



Nunavut Liquor Commission ANNUAL REPORT, 2011-12



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, 2011 to March 31, 2012.

Respectfully submitted,



Hon. Keith Peterson
Minister of Finance
Minister Responsible for Liquor

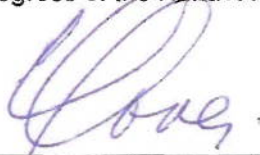
LETTER TO THE MINISTER

The Honourable Keith Peterson
Minister of Finance
Minister Responsible for Liquor

Nunavut Liquor Commission 2011– 12 Annual Report

Pursuant to Subsection 9(1) and 61(1) of the Liquor Act, we are pleased to submit the 2011 – 2012 Annual Report for the Nunavut Liquor Commission for the fiscal year ended March 31, 2012.

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 2011-12 Annual Report

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NUNAVUT LIQUOR COMMISSION

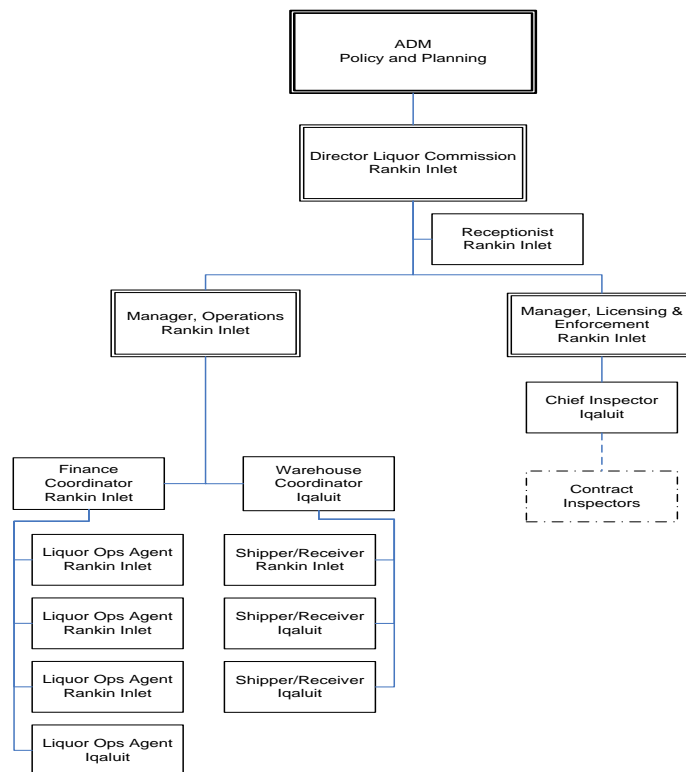
ORGANIZATIONAL OVERVIEW

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, including the Manager of Licensing and Liquor Enforcement and 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 three contract inspectors in Iqaluit and one inspector in Rankin Inlet. Regularly scheduled inspections were carried out with more focus on the busier evenings through the week and weekend.

The Commission spent \$21,270 on spot checks at a rate of \$30 per inspection. There were 709 total inspections for 2011-12.

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:

Table 1: Fee Structure	
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.

Table 1. Nunavut's Liquor Restriction Systems

The *Liquor Act* 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:

1. An unrestricted system in which the community is subject only to the general liquor laws of Nunavut;
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;
3. A committee system, in which a locally elected alcohol education committee decides:
 - who may consume, possess, purchase or transport liquor in the settlement, municipality or area,
 - who may import liquor into the settlement, municipality or area under the Act,
 - the amount of liquor that a person may possess, purchase, transport or import in the settlement, municipality or area,
 - 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
 - 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;
4. A prohibition system, which prohibits the consumption, possession, purchase, sale or transport of liquor within the settlement, municipality or area.

Table 2. Breakdown Of Communities By Their Chosen Systems:

Unrestricted	Committee	Prohibited
Cambridge Bay	Arctic Bay	Arviat
Grise Fiord	Baker Lake	Coral Harbour
Iqaluit	Cape Dorset	Gjoa Haven
Rankin Inlet	Chesterfield Inlet	Kimmirut ¹
Taloyoak	Clyde River	Kugaaruk
	Hall Beach	Pangnirtung
	Igloolik	Sanikiluaq
	Kugluktuk	
	Pond Inlet	
	Qikiqtarjuaq	
	Repulse Bay	
	Resolute Bay	
	Whale Cove	

¹ Changed to a committee system with 67% on February 27, 2012 plebiscite vote

MANAGEMENT DISCUSSION AND ANALYSIS & UNAUDITED SCHEDULES

Fiscal 2011-12 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 641,789 liters of alcohol, in Nunavut worth \$5,826,897. Table 3 illustrates the breakdown of the Commission sales by category of alcohol.

	2011-12		2010-11		Change vs 2010-11	
	Litres	\$000s	Litres	\$000s	Litres	\$000s
	Spirits	44,976	1,784	47,240	1,876	-2,264
Wine	34,945	580	31,466	517	3,479	63
Cooler	11,549	95	12,990	108	-1,441	-13
Beer	550,319	3,368	546,188	3,310	4,131	58
Total	641,789	5,827	637,884	5,811	3,905	16

	Iqaluit		Rankin Inlet		Total		Change
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	
	Spirits	28,974	32,521	16,002	14,719	44,976	
Wine	25,589	24,211	9,356	7,255	34,945	31,466	3,479
Cooler	8,966	9,676	2,583	3,314	11,549	12,990	-1,441
Beer	490,272	487,866	60,047	58,322	550,319	546,188	4,131
Total	553,801	554,274	87,988	83,610	641,789	637,884	3,905

	Iqaluit		Rankin Inlet		Total		Change
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	
Spirits	1,151	1,294	633	582	1,784	1,876	-92
Wine	430	403	150	114	580	517	63
Cooler	73	80	22	28	95	108	-13
Beer	3,014	2,965	354	345	3,368	3,310	58
Total	4,668	4,742	1,159	1069	5,827	5,811	-16

Import Permits, Licensee Fees, Licenses, and Special Occasion Permits generated a total of \$755,918 in revenue. This is broken out by \$703,637 in Import Permit Fees and \$52,281 in Licensee Fees, License Renewal Fees and Special Occasion Permits.

Table 6: Permit License Fees			
	2011-12	2010-11	Change
	\$000's	\$000's	\$000's
Import Fees	704	586	118
License & SOP	52	12	40
Total	756	598	158

Warehouse capacity in Iqaluit is consistently insufficient requiring a costly annual spring airlift resupply. Additional space will be needed in future fiscal years to negate such expenditures.

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 \$12,946 or 0.2% between 2010-2011 and 2011-2012, the Gross Margin increased by \$60,330 or 1.70%, and the Consolidated Net Income increased by \$26,527 or 2.1%; Commission Net Income; \$(237,137) or -20.2%.

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.

New Accounting Standards

On April 1, 2011 the Commission adopted the new accounting standards for federal, all provincial and territorial jurisdictions and First Nations governing bodies as defined by the Canadian Institute of Chartered Accountants (CICA). This standard is referred to as the Public Sector Accounting Standards (PSAS) replacing the Generally Accepted Accounting Standards (GAAP). Changes to the format, presentation, terminology and notes are the most significant difference between the two standards.

The PSAS standards will standardize how financial information from all jurisdictions is presented, making it easier to compare financial information.

NUNAVUT LIQUOR COMMISSION

Rankin Inlet, NU

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2012

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

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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 Public Sector Accounting Standards 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.

The external auditors, Mackay Landau, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full and free access to financial management of NLC and meet when required.



Chris D'Arcy
Deputy Minister
Department of Finance

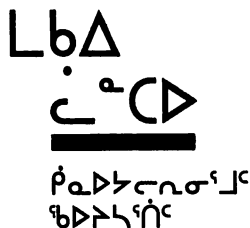


Marion Love
Director
Nunavut Liquor Management

May 29, 2013

**Mackay
Landau**
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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 statement of financial position as at March 31, 2012 and March 31, 2011 and the consolidated statements of operations, changes in net financial debt, amount due to the Government of Nunavut, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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 auditors' 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, 2012 and March 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with Canadian Public Sector Accounting Standards.

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 STATEMENT OF FINANCIAL POSITION

	March 31 2012	March 31 2011	April 1 2010
Financial Assets			
Cash	\$ 750	\$ 550	\$ 550
Accounts receivable	240,679	17,811	111,949
Inventories (note 4)	1,785,301	1,685,933	1,705,191
	2,026,730	1,704,294	1,817,690
Liabilities			
Accounts payable and accrued liabilities	512,682	710,117	910,707
Employee future benefits (note 5)	55,329	38,904	46,012
Bottle deposit outstanding	22,483	26,175	29,848
Deferred revenue	45,560	52,882	32,296
Due to Government of Nunavut	1,465,894	914,724	848,983
	2,101,948	1,742,802	1,867,846
Net Financial Debt	(75,218)	(38,508)	(50,156)
Non-Financial Assets			
Tangible capital assets (note 6)	75,218	38,508	50,156
	75,218	38,508	50,156
Accumulated Surplus	\$ -	\$ -	\$ -

Commitments (note 8)



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

For the year ended March 31,	2012	2011
Sales	\$ 6,473,224	\$ 6,460,278
Cost of Sales	2,871,704	2,919,088
Gross Margin	3,601,520	3,541,190
Other Income		
Import fees	703,637	586,860
Licence, fees and permits	52,281	11,537
	4,357,438	4,139,587
Expenses		
Administration and operations (Schedule 1)	2,661,911	2,364,444
Enforcement and Inspections (Schedule 2)	409,064	515,207
	3,070,975	2,879,651
Net Surplus	1,286,463	1,259,936
Accumulated Surplus, beginning of year	-	-
Accumulated Surplus, end of year	\$ -	\$ -

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

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL DEBT

For the year ended March 31	2012	2011
Annual net surplus	\$ 1,286,463	\$ 1,259,936
Amortization of tangible capital assets	15,752	11,648
Disposal (acquisition) of tangible capital assets	(52,462)	-
Net transfer of funds to the Government of Nunavut	(1,286,463)	(1,259,936)
	(1,323,173)	(1,248,288)
Decrease (increase) in net financial debt	(36,710)	11,648
Net financial debt, beginning of year	(38,508)	(50,156)
Net financial debt, end of year	\$(75,218)	\$(38,508)

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF AMOUNT DUE TO THE GOVERNMENT OF
NUNAVUT

For the year ended March 31	2012	2011
Balance, beginning of year	\$ 914,724	\$ 848,983
Net surplus for the year	1,286,463	1,259,936
Net transfer of funds to the Government of Nunavut	(735,293)	(1,194,195)
	\$ 1,465,894	\$ 914,724

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

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31	2012	2011
Cash Flows from Operating Activities		
Cash receipts from customers	\$ 6,998,952	\$ 7,173,399
Cash paid to suppliers and employees	(6,210,997)	(5,979,204)
Cash transferred to the Government of Nunavut(Net)	(735,293)	(1,194,195)
Cash Provided by Operating Activities	52,662	-
Purchase of property and equipment	(52,462)	-
Cash Used in Investing Activities	(52,462)	-
Net Increase / (Decrease) in Cash	200	-
Cash, beginning of year	550	550
Cash, end of year	\$ 750	\$ 550

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

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 2011 - 2012 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 licenses 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. Conversion to Canadian Public Sector Accounting Standards

Under the Public Sector Accounting Handbook, NLC is classified as an Other Government Organization. Commencing April 1, 2011, NLC has adopted the Canadian Public Sector Accounting Standards. These consolidated financial statements are the first consolidated financial statements for which NLC has applied Canadian Public Sector Accounting Standards. The accounting changes have been applied retroactively with restatement of prior periods.

As required, the statement of financial position includes the opening April 1, 2010 balances for the NLC's financial assets, liabilities, net debt, non-financial assets and accumulated surplus. There is no impact to the previously reported accumulated surplus or net surplus as a result from the adoption of the Canadian Public Sector Accounting Standards.

3. Significant Accounting Policies

(a) Consolidated Financial Statements

NLC's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(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.

(c) **Measurement Uncertainty**

The preparation of consolidated financial statements in accordance with Canadian Public Sector Accounting Standards 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 and cash equivalents**

Cash and cash equivalents are comprised of a small cash float that is maintained by NLC. All sales and other cash receipts of NLC are deposited to the Liquor Revolving Fund. While some expenses of NLC are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund. All sales and other cash receipts of the Nunavut Liquor Enforcement are deposited into the Government of Nunavut Consolidated Revenue Fund. While all expenses of the Nunavut Liquor Enforcement are paid 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 first-in, first-out basis.

(f) **Accounts Receivable**

Accounts receivable are valued at the lower 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.

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(g) Tangible Capital Assets

Tangible Capital Assets are initially recorded at cost, and are 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:

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

(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 licensees and clients to return recyclables for refund.

(j) Deferred Revenue

Deferred revenue includes revenues received in advance of goods being provided or services being performed with stipulations that meet the definition of a liability per Section PS 3200. When stipulations are met, deferred revenue is recognized as revenue in the fiscal year in a manner consistent with the circumstances and evidence used to support the initial recognition of the revenue received as a liability.

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(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 1.74 times the employees contribution for the calendar year of 2012 (1.86 times for the calendar year of 2011). 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.

(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. While some expenses of NLC are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

All expenses of the Nunavut Liquor Enforcement are paid by the Government of Nunavut through the Consolidated Revenue Fund without reimbursement.

(n) Services Provided Without Charge

There are no longer any services provided without charge to the NLC.

NUNAVUT LIQUOR COMMISSION

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March 31, 2012

(o) Financial Instruments

The NLC initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The NLC subsequently measures all its financial assets and financial liabilities at amortized cost, except for derivatives and equity securities quoted in an active market, which subsequently measured at fair value.

Financial assets measured at amortized cost include cash and cash equivalents and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, employee future benefits, bottle deposit outstanding and amounts due to the Government of Nunavut.

(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 Surplus for 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 Surplus.

This balance is a non-interest bearing liability.

4. Inventories

	March 31 2012	March 31 2011	April 1 2010
Spirits	\$ 697,561	\$ 538,050	\$ 552,056
Wine	342,017	324,211	236,389
Beer	718,132	789,128	869,258
Coolers and ciders	27,591	34,544	47,488
	\$ 1,785,301	\$ 1,685,933	\$ 1,705,191

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

5. 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:

	2012	2011
Employer's contributions	\$ 135,565	\$ 128,236
Employees' contributions	\$ 72,850	\$ 66,650

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

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

6. Tangible Capital Assets

	2012		2011	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	\$ 53,669	\$ 37,297	\$ 16,372	\$ 7,847
Computer software	50,777	50,777	-	-
Furniture and equipment	135,769	76,923	58,846	30,661
	\$ 240,215	\$ 164,997	\$ 75,218	\$ 38,508

7. Expenses by Object

	March 31 2012	March 31 2011
Salaries and benefits	\$ 1,684,842	\$ 1,692,975
Rent	401,516	401,516
Bottle deposits refund	196,087	231,393
Professional fees	262,518	60,000
Repairs and maintenance	125,139	71,629
Contractor fees	105,299	99,270
Office	50,564	89,911
Bank charges and interest	77,079	72,303
Utilities	77,082	69,095
Travel	23,371	27,530
Communication	36,743	39,014
Plebiscite expenses	10,041	13,367
Amortization	15,752	11,648
Training and development	2,534	-
Advertising and promotion	2,408	-
	\$ 3,070,975	\$ 2,879,651

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

8. 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 9) are as follows:

Fiscal year ending March 31	Total
2013	\$ 281,516
2014	70,379
	\$ 351,895

9. 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:

	2012	2011
Government of Nunavut:		
Communications	\$ 9,121	\$ 9,121
Office	24,064	25,741
Rent (note 8)	120,000	120,000
Repairs and maintenance	63,799	56,924
Property taxes	28,136	26,919
Qulliq Energy Corporation		
Utilities (electricity)	15,071	10,288
	\$ 260,191	\$ 248,993

NUNAVUT LIQUOR COMMISSION

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March 31, 2012

10. 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 2011-12 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.

11. Financial Instruments and Risk Management

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.

12. Comparative Figures

Certain figures presented for comparative purposes have been reclassified to conform with the current year's presentation.

NUNAVUT LIQUOR COMMISSION

SCHEDULE 1 - NUNAVUT LIQUOR COMMISSION

For the year ended March 31	2012	2011
Sales	\$ 6,473,224	\$ 6,460,278
Cost of Sales	2,871,704	2,919,088
Gross Margin	3,601,520	3,541,190
Expenses		
Salaries and benefits	1,409,975	1,327,123
Rent	401,516	401,516
Bottle deposits refund	196,087	231,393
Professional fees	262,518	60,000
Repairs and maintenance	125,139	71,629
Office	47,444	64,399
Bank charges and interest	73,101	69,351
Utilities	77,082	69,095
Travel	14,374	22,657
Communication	33,981	35,633
Amortization	15,752	11,648
Training and development	2,534	-
Advertising and promotion	2,408	-
	2,661,911	2,364,444
Revenue in excess of expenses	\$ 939,609	\$ 1,176,746

NUNAVUT LIQUOR COMMISSION

SCHEDULE 2 - NUNAVUT LIQUOR ENFORCEMENT AND INSPECTIONS DIVISION

For the year ended March 31	2012	2011
Sales	\$ -	\$ -
Cost of Sales	-	-
Gross Margin	-	-
Other Income		
Import fees	703,637	586,860
Licence, fees and permits	52,281	11,537
	755,918	598,397
Expenses		
Salaries and benefits	274,867	365,852
Contractor fees	105,299	99,270
Plebiscites expenses	10,041	13,367
Travel	8,997	4,873
Bank charges and interest	3,978	2,952
Office	3,120	25,512
Communication	2,762	3,381
	409,064	515,207
Revenue in excess of expenses	\$ 346,854	\$ 83,190