation of Assets and Liabilities

The two major components of the balance sheet which need to be allocated on an east/west basis, are the loans receivable and the advance from the GNWT. The loans receivable and the related provision for losses can be identified geographically according to the residency of the organization receiving the loan.

Since the advance from the GNWT is provided solely for the purpose of issuing loans, it is appropriate to allocate that liability ($28.3 million at March 31, 1998) using the same ratio as for net loans receivable. tangible capital assets would be allocated territorially based on the location of the assets. Other assets and liabilities should be allocated on the geographical basis or the HER, whichever is appropriate.

RECOMMENDATION 30

The BCC's net loans receivable and advances from the GNWT should be allocated based on geographical location of the organization receiving the loan. Other assets and liabilities, which are not location-specific, should be allocated using the HER.

5.4.4 Adjustment Amount

Any difference between the value of the assets less the liabilities allocated to each territory, in relation to the amount of accumulated deficit apportioned to each territory would represent an adjustment (balance owing to and from) between the territories. This would be similar to the approach used in the division of the assets and liabilities of the GNWT Departmental Operations. As noted in that section, the adjustment amount may be settled by an exchange or reallocation of assets and liabilities.

RECOMMENDATION 31:

Any difference between the value of accumulated deficit of the BCC apportioned to each territory and the value of net assets allocated to it will constitute an adjustment amount, and should be reflected as an amount receivable/payable between the territorial governments.

Exhibit 5-6 Illustrative Divided Balance Sheet
NWT Business Credit Corporation

As at March 31, 1998 (000s)

		Methodology	East	West
Assets				
Cash	$ 139	HER	$ 61	$ 78
Net loans receivable	26,245	GEO	6,299	19,946
Accounts receivable	122	GEO	-	122
Total Assets	**$ 26,506**		**$ 6,360**	**$ 20,146**
Liabilities				
Accounts payable	$ 132	GEO	-	$ 132
Advance from GNWT	28,287	GEO	6,789	21,498
Total Liabilities	**$ 28,419**		**$ 6,789**	**$ 21,630**
Net Assets from Allocation			**$ (429)**	**$ (1,484)**
Accumulated Deficit	**$ (1,913)**	**HER**	**(842)**	**(1,071)**
Adjustment Amount			**$ (413)**	**$ 413**

5.5 NORTHWEST TERRITORIES DEVELOPMENT CORPORATION

5.5.1 Profile

The NWT Development Corporation (NWTDC) was established in 1990 to deliver economic development assistance in the form of investments and subsidies to subsidiary companies and joint ventures.

As of March 31, 1998, the NWTDC, as the parent corporation, had 17 subsidiaries; nine in the east, seven in the west, and one (Arctic Canada Trading Ltd.) classified as pan-territorial (i.e., serving both the eastern and western portions of the NWT). These investments are described as "Capital Investments" on the NWTDC balance sheet that appears below.

The NWTDC also invests in operating companies by way of preferred shares (one company in the east, seven companies in the west) and loans (one in the east). These types of investments, where the NWTDC does not have a majority ownership interest, are described as "Venture Investments" on the NWTDC's Balance Sheet.

The parent company receives contributions from the GNWT, which it records in its capital investment fund and venture investment fund (equity) accounts, and then allocates to the appropriate subsidiaries and ventures based on decisions made by the Board of the NWTDC. Allocations are made for the purchase of tangible capital assets and to provide working capital.

5.5.2 The Parent Company and the Headquarters Operation

The parent company, the Northwest Territories Development Corporation, is a separate legal entity. Aside from being the holding company for the investment in subsidiaries and joint ventures, the parent company carries out headquarters functions for the benefit of the subsidiaries. Exhibit 5-7 presents the non-consolidated (headquarters) balance sheet of the NWTDC.

Exhibit 5-7 NWTDC Non-consolidated Balance Sheet (Non-audited)

As at March 31, 1998

Assets	
Cash	$2,656,528
Accounts receivable	24,643
Tangible capital assets	838,171
Reserves	
Venture	259,066
Capital	253,334
Venture investments	1,238,125
Capital investments	18,226,185
Total Assets	**$23,496,052**
Liabilities	
Current	$431,281
Subsidy fund	23,000
Total Liabilities	454,281
Equity	
Capital Investment Fund	22,833,713
Venture Investment Fund	4,788,266
	27,621,979
Accumulated deficit	**$(4,580,208)**
Net Equity of the GNWT	**27,041,771**
Total Liabilities and Net Equity	**$23,496,052**

5.5.3 Apportionment of Subsidiary Companies and Venture Investments on a Geographical Basis

Subsidiary companies

The investment in subsidiary companies appears as the capital investment asset account in the parent company's balance sheet. With the exception of Arctic Canada Trading Ltd., which is pan-territorial in nature, each subsidiary company's operations are unique to one of the territories. Earlier in this report (see Chapter 3) the Committee has recommended that organizations that operate in a single territory be treated as "already divided" on a geographical basis. Thus, the accumulated surplus or deficit of each subsidiary except Arctic Canada Trading Ltd. should be apportioned, and its assets and liabilities should be allocated, to the territory in which it operates. Consequently, the value of investment in subsidiaries other than Arctic Canada Trading Ltd. recorded in the capital investment (asset) account and a corresponding amount from the capital investment fund (equity) account should be set aside to give effect to the geographical apportionment of single territory subsidiaries. No adjustment will result from this apportionment. Details of the subsidiary companies follow.

Eastern Subsidiaries

The following companies have operations that are exclusive to Nunavut territory, and should be assigned in their entirety to the Government of Nunavut.

Keewatin Meat & Fish Ltd	Rankin Inlet
Kitikmeot Foods Ltd.	Cambridge Bay
Pangnirtung Fisheries Ltd.	Pangnirtung
933261 NWT Ltd.	Whale Cove
Ivalu Ltd.	Rankin Inlet
Jessie Oonark Ltd.	Baker Lake
Kiluk Ltd.	Arviat
Uqqurmiut (1993) Ltd.	Pangnirtung
Taluq Designs Ltd.	Taloyoak

The shares in these companies are currently owned by the GNWT and should be transferred to the Government of Nunavut. These companies will be deemed to be "already divided" and hence no adjustment will be necessary with respect to their division.

A unique issue with respect to four of these companies is the right of minority shareholders to acquire additional shares in these companies in the event of a sale or disposition of shares by the GNWT. A question arises as to whether the transfer of the shares of these companies to the Government of Nunavut, in the context of division, would constitute such a disposition.

Western Subsidiaries

The following companies have operations that are exclusive to the western territory, and should be assigned in their entirety to the Government of the NWT.

Fort McPherson Tent & Canvas	Fort McPherson
Aklavik and Tuktoyaktuk Furs Ltd.	Aklavik
Acho Dene Crafts Ltd.	Fort Liard
Great Slave Lake Forest Products Ltd.	Fort Resolution
Northern Forest Products Ltd.	Western Communities
Nahanni Butte General Store Ltd.	Nahanni Butte
Rae Lakes General Store Ltd.	Rae Lakes

The shares in these companies are currently owned by the GNWT and should be retained. These companies will be deemed to be "already divided" and hence no adjustment will be necessary with respect to these companies.

RECOMMENDATION 32

The accumulated surplus or deficit of each subsidiary, other than Arctic Canada Trading Ltd., should be apportioned to the territory in which it operates. Assets and liabilities should be similarly allocated. The capital investment (asset) account and the capital investment fund (equity) account in the parent company should be adjusted to reflect the setting aside of the value of the investment in these subsidiaries prior to dividing the NWTDC.

Details of the non-audited balance sheets of each of the subsidiary companies appear in Appendix E.

Arctic Canada Trading Ltd.

Arctic Canada Trading is a pan-territorial company with significant operations in the east and the west. The company also has significant operations outside the NWT. The nature of this business is the retail marketing of northern products. The primary asset of the company is an inventory of (mostly) northern goods purchased for resale. The primary obligations are bank loans and accounts payable related to the inventories, and lease commitments for retail space in communities outside the NWT.

The future of Arctic Canada Trading Ltd. is still under discussion. It is not clear at this time whether the company will be disolved, continued or acquired outright by one of the territories. If Arctic Canada Trading is to be divided at March 31, 1999, the basis for division should be consistent with that of other GNWT pan-territorial organizations; thus its accumulated deficit would be apportioned using the HER. If the parties agree to continuing this organization beyond March 31, 1999, but division becomes necessary subsequently, the same basis for division should apply.

RECOMMENDATION 33

If and when Arctic Canada Trading Ltd. is to be divided, the general apportionment rule should apply. The HER should be used to apportion the accumulated surplus/deficit and assets and liabilities should be allocated on the basis of geography and, if that is not practicable, then on the basis of the HER.

Details of the non-audited balance sheet of Arctic Canada Trading Ltd. appear in Appendix E.

Venture Investments

The venture investments consist of preferred share investments and loans. These investments include the right to convert to common shares under certain circumstances. The NWTDC does not hold any venture investments in pan-territorial corporations; therefore these investments are geographically identifiable.

Venture investments are made by the NWTDC for the same economic assistance reasons that investments are made in subsidiaries. Because of this, and because they are geographically identifiable, they should be treated in the same manner as subsidiaries. That is, they should be considered already divided geographically; hence no adjustment will be required respecting their division. The investment in ventures appears on the balance sheet of the parent company as the venture investment (asset) account. An offsetting equity account (the venture investment fund) currently exceeds the amount of the investment (asset) account because of accumulated losses on venture investments that have been recorded since inception. These losses form part of NWTDC's accumulated deficit.

Exhibit 5-8 details the historical investment and losses in venture investments by the NWTDC.

Exhibit 5-8 NWTDC Historical Cost and Accumulated Losses in Venture Investments

In dollars

	Company	Original Investment	Accumulated Losses	Net Book Value
Preferred Shares - Current				
W	902848 (Lodges)	513,500	128,375	385,125
W	175119 (Norweta)	273,311	273,311	-
W	Red River Inc	100,000	100,000	-
W	953801(Rae Edzo)	294,350	73,600	220,750
E	933273 (West Baffin)	250,000	62,500	187,500
W	Great Circle Entertainment	130,000	32,500	97,500
W	Wekweti Corp.	220,000	55,000	165,000
W	Dene Fur Clouds	243,000	60,750	182,250
		2,024,161	**786,036**	**1,238,125**
Preferred Shares - Written Off				
E	Cumberland Sound Fisheries	550,000	550,000	-
W	NCSTV	650,000	650,000	-
W	Marathon	437,401	437,401	-
		1,637,401	**1,637,401**	**-**
Loans				
E	Uqqurmiut	679,000	679,000	-
Totals		**4,340,562**	**3,102,437**	**1,238,125**
East		1,479,000	1,291,500	187,500
West		2,861,562	1,810,937	1,050,625

Prior to dividing the non-consolidated balance sheet of NWTDC, the net book value of venture investments recorded as assets, the accumulated losses in venture investments recorded in the accumulated deficit and the corresponding sum in the venture investment (equity) account need to be set aside to reflect the geographical apportionment of the investment in ventures. The net book value of the investment should be allocated, and the accumulated losses to date and the offsetting equity account should be apportioned on the basis of the original investment in each territory.

RECOMMENDATION 34

The venture investments (asset) account, the accumulated losses recorded to date on venture investments and an offsetting amount in the venture investment (equity) fund should be set aside from the balance sheet of the NWTDC prior to apportioning the residual accumulated surplus/deficit and allocating the other assets and liabilities.

Reserves Related to the Subsidiaries and Venture Investments

By legislation, the NWTDC parent company must put aside reserves equal to 10% of the capital contributions to its subsidiaries. These funds are intended for further investment in or support of the subsidiaries in the future. The amount of the reserve held on behalf of each subsidiary is known at a given point in time.

The NWTDC is also required by legislation to put aside reserves equal to 10% of its venture investments. These funds are intended for further investment in or support of the ventures in the future.

Like the related investment accounts discussed above, the reserve accounts from part of the contributions received from the GNWT for economic stimulation, as reflected in the capital investment and venture investment (equity) accounts of the NWTDC. Consequently, both these asset accounts and corresponding amounts in the venture investment and capital investment (equity) accounts need to be set aside and allocated/apportioned territorially, consistent with the geographical apportionment treatment of the investments in subsidiaries and ventures to which they relate.

RECOMMENDATION 35

Reserves related to both subsidiaries and ventures should be set aside from the NWTDC balance sheet and allocated territorially on the basis of the investment in the related organizations. The equity fund accounts should be reduced by an equal amount.

5.5.4 Apportionment of the Residual Equity and Accumulated Deficit

Equity Accounts

The capital investment fund and the venture investment fund (equity) acccounts on the NWTDC's balance sheet reflect the historical contributions made by the GNWT to allow the NWTDC to fund venture and capital investments. Since these contributions have been expensed in the GNWT, they form part of its accumulated surplus/deficit. The unapplied portion of these funds, as adjusted for the setting aside of investment in subsidiaries and ventures and the related reserve accounts as described in Section 5.5.3 above, represent an adjustment to the accumulated surplus/deficit of the GNWT and thus should be apportioned using the HER.

RECOMMENDATION 36

The unapplied balances in the venture investment fund and the capital investment fund (equity) accounts should be apportioned using the HER.

Accumulated Deficit

As was the case with the NWTHC and the BCC, the NWTDC also follows the accounting principle of recording its tangible capital assets at cost and depreciating them annually. The net book value of these tangible capital assets at March 31, 1998 amounted to $838,171. Had those tangible capital assets been accounted for using the same principles as in the departmental operations of the GNWT, the impact would have been to increase the accumulated deficit of the NWTDC by that amount for purposes of apportionment.

In order to treat tangible capital assets on a consistent basis for purposes of division, their net book value in NWTDC at March 31, 1999 should be set aside, with a corresponding adjustment of accumulated surplus/deficit. It should be noted that this adjustment of accumulated deficit for division purposes does not affect the allocation of the tangible capital assets. The most appropriate allocation approach would still apply, i.e., geographical location. After adjusting the accumulated deficit for the effect of setting aside the net book value of tangible capital assets, the balance should be apportioned using the same ratio as for the GNWT, that is, the HER.

After division, in creating its opening balance sheet, the appropriate authority in each territory could record its share of the tangible capital assets, with a corresponding offset to its accumulated deficit.

RECOMMENDATION 37

The Committee recommends that the accumulated deficit of the NWTDC, as revised for setting aside the net book value of tangible capital assets, should be apportioned using the HER.

5.5.5 Allocation of Assets and Liabilities

Centrally Managed Cash

One of the headquarters functions is the centralized management of cash. Cash is distributed to subsidiaries and ventures throughout the year based on decisions already made by the NWTDC Board of Directors. These decisions determine the amount of cash which will be received by each subsidiary during the year. Thus, the balance of the cash account held by the parent corporation can be geographically identified by intended recipient.

RECOMMENDATION 38

Cash held centrally on behalf of individual subsidiaries and ventures should be allocated to the appropriate territory, based on the geographic location of each subsidiary or venture.

Accounts Payable and Accounts Receivable

The parent company administers accounts payable and accounts receivable centrally. To the extent possible, all of these short-term accounts should be liquidated prior to the production of the March 31, 1999 financial statements. The most practical allocation methodology for the remaining accounts would be for these assets and liabilities to be allocated to the west for the purposes of producing the two opening territorial balance sheets.

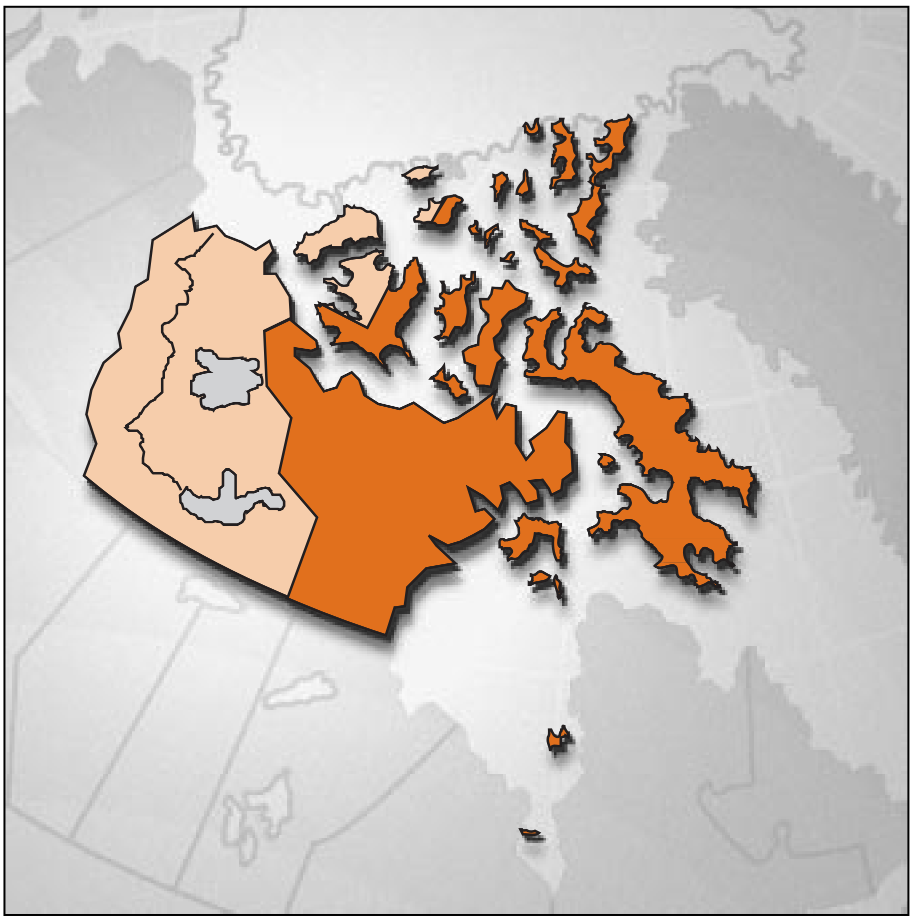
RECOMMENDATION 39

NWTDC accounts payable and receivable should be allocated to the western balance sheet for reasons of practicality.

Once the apportionment and allocation steps described in Sections 5.5.3 to 5.5.5 above have been completed, the two opening territorial balance sheets should be reconstituted by adding back their respective share of the venture investments, capital investments, reserves, tangible capital assets and capital and venture investment funds that had been set aside for purposes of division.

PART D:

Other Important Issues



6.1 INTRODUCTION

The division of assets and liabilities between the two governments will be based on the valuation of these assets and liabilities as of March 31, 1999. Of necessity, the values assigned to many of these assets and liabilities will be estimates that may be more or less than the eventual amount realized. For example:

Valuation of loans receivable and allowances for doubtful accounts - the government may collect more or less than estimated;

Expense accruals - when the actual bill is received it may be more or less than estimated;

Revenue accruals - when the final revenues are realized they may be more or less than anticipated. This is a particular area of concern as the tax collection agreements and the formula financing agreement have many provisions that result in calculations being finalized several years after the year in question.

The estimated value of the assets and liabilities as of March 31, 1999 will be as accurate as possible and will be subject to a reasonableness audit by the Auditor General of Canada, but this will not prevent some valuation changes as actuals become known.

Another type of valuation uncertainty comes with **contingent liabilities.** Often the Government knows a liability probably exists in a certain area, but there is no way to make a reasonable estimate of what the amount of that liability may be. Contingent liabilities of this nature are disclosed in notes to the financial statements of the Government, but they are not entered in the books as an expense. Examples of GNWT contingent liabilities are:

- Loan Guarantees issued, (see Section 4.4.2 for discussion),
- Environmental liabilities (see Section 4.4.3 for discussion),
- Canadian Blood Agency indemnification (see Section 4.4.4 for discussion), and
- Outstanding litigation (see Section 6.3 following).

When, and if these contingent liabilities are realized they will be recognized as an expense and will affect the accumulated surplus/deficit of the Government. If they could have been reasonably estimated at the time of division they would have reduced (or increased) the accumulated surplus (or deficit) available for division.

One of the issues associated with the treatment of these valuation issues in the division of assets and liabilities is that the subsequent actions or inaction of either government post-division can affect the actual expense or revenue realized. For example, loan losses may be higher than estimated if payment follow-up is not rigorous, lawsuits may be lost if legal actions are not effective, or liability settlement costs may be higher if negotiating positions adopted are less restrictive.

This suggests that some treatment must be accorded post-division asset and liability valuation changes, but that this treatment must address whether the two new governments post-division may affect the ultimate value by their actions.

6.2 VALUATION CHANGES NOT IMPACTED BY POST-DIVISION ACTIONS

Although almost every asset or liability value that involves assumptions and estimates can be affected by the actions of either government post-division, there are a number of cases where such impact could only be minimal. The following items fall into this category:

Expense accruals resulting in a Trades Account Payable where the value of the goods or services received or rendered prior to midnight March 31, 1999 is physically verifiable,

Revenue accruals resulting in an non-loan Accounts Receivable where the value of the goods or services rendered or the entitlement earned is physically verifiable (e.g. a shipment signed for, or a lease billing for property occupied), and/or determined by events outside the control of either government post-division (e.g. Formula Financing Agreement entitlements based on population counts, tax rates in effect, and escalator values, etc.),

Errors or Omissions where an asset or liability is simply missed or misstated but its existence and status as of March 31, 1999 can be physically verified.

In the above cases the accuracy of the valuation estimate directly affects the amount of accumulated surplus or deficit available for apportionment. Neither government should be subjected to windfall gains nor unearned losses by virtue of subsequent valuation change that they had no influence over.

RECOMMENDATION 40

Subject to Recommendation 41 all of the adjustments related to revenue and expense accruals, errors and omissions and any other changes not impacted by post-division actions should be tracked and post-division adjustments made between the two territories based on the HER.

6.3 VALUATION CHANGES POTENTIALLY IMPACTED BY POST-DIVISION ACTIONS

The estimated value of many assets and liabilities can be increased or reduced by the post division actions of government. There are a number of asset and liability categories that are particularly sensitive to such actions. Examples are:

Loans Receivable and associated doubtful account allowances - the degree to which loan repayments are aggressively pursued and the collection policies applied have a major impact on whether a loan will be recovered.

Pension Accounts - the investment policies pursued and the yields realized after March 31, 1999 will dramatically affect pension account surpluses and shortfalls.

Inventories - inventory values post division can be impacted by security policies (to prevent slippage), storage action (to prevent deterioration, evaporation, etc.) and marketing choices (to prevent obsolescence, need to discount, etc.).

Guarantees and Indemnities - loan guarantees and indemnities can be significantly impacted by the actions of the issuer of the guarantee or indemnity. For example, the Government may have guaranteed a loan to a business and the viability of the business venture may have been dependent on a government lease, contract or policy position (e.g. a northern preference policy). Any subsequent decision to not renew a lease or contract or adopt a different policy position could activate the guarantee or indemnity.

Earned Employee Benefit Liabilities - accruals are established at each year-end to record the estimated value of benefits earned by employees but not yet liquidated. These include earned but unpaid overtime and annual leave, and earned severance benefits (based on resignation, not layoff). The actual cash value of these liabilities will be affected by each government's post-division actions. Giving lieu time for overtime earned, requiring staff to take holidays rather than take annual leave payouts and instituting policies that encourage staff retention rather than turnover are examples of the actions that may affect the actual costs incurred.

In the case of the above asset and liability accounts, the ability to conclusively determine whether a difference between the estimated value of the account at March 31, 1999 and the final realized value, was due to estimation error or the post-division actions of either government, would be very limited. Trying to resolve such matters could precipitate endless and fruitless debate.

RECOMMENDATION 41

The following asset and liability accounts can be impacted by post-division actions of either government: loans receivable, pension accounts, inventories, guarantees and indemnities and earned employee benefit liabilities. It is recommended that, after the appropriate allocation of the asset or liability account is agreed to, each government satisfy itself as to the *reasonableness of valuation estimates as of March 31, 1999, and have these estimates reviewed by the Auditor General. Any difference between the March 31, 1999 estimate and the actual amount subsequently realized would not give rise to a post-division adjustment.*

6.4 OUTSTANDING AND NEW LITIGATION

In a category by itself is the issue of outstanding litigation or new litigation arising from actions of the Government prior to midnight March 31, 1999. To the extent that any costs arising from such litigation are funded by liability insurance proceeds, there would be no effect on the accumulated surplus or deficit to be apportioned between the two territories. However, not all costs of litigation may be funded by insurance proceeds. In these cases the eventual outcome of the litigation would have affected the March 31, 1999 accumulated surplus or deficit.

The results of litigation are very dependent on the actions of the two governments post-division. Decisions must be made in each case whether to proceed to court or negotiate a settlement. If court action is involved then decisions must be made concerning legal arguments and strategies to employ and who best can represent the government's interest. For greater certainty, litigation in this context includes complaints filed before quasi-judicial bodies such as the Fair Practices Officer, the Rentalsman, and the Canadian Human Rights Commission/Tribunals.

Because of the potential magnitude of the cases that may be litigated, it is unlikely either government would be prepared to accept sole responsibility for the potential costs. Nor would either government be willing to agree to a sharing of the costs without some ability to participate in the legal defence. As a result, it will be necessary for an inter-governmental protocol to be worked out between the Justice Departments of each government as to how litigation will be jointly managed. For some categories of litigation it may be that the legal defence will be assigned to either Justice Department, but for specific large cases a joint defence may be necessary.

As mentioned earlier, the cost of the litigation process and the cost of any resulting settlement or judgement can be significant. If the litigation process had been concluded prior to March 31, 1999 these costs would have affected the accumulated surplus/deficit available to be apportioned between the two territories. As a result, the subsequent costs of litigation, settlement and judgement for events which occurred before March 31, 1999, should be allocated between the two territories. Where the litigation was of a general or pan-territorial nature, the apportionment should be on the basis of the HER as previously established. However, if the litigation dealt with an entity or asset that was apportioned using the geographic method, the post-division costs of litigation, settlement or judgement should be assigned to the territory in which the entity operates or the asset resides.

Of current note in this regard are the potential liabilities arising from management of residential schools. Use of residential schools was historically prevalent in both territories (eg. Grollier Hall, Akaitcho Hall, Ukiivik Residence, Chesterfield Inlet Residence, etc.). In most of these cases the issue of potential legal liability is complex, with the federal government, the church and the territorial government all having some role in past residential school management. Today, most residential schools have been phased out, the physical residences disposed of and the management of remaining facilities assigned to different institutions. As a result, there is no direct linkage between potential past liabilities and current government operations, assets and liabilities. This suggests that the appropriate treatment of any subsequent costs of litigation, settlement or judgement is on the basis of the HER.

RECOMMENDATION 42

The non-insured costs of litigation for events that occurred prior to March 31, 1999 should be shared between the two governments on the basis of the HER. However, where an organization (e.g. Health Board, School Board) was apportioned, or a tangible capital asset was allocated on the basis of the geographical rule, the responsibility for any future liability associated with that organization or asset should be assumed by the territory where the organization or asset is located. The administrative responsibility and management of the legal defence should be the subject of an agreement between the two governments.

6.5 THE ADJUSTMENT PROCESS

Communication of Adjustments

Each of the two new governments recognizes there is an obligation to communicate the existence of a potential adjustment at the time it becomes known. Details related to an adjustment should be communicated between the two governments as soon as there is a reasonably complete understanding of the facts.

Verification

Where one government proposes a potential adjustment, that government will provide all necessary access and information to allow the other government to verify the nature and extent of the adjustment.

Management of Adjustments and Timing of Payments

The Committee suggests that no undue delays would take place in the timing of payments, such that one government's cash position would be advantaged over the other. Without reducing the flexibility available to those responsible for managing the adjustments, the following situations are described as examples of how fairness could be achieved.

1) In the case of adjustments relating to Recommendation 42, the amount of any adjustments proposed during the fiscal year should be verified and paid prior to the closing of the books for that fiscal year. Whenever possible, however, payments should be made within 30 days of verifying the validity of a post-Division adjustment.
2) If the bulk of an adjustment is considered to be valid and is over $500,000, the government expecting to receive the funds may request an advance payment if the verification process is not expected to be completed within 90 days of determining substantial validity.
3) In the case of revenue adjustments, payments should be shared at the time they are received.
4) In the case of adjustment payments which must be shared by both governments (i.e., claims by third parties), the issues will be jointly managed and resolved by the two territories.
5) No interest is to be paid on any adjustment amounts, unless there are substantial delays from the arrangements described above.

RECOMMENDATION 43

Both new territorial governments should agree to the process for post-division adjustments as set out in Section 6.5.

Dispute Resolution

7.1 INTRODUCTION

The *Nunavut Act* (Section 73(1)) and the Instructions from the federal Minister of Indian Affairs and Northern Development to the Interim Commissioner of Nunavut provide for the Interim Commissioner (IC) to conclude an Agreement with the GNWT on the division of assets and liabilities. This section addresses the question of disputes between the parties that may arise:

prior to April 1, 1999; and

after April 1, 1999

In both cases, it is expected that the parties will have made the best efforts to resolve the dispute in an informal manner between them before engaging the provisions set out herein. This would include discussions at the technical working level and at the Deputy Minister and Minister level if necessary.

7.2 THE PERIOD BEFORE APRIL 1, 1999

The *Nunavut Act* provides that, if the GNWT and the IC cannot agree on a matter relating to the division of assets and liabilities, the Minister may intervene and recommend the Governor in Council (GiC) resolve the matter. Such a reference would need to take into account an appropriate timeframe for discussions with the Minister and consideration by the GiC, bearing in mind that such a determination may be made only on or before April 1, 1999.

However, there is nothing in the *Nunavut Act* that would prevent the GNWT and the IC from resorting to the good offices of a mediator to help them resolve a matter in dispute before requesting the intervention of the Minister and the GiC.

RECOMMENDATION 44

Prior to April 1, 1999, in the event that a matter relating to the division of assets and liabilities cannot be resolved between the parties, the IC and the GNWT may resort to a mediator, in a timely fashion, whenever the parties conclude that such a recourse might assist them in resolving a matter under dispute.

7.3 THE PERIOD BEGINNING APRIL 1, 1999

The *Nunavut Act* does not contain any provision for the resolution of disputes that may surface after division between the governments regarding the division of assets and liabilities. This section is intended to service that requirement.

It is possible that disputes may arise from April 1, 1999 on, relating to the interpretation, application or implementation of the Agreement resulting from this Report. Where discussions at the technical working level have failed to resolve the matter, the parties could explore other means to achieve resolution. These could include resorting to a mutually acceptable mediator or, if necessary, to a mutually acceptable independent arbitrator.

RECOMMENDATION 45

In the event that a dispute should arise post-division between the new western territorial government and the Government of Nunavut relating to the interpretation, application or implementation of the recommendations contained in the Intergovernmental Agreement on Division of Assets and Liabilities, either party may resort to the intervention of a mutually acceptable mediator to assist them in resolving their differences. Should mediation prove unsuccessful, the parties may refer the matter to arbitration under the Arbitration Act (NWT), or either party may refer the matter to the Courts.

8.1 INTRODUCTION

This section of the report is intended to provide guidance in the implementation of the recommendations and to provide a look ahead at the operational implications of the recommendations.

Chapters 4 and 5 describe how the different types of assets and liabilities will be allocated East and West at Division. This Chapter describes the transitional measures for administering these assets in the period immediately after Division.

The following two sections:

- set out the parameters for implementation planning and describe mechanisms for ensuring that the implementation of the recommendations is carried out in a co-ordinated and timely fashion, and
- set out responsibilities and authorities, which will enable the senior financial managers of each new government to enter into working-level administrative arrangements for the efficient and orderly processing of assets and liabilities during the transition to two fully independent organizations.

8.2 IMPLEMENTATION PLANNING

Success in implementing the recommendations will rely on the development and execution of an implementation plan. In order to ensure that an adequate plan is in place before April 1, 1999, an "Assets & Liabilities Division Implementation Committee" should be formed. This Committee would be made up of representatives of the GNWT and the Government of Nunavut and would meet regularly during the implementation period.

The OIC will be responsible to appoint members to this committee who will represent the interests of the GN. The appropriate GNWT authority will appoint the GNWT representatives.

Two levels of authority would be established within this Committee: a Review and Follow-up Group and a Technical Transition Team.

8.2.1 Review and Follow-up Group

The Review and Follow-up Group (the Group) would be responsible for overseeing the implementation of the agreement between the OIC and the GNWT. This group would:

1. Approve the implementation plan developed by the Technical Transition Team;
2. Approve any administrative arrangements;
3. Ensure that the recommendations contained in this report are followed and implemented;
4. Ensure that timely progress is being made in executing the implementation plan.

The Group should be made up of senior officials from the two new territories that have financial, accounting and legal expertise. This Group will receive reports from the Technical Transition Team at regularly scheduled meetings.

In order to provide adequate direction to the Technical Transition Team, the members of the Group should be named as soon as possible. The first meeting of the A&L Implementation Committee should be convened in time to identify the Technical Transition Team members as soon as possible.

8.2.2 Technical Transition Team

The Technical Transition Team (the Team) would be comprised of government managers responsible for the financial accounting functions in the two governments. The Team would have responsibility for:

1. Generating a detailed implementation plan,
2. Developing any administrative arrangements necessary for the two governments to work together effectively, and
3. Carrying out the provisions contained in the Final Agreement on the Division of Assets and Liabilities.

8.2.3 Implementation Plan

The detailed implementation plan should include the following key components:

1. A breakdown of the responsibilities of each governments' officials as it would relate to the implementation of the agreement;
2. A communication plan between the two governments and with the OAG during the implementation period;
3. A detailed schedule of implementation activities including the legal transfer of assets from the GNWT to the GN;
4. Identification and development of any administrative arrangements which may be necessary to proceed with the implementation of the recommendations.

8.2.3 Key Milestones

The following dates are set as key milestones in the implementation process:

- April 1, 1999 - Creation of the Government of Nunavut.
- April 1, 1999 through April 30 1999 - Period 13 in GNWT. Accruals are finalized and initial trial balance is available.
- June 30, 1999 - Review and establish allowances for any accounts receivable which are more than 90 days overdue.
- July 31, 1999 - Tabling of GNWT interim financial report. This report will include the first non-consolidated balance sheet of the GNWT prepared on a territorial basis as of April 1, 1999.

- July 31, 1999 - Annual reports of the NWTHC, BCC and NWTDC are available.
- October 31, 1999 - Public Accounts of the GNWT to be tabled including the opening balance sheets of the two new territories on both a consolidated and non-consolidated basis. The audit report of the OAG will attest to the reasonableness of the ending balance of the GNWT as at March 31, 1999 and the opening balances of the two new territories as at April 1, 1999.

8.3 ADMINISTRATIVE ARRANGEMENTS

8.3.1 The Need for the Arrangements

Immediately after Division, legal title to many assets and obligation for liabilities will remain with the GNWT. In some cases, it may be more efficient to have the GNWT liquidate the asset or liability in the normal course of business, rather than go through the process and expense of transferring legal title to an asset or the legal obligation for a liability. This approach would make sense for short-term assets and liabilities (e.g. accounts receivables, accounts payable).

Where long term assets have been assigned to the Government of Nunavut, it may be desirable to have administrative arrangements in place to specify how the asset will be managed, insured, etc, until title is formally transferred.

Administrative arrangements may be needed at a technical, working level to determine the exact methods for liquidating certain types of assets and liabilities during the transition period. These arrangements may also be needed to address practical issues such as the cross collection of receivables (e.g. where both governments agree to accept payments on the same receivable during the transition period).

Administrative arrangements should document in detail what practices are to be followed and should be developed in sufficient detail to avoid significant disagreements subsequent to Division. Where these arrangements call for one government to provide a service to another, which under normal circumstances would be carried out by that requesting government, the agreement should follow the existing protocol for intergovernmental agreements.

8.3.2 The Authority to Negotiate the Administrative Arrangements

As the administrative agreements will deal with detailed technical matters, the senior financial managers of each new government should be provided with the authority to negotiate whatever administrative arrangements they feel are appropriate, subject to the approval of the Review and Follow-up Group.

8.3.3 Issues to be Addressed in Any Administrative Arrangements

In general, the risk of ownership should remain with the government that was assigned an asset or liability. Administrative arrangements should focus on managing the assets and liabilities on the other party's behalf, not transferring the risk of ownership.

For instance, in the event that the GNWT agrees to collect receivables that have been assigned to the Government of Nunavut, the GN should still assume the risk that their receivables may become uncollectable.

Should the risks of ownership for any asset or liability be transferred, the governments' financial managers should document a sound business reason for doing so, and the result/benefits for both parties.

In general, any administrative service provided to one government from another should be subject to the negotiation of compensation.

8.4 THE ROLE OF THE AUDITOR GENERAL

The OAG will be asked to play a role in verifying the division of assets and liabilities. As part of the OAG's regular role, the value of the assets and liabilities will be confirmed and the amount of estimates verified as reasonable.

In addition to the regular function of auditing the March 31, 1999 financial statements, the OAG will be asked to verify that:

- The division of the assets and liabilities has been performed according to the terms of the Intergovernmental Agreement; and
- Implementation transactions between the two new territories were conducted in accordance with the relevant administrative arrangements.

8.5 DISCLOSING AND SETTLING THE ADJUSTMENT AMOUNT

Disclosure

The opening Balance Sheets of the two new territories should disclose the Adjustment Amount as a separate line item. A note to the financial statements should indicate the nature of the amount, and provide insight into how the amount will be settled.

Settlement

Subsequent to Division, the adjustment amount may change through the exchange of assets and liabilities resulting from any administrative arrangements.

Complete settlement of any outstanding adjustment amount should take place within 12 months of Division.

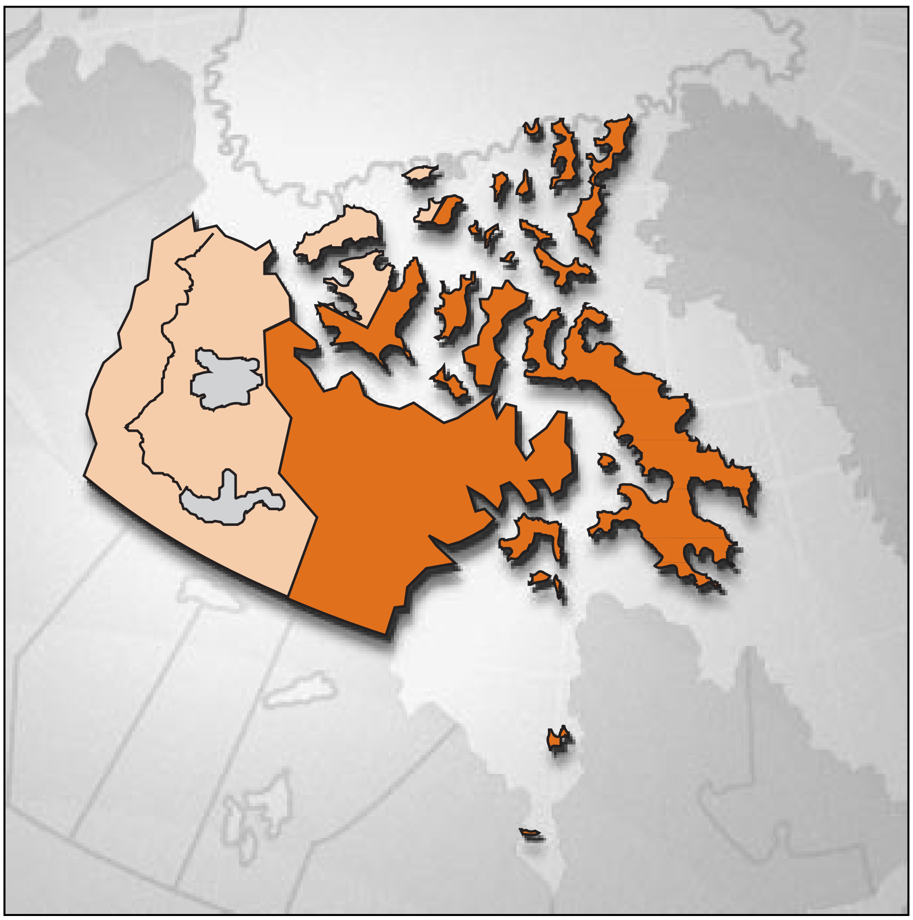
RECOMMENDATION 46

An Implementation Committee should be established, comprised of senior officials of the GNWT and the OIC, with the responsibility of developing, following up on and reporting against an implementation plan to give effect to the provisions of the Agreement on the division of the GNWT's assets and liabilities.

E

PART E:

Conclusion and Recommendations



Chapter 9 Conclusion and Recommendations

Conclusion and Recommendations

9.1 CONCLUSION

The division of the assets and liabilities of the GNWT is both a sensitive and complex undertaking. In this report, the Northern Representatives Committee has endeavoured to propose a balanced, fair and practical approach to division that is compatible with the principles contained in *Footprints 2,* consistent with the relevant provisions of the Nunavut Act, and that responds fully to the Instructions to the Interim Commissioner from the Minister of Indian Affairs and Northern Development.

In developing its recommendations, the Committee analyzed a variety of options and considered a number of factors, striving for an appropriate blend of equity and practicality. The Committee is of the view that this report, and its recommendations, provides the GNWT and the Government of Nunavut with a blueprint for achieving a fair and common sense division of assets and liabilities between the territories.

The Committee unanimously proposes that this Report form the basis of an Agreement between the Interim Commissioner of Nunavut and the Government of the Northwest Territories to effect the division of the assets and liabilities of the Government of the Northwest Territories. The Committee further recommends that the Agreement be completed and forwarded to the Minister of DIAND in order to seek Governor in Council approval as soon as possible.

9.2 SUMMARY OF RECOMMENDATIONS

This section summarizes all of the Committee's recommendations from the previous chapters of this report. They are identified by Chapter and Section number for ease of reference.

2 Mandate/Scope/Principles

2.2 Scope

Recommendation 1

The Committee recommends that the following organizations should be considered outside of its scope for purposes of division of the Government's assets and liabilities:

Northwest Territories Power Corporation
Workers' Compensation Board
Municipalities and other forms of local government
Public Trustee for the Northwest Territories
Legislative Assembly Retiring Allowances Fund
Territorial Court Judges' Registered Pension Plan

3 A Framework and Method for Division

3.1 Basic Approach: Three Steps

Recommendation 2

The Committee recommends a three-step approach for effecting the division of assets and liabilities
as follows:

Step 1 • Establish a share, or apportionment, between the two territories, of the accumulated surplus or deficit, that the signatories agree to be equitable;

Step 2 • Establish an allocation, between the two territories, of the asset and liability items that the signatories agree to be practicable; and

Step 3 • Establish an adjustment mechanism that will bring the net value of the assets and liabilities allocated to each territory in the allocation process in Step 2 into conformity with the respective accumulated surplus or deficit apportioned to each territory resulting from the apportionment process in Step 1.

3.2.1 Apportionment on a Geographic Basis

Recommendation 3

The following entities should be considered as already divided on a geographic basis, and thus their individual balance sheets should be left as they are, with their accumulated deficits or surpluses considered as already apportioned and their assets and liabilities as already allocated:

District Educational Councils and Authorities
Hospitals and Health Boards
Aurora College and Nunavut Arctic College
Northwest Territories Development Corporation
Subsidiaries (except Arctic Canada Trading Ltd. and Venture
Investments

3.2.2 Establishing a General Apportionment Rule

Recommendation 4

The HER should be used to apportion the accumulated surplus or deficit of the government's departmental operations and, subject to adjustments recommended in Chapter 5, government enterprises that are within the Committee's scope and which have not been separately divided on the geographical basis.

3.3 Allocation of Assets and Liabilities

Recommendation 5

Each asset or liability should be allocated first on the basis of geography, or, if that is not possible, using the HER.

3.4 The Adjustment Amount

Recommendation 6

Any difference (Adjustment Amount) resulting from the apportionment of accumulated surplus/deficit and the allocation of assets and liabilities should be settled by the creation of an account payable/account receivable between the two territories.

4. Division of Non-consolidated (Departmental) Operations of the GNWT

4.2 Apportionment of the Accumulated Surplus/Deficit

Recommendation 7

The Committee proposes that the non-consolidated accumulated surplus/deficit of the GNWT be apportioned using the HER (refer to Exhibit 3-6 for details of calculations).

4.3.1. Cash and Short Term Deposits/ Bank Overdrafts and Short Term Loans

Recommendation 8

As cash on hand at any point in time (whether positive or negative) does not lend itself to any meaningful association with either western or eastern operations, it should be allocated using the HER.

4.3.2. Accounts Receivable

Recommendation 9

Receivables should be allocated on a geographic basis using the data contained in the GNWT's Financial Information System. Where this is not possible or practical, for legal or other reasons they should be allocated using the HER.

4.3.3. Inventories

Recommendation 10

The allocation of inventories should be based on location or intended destination, since it is the most pragmatic approach due to the cost of relocation in comparison to the value of the inventory, particularly in the case of Petroleum Products.

4.3.4 Designated Cash and Investments

Recommendation 11

The amount of the designated cash and investments available to fund student loans should be allocated on the same ratio as the allocation of student loans outstanding as described in Section 4.3.6.

The portion of the portfolio associated with the Judges' Supplementary Pension Plan should be allocated on the same basis as the allocation of the pension liabilities as described later in this section. The designated cash and investments related directly to the Legislative Assembly Supplementary Retiring Allowances Act shall be retained by the western territory.

4.3.5 Municipal Debentures

Recommendation 12

Municipal debentures should be allocated based on the geographic location of the community that issued the debenture.

4.3.6. Student Loans

Recommendation 13

The outstanding amount of student loans should be allocated based on the territory in which the student resided at the time of application for the loan.

4.3.7 Other Long-term Assets

Recommendation 14

Since a structure (e.g. a house) is located in a particular territory, the associated loan receivable should be allocated to that territory.

Recommendation 15

The Working Capital Advance should be allocated based on the ratio of the net loans receivable as recorded in the financial statements of the BCC.

4.3.8 Accounts Payable and Accrued Liabilities

Recommendation 16

Accounts payable and Accrued liabilities should be allocated on a geographic basis using the data contained in the GNWT's Financial Information System. Where this is not possible or practical, they should be allocated using the HER.

4.3.9 Pension Liabilities

Recommendation 17

The GNWT will continue to administer the assets and liabilities associated with the SRAA. Should Nunavut establish a supplementary plan for its Judges, the assets and liabilities associated with those judges who transfer to the Nunavut Government will be transferred.

4.3.10 Provision for Pay Equity Settlement

Recommendation 18

The employee leave and termination benefit liabilities should follow the employee and be assumed by that employee's post-division employer.

4.3.11 Employee Benefits and Deferred Salaries

Recommendation 19

If the pay equity issue is not resolved prior to April 1, 1999, the liability should be allocated using the HER.

4.4.1 Pay Equity

Recommendation 20

If the pay equity issue remains outstanding at division, each government will continue to disclose a contingency in its respective financial statements. The disclosure would indicate that although a provision has been made in the financial statements, there remains the potential that the ultimate resolution of the issue could result in a payment that is more or less than the amount already provided for. Any discrepancy between the amount provided for and the ultimate amount of the settlement under this claim which is entered into after April 1, 1999, and is agreed to between the two governments, should be shared on the basis of the HER.

4.4.2 Loan Guarantees on Behalf of Third Parties

Recommendation 21

The contingencies related to loan guarantees should be reported in the financial statements of both territories beginning in fiscal year 1999-2000, to the extent that they apply in each territory. The contingent liability in respect of the guarantees of the loans of NWT Housing Corporation should be allocated on the same basis as the loans in the Corporation. (See Section 5.3.2)

As to the NWT Power Corporation Debentures the responsibility for the guarantees will depend on the outcome of deliberations regarding its post-division status.

4.4.3 Environmental Liabilities

Recommendation 22

The Committee recommends that the territory in which the site exists should assume responsibility for any associated environmental liability that is not the responsibility of another party (e.g. the Federal Government).

4.4.4 Canadian Blood Agency (CBA) and the Canadian Blood Services (CBS)

Recommendation 23

After division both governments will include a note to their respective financial statements which discloses the potential exposure to a share of any liability related to a suit launched against the CBA or the CBS. Allocations shall be made in accordance with formulae established in the CBA and CBS agreements.

4.5 Tangible Capital Assets

Recommendation 24

The Committee recommends that each new territory assume ownership of the tangible capital (physical) assets of departmental operations within its territory on an as-is, where-is basis, without further adjustment being made.

5. Division of Government Enterprises

5.2.1 Treatment of Tangible Capital Assets

Recommendation 25

The Committee recommends that the recorded value of the tangible capital assets and the associated liabilities of the government enterprises subject to division be set aside for purposes of apportioning their accumulated surplus/deficit using the HER. The tangible capital assets of these enterprises should be apportioned and allocated on an “as-is, where-is” basis, without further adjustment.

The Committee further recommends that, post-division, all tangible capital assets and associated liabilities should be recorded on the balance sheets of the relevant territorial entities on the basis of their recorded value, by territory, prior to division.

5.3 Northwest Territories Housing Corporation (NWTHC)

5.3.2 Apportionment of Accumulated Surplus

Recommendation 26

The Committee recommends that, for apportionment purposes, the accumulated surplus of NWTHC be adjusted for the net book value of housing projects and other tangible capital assets and related long-term debt. The residual accumulated surplus should then be apportioned using the HER.

After division, the organization responsible for social housing in each territory should record its share of the net book value of housing projects and other tangible capital assets and associated long-term debt.

5.3.3 Allocation of Assets and Liabilities

Recommendation 27

To the fullest extent possible, the NWTHC's housing projects and associated debt, property and equipment and accounts receivable and payable should be allocated based on geographical location. Other assets, which are not location-specific, should be allocated using the HER.

5.3.4 Adjustment Amount

Recommendation 28

Any difference between the value of accumulated surplus of NWTHC apportioned to each territory and the value of net assets allocated to it will constitute an adjustment amount, and should be reflected as an amount receivable/payable between the territories.

5.4 Northwest Territories Business Credit Corporation (BCC)

5.4.2 Apportionment of Accumulated Deficit

Recommendation 29

The Committee recommends that the accumulated deficit of the BCC, as revised by the setting aside of tangible capital assets, be apportioned using the HER.

After division, in creating its opening balance sheet, the appropriate authority in each territory should record its share of the capital assets.

5.4.3 Allocation of Assets and Liabilities

Recommendation 30

The BCC's net loans receivable and advances from the GNWT should be allocated based on geographical location of the organization receiving the loan. Other assets and liabilities, which are not location-specific, should be allocated using the HER.

5.4.4 Adjustment Amount

Recommendation 31

Any difference between the value of accumulated deficit of the BCC apportioned to each territory and the value of net assets allocated to it will constitute an adjustment amount, and should be reflected as an amount receivable/payable between the territorial governments.

5.5 Northwest Territories Development Corporation

5.5.3 Apportionment of Subsidiary Companies and Venture Investments on a Geographical Basis

Recommendation 32

The accumulated surplus or deficit of each subsidiary, other than Arctic Canada Trading Ltd., should be apportioned to the territory in which it operates. Assets and liabilities should be similarly allocated. The capital investment (asset) account and the capital investment fund (equity) account in the parent company should be adjusted to reflect the setting aside of the value of the investment in these subsidiaries prior to dividing the NWTDC.

Recommendation 33

If and when Arctic Canada Trading Ltd. is to be divided, the general apportionment rule should apply. The HER should be used to apportion the accumulated surplus/deficit and assets and liabilities should be allocated on the basis of geography and, if that is not practicable, then on the basis of the HER.

Recommendation 34

The venture investments (asset) account, the accumulated losses recorded to date on venture investments and an offsetting amount in the venture investment (equity) fund should be set aside from the balance sheet of the NWTDC prior to apportioning the residual accumulated surplus/deficit and allocating the other assets and liabilities.

Recommendation 35
Reserves related to both subsidiaries and ventures should be set aside from the NWTDC balance sheet and allocated territorially on the basis of the investment in the related organizations. The equity fund accounts should be reduced by an equal amount.

5.5.4 Apportionment of the Residual Equity and Accumulated Deficit

Recommendation 36
The unapplied balances in the venture investment fund and the capital investment fund (equity) accounts should be apportioned using the HER.

Recommendation 37
The Committee recommends that the accumulated deficit of the NWTDC, as revised for setting aside the net book value of tangible capital assets, should be apportioned using the HER.

5.5.5 Allocation of Assets and Liabilities

Recommendation 38
Cash held centrally on behalf of individual subsidiaries and venturesshould be allocated to the appropriate territory, based on the geographic location of each subsidiary or venture.

Recommendation 39
NWTDC accounts payable and receivable should be allocated to the western balance sheet for reasons of practicality.

6 Other Important Issues

6.2 Valuation Changes Not Impacted by Post-Division Actions

Recommendation 40
Subject to Recommendation 41, all of the adjustments related to revenue and expense accruals and errors and omissions and any other changes not impacted by post-division actions should be tracked and post-division adjustments made between the two territories based on the HER.

6.3 Valuation Changes Potentially Impacted by Post-Division Actions

Recommendation 41

The following asset and liability accounts can be impacted upon by post-division actions of either government: loans receivable, pension accounts, inventories, guarantees and indemnities and earned employee benefit liabilities. It is recommended that, after the appropriate allocation of the asset or liability account is agreed to, each government satisfy itself as to the reasonableness of valuation estimates as of March 31, 1999, and have these estimates reviewed by the Auditor General. Any difference between the March 31, 1999 estimate and the actual amount subsequently realized would not give rise to a post-division adjustment.

6.4 Outstanding and New Litigation

Recommendation 42

The non-insured costs of litigation for events that occurred prior to March 31, 1999 should be shared between the two governments on the basis of the HER. However, where an organization (e.g. Health Board, School Board) was apportioned, or a tangible capital asset was allocated on the basis of the geographical rule, the responsibility for any future liability associated with that organization or asset should be assumed by the territory where the organization or asset is located. The administrative responsibility and management of the legal defence should be the subject of an agreement between the two governments.

6.5 The Adjustment Process

Recommendation 43

Both new territorial governments should agree to the adjustment process for post-division adjustments as set out in Section 6.5.

7. Dispute Resolution

7.2 The Period before April 1, 1999

Recommendation 44

Prior to April 1, 1999, in the event that a matter relating to the division of assets and liabilities cannot be resolved between the parties, the IC and the GNWT may resort to a mediator, in a timely fashion, whenever the parties conclude that such a recourse might assist them in resolving a matter under dispute.

7.3 The Period beginning April 1, 1999

Recommendation 45

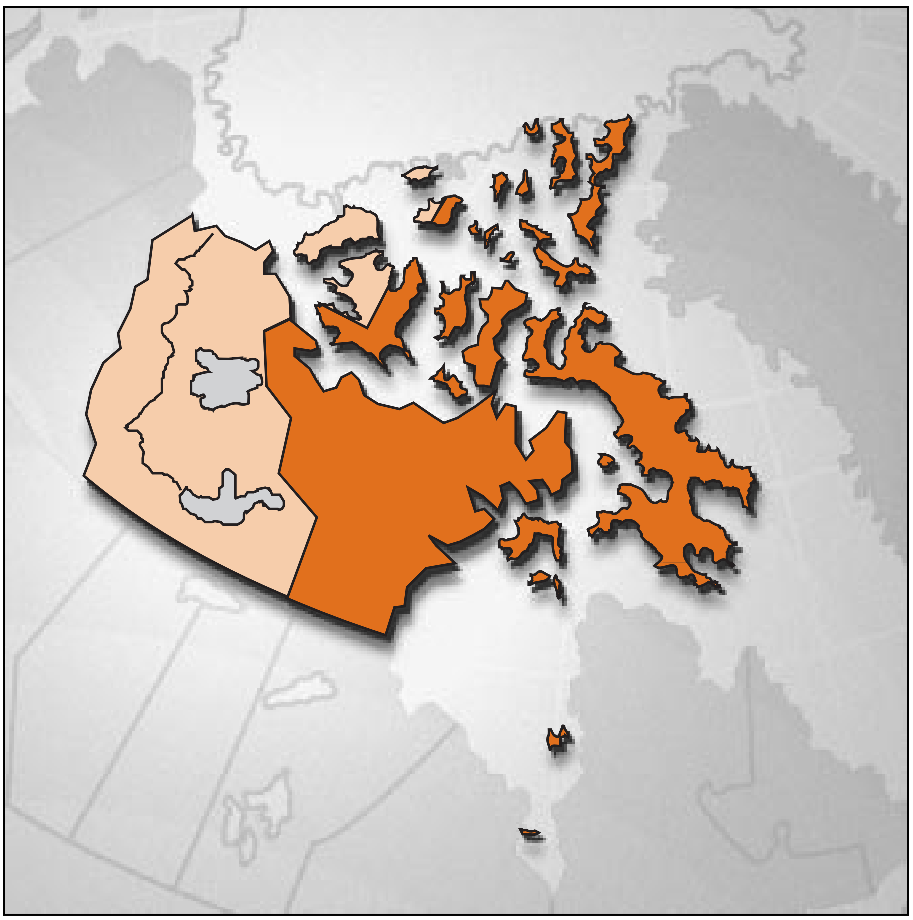
In the event that a dispute should arise post-division between the new western territorial government and the Government of Nunavut relating to the interpretation, application or implementation of the recommendations contained in the Intergovernmental Agreement on Division of Assets and Liabilities, either party may resort to the intervention of a mutually acceptable mediator to assist them in resolving their differences. Should mediation prove unsuccessful, the parties may refer the matter to arbitration under the Arbitration Act (NWT), or either party may refer the matter to the Courts.

8.5 Disclosing and Settling the Adjustment Amount

Recommendation 46

An Implementation Committee should be established, comprised of senior officials of the GNWT and the OIC, with the responsibility of developing, following up on and reporting against an implementation plan to give effect to the provisions of the Agreement on the division of the GNWT's assets and liabilities.

PART F:
Appendices



Appendix A-E

ACRONYMS AND DEFINITIONS

BCC	The Northwest Territories Business Credit Corporation
CBA	Canadian Blood Agency
CBS	Canadian Blood Services
CICA	Canadian Institute of Chartered Accountants
CMHC	Canada Mortgage and Housing Corporation
The Committee	The Northern Representatives Committee: This group includes the Office of the Interim Commissioner, Nunavut Tunngavik Inc., the GNWT, and the Western Coalition.
Division	The event of dividing the GNWT on April 1, 1999
East	That portion of the NWT which will be governed by the GN after Division
FIS	Financial Information System
FMB	Financial Management Board
FMBS	Financial Management Board Secretariat
GHRIS	Government Human Resource Information System
GiC	Governor in Council (the Federal Cabinet)
GNWT	Government of the Northwest Territories
GN	Government of Nunavut
HER	Historical Expenditure Ratio
IC	The Interim Commissioner (of Nunavut)
MOU	Memorandum of Understanding
NWTDC	Northwest Territories Development Corporation
NWTHC	Northwest Territories Housing Corporation
NWTPC	Northwest Territories Power Corporation
NTI	Nunavut Tunngavik Inc.
NWT	Northwest Territories
O&M	Operations and Maintenance
OAG	Office of the Auditor General
OIC	Office of the Interim Commissioner of Nunavut
PSAAB	Public Sector Accounting and Auditing Board
PSAC	Public Service Alliance of Canada
SRAA	Legislative Assembly Supplementary Retiring Allowance Act
UNW	Union of Northern Workers
WCB	Workers' Compensation Board
West	That portion of the NWT which will be governed by the GNWT after Division
Western Coalition	A group of aboriginal, civic, territorial, and business leaders from the western NWT
Working Group	A group of officials tasked by the Committee to study certain technical issues.

MEMORANDUM OF UNDERSTANDING BETWEEN THE GOVERNMENT OF THE NORTHWEST TERRITORIES and THE INTERIM COMMISSIONER OF NUNAVUT ON A GENERAL FRAMEWORK AND PRINCIPLES for the DIVISION OF ASSETS AND LIABILITIES as at March 31, 1999

1. Context

The Letter of Instruction to the Interim Commissioner of Nunavut from the federal Minister of Indian Affairs and Northern Development states: *"It is expected that you will enter into a preliminary agreement with the GNWT which will set out the general framework for an agreement and a set of principles to be applied in the division of assets and liabilities ….".* This document is in response to that instruction.

Work on this issue has proceeded, and will continue to be overseen and reviewed by means of a Northern Representatives Committee (the Committee), membership in which includes representatives of Nunavut Tunngavik Incorporated (NTI) and the Western Coalition (WC) as well as those of the signatories to this Memorandum of Understanding (MOU).

This MOU will guide the work required for the preparation of a draft final agreement on the division of assets and liabilities, which will be submitted for approval of the signatories.

2. Designations and definitions

For purposes of this MOU, the following definitions, acronyms or short forms shall apply:

GNWT - references to the Government of the Northwest Territories shall be to the government in place up to and including March 31,1999.

Assets - Resources arising out of past transactions or events and from which future benefit may be derived. Assets may be tangible or intangible in nature, as well as recorded or not recorded.

Liabilities - Obligations or burdens arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services, or other yielding of benefits in the future. Liabilities may be actual and recorded in the accounts or contingent on future events or determinations and not recorded in the accounts.

Surplus/Deficit - The difference between the value of the recorded assets and liabilities at a particular point in time (the cumulative surplus/deficit). The term surplus/deficit may also be used in reference to the financial result of a particular time period (the annual surplus/deficit).

Equity - The difference between the value of recorded assets and liabilities in respect of incorporated entities.

3. Principles

The Committee has developed the following Statement of Principles to guide the process of Division of Assets and Liabilities:

1. The division of assets and liabilities should be performed in good faith and in a manner that can be demonstrated as equitable to the residents of the two Territories.
2. The process of dividing the assets and liabilities should recognize that the allocation between the various regions by the Legislative Assembly, of the capital budget of the Government of the Northwest Territories, was made through an open and democratic process.
3. The division of assets and liabilities should be premised on the division of the NWT and the subsequent operation of the two territories, and should not detract from either government's ability to provide adequate public services for residents recognizing the existing scope and quality of such services.
4. The process of, and methodologies for, division of assets and liabilities should be conceptually sound, practical, transparent, open, timely, and based on full disclosure of information.
5. Disruptions to the operations of the two territorial governments and the number of administrative transactions between the two governments should be minimized.
6. Division of assets and liabilities should be tied to geography as much as possible.
7. Where physical assets are divided, every effort should be made to avoid the unnecessary movement of goods.
8. The benefits and burdens associated with legal instruments and liabilities connected to physical assets should usually follow the ownership of the asset.
9. Physical assets held in a single location to facilitate their circulation and consumption in a variety of regions and communities in the NWT should be fairly and equitably divided.
10. Financial assets of the GNWT and liabilities that are not tied to specific physical assets should be divided fairly and equitably.
11. Physical assets outside the NWT and intellectual property should be divided equally.

12. The division of assets and liabilities should recognize the federal obligation to provide reasonable transitional and incremental funding.

4. Scope

A document prepared by officials of the GNWT entitled *"Preliminary Report: Division of Assets and Liabilities"* identifies the various categories of assets and liabilities, both reported and non-reported, held directly and indirectly by the GNWT. These assets and liabilities to be divided can be grouped in six distinct categories to facilitate the process of division:

The non-consolidated assets and liabilities of the GNWT - the assets and liabilities reflected in the government's non-consolidated financial statements in the Public Accounts, including the operations, assets and liabilities of all departments and of the Liquor Commission and Petroleum Products Division Revolving Funds.

Enterprises owned or operated by GNWT which perform a business function and which are following independent tracks in regards to division - at the present time, the Workers' Compensation Board and NWT Power Corporation have been identified as falling in this category.

Entities owned by GNWT that currently exist to administer programs on behalf of the government, and which will be continued post-division, either as separate government-owned entities or as part of a government department -the entities listed in this category are NWT Housing Corporation, NWT Business Credit Corporation and NWT Development Corporation.

Education / Health institutions and boards which tend to operate in designated territories - Aurora College and Nunavut Arctic College are included in this category.

Assets carried at nominal or no value - tangible assets such as buildings, equipment, infrastructure, computing and communications hardware and software, museum artifacts and archives and records, as well as intangible assets such as copyrights, patents, trademarks and symbols.

Contingent liabilities - liabilities that cannot be precisely quantified pending outcome of some future event - these include guarantees of loans made by government-owned entities, resolution of pay equity disputes, and environmental remediation costs in respect of contaminated sites.

5. Basis for Division of Assets and Liabilities

The basic conceptual framework for effecting the division of assets and liabilities shall be as follows:

1. Establish a division, between the two territories, of the accumulated surplus or deficit of the GNWT (net value of assets less liabilities), that the signatories agree to be equitable;
2. Establish an allocation, between the two territories, of the asset and liability items of the GNWT, that the signatories agree to be practicable;
3. Establish adjustment mechanisms that will bring the net value of the assets and liabilities allocated to each territory in the allocation process in (2) in conformity with the respective surplus or deficit of each territory resulting from the division process in (1).

It is not possible, in establishing the division process in (1) or the allocation process in (2), to apply a single methodology or approach to as varied a portfolio of assets and liabilities as that described in the previous section. A number of methodologies and approaches are being investigated as to their suitability, either alone or in combination, in specific circumstances. The over-riding principles are that these be practical to apply, minimize the unproductive movement of goods and result in a demonstrably equitable allocation of assets and obligations. Methodologies and approaches currently under consideration include:

Historical Expenditure Ratio (HER) - a ratio derived from historical expenditures between the eastern and western portions of the NWT;

Geographic location - the residency of a particular asset, and associated liability would be the prime consideration;

Historical attachment - considerations of ancestry, heraldry, language or culture would be determining factors;

Shared custody - where attempts to allocate assets would be costly, unproductive or unworkable;

Equal distribution - where the nature, location or significance of the asset makes this the most practical allocation approach;

As is, where is - each territory would assume ownership of non-reported assets and related liabilities on its territory, without any further adjustment considered.

6. Time frame

The Committee should endeavour to conclude its task of examining, refining and testing the methodologies for division at the earliest opportunity. Such pilot testing should be based on the most recent information available and should permit the signatories to recognize and to reflect upon the impact of division using the methodologies proposed.

The final report on division of assets and liabilities will set out the appropriate methodologies, approaches and mechanisms to apply to specific categories of assets and liabilities as at March 31, 1999, consistent with the principles outlined in section 3 above.

It is recognized that the final determination of the division of assets and liabilities will be in relation to information as of March 31, 1999, and that this information may not be completely available until some months thereafter. The final Committee Report on division of assets and liabilities will include issues likely to be finalized only after Division, and will make a proposal limiting the period of time after April 1, 1999 during which adjustments can be made.

7. Declaration

The signatories below acknowledge that this document represents and records the understandings between the two parties.

Dated this 29th day of June, 1998

Government of the Northwest Territories (Signed by) John Todd

Interim Commissioner of Nunavut (Signed by) Jack Anawak

CALCULATION OF HISTORICAL EXPENDITURE RATIO (HER)

This appendix provides additional information supporting the calculation of the HER and reconciliation to the GNWT's Public Accounts.

Each category of GNWT expenditures can be allocated, in the GNWT system, to one of the following three levels of expenditures:

- Community level expenditures, which are required for the delivery of programs and services that are specific to a single territory and which can easily be geographically allocated.
- Territorial level expenditures, which are required for the delivery of programs and services to the public that are not specific to a community or region. They are expenditures that provide a benefit to the entire Northwest Territories, but they can be broken down geographically.
- Corporate level expenditures, which are required for the headquarters and regional management structure of the government. They do not lend themselves to any meaningful geographic allocation. Consequently, these expenditures will be set aside for the purpose of calculating the HER, although they are required to reconcile the total expenditures to the Public Accounts.

CALCULATION OF HISTORICAL EXPENDITURE RATIO (HER)

O&M Expenditures	Corporate	Territorial	East	West	Total
1996-97 Final Expenditures (Note 1)	141,551,484	144,168,222	324,694,199	406,373,610	1,016,787,515
Eliminate Corporate (Note 2)	(141,551,484)				(141,551,484)
Reallocate Territorial		(144,168,222)	58,888,560	85,277,682	0
Revised 1996-97 Final Expenditures	0	0	383,582,759	491,653,272	875,236,031
1996-97 East/West Split for O & M			43.83%	56.17%	100.00%
Capital Expenditures					
10-year capital expenditures	47,239,000	185,219,000	717,418,000	726,804,000	1,676,680,000
Eliminate Corporate (Note 1)	(47,239,000)				(47,239,000)
Reallocate Territorial		(185,219,000)	46,615,731	138,603,269	0
10-year capital Expenditures	0	0	764,033,731	865,407,269	1,629,441,000
10-year allocation ratio			46.89%	53.11%	100.00%
1996-97 Capital Expenditures allocated east and west using 10-year ratio			82,540,200	93,491,800	176,032,000
The Historical Expenditure Ratio					
O&M Expenditures			383,582,759	491,653,272	875,236,031
Capital Expenditures			82,540,200	93,491,800	176,032,000
Total 1996-97 Expenditures			466,122,958	585,145,075	1,051,268,031
the HER			44.34%	55.66%	100.00%

Note 1: Total O&M expenditures are less than those in the Public Accounts as those in the Public Accounts include expenditures related to the Department of Safety and Public Services corporate structure which were not included in the geographic tracking exercise ($1,276,485).

Note 2: Corporate expenditures are eliminated in calculating the HER since they do not lend themselves to any meaniful geographical allocation of expenditures.

Office of the Auditor General (OAG) Reports on HER Computation

OPERATIONS AND MAINTENANCE EXPENDITURES

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of the schedule allocating operations and maintenance expenditures by territory for the year ended March 31, 1997 of the Government of the Northwest Territories is the responsibility of management through the Office of the Comptroller General. Management is responsible for the reliability, integrity and objectivity of the information provided.

The schedule has been prepared in accordance with the Government's accounting policies for allocating costs to expenditure categories as set out in Note 2 to the Schedule. For territorial and corporate expenditures, not separately identifiable to either territory, management has used the assumptions set out in Notes 3 and 4 to the Schedule to reallocate the expenditure categories. Where required, management's best estimates and judgements have been applied in the preparation of this schedule.

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

The Auditor General of Canada, an independent accountant, is responsible for providing a report on the results of performing specific procedures in connection with the allocation of operations and maintenance expenditures by territory.

Lew Voytilla, F.C.G.A.
Comptroller General
Government of the Northwest Territories

October 16, 1998

ACCOUNTANT'S REPORT IN CONNECTION WITH THE SCHEDULE ALLOCATING OPERATIONS AND MAINTENANCE EXPENDITURES BY TERRITORY

To the Interim Commissioner of Nunavut

At your request, I have performed the following procedures in connection with the Schedule Allocating Operations and Maintenance Expenditures by Territory of the Government of the Northwest Territories (non-consolidated) for the year ended March 31, 1997.

1. Obtained from the Government of the Northwest Territories (GNWT) the schedule allocating operations and maintenance expenditures by territory for the year ended March 31, 1997, including the accompanying notes (the Schedule).

2. Obtained from the GNWT the following documents which support the schedule obtained in procedure 1:

   a) Operations and maintenance expenditures electronic accounting data file from the government's Financial Information System (FIS), containing the GNWT's allocation of each expenditure transaction to one of the expenditure categories.

   b) Operations and maintenance expenditures, excluding salaries and benefits, re-allocation amongst expenditure categories, prepared by GNWT's internal audit; including internal audit's Auditor's Report and supporting working papers.

   c) Operations and maintenance expenditures salaries and benefits, re-allocation amongst expenditure categories, prepared by the Financial Management Board Secretariat.

   d) Territorial operations and maintenance expenditures re-allocation to the East and West, prepared by each department.

   e) Corporate operations and maintenance expenditure reconciliations to the report "Division Implementation Plan – Phase 1", prepared by the Financial Management Board Secretariat.

3. Reconciled the Schedule, obtained in procedure 1, to the totals of the operations and maintenance expenditures reported in the Government of the Northwest Territories public accounts non-consolidated financial statements for the year ended March 31, 1997.

4. Agreed the total of the amounts and allocations from the FIS electronic accounting data file obtained in procedure 2a to total amounts and allocations in the Schedule obtained in procedure 1.

5. Selected a sample of four of the thirteen department's operations and maintenance expenditures re-allocations from the records obtained in procedure 1. The four departments selected were Health and Social Services; Resources, Wildlife and Economic Development; Education, Culture and Employment and Justice. For each department:

   a) Re-performed the GNWT re-allocations between expenditure categories, in the records obtained in procedure 2b and 2c, based on the Government's accounting policies and internal definitions used to allocate expenditures to expenditure categories, as described in Note 2.

   b) Re-performed the departments' re-allocation of territorial category expenditures, to the East and West, in the records obtained in procedure 2d, based on the assumptions used to re-allocate territorial expenditures, as described in Note 3.

As a result of applying procedures 3 and 4, I found no errors. As a result of applying procedure 5, I found differences totalling $1,582,415. These differences were resolved and adjusted by the GNWT in the Schedule.

However, these procedures do not constitute an audit of the Schedule Allocating Operations and Maintenance Expenditures by Territory and therefore I express no opinion on this Schedule including its accompanying notes for the year ended March 31, 1997. In particular, I have not attempted to verify the accuracy of GNWT's allocation of each expenditure transaction in the electronic accounting data file obtained in procedure 2a.

This report has been prepared solely for your use in conjunction with the dividing of the assets and liabilities of the Government of the Northwest Territories as at March 31, 1999. The use of this Schedule for other purposes may not be appropriate.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
October 16, 1998

Government of the Northwest Territories (non-consolidated)
Schedule Allocating Operations and Maintenance Expenditures by Territory

for the year ended March 31, 1997 (unaudited)

	Expenditure Category (note 2)				
	Corporate	Territorial	East	West	Total
O&M Expenditure Allocations					
1996-97 Public accounts operations and maintenance expenditures by expenditure category	$141,551,484	$144,168,222	$324,694,199	$406,373,610	$1,016,787,515 *
Corporate expenditure allocation (Note 4)	(141,551,484)				(141,551,484)
Territorial expenditure allocation (Note 3)		(144,168,222)	58,888,560 40.847%	85,279,662 59.153%	-
Operations and maintenance expenditures by territory	-	-	$383,582,759	$491,653,272	$875,236,031
1996-97 operation and maintenance allocation ratio East/West			43.826%	56.174%	100.000%

The accompanying notes are an integral part of this statement

Approved by: Lew Voytilla, F.C.G.A.
Comptroller General

*the total operations and maintenance expenditures do not equal the expenditures reported in the public accounts because $1,276,485, representing the Department of Safety and Public Services' corporate structure, was not included in this schedule

GOVERNMENT OF THE NORTHWEST TERRITORIES (NON-CONSOLIDATED) NOTES TO THE SCHEDULE ALLOCATING OPERATIONS AND MAINTENANCE EXPENDITURES BY TERRITORY

for the year ended March 31, 1997 (unaudited)

1. Purpose of Schedule

The Nunavut Act comes into full force on April 1, 1999. On that date, Nunavut (the East) and the Government of Nunavut come into being. The Nunavut Act consequentially amends the Northwest Territories Act to redefine the Northwest Territories (the West) to exclude the geographic Nunavut territory as of April 1, 1999.

The creation of Nunavut will require the division of Government assets and liabilities between the East and the West. Section 73(1)(c) of the Nunavut Act, allows the Interim Commissioner, with the approval of the Governor in council, to enter into agreements with the Government of the Northwest Territories for the division of its assets and liabilities between Nunavut and the Northwest Territories.

A Northern Representatives Committee has been formed, bringing together representatives of the Government, the Office of the Interim Commissioner for Nunavut, Nunavut Tunngavik Incorporated and the Western Leaders Coalition. This Committee has been tasked to produce a report and make recommendations, which will form the basis for an agreement between the Government and the Office of the Interim Commissioner for Nunavut.

This schedule has been prepared for the Committee, and is one part of the information it plans to use to determine a methodology to split the assets and liabilities.

The operations and maintenance expenditures included in this schedule are those reported in the unaudited non-consolidated public accounts for the year ended March 31, 1997. Operations and maintenance expenditures are recorded on an accrual basis. Whenever possible, the Government has allocated operations and maintenance expenditures to the territory receiving the benefit.

2. Expenditure Category

Operations and maintenance expenditures are allocated to the following expenditure categories using the government's internal definitions used for management purposes:

a) Corporate Expenditures

Corporate expenditures are for the headquarters and regional management structure of the government.

b) Territorial Expenditures

Territorial expenditures are for the delivery of programs and services to the public that are not specifically identifiable to either a community or a region. These expenditures provide benefits to the entire Northwest Territories. Examples include expenditures related to the Yellowknife Correctional Centre and Stanton Regional Hospital.

c) East / West Expenditures
Expenditures allocated to the East or West are for the delivery of programs and services that are specifically identifiable to a single community or region.

3. **Territorial Expenditure Re-allocation**
Territorial Expenditures are re-allocated to either the East or West for the purposes of this schedule. The assumptions made and estimates used to re-allocate these expenditures are as follows:

a) Each department developed program specific methodologies and assumptions for the purposes of allocating its territorial expenditures to either the East or the West. The methodologies are summarized in the Division Implementation Plan – Phase 3 report and its supporting documentation. In total, $121,195,925 of the territorial expenditures were re-allocated to the East and the West using these methodologies; $48,820,673 being specifically identifiable and re-allocated to the East, and $72,375,252 to the West.

b) The remaining territorial expenditures of $22,972,297 were, for the purposes of this schedule, re-allocated to the East, 43.826%, and West, 56.174%, using the resulting percentage allocation of all identifiable East and West operations and maintenance expenditures.

	Territorial	East	West
East / West expenditures		$ 324,694,199	$ 406,373,610
Territorial expenditures – identified as East or West on further review	$ 121,195,925	48,820,673	72,375,252
Total East / West identified expenditures		$ 373,514,872	$ 478,748,862
Percentage expenditures identified East or West		43.826%	56.174%
Territorial expenditures – allocated on above identified percentage	22,972,297	10,067,887	12,904,410
Total territorial expenditures allocated	$ 144,168,222	$ 58,888,560	$ 85,279,662
Territorial expenditure allocation percentage		40.847%	59.153%

c) The resulting allocation of all territorial expenditures was 40.847% to the East and 59.153% to the West.

4. Corporate Expenditure Allocation

Given their nature, historical corporate expenditures could not, for the purposes of this schedule, be allocated meaningfully between the East and West.

Expenditures allocated to the corporate category were reconciled to the Division Implementation Plan - Phase 1 report to ensure consistent application of the definition of corporate expenditures. This Phase 1 division costing exercise was a zero-based approach for determining future corporate expenditures for the East and West. Since the allocation methodology used in the Phase 1 report is based on the future funding needs of the East and West, that allocation cannot be used to allocate historical corporate expenditures in any meaningful manner.

CAPITAL EXPENDITURES

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of the schedule allocating capital expenditures by territory for the 10-year period April 1, 1987 to March 31, 1997 of the Government of the Northwest Territories is the responsibility of management through the Office of the Comptroller General. Management is responsible for the reliability, integrity and objectivity of the information provided.

The schedule has been prepared in accordance with the Government's accounting policies for allocating costs to expenditure categories as set out in Note 2 to the Schedule. For territorial and corporate expenditures, not separately identifiable to either territory, management has used the assumptions set out in Notes 3 and 4 to the Schedule to reallocate the expenditure categories. Where required, management's best estimates and judgements have been applied in the preparation of this schedule.

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

The Auditor General of Canada, an independent auditor, is responsible for expressing an opinion that the allocation of capital expenditures by territory is in accordance with the Government's accounting policies for allocating costs and the assumptions and processes used to re-allocate territorial and corporate expenditure categories.

Lew Voytilla, F.C.G.A.
Comptroller General
Government of the Northwest Territories

October 16, 1998

AUDITOR'S REPORT ON THE SCHEDULE ALLOCATING CAPITAL EXPENDITURES BY TERRITORY

To the Interim Commissioner of Nunavut

At your request, I have audited the Schedule Allocating Capital Expenditures by Territory of the Government of the Northwest Territories (non-consolidated) for the 10-year period April 1, 1987 to March 31, 1997. This schedule is prepared in accordance with the Government's accounting policies, internal definitions used to allocate costs to expenditure categories, as described in Note 2, and the assumptions used to re-allocate territorial and corporate expenditures, as described in Notes 3 and 4. This financial information is the responsibility of the Government. My responsibility is to express an opinion on this financial information based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In my opinion, this schedule presents fairly, in all material respects, the allocation of capital expenditures by territory of the Government of the Northwest Territories (non-consolidated) for the ten-year period April 1, 1987 to March 31, 1997 in accordance with the Government's accounting policies, internal definitions used to allocate costs to expenditure categories, as described in Note 2, and the assumptions used to re-allocate territorial and corporate expenditures, as described in Notes 3 and 4.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
October 16, 1998

Government of the Northwest Territories (non-consolidated)
Schedule Allocating Capital Expenditures by Territory

for the 10-year period April 1, 1987 to March 31, 1997

	Expenditure Category (note 2)				
Capital Expenditure Allocations	Corporate	Territorial	East	West	Total
Total 10-year public accounts capital expenditures by expenditure category	$ 31,803,000	$ 185,219,000	$ 717,418,000	$ 726,804,000	$1,661,244,000
Corporate expenditure allocation (Note 4)	(31,803,000)				(31,803,000)
Territorial expenditure allocation (Note 3)		(185,219,000)	46,615,731 25.168%	138,603,269 74.832%	-
10-year capital expenditures allocation by territory	-	-	$ 764,033,731	$ 865,407,270	$1,629,441,000
10-Year capital allocation ratio East/West			46.889%	53.111%	100.00%

The accompanying notes are an integral part of this statement

Approved by: Lew Voytilla, F.C.G.A.
Comptroller General

GOVERNMENT OF THE NORTHWEST TERRITORIES (NON-CONSOLIDATED) NOTES TO THE SCHEDULE ALLOCATING CAPITAL EXPENDITURES BY TERRITORY FOR THE 10-YEAR PERIOD APRIL 1, 1987 TO MARCH 31, 1997

1. Purpose of Schedule

The Nunavut Act comes into full force on April 1, 1999. On that date, Nunavut (the East) and the Government of Nunavut come into being. The Nunavut Act consequentially amends the Northwest Territories Act to redefine the Northwest Territories (the West) to exclude the geographic Nunavut territory as of April 1, 1999.

The creation of Nunavut will require the division of Government assets and liabilities between the East and the West. Section 73(1)(c) of the Nunavut Act, allows the Interim Commissioner, with the approval of the Governor in council, to enter into agreements with the Government of the Northwest Territories for the division of its assets and liabilities between Nunavut and the Northwest Territories.

A Northern Representatives Committee has been formed, bringing together representatives of the Government, the Office of the Interim Commissioner for Nunavut, Nunavut Tunngavik Incorporated and the Western Leaders Coalition. This Committee has been tasked to produce a report and make recommendations, which will form the basis for an agreement between the Government and the Office of the Interim Commissioner for Nunavut.

This schedule has been prepared for the Committee, and is one part of the information it plans to use to determine a methodology to split the assets and liabilities.

The capital expenditures included in this schedule are those reported in the unaudited non-consolidated public accounts for the 10-year period April 1, 1987 to March 31, 1997. Capital expenditures are recorded on an accrual basis. Whenever possible, the Government has allocated capital expenditures to the territory receiving the benefit.

2. Expenditure Category

Capital expenditures are allocated to the following expenditure categories using the government's internal definitions used for management purposes:

a) Corporate Expenditures

Corporate expenditures are for the headquarters and regional management structure of the government.

b) Territorial Expenditures
Territorial expenditures are for the delivery of programs and services to the public that are not specifically identifiable to either a community or a region. These expenditures provide benefits to the entire Northwest Territories. Examples include expenditures related to the Yellowknife Correctional Centre and Stanton Regional Hospital.

c) East / West Expenditures
Expenditures allocated to the East or West are for the delivery of programs and services that are specifically identifiable to a single community or region.

3. Territorial Expenditure Re-allocation
Territorial Expenditures are re-allocated to either the East or West for the purposes of this schedule. The assumptions made and estimates used to re-allocate these expenditures are as follows:

a) Territorial expenditures of $185,219,000 were reviewed again to, if possible, identify individual capital projects to either the East or West. This review resulted in territorial expenditures of $10,239,000 being specifically identifiable and re-allocated to the East, and $97,400,000 to the West.

b) The remaining territorial expenditures of $77,590,000 were, for the purposes of this schedule, re-allocated to the East, 46.889% and West, 53.111%, using the resulting percentage allocation of all identifiable East and West capital expenditures.

	Territorial	East	West
East / West expenditures		$ 717,418,000	$ 726,804,000
Territorial expenditures – identified as East or West on further review	$ 107,639,000	10,239,000	97,400,000
Total East / West identified expenditures		$ 727,657,000	$ 824,204,000
Percentage expenditures identified East or West		46.889%	53.111%
Territorial expenditures – allocated on above identified percentage	77,580,000	36,376,731	41,203,269
Total territorial expenditures allocated	$ 185,219,000	46,615,731	$ 138,603,269
Territorial expenditure allocation percentage		25.168%	74.832%

c) The resulting allocation of all territorial expenditures was 25.168% to the East and 74.832% to the West.

4. Corporate Expenditure Allocation
Given their nature, corporate expenditures could not be allocated meaningfully between the East and West for the purposes of this schedule.

Northwest Territories Development Corporation Subsidiaries, Balance Sheets

As at March 31, 1998 ($000s)

	Keewatin Fish & Meat	Kitikmeot Foods	Pang. Fisheries	Whale Cove	Ivalu	Jesse Oonark	Kiluk	Uqqurmiut	Taluq Designs	Nunavut Ventures	Total Total Nunavut
Assets											
Cash		4			7	4	4		4		**23**
Accounts Receivable	177	82	116		27	22	9	49	13		**495**
Inventory	83	113	218		129		19	126	71		**759**
Deposits and Prepaids	1		2				2				**5**
Reserves										88	**88**
Ventures										187	
Capital Investments											
	261	**199**	**336**	**-**	**163**	**26**	**34**	**175**	**88**	**275**	**1,557**
Liabilities											
Bank Loan	6		278					22	74		**380**
Accounts Payable	107	103	67		40	2	42	18	12		**391**
Deferred Subsidy											
	113	**103**	**345**	**-**	**40**	**2**	**42**	**40**	**86**	**-**	**771**
Equity											
Contributed Surplus											
Capital Contributions	1,954	2,620	3,792	353	243	2,139	85	465	388		**12,039**
Venture Contributions										1,631	
Deficit	**(1,806)**	**(2,524)**	**(3,801)**	**(353)**	**(120)**	**(2,115)**	**(9**				**(12,884)**
	148	**96**	**(9)**	**-**	**123**	**24**	**(8)**	**135**	**2**	**275**	**786**
	261	**199**	**336**	**-**	**163**	**26**	**34**	**175**	**88**	**275**	**1,557**

As at March 31, 1998 ($000s)

	Western Subsidiaries								Eastern Subsidiaries Territorial	
	Ft. McPh Tent & Canvas	Alavik & Tuk Furs	Acho Dene Crafts	Great Slave Forest	Northern Forest Products	Nahanni Butte Store	Rae Lakes Store	Total Western Ventures	Total Western Territory	Arctic Canada Trading
Assets										
Cash	7	65	17			45	5		**132**	87
Accounts Receivable	55	118	30	2		34	24		**208**	211
Inventory	153	220	121	731		99	321		**1,492**	1,105
Deposits and Prepaids		1		2					**3**	21
Capital Assets			4						4	186
Reserves							**187**	171	171	
Ventures										