



# Nunavut Liquor Commission ANNUAL REPORT, 2010-11



TABLED IN THE LEGISLATIVE ASSEMBLY  
BY THE HONOURABLE KEITH PETERSON, MLA  
MINISTER OF FINANCE



## LETTER OF TRANSMITTAL

The Honourable Edna Ekhivalak Elias  
Commissioner  
Government of Nunavut

Dear Madame,

I have the honour of presenting the Annual Report for the Nunavut Liquor Commission covering the period April 1, 2010 to March 31, 2011.

Respectfully submitted,



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Hon. Keith Peterson  
Minister of Finance  
Minister Responsible for Liquor



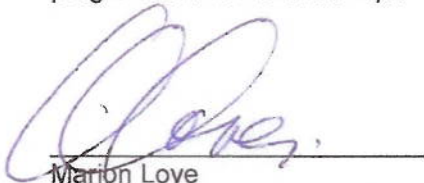
## LETTER TO THE MINISTER

The Honourable Keith Peterson  
Minister of Finance  
Minister Responsible for Liquor

Nunavut Liquor Commission 2010–11 Annual Report

Pursuant to Subsection 9(1) and 61(1) of the Liquor Act, we are pleased to submit the 2010 – 2011 Annual Report for the Nunavut Liquor Commission for the fiscal year ended March 31, 2011.

We wish to express our thanks to all our staff for all their support and contribution to the progress of the Nunavut Liquor Commission during this past year.



Marion Love  
Director, Nunavut Liquor Management



Chris D'Arcy  
Deputy Minister of Finance





# **Nunavut Liquor Commission 2010-11 Annual Report**

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# NUNAVUT LIQUOR COMMISSION

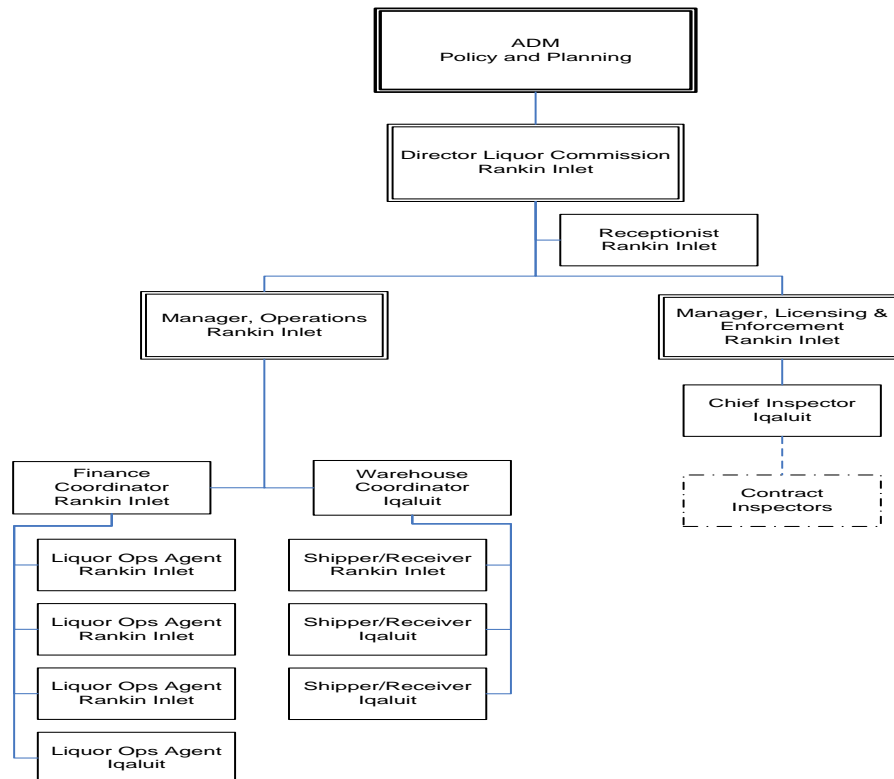
## ORGANIZATIONAL OVERVIEW

The Commission is charged with operating liquor stores, purchasing, selling, classifying and distributing alcohol beverage products in Nunavut, as well as administration of Part II of the Act. The Commission follows the reporting stipulations outlined in Part II of the Act and Part IX of the *Financial Administration Act*.

The Commission, in exercising its powers and performing its duties is bound by the Liquor Act to the direction of the Minister. The Commission is headed by a Director who reports to the Minister through the Assistant Deputy Minister of Policy and Planning, and Deputy Minister of Finance, as shown in the Organizational Structure Chart below. The Director oversees a staff of 13 employees, divided between Rankin Inlet and Iqaluit, along with liquor enforcement inspectors in Iqaluit and Rankin Inlet.

With its headquarters in Rankin Inlet, The Commission manages its retail and wholesale business through two distribution warehouses, one in Rankin Inlet and the other in Iqaluit. The Commission also oversees two permit agent offices on contract in Cambridge Bay and Kugluktuk, while providing Permitting services in-house in Rankin Inlet and Iqaluit. The Permit Agent Offices provide, for a fee, import permits to allow individuals to bring in liquor from outside Nunavut.

## ORGANIZATIONAL STRUCTURE



## LIQUOR RETAILING IN THE TERRITORY

Nunavut's geographical and infrastructure challenges make liquor retailing in the Territory unconventional in the Canadian context. With a total population of approximately 33,000 people, the major challenge for liquor retailing in Nunavut is the need to service a very limited market, connected only by air and limited seasonal sea access, and spread out over a fifth of Canada's land mass. Among the many characteristics that set Nunavut's liquor distribution system apart from other jurisdictions in Canada, is its central processing structure. The Commission currently does not operate any liquor stores and all liquor orders are processed through the Commission's headquarters in Rankin Inlet and distributed via air cargo from either of the Commission's warehouses. Licensed outlets are the exception, where their purchases are picked up at the closest Commission warehouse.

To take advantage of the Government of Nunavut's greater purchasing power, the Commission's entire liquor inventory is purchased on behalf of the Commission by the Department of Community and Government Services' (CGS) Procurement Division.

While every effort is made to maximize warehouse space and accommodate as much inventory as possible through sealift, capacity issues with the Iqaluit warehouse necessitate a small air cargo resupply each spring to supply license holders until the shipping season starts again in the summer.

As a matter of policy, the Procurement Division of CGS attempts to buy all products directly from breweries and distilleries. Due to small order volumes, some products are purchased through the Société des Alcools du Québec (SAQ) or the Liquor Control Board of Ontario (LCBO).

The Commission uses a flat rate per litre mark-up in the pricing of alcohol beverage products. An administration fee of \$0.27 per litre is also applied.

Current mark-ups per litre are as follows:

Spirits	\$ 26.11
Wine	\$ 7.96
Coolers	\$ 3.27
Beer	\$ 2.37

The Commission's necessary reliance on air cargo for the distribution of liquor orders means that liquor purchases in Nunavut are faced with logistical considerations and additional freight and marshalling costs not commonly experienced across Canada.

One logistical hurdle concerns the payments of liquor orders through the Commission. At the present time certified money instruments that include Money Orders, Northern Store money transfers and/or Cash Link Card, certified cheque, bank draft, or direct deposit to the Commission's bank account are all accepted as payment vehicles.

The Commission also accepts credit cards (VISA and MASTERCARD) for product payment, and residents of Iqaluit and Rankin Inlet are also able to use their debit cards for product payment. Once verified payment has been received, the Commission ensures the product order is picked, packaged, and delivered to the airlines for delivery to its destination.

Over and above the product price, there is an additional charge for handling and local cartage of \$10.00 (plus GST) per order, and a bottle deposit return fee. The shipment is then sent freight collect to the customer. Freight costs vary, depending on distance, community, and carrier used.

Flight schedule structures serving Nunavut impose a de facto waiting period on all liquor purchases in the Territory (Licensees and holders of Special Occasion Permits excepted). Iqaluit residents must purchase their alcohol from the Rankin Inlet warehouse and conversely Rankin Inlet residents must purchase their alcohol from Iqaluit. All other eligible residents of Nunavut may place their order at either facility. This measure ensures there are no direct sales of liquor to the public anywhere in Nunavut, except in licensed establishments.

## NUNAVUT LICENSING AND ENFORCEMENT

### LICENSING AND ENFORCEMENT ACTIVITY REPORT

All distribution of alcohol beverage products authorized by liquor licenses and special occasion liquor permits issued under the *Nunavut Liquor Act* (the Act) are subject to inspection by the Licensing and Enforcement branch of the Nunavut Liquor Commission (the Commission). These inspections, also known as spot checks, are to ensure adherence to the Act and Regulations. Conditions pertaining to fire risk, health and safety infractions, and the use of tobacco in and around premises licensed for the sale of liquor are also liable to inspection.

Inspections are carried out by trained contract personnel. Any infractions observed are brought to the attention of the Chief Inspector in Iqaluit, who reports to the Manager of Licensing and Enforcement at the Commission headquarters in Rankin Inlet.

Infractions are discussed with the Department of Justice and, where warranted, the licensee must attend a show cause hearing before the Nunavut Liquor Licensing Board, with the Department of Justice acting as prosecutor. Such hearings may result in the imposition of restrictions in accordance with the Act, and may result in the suspension of a license.

The Commission keeps a roster of four contract inspectors in Iqaluit and one inspector in Rankin Inlet.

The Commission spent \$23,850 on spot checks at a rate of \$30 per inspection. There were 795 total inspections for 2010-11.

Nunavummiut may also make a purchase through an import permit, which allows them a wider range of options for both selection and price. Should they choose to import their alcohol beverage product from outside the territory, individuals must purchase an import permit from one of the four permit agent offices in Cambridge Bay, Kugluktuk, Rankin Inlet or Iqaluit.

An import permit is required to import quantities greater than 1,140 ml of spirits or wine or 4,260ml of beer (twelve 355 ml containers). The current import permit fee structure is as follows:

Import Permit Fees	
Spirits	\$3.75 per litre
Wine	\$2.00 per litre
Coolers	\$0.59 per litre
Beer	\$0.56 per litre

In communities governed by an Alcohol Education Committee (AEC), individuals apply to their community's AEC to seek approval to bring beverage alcohol into the community. The AEC may place restrictions on the purchase or even deny the application (see Table 1 for liquor restriction systems and Table 2 for community system breakdown). Once an individual has obtained permission from the community AEC an order may be placed or a permit purchased.

One final aspect of liquor retailing in Nunavut is the Commission's effort at encouraging recycling in the Territory through container deposits. The Commission places a container deposit on all liquor purchases made, whether bottle, can, or other, and is prepared to accept returned empty liquor containers at any established recycling centre. A container return centre only exists in Iqaluit. The Commission charges \$0.29 for bottles and \$0.14 per can and gives back \$0.25 per bottle and \$0.10 per can.

<b>Table 1. Nunavut's Liquor Restriction Systems</b>	
<p>The <i>Liquor Act</i> provides Nunavummiut with a ranked liquor restriction structure based on four systems, ranging from standard access to total exclusion. Communities choose their appropriate system by plebiscite. Described under section 48.2 of the Act these systems are:</p>	
<ol style="list-style-type: none"> <li>1. An unrestricted system in which the community is subject only to the general liquor laws of Nunavut;</li> <li>2. A restricted quantities system in which, in addition to the general liquor laws, the quantity of liquor that a person may purchase is limited;</li> <li>3. A committee system, in which a locally elected alcohol education committee decides: <ul style="list-style-type: none"> <li>• who may consume, possess, purchase or transport liquor in the settlement, municipality or area,</li> <li>• who may import liquor into the settlement, municipality or area under the Act,</li> <li>• the amount of liquor that a person may possess, purchase, transport or import in the settlement, municipality or area,</li> <li>• who may apply for a wine permit in the settlement, municipality or area and the amount of wine that a person may apply to make, and</li> <li>• who may brew beer for personal or family consumption in the settlement, municipality or area and the amount of beer that a person may brew;</li> </ul> </li> <li>4. A prohibition system, which prohibits the consumption, possession, purchase, sale or transport of liquor within the settlement, municipality or area.</li> </ol>	

<b>Table 2. Breakdown of communities by their chosen systems:</b>		
<b>Unrestricted System</b>	<b>Committee System</b>	<b>Prohibition System</b>
Cambridge Bay	Arctic Bay	Arviat
Grise Fiord	Baker Lake	Coral Harbour
Iqaluit	Cape Dorset	Gjoa Haven
Rankin Inlet	Chesterfield Inlet	Kimmirut
Taloyoak	Clyde River	Kugaaruk
	Hall Beach	Pangnirtung
	Igloolik	Sanikiluaq
	Kugluktuk	
	Pond Inlet	
	Qikiqtarjuag	
	Repulse Bay	
	Resolute Bay	
	Whale Cove	

## MANAGEMENT DISCUSSION AND ANALYSIS & UNAUDITED SCHEDULES

Fiscal 2010-11 was the Commission's sixth full year of operations, since taking over responsibility for the public agency from the Government of the Northwest Territories in October of 2004. The Commission's functions had been managed by the NWT Liquor Commission under a service agreement since 1999.

Overall, the Commission sold 637,884 liters of alcohol, in Nunavut worth \$5,811,463. Below is a chart illustrating a breakdown of the Commission sales by category of alcohol.

	2010-11		2009-10		Change vs 2009-10	
	Litres	\$000s	Litres	\$000s	Litres	\$000s
<b>Spirits</b>	47,240	1,876	41,671	1,577	5,569	299
<b>Wine</b>	31,466	517	27,049	414	4,417	103
<b>Cooler</b>	12,990	108	10,002	79	2,988	30
<b>Beer</b>	546,188	3,310	516,609	3,029	29,579	281
<b>Total</b>	637,884	5,811	595,331	5,099	42,553	713

Warehouse Sales (L)	Iqaluit		Rankin Inlet		Total		Change
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	
<b>Spirits</b>	32,521	30,307	14,719	11,364	47,240	41,671	5,569
<b>Wine</b>	24,211	22,083	7,255	4,966	31,466	27,049	4,417
<b>Cooler</b>	9,676	7,230	3,314	2,772	12,990	10,002	2,988
<b>Beer</b>	487,866	462,964	58,322	53,645	546,188	516,609	29,579
<b>Total</b>	554,274	522,584	83,610	72,747	637,884	595,331	42,533

Warehouse Sales (\$'s)	Iqaluit		Rankin Inlet		Total		Change
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
<b>Spirits</b>	1,294	1,154	582	423	1,876	1,577	299
<b>Wine</b>	403	340	114	74	517	414	103
<b>Cooler</b>	80	57	28	22	108	79	29
<b>Beer</b>	2,965	2,716	345	313	3,310	3,029	281
<b>Total</b>	4,742	4,267	1069	832	5,811	5,099	712

<sup>1</sup> Revenues do not include bottle deposits, handling fees, administrative fees and sales shipped directly from supplier to customer.

<b>Table 6: Permits &amp; License Fees</b>			
	<b>2010-11</b>	<b>2009-10</b>	<b>Change</b>
	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>
<b>Import Fees</b>	587	627	(40)
<b>License &amp; SOP</b>	11	6 <sup>2</sup>	22
<b>Total</b>	598	633	(18)

Import Permits, Licensee Fees, Licenses, and Special Occasion Permits generated a total of \$598,397 in revenue. This is broken out by \$586,860 in Import Permit Fees and \$11,537 in Licensee Fees, License Renewal Fees and Special Occasion Permits.

Warehouse capacity in Iqaluit is consistently insufficient requiring a costly annual spring airlift resupply. While a new, expanded, facility would be one solution to the problem, such a capital expenditure must fit with the Government of Nunavut's overall capital expenditure planning process, imposing by consequence a long term approach to the problem.

Examples of the types of operational areas currently being developed by Commission staff are: finding soft ways to increase warehousing capacity, through better layouts and shipping methods, determining suitable purchasing procedures for the Commission's inventory, and moderate the impact of air freight charges. Addressing these types of issues is feasible in the short term as they represent the kind of obstacles normally encountered in the establishment of enterprise.

Gross sales grew, with an increase of \$734,075<sup>3</sup> or 13.3% between 2009-2010 and 2010-2011, the Gross Margin increased by \$371,893 or 12.5%, and the Net Income increased by \$164,763 or 15%.

The sealift order which is placed during the winter for the following spring sealift is calculated based on current inventory levels, prior year sealift received, historical sales, projected sales for following year and input from individual customers and licensees. In addition, the capacity of the warehouses in Rankin Inlet and Iqaluit is also a factor in the estimated order.

### **The 2010-11 Unqualified Audit**

The Commission has received an unqualified audit for this fiscal year which is in contrast to the qualified audited financial statement received from the Office of the Auditor General in the previous fiscal year (2009-10).

As a result of the work performed in undertaking the financial audit of the Commission, the Office of the Auditor General (OAG) issued a modified auditor's report for the year ending March 31, 2010. The auditor's report contains a disclaimer of opinion.

The rationale for this disclaimer of opinion was due to the multiple uncertainties that remained outstanding after the audit work had been completed. Specifically, three areas of weakness were identified. These were the bank reconciliation, sales revenue reconciliations, and proper documentation to support the amounts for purchases. As such, the OAG was not in a position

<sup>2</sup> An administrative fee on Licensee orders was incorrectly represented as a License Revenue in 2009-10 fiscal year. Figures presented are consistent with the audited financials. See p. 5, Table 3 of this report.

<sup>3</sup> Gross Sales do not include the revenue generated from Licenses, fees and permits. See also, footnote #2.

to form an opinion on the 31 March 2010 financial statements of the Commission due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements

As a result of the disclaimer of opinion offered by the OAG, senior management at the Department of Finance stepped in to address the situation. A professional accountant was contracted to work with the Commission to address the deficiencies identified in the Auditor's report. The professional accountant started work in February 2012, at the Commission offices in Rankin Inlet, soon after it was determined that the OAG would be issuing a disclaimer of opinion. The professional accountant was tasked with the following:

- Complete or assist with account reconciliations, including the bank and various sub-ledger accounts, and provide correcting entries;
- Ensure that previous audit adjustments have been entered into the financial system;
- Review and update the internal controls, policies and procedures, with special attention to month end and year end processes and procedures, as required and in consultation with the Department of Finance;
- Review the manual systems in place for the tracking of gross margins, valuation of inventory, and cash management, and others, and identify which of these systems can be discontinued with the proper utilization of the upgraded AccPac software;
- Review and monitor the transition from AccPac 5.3 to 6.0, and assist with the setup of all applicable modules software to its best potential while reducing or eliminating reliance on manual systems;
- Ensure that that proper accounting treatment is being used for GST, liquor import permits, bottle deposits, inventory, and reconciliation issues between FreeBalance, AccPac and Caseware; and
- Document the results of assistance provided using the appropriate or prescribed formats, and provide timely suggestions for improvements in process or format where warranted.

As of the writing of this report, all of the work required to address the deficiencies for the 2009-10 fiscal year has been completed.

# **NUNAVUT LIQUOR COMMISSION**

Rankin Inlet, NU

## **CONSOLIDATED FINANCIAL STATEMENTS**

For the Year Ended March 31, 2011



# **NUNAVUT LIQUOR COMMISSION**

## **CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2011

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## MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The management of the Nunavut Liquor Commission (NLC) is responsible for the integrity and objectivity of the consolidated financial statements and related note disclosures. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and, consequently, include some amounts which are based on the best estimates and judgment of management.

In carrying out its responsibilities, management is responsible for the operation of financial systems and related internal controls to provide reasonable assurance that financial information presented by the management of NLC is reliable, assets are safeguarded, transactions are properly authorized, resources are managed efficiently and economically, and operations are carried out effectively in the attainment of corporate objectives, and that transactions are in accordance with the *Liquor Act* and the *Financial Administration Act* of Nunavut.

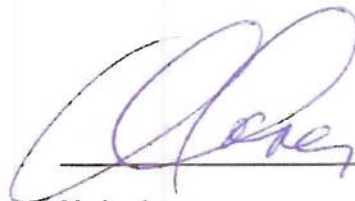
It has come to our attention that during the fiscal year 2009-10, the NLC experienced weaknesses in financial controls and, as a result, was unable to ascertain the completeness of financial information. In response to this situation, we (the financial statement signatories) established a process to review the NLC's Financial Management Framework to ensure that NLC strengthened its financial management.

MacKay Landau are the auditors for NLC's fiscal year 2010-11. Our auditors have full access to the NLC, and meet periodically with us, to discuss the audit and related matters.



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Chris D'Arcy  
Deputy Minister  
Department of Finance



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Marion Love  
Director  
Nunavut Liquor Management

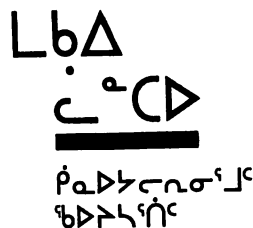
May 29, 2013

**MacKay  
Landau**  

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**Chartered  
Accountants**

P.O. Box 20  
Iqaluit, Nunavut  
X0A 0H0  
Telephone (867) 979-6603  
Fax (867) 979-6493  
www.mackaylandau.ca



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ᐃᑎᑎᑎᑎᑎᑎᑎᑎ  
X0A 0H0  
ᑎᑎᑎᑎᑎ (867) 979-6603  
ᑎᑎᑎᑎᑎᑎ (867) 979-6493  
www.mackaylandau.ca

**INDEPENDENT AUDITORS' REPORT**

To the Minister of Finance of the Government of Nunavut

We have audited the accompanying consolidated financial statements of the Nunavut Liquor Commission, which comprise the consolidated balance sheet as at March 31, 2011 and the consolidated statements of operations and comprehensive income, amount due to the Government of Nunavut, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Nunavut Liquor Commission as at March 31, 2011 and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**Other Matter**

The consolidated financial statements of the Nunavut Liquor Commission as at and for the year ended March 31, 2010 were reported on by the Auditor General of Canada with a disclaimer of opinion dated March 16, 2012.

**Report on Other Legal and Regulatory Requirements**

As required by the *Financial Administration Act* of Nunavut we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

We further report in accordance with Part IX of the *Financial Administration Act* of Nunavut and regulations, the *Liquor Act* of Nunavut and regulations, and the by-laws of the Nunavut Liquor Commission that, in our opinion, proper books of account have been kept by the Nunavut Liquor Commission, the consolidated financial statements are in agreement therewith and the transactions that have come under our notice have, in all significant respects, been within the statutory powers of the Nunavut Liquor Commission, except as disclosed below.

Under section 100(1) of the *Financial Administration Act* of Nunavut, the Nunavut Liquor Commission is required to submit its annual report to the appropriate Minister no later than 90 days after the end of its financial year or an additional period, not exceeding 60 days, that the Minister of Finance may allow. The Nunavut Liquor Commission did not meet its statutory deadline for submitting its annual report.



Iqaluit, Nunavut  
May 29, 2013

CHARTERED ACCOUNTANTS

# NUNAVUT LIQUOR COMMISSION

## CONSOLIDATED BALANCE SHEET

As at March 31, 2011 2010

### ASSETS

#### Current Assets

Cash	\$ 550	\$ 550
Accounts receivable	17,811	111,949
Inventories (note 4)	1,685,933	1,705,191

#### Property and Equipment (note 5)

	1,704,294	1,817,690
	38,507	50,155

**\$ 1,742,801      \$ 1,867,845**

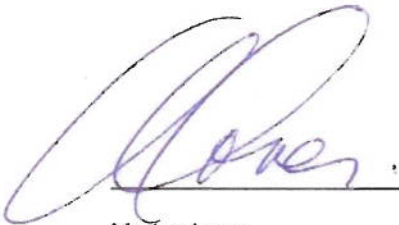
### LIABILITIES

#### Current Liabilities

Accounts payable and accrued liabilities	\$ 710,116	\$ 910,706
Employee future benefits (note 6)	38,904	46,012
Bottle deposit outstanding	26,175	29,848
Deferred revenue	52,882	32,296
Due to Government of Nunavut	914,724	848,983

**\$ 1,742,801      \$ 1,867,845**

#### Commitments (note 7)



Marion Love  
Director  
Nunavut Liquor Management



Chris D'Arcy  
Deputy Minister of Finance  
Department of Finance

The accompanying notes and schedules are an integral part of these consolidated financial statements. 4

# NUNAVUT LIQUOR COMMISSION

## CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31,	2011	2010
<b>Sales</b>	\$ 6,268,725	\$ 5,534,650
<b>Cost of Sales</b>	2,919,088	2,556,906
<b>Gross Margin</b>	3,349,637	2,977,744
<b>Other Income</b>		
Import fees	586,860	627,318
Licence, fees and permits	203,090	180,872
	4,139,587	3,785,934
<b>Expenses</b>		
Salaries and benefits	1,692,975	1,480,469
Rent	401,516	401,516
Bottle deposits refund	231,393	225,931
Travel	27,530	137,281
Contractor fees	99,270	93,540
Utilities	69,095	73,727
Professional fees	60,000	63,030
Office	89,911	40,289
Bank charges and interest	72,303	44,848
Repairs and maintenance	71,629	43,601
Communication	39,014	36,698
Plebiscite expenses	13,367	40,326
Amortization	11,648	12,582
Bad debt provision	-	( 3,077)
	2,879,651	2,690,761
<b>Net Income and Comprehensive Income</b>	\$ 1,259,936	\$ 1,095,173

The accompanying notes and schedules are an integral part of these consolidated financial statements. 5

# **NUNAVUT LIQUOR COMMISSION**

## **CONSOLIDATED STATEMENT OF AMOUNT DUE TO THE GOVERNMENT OF NUNAVUT**

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<b>For the year ended March 31,</b>	<b>2011</b>	<b>2010</b>
Balance, beginning of year	\$ 848,983	\$ 201,394
Net income for the year	1,259,936	1,095,173
Net transfer of funds to the Government of Nunavut	( 1,194,195)	( 447,584)
	<b>\$ 914,724</b>	<b>\$ 848,983</b>

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# NUNAVUT LIQUOR COMMISSION

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31,	2011	2010
<b>Cash Flows from Operating Activities</b>		
Cash receipts from customers	\$ 7,173,399	\$ 6,278,773
Cash paid to suppliers and employees	( 5,979,204)	( 5,821,532)
Cash transferred to the Government of Nunavut(Net)	( 1,194,195)	( 447,584)
<b>Cash Provided by Operating Activities</b>	-	9,657
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	-	( 9,657)
<b>Cash Used in Investing Activities</b>	-	( 9,657)
<b>Net Increase / (Decrease) in Cash</b>	-	-
<b>Cash, beginning of year</b>	550	550
<b>Cash, end of year</b>	\$ 550	\$ 550

The accompanying notes and schedules are an integral part of these consolidated financial statements. 7



# NUNAVUT LIQUOR COMMISSION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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March 31, 2011

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### 1. Authority and Operations

The Nunavut Liquor Commission (NLC) - The Commission is established under Part II of the *Liquor Act (Nunavut)*.

The Commission is responsible for the operation of the liquor warehouses and the purchase and sale of liquor in Nunavut through the Liquor Revolving Fund of the Government of Nunavut. The Commission is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding \$6,500,000 to finance its operations. The NLC did not request any working capital advances for the 2010 - 2011 fiscal year, as the Government of Nunavut currently covers all of the expenses of the Nunavut Liquor Commission.

The Nunavut Liquor Enforcement and Inspections Division is responsible for ensuring that all distribution of liquor products is authorized by liquor licences and special occasion liquor permits issued under the *Liquor Act (Nunavut)*.

The Commission, in addition to its regular responsibilities, manages, directs and provides financial services to, and on behalf of, the Nunavut Liquor Enforcement and Inspections Division. As such, the Commission controls the aforementioned group. As a result of this control, the Nunavut Liquor Enforcement and Inspections Division is consolidated into the Nunavut Liquor Commission in preparing these consolidated financial statements. In addition, there are no related party transactions, except with the Government of Nunavut.

The attached Schedules of Income and Expenses segregate the financial results of the operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division on a stand-alone basis.

### 2. Significant Accounting Policies

#### (a) Consolidated Financial Statements

NLC's accounting policies are guided by the Canadian Institute of Chartered Accountants' Handbook. As such, the consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

#### (b) Basis of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division, over which the Nunavut Liquor Commission exhibits control by managing and directing the Nunavut Liquor Enforcement and Inspections Division. There were no inter-entity balances and transactions which had to be eliminated in determining the consolidated figures.

# NUNAVUT LIQUOR COMMISSION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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March 31, 2011

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### 2. Significant Accounting Policies (Continued)

(c) Measurement Uncertainty

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires the use of estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. By their nature, these estimates are subject to measurement uncertainty. The effect on the consolidated financial statements of changes to such estimates and assumptions in future periods could be significant, although, at the time of preparation of these consolidated financial statements, management believes the estimates and assumptions to be reasonable. Significant management estimates include the liability for bottle deposit outstanding, services received without charge, the provision for employee future benefits and the useful lives of equipment.

(d) Cash

A small cash float is maintained by NLC. All sales and other cash receipts of NLC are deposited to the Government of Nunavut Consolidated Revenue Fund while all expenses of NLC are paid directly by the Government of Nunavut through the Consolidated Revenue Fund.

(e) Inventories

Inventories consist of alcohol products valued at the lower of cost or net realizable value on a weighted average basis.

(f) Accounts Receivable

Accounts receivable are valued at the lower of cost and net recoverable value. Valuation allowances, if necessary, are recorded based on all circumstances in existence at the balance sheet date that are known at the date these consolidated financial statements are prepared.

(g) Property and Equipment

Equipment is initially recorded at cost, and is subsequently amortized to expense. Amortization expense is recognized on a declining balance basis over the estimated useful life of the assets. In the year of purchase, amortization is applied at half the normal rate. The rates are as follows:

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Computer hardware	30%
Computer software	100%
Furniture and equipment	20%

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# NUNAVUT LIQUOR COMMISSION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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March 31, 2011

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### 2. Significant Accounting Policies (Continued)

(h) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are recorded as incurred. Annual, in lieu and optional leave liabilities have been included in accrued liabilities.

(i) Bottle Deposit Liability

The bottle deposit liability is estimated based on the last three months of sales, to allow time for licencees and clients to return recyclables for refund.

(j) Deferred Revenue

Revenues received in advance of goods being provided or services being performed are deferred. The amount is subsequently taken into income when the related goods are provided, or services are performed.

(k) Employee Future Benefits

Non-pension Benefits

Under the conditions of employment, eligible employees may earn non-pension benefits for severance, retirement and removal based on years of service. The benefits are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is recognized as employees render service and has been determined based on management's assumptions and best estimates. The NLC provides severance, retirement and removal benefits to eligible employees based on years of service, final salary and community of residence.

Pension Benefits

Eligible employees of the NLC participate in the Public Service Pension Plan administered by the Government of Canada. The employees and NLC contribute to the cost of the Plan. The NLC's contributions to the Plan reflect the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan. The NLC contributed at a rate of 1.94 times the employee's contribution for the calendar year of 2011 (1.94 times for the calendar year of 2010). These contributions are charged to expenditures on a current year basis, and represent the total pension obligation of the NLC. NLC is not obligated under present legislation to make contributions to actuarial deficiencies of the Public Service Pension Plan.

# NUNAVUT LIQUOR COMMISSION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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March 31, 2011

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### 2. Significant Accounting Policies (Continued)

(l) Revenue Recognition

Revenue from sales of liquor and import fees are recorded when the customer places their order, it has been paid in full and the products have been shipped.

Revenue from licence fees and permits are recognized on a straight-line basis over the term of the licence. Licences do not exceed one year.

(m) Expenses

Expenses are recorded on an accrual basis. These expenses are paid directly by the Government of Nunavut through the Consolidated Revenue Fund.

(n) Services Provided Without Charge

Audit services by the Auditor General of Canada are provided without charge to the NLC. No amount has been recognized in these financial statements in respect to the services provided.

(o) Financial Instruments

The NLC has elected the following Balance Sheet classifications with respect to its financial assets and financial liabilities:

- Cash is classified as "assets held-for-trading" and are initially measured at fair value.
- Accounts receivable are classified as "loans and receivables" and are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities and due to the Government of Nunavut are classified as "other financial liabilities" and are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

The NLC has no financial instruments which have significant terms and conditions which may affect amount, timing and the certainty of future cash flows.

The NLC has no assets pledged.

The estimated fair values of these financial instruments are approximated by their carrying amounts due to the relatively short period to maturity of these instruments.

# NUNAVUT LIQUOR COMMISSION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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March 31, 2011

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### 2. Significant Accounting Policies (Continued)

(p) Due to the Government of Nunavut

The *Liquor Act (Nunavut)* requires the NLC to present the amount owing to the Government of Nunavut. This is calculated by summing the following amounts: The Balance owing at the end of the prior year, the Net Income earned during the year less the net funds transferred to the Government of Nunavut during the year. The ending balance is normally carried forward to be funded from future year's net and comprehensive income.

This balance is a non-interest bearing liability.

(q) Comprehensive Income

Comprehensive income is composed of the NLC's net income and other comprehensive income, and requires certain unrealized gains and losses resulting from changes in fair value of certain financial instruments, that would otherwise be recorded as part of net income, to be presented in other comprehensive income until such a time as it is considered appropriate for them to be recognized in net income. The NLC has no transactions resulting in other comprehensive income.

### 3. Future Accounting Changes

The CICA issued new accounting standards which will be in effect for NLC's 2011-12 fiscal year.

*Public Sector Accounting (PSA)* – In December 2009, the *Public Sector Accounting Board (PSAB)* issued an amendment to the Introduction to Public Sector Accounting Standards of the PSA Handbook. This amendment eliminated the Government Business Type Organizations (GBTO) classification and entities currently classified as GBTO are required to re-assess their classification.

Under the revised introduction, the NLC is classified as an Other Government Organization (OGO). As a OGO, NLC has determined the most appropriate basis of accounting to meet the needs of the users of its financial statements to be the standards issued by the *Public Sector Accounting Board*. NLC will adopt the standards issued by the *Public Sector Accounting Board* for its fiscal year beginning April 1, 2011. NLC is currently evaluating the impact of the adoption of these standards.

# NUNAVUT LIQUOR COMMISSION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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March 31, 2011

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**4. Inventories**

	2011	2010
Spirits	\$ 538,050	\$ 552,056
Wine	324,211	236,389
Beer	789,128	869,258
Coolers and ciders	34,544	47,488
	\$ 1,685,933	\$ 1,705,191

**5. Property and Equipment**

	2011		2010	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	\$ 39,336	\$ 31,490	\$ 7,846	\$ 11,829
Computer software	50,777	50,777	-	-
Furniture and equipment	97,638	66,977	30,661	38,326
	\$ 187,751	\$ 149,244	\$ 38,507	\$ 50,155

# NUNAVUT LIQUOR COMMISSION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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March 31, 2011

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### 6. Employee Future Benefits

#### Non-pension Benefits

NLC provides non-pension benefits to its employees for severance and removal costs. No employees at the current time meet the criteria for severance and removal costs.

#### Pension Plan

NLC and all eligible employees contribute to the Public Service Pension Plan (PSPP). This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. Contributions during the year were as follows:

	2011	2010
Employer's contributions	\$ 128,236	\$ 116,408
Employees' contributions	\$ 66,650	\$ 60,746

The Employee Future Benefits accrued by the NLC for the current year relate to accrued leave benefits.

### 7. Commitments

There is a ten year lease effective April 1, 2004, expiring April 1, 2014, for warehouse and office premises in Rankin Inlet. A five year lease agreement, effective April 1, 2007, and expiring April 1, 2012, for the liquor warehouse in Iqaluit valued at \$120,000 per year is also in place. The minimum annual lease payments (which do not include any amount relating to the lease commitment for the liquor warehouse in Iqaluit, as per note 8) are as follows:

Fiscal year ending March 31	Total
2012	\$ 281,516
2013	281,516
2014	71,000
	<b>\$ 634,032</b>

# NUNAVUT LIQUOR COMMISSION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

### 8. Related Party Transactions

The NLC is related in terms of common ownership to all of the Government of Nunavut created departments, agencies and Crown corporations. The NLC enters into transactions with these entities in the normal course of business at normal trade terms. All sums collected by the NLC are deposited directly into a Government bank account, and the Government of Nunavut pays for all of the expenses of the NLC. Expenses include the following services provided by the Government of Nunavut at cost and Qulliq Energy Corporation at normal trade terms, during the normal course of business:

	2011	2010
Government of Nunavut:		
Communications	\$ 34,862	\$ 32,362
Property taxes	26,919	26,508
Purchase of property and equipment	-	9,657
Rent (note 7)	120,000	120,000
Repairs and maintenance	56,924	42,108
Qulliq Energy Corporation		
Utilities (electricity)	10,288	11,636
	<b>\$ 248,993</b>	<b>\$ 242,271</b>

### 9. Capital Management

NLC's capital is cash, it has no Contributed Equity. NLC is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding \$6,500,000 to finance its operations. The NLC did not request any working capital advanced for the 2010-11 fiscal year.

All revenues collected by the NLC are deposited into a bank account controlled by the Government of Nunavut. As the Government of Nunavut controls all cash deposited by the NLC, the Government of Nunavut pays for all the expenses of the NLC.



# **NUNAVUT LIQUOR COMMISSION**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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March 31, 2011

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### **10. Financial Instruments and Risk Management**

**Fair Value** - The fair values of accounts receivable, inventory, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity dates. It is not practicable to estimate the fair values of amount Due to Government of Nunavut as a result of the non-arm's length nature of the instruments.

**Credit Risk** - Credit risk refers to the potential that a customer or counter party to a financial instrument will fail to discharge its contractual obligations, and arises principally from the NLC's receivables from customers. NLC has minimum exposure to credit risk from customers as collection is made prior to sales. Where necessary, the NLC performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade and other accounts receivable in order to mitigate any possible credit losses.

**Interest Rate Risk** - Interest rate risk is the risk that the fair values of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The NLC is not exposed to interest rate risk; because, the NLC has no investments or debt.

**Liquidity Risk** - Liquidity risk is the risk that the NLC will not be able to meet its financial obligations as they fall due. The NLC is not exposed to liquidity risk; because, the Government of Nunavut pays for all the expenses of the NLC.

**Foreign Currency Risk** - The NLC is not exposed to risk arising from fluctuation in foreign exchange rates since it enters into sales and purchase transactions denominated in Canadian currency.

Unless otherwise noted, it is management's opinion that NLC is not exposed to other significant interest, currency or credit risks arising from these financial instruments.

### **11. Comparative Figures**

Certain figures presented for comparative purposes have been reclassified to conform with the current year's presentation. Prior year's figures were audited by the Auditor General of Canada.

# NUNAVUT LIQUOR COMMISSION

## SCHEDULE OF INCOME AND EXPENSES - NUNAVUT LIQUOR COMMISSION

For the year ended March 31,	2011	2010
<b>Sales</b>	\$ 6,268,725	\$ 5,534,650
<b>Cost of Sales</b>	2,919,088	2,556,906
<b>Gross Margin</b>	3,349,637	2,977,744
<b>Other Income</b>		
Import fees	-	-
Licence, fees and permits	191,553	175,044
	<b>3,541,190</b>	<b>3,152,788</b>
<b>Expenses</b>		
Salaries and benefits	1,327,123	1,159,895
Rent	401,516	401,516
Bottle deposits refund	231,393	225,931
Utilities	69,095	73,727
Professional fees	60,000	63,030
Repairs and maintenance	71,629	43,601
Bank charges and interest	69,351	42,395
Office	64,399	35,205
Travel	22,657	36,996
Communication	35,633	32,785
Amortization	11,648	12,582
Bad debt provision	-	( 3,077)
	<b>2,364,444</b>	<b>2,124,586</b>
<b>Net Income and Comprehensive Income</b>	<b>\$ 1,176,746</b>	<b>\$ 1,028,202</b>

**NUNAVUT LIQUOR COMMISSION**  
**SCHEDULE OF INCOME AND EXPENSES - NUNAVUT LIQUOR ENFORCEMENT**  
**AND INSPECTIONS DIVISION**

For the year ended March 31,	2011	2010
<b>Sales</b>	\$ -	\$ -
<b>Cost of Sales</b>	-	-
<b>Gross Margin</b>	-	-
<b>Other Income</b>		
Import fees	586,860	627,318
Licence, fees and permits	11,537	5,828
	<b>598,397</b>	<b>633,146</b>
<b>Expenses</b>		
Salaries and benefits	365,852	320,574
Travel	4,873	100,285
Contractor fees	99,270	93,540
Plebiscites expenses	13,367	40,326
Office	25,512	5,084
Communication	3,381	3,913
Bank charges and interest	2,952	2,453
	<b>515,207</b>	<b>566,175</b>
<b>Net Income and Comprehensive Income</b>	<b>\$ 83,190</b>	<b>\$ 66,971</b>