

PUBLIC ACCOUNTS

NORTHWEST TERRITORIES 2003 - 2004

Section I Consolidated Financial Statements

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PUBLIC ACCOUNTS
OF THE
GOVERNMENT OF THE NORTHWEST TERRITORIES
FOR THE YEAR ENDED MARCH 31, 2004

SECTION I
CONSOLIDATED FINANCIAL STATEMENTS

HONOURABLE FLOYD K. ROLAND

Minister of Finance




Northwest
Territories Financial Management Board

AUG 18 2004

THE HONOURABLE GLENNA F. HANSEN
COMMISSIONER OF THE NORTHWEST TERRITORIES

I have the honour to present the Public Accounts of the Northwest Territories in accordance with Sections 27 through 31 of the *Northwest Territories Act* (Canada), R.S.C. 1985, c. N-22, and Sections 72 through 74 of the *Financial Administration Act*, S.N.W.T. 1987(1), c. 16, for the fiscal year ended March 31, 2004.



Floyd K. Roland
Chairman

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**Public Accounts of the
Government of the Northwest Territories**

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Northwest
Territories Financial Management Board

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of the consolidated financial statements of the Government of the Northwest Territories, and related information contained in the Public Accounts, is the responsibility of management through the Office of the Comptroller General.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for governments. Where GAAP permits alternative accounting methods, management has chosen those that are most appropriate. Where required, management's best estimates and judgment have been applied in the preparation of these statements.

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

The Public Accounts are referred to the Standing Committee on Accountability and Oversight. The recommendations of this committee are reviewed and acted on to improve the financial systems and controls.

The Auditor General of Canada performs an annual audit on the consolidated financial statements in order to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position of the Government, the change in its net debt, the results of its operations and its cash flows for the year. During the course of the audit, she also examines transactions that have come to her notice, to ensure they are, in all significant respects, within the statutory powers of the Government and those organizations included in the consolidation.

After completion of the audit, the Auditor General includes additional information, comments and recommendations in her annual report to the Legislative Assembly of the Northwest Territories.

Lew Voytilla, FCGA
Comptroller General
Government of the Northwest Territories

July 23, 2004

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AUDITOR'S REPORT

To the Legislative Assembly of the Northwest Territories

I have audited the consolidated statement of financial position of the Government of the Northwest Territories as at March 31, 2004 and the consolidated statements of change in net debt, operations and accumulated surplus, and cash flow for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Government as at March 31, 2004 and the results of its operations, the change in its net debt, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for governments recommended by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board. As required by the *Northwest Territories Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Government and the consolidated financial statements are in agreement therewith. In addition, the transactions of the Government and of those organizations listed in note 1 that have come to my notice during my audit of these consolidated financial statements have, in all significant respects, been in accordance with the Government's powers under the *Northwest Territories Act*, the *Financial Administration Act* and regulations, and the specific operating authorities disclosed in note 1.

Additional information and comments on the consolidated financial statements and this opinion will be included in my annual report to the Legislative Assembly of the Northwest Territories.

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
July 23, 2004

Government of the Northwest Territories

Consolidated Statement of Financial Position

As at March 31, (thousands of dollars)	2004	2003
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Financial resources

Cash	\$ 25,435	\$ -
Short-term investments (note 4)	24,248	41,155
Due from Canada (note 5)	-	36,281
Accounts receivable (note 6)	33,192	55,512
Inventories for resale and prepaid expenses (note 7)	13,117	12,166
Designated cash and investments (note 8)	27,997	29,746
Loans receivable (note 9)	57,084	51,143
Investment in Northwest Territories Power Corporation (note 10)	79,563	75,884

	260,636	301,887
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Liabilities

Bank overdraft	-	2,389
Accounts payable and accrued liabilities (note 11)	127,629	118,672
Due to Canada (note 5)	52,542	-
Capital lease obligations (note 12)	22,848	24,119
Long-term debt (note 13)	33,446	32,275
Post employment benefits (note 14)	44,150	40,522

	280,615	217,977
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Net (debt) financial resources	\$ (19,979)	\$ 83,910
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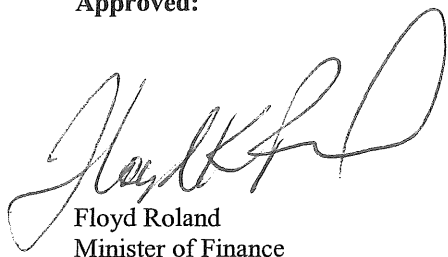
Non-financial assets

Tangible capital assets (schedule A)	858,390	809,839
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Accumulated surplus	\$ 838,411	\$ 893,749
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Commitments and contingencies (notes 18 and 19)

Approved:



Floyd Roland
Minister of Finance



Lew Voytilla, FCGA
Comptroller General

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

Government of the Northwest Territories

Consolidated Statement of Change in Net Debt

for the year ended March 31, (thousands of dollars)		2004	2003
	Budget (unaudited)	Actual	Actual
Net financial resources at beginning of year	\$ 83,910	\$ 83,910	\$ 176,787
Items affecting net financial resources:			
Annual deficit	(68,553)	(55,338)	(26,923)
Net investment in tangible capital assets (Note 16)			
Acquisitions	(80,237)	(100,387)	(115,331)
Disposals/write-downs	-	4,737	3,925
Amortization	52,582	48,972	44,919
Change in deferred capital contributions	(1,873)	(1,873)	533
Net (debt) financial resources at end of year	\$ (14,171)	\$ (19,979)	\$ 83,910

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

Government of the Northwest Territories

Consolidated Statement of Operations and Accumulated Surplus

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

	2004	2003
	Budget (unaudited)	Actual
Revenues		Actual
From Canada		
Grant (note 3)	\$ 809,192	\$ 853,568
Transfer payments (note 3)	82,880	83,398
	892,072	936,966
Generated revenues		
Corporate and Personal Income Taxes (note 3)	(130,586)	(172,968)
Other taxes	54,195	59,251
General	20,239	28,746
Sales (net of cost of goods sold of \$23,757 (2003 - \$22,500))	27,709	26,273
Recoveries and amortization of capital contributions	20,943	26,685
	(7,500)	(32,013)
Recoveries of prior years' expenses	3,000	3,279
	887,572	908,232
Expenses (note 20)		
Grants and contributions	433,515	432,729
Operations and maintenance	269,357	260,582
Compensation and benefits	206,891	223,902
Valuation allowances	-	4,564
Amortization of tangible capital assets	52,582	48,972
	962,345	970,749
Annual operating deficit	(74,773)	(62,517)
Net revenue from investment in Northwest Territories Power Corporation (note 10)	6,220	7,179
Projects for Canada, Nunavut and others		
Expenses	(45,757)	(56,472)
Recoveries	45,757	56,472
Annual deficit	\$ (68,553)	(55,338)
Accumulated surplus, at beginning of the year		893,749
Accumulated surplus, at end of the year		\$ 838,411
		\$ 893,749

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

Government of the Northwest Territories

Consolidated Statement of Cash Flow

for the year ended March 31, (thousands of dollars)	2004	2003
Operating transactions		
Cash received from:		
Canada	\$ 738,438	\$ 194,734
Taxation	172,261	415,264
Recoveries and general revenue	53,683	41,889
Projects for Canada, Nunavut and others	60,132	52,542
Recovery of costs incurred for related parties	84,199	84,474
Revolving fund sales	50,349	48,201
	1,159,062	837,104
Cash paid for:		
Compensation and benefits	217,207	229,232
Grants and contributions	435,509	400,306
Operations and maintenance	261,064	281,042
Projects for Canada, Nunavut and others	56,472	53,561
Direct costs incurred for related parties	87,935	82,698
	1,058,187	1,046,839
Cash provided by (used for) operating transactions	100,875	(209,735)
Capital transactions		
Acquisition of tangible capital assets	(100,387)	(115,331)
Disposal of tangible capital assets (net)	4,737	3,925
Capital contributions received and deferred	11,217	13,057
Cash used for capital transactions	(84,433)	(98,349)
Investing transactions		
Short-term investments sold	16,907	208,536
Designated cash and investments sold	4,436	2,215
Loans receivable receipts	10,789	9,269
Loans receivable advanced	(24,150)	(23,721)
Dividend from Northwest Territories Power Corporation	3,500	4,000
Cash provided by investing transactions	11,482	200,299
Financing transactions		
Repayment of capital lease obligations	(1,271)	(1,256)
Long-term financing proceeds	3,457	-
Long-term financing repaid	(2,286)	(605)
Cash used for financing transactions	(100)	(1,861)
Increase (decrease) in cash and cash equivalents	27,824	(109,646)
Cash and cash equivalents at beginning of year	(2,389)	107,257
Cash and cash equivalents at end of year*	\$ 25,435	\$ (2,389)

* Cash and cash equivalents are represented by cash and bank overdraft.

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

1. AUTHORITY AND OPERATIONS

(a) Authority and reporting entity

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

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

The following chart lists the organizations comprising the consolidated Government reporting entity, how they are accounted for in the consolidated financial statements and their specific operating authority.

Fully Consolidated:

Aurora College	<i>Public Colleges Act</i>
Northwest Territories Housing Corporation	<i>Northwest Territories Housing Corporation Act</i>
Northwest Territories Development Corporation	<i>Northwest Territories Development Corporation Act</i>
Northwest Territories Business Credit Corporation	<i>Northwest Territories Business Credit Corporation Act</i>
Northwest Territories Opportunities Fund	<i>Northwest Territories Societies Act</i>

Modified Equity:

Northwest Territories Power Corporation	<i>Northwest Territories Power Corporation Act</i>
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These organizations have a March 31 fiscal year end except for the college, which has a fiscal year end of June 30. Revolving funds are incorporated directly into the Government's accounts while trust assets administered by the Government on behalf of other parties (note 17) are excluded from the consolidated Government reporting entity.

The following related Government boards and agencies are reflected in these statements only to the extent of the Government's contributions to them:

- Divisional Education Councils and District Education Authorities
- Hospitals and Regional Health Boards
- Local Housing Associations and Authorities

(b) Budget

The consolidated budget figures are the appropriations approved by the Legislative Assembly, and the approved budgets for the consolidated entities, adjusted to eliminate budgeted inter-entity revenues and expenses. They represent the Government's original consolidated fiscal plan for the year and do not reflect supplementary appropriations. The budget figures shown have not been audited.

March 31, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the Government to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements. By their nature, these estimates are subject to measurement uncertainty. The effect on the financial statements of changes to such estimates and assumptions in future periods could be significant, although, at the time of preparation of these statements, the Government believes the estimates and assumptions to be reasonable.

Some of the more significant management estimates relate to employee future benefits, contingencies, revenue accruals, housing mortgages and Students Loan Fund allowances for both forgivable and delinquent mortgages and loans, and amortization expense. Other estimates, such as Canada Health and Social Transfer payments and Corporate and Personal Income Tax revenue are based on estimates made by Canada's Department of Finance and are subject to adjustments in future years. Another significant estimate is the Grant from Canada, which incorporates estimates supplied by Statistics Canada and Canada's Department of Finance. Many of the statistical estimates are not finalized until three to seven years after the year end.

(b) Short-term investments/designated cash and investments

Short-term investments are valued at the lower of cost or market value. Interest income is recorded on the accrual basis, dividend income is recognized as it is received and capital gains and losses are recognized as incurred. Unrealized losses in designated cash and investments on long-term investment portfolios and marketable securities are recognized when it is determined that there is a permanent impairment in the value of the investments.

Investment in securities denominated in foreign currencies are translated into Canadian dollars at the prevailing exchange rate at year end. Foreign currency transactions during the year are translated into Canadian dollars at the exchange rate at the transaction date. Gains (losses) on foreign currency translation are included as revenues (expenses).

(c) Inventories for resale and prepaid expenses

Inventories for resale consist of bulk fuel, liquor products, arts, and crafts. Bulk fuels are valued at the lower of weighted average cost and net realizable value. Liquor products are valued at replacement cost. Other inventories are valued at the lower of cost, determined on a first in, first out basis and net replacement value.

Prepaid expenses are advance payments made prior to year end to meet April 1 deadlines.

(d) Loans receivable

Loans receivable are stated at the lower of cost and net recoverable value.

Valuation allowances, which are recorded to reduce loans receivable, are based on past events, current conditions and all circumstances known at the date of the preparation of the financial statements. Interest revenue is recognized when earned. Interest revenue is not accrued when the collectibility of either principal or interest is not reasonably assured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investment in Northwest Territories Power Corporation

The Northwest Territories Power Corporation (NTPC) is accountable to the government, sells goods and services to the public, can contract in its own name and can maintain itself without government support. Consequently, it is consolidated in these financial statements using the modified equity method. Under this method the Government only reports its investment in and the net revenue of the NTPC. In addition, any amounts receivable or payable from the NTPC are reported.

(f) Non-financial assets

Tangible capital and other non-financial assets are accounted for as assets by the Government as they can be used to provide government services in future periods. These assets do not normally provide resources to discharge the liabilities of the government unless they are sold.

(g) Tangible capital assets and leases

Tangible capital assets are buildings, roads, equipment, etc. whose life extends beyond the fiscal year, original cost exceeds \$50,000 and are intended to be used on an ongoing basis for delivering services. Individual assets less than \$50,000 are expensed when purchased.

Tangible capital assets are recorded at cost, or where actual cost was not available, estimated current replacement cost converted back to the date of purchase by discounting current year dollars for inflation. Gifted and cost shared tangible capital assets from Canada are recorded at their fair market value, upon receipt, with the gifted or cost shared portion shown as a deferred capital contribution. This deferred capital contribution is amortized as revenue on the same basis as the related asset is amortized. Tangible capital assets, when placed in service, are amortized on straight line basis over their economic life based on the following guidelines:

Asset category	Amortization period
Land	Not amortized
Roads and bridges	40 years
Airstrips and aprons	40 years
Buildings	40 years
Ferries	25 years
Water/sewer works	15 - 25 years
Mainframe and software systems	5 - 10 years
Mobile and heavy equipment	7 - 15 years
Major equipment	5 - 15 years
Medical equipment	5 - 15 years
Leasehold improvements	Lesser of useful life or lease term plus renewal option

Tangible capital assets under construction or development are recorded as work in progress with no amortization until the asset is placed in service. Capital lease agreements are recorded as a liability and a corresponding asset based on the present value of any payments due. The present value is based on the specified rate or the government's borrowing rate at the time obligation is incurred. Operating leases are charged to expenses. Works of art, historical treasures and crown lands are not recorded.

March 31, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Post employment benefits

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Government contributes at a rate of 2.14 times (2003 - 2.14 times) the employee's contribution. The Government's contributions are charged as an expense on a current year basis and represents the total pension obligations. The Government is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Plan.

Pension benefits to Members of the Legislative Assembly and judges are reported on an actuarial basis. This is done to determine the current value of future entitlement and uses various estimates. When actual experience varies from estimates, the adjustments needed are amortized over the estimated average remaining service lives of the contributors.

Under the terms and conditions of employment, government employees may earn non-pension benefits for resignation, severance and removal costs 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. Termination benefits are also recorded when employees are identified for lay-off. The cost of the benefits has been determined based on management's best estimates using expected compensation levels and employee leave credits.

(i) Commitments and contingencies

The nature of the Government's activities requires entry into contracts that are significant in relation to its current financial position or that will materially affect the level of future expenses. Contractual commitments pertain to operating, commercial and residential leases, capital projects and operational funding commitments.

The contingencies of the Government are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. If the future event is considered likely to occur or fail to occur and is quantifiable, an estimated liability is accrued. If the likelihood is not determinable or the amount cannot be reasonably estimated, the contingency is disclosed. Contingent liabilities result from potential environmental contingencies or pending litigation and like items.

(j) Grant from Canada

The Grant is subject to the terms of the Formula Financing Agreement with Canada. The Grant entitlement is dependent on a number of variables, including population growth, the growth of provincial-local government spending, Government of the Northwest Territories revenues and other federal transfers.

The initial payments of the Grant are based on estimates of these variables, supplied by Statistics Canada, Canada's Department of Finance and the Government. Adjustments are made as final data becomes available which can take between three to seven years. These adjustments can be significant and can affect both current and future years' grant entitlements positively or negatively. Population figures are initially based on Statistics Canada's post-censal estimates, which are adjusted to census data every five years. All known changes to estimates, relating to current year and prior years, are recorded in the current year as revenue adjustments.

(k) Projects for Canada, Nunavut and others

The Government undertakes projects for Canada, Nunavut and others. Where possible, the Government receives accountable advances and any unexpended balances remaining at year end are recorded as current liabilities. Recoveries are accrued when expenses, as allowed under the project contract, exceed advances.

March 31, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Taxes

Income tax revenue is recognized on an accrual basis. Taxes, under the *Income Tax Act*, are collected by Canada on behalf of the Government under a tax collection agreement and are remitted to the Government monthly. The remittances are based on Canada's Department of Finance's estimates for the taxation year, which are periodically adjusted until the income tax assessments for that year are final. Changes to personal and corporate income tax estimates can have a significant impact on the Grant from Canada.

Fuel, tobacco and payroll taxes are levied under the authority of the *Petroleum Products Tax Act*, the *Tobacco Tax Act* and the *Payroll Tax Act* respectively. Revenues are recognized on an accrual basis based on the statements received from collectors or employers. Adjustments from reassessments are recorded in revenue in the year they are identified. Property tax and school levies are assessed on a calendar year basis and are recognized on an accrual basis in the fiscal year in which the calendar year ends.

(m) Other revenues/deferred revenue

Licenses, fees and permits are recorded on a cash basis. All other revenues are recorded on an accrual basis. Funding received for specified purposes is deferred until the related expenses are incurred.

(n) Expenses

Expenses are recorded on an accrual basis. The Government records expenses in the year in which the related goods and services are utilized. Government grants and contributions are accrued as expenses when paid or earlier if the recipient has fulfilled the terms of a contractual agreement.

(o) Recoveries of prior years' expenses

Recoveries of prior years' expenses and reversal of prior years' expense accruals are reported separately from other revenues on the consolidated statement of operations and accumulated surplus. Pursuant to the *Financial Administration Act*, these recoveries cannot be used to increase the amount appropriated for current year expenses.

3. GRANT AND TRANSFER PAYMENTS FROM CANADA AND CORPORATE AND PERSONAL INCOME TAXES ESTIMATES

The Corporate and Personal Income Tax revenue recognized in any one year is based on an estimate as described in note 2(l). Income tax determined by Canada combines actual assessments with an estimate that assumes that previous years' income tax levels will be sustained. Current year Corporate and Personal Income Tax revenue is a negative amount as a result of an overpayment of \$296,000,000 of previous years' Corporate Income Tax to the Government of the Northwest Territories by Canada. This overpayment is repayable to Canada.

Also, during the current year the information upon which Corporate and Personal Income Tax estimates are based was refined to reflect better estimates of the expected actual result. The effect of this change on the Income Tax revenue reported for 2004 is an increase of \$1,100,000. The effect of this change on future years could be significant.

The Grant from Canada, other transfer payments and own source revenues are inter-related. As detailed in note 2(j) and note 2(l), year-to-year fluctuations in corporate and personal tax revenue, can have a significant impact on the Grant and transfer payments from Canada. The large increase in the Grant in the current year was primarily caused by the large decrease in Corporate Income Taxes.

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2004

3. GRANT AND TRANSFER PAYMENTS FROM CANADA AND CORPORATE AND PERSONAL INCOME TAXES ESTIMATES (continued)

Differences between current estimates and future actual amounts, if any, can be significant. Any such differences will be recognized when the actual tax assessments are finalized in future years.

4. SHORT-TERM INVESTMENTS

Short-term investments represent a diversified portfolio of high grade, short-term income producing assets. The portfolio yield for the year ended March 31, 2004 varied from 0.75% to 5.20% (2003 - 1.00% to 6.10%). The eligible classes of securities, categories of issuers, limits and terms are approved under the Government's investment guidelines. All instruments, depending on the investment class, are rated R-2 High or better from the Dominion Bond Rating Service. Investments are diversified by limiting them, depending on the type of investment, to a maximum of 5% to 50% of the total portfolio. There is no significant concentration in any one investment. The average term to maturity, as at March 31, 2004, is 39 days (2003 - 44 days).

5. DUE FROM (TO) CANADA

	2004	2003
	(thousands of dollars)	
Grant receivable		
Grant per financing agreement	\$ 853,568	\$ 346,409
Less payments received	(633,377)	(110,402)
	220,191	236,007
<u>Balance receivable (payable) at beginning of year</u>	<u>17,610</u>	<u>(218,397)</u>
	237,801	17,610
Other receivables		
Indian and Inuit hospital and medical care	19,205	25,470
Canada Mortgage and Housing Corporation	4,556	4,535
Projects on behalf of Canada	13,917	16,323
Miscellaneous receivables	16,731	19,395
	<u>292,210</u>	<u>83,333</u>
Other payables		
Excess income tax advanced	(324,201)	(35,004)
Advances for projects on behalf of Canada	(323)	(1,018)
Miscellaneous payables	(12,933)	(11,030)
Deferred funding for specified purposes	(7,295)	-
	<u>(344,752)</u>	<u>(47,052)</u>
	<u>\$ (52,542)</u>	<u>\$ 36,281</u>

The amounts due from (to) Canada are non-interest bearing.

Government of the Northwest Territories**Notes to Consolidated Financial Statements**

March 31, 2004

6. ACCOUNTS RECEIVABLE

	2004	2003
	(thousands of dollars)	
General	\$ 18,719	\$ 22,375
Government of Nunavut	7,935	30,590
Revolving fund sales	3,706	3,571
Accrued interest	314	382
	<hr/> 30,674	<hr/> 56,918
Less: allowance for doubtful accounts	6,102	7,091
	<hr/> 24,572	<hr/> 49,827
Receivables from related parties:		
District Education Authorities and Divisional Education Councils	3,124	303
Hospitals and Regional Health Boards	1,589	674
Local Housing Associations and Authorities	374	653
Northwest Territories Power Corporation	3,533	4,055
	<hr/> 8,620	<hr/> 5,685
	<hr/> \$ 33,192	<hr/> \$ 55,512

7. INVENTORIES FOR RESALE AND PREPAID EXPENSES

	2004	2003
	(thousands of dollars)	
Inventories for resale		
Bulk fuels	\$ 3,863	\$ 4,874
Liquor products	2,868	2,191
Arts and crafts	1,517	1,570
Others	114	92
	<hr/> 8,362	<hr/> 8,727
Prepaid operational expenses	4,755	3,439
	<hr/> \$ 13,117	<hr/> \$ 12,166

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2004

8. DESIGNATED CASH AND INVESTMENTS

	2004	2003
	(thousands of dollars)	
Investment portfolio:		
Marketable securities (market value \$12,909,000; 2003 - \$15,665,000) \$	12,163	\$ 17,382
Treasury bills (market value approximates cost)	9,035	2,050
Cash and other assets (market value approximates cost)	110	56
	21,308	19,488
Students Loan Fund:		
Authorized limit	33,000	33,000
Less: Loans receivable	28,079	26,256
Segregated and designated for new loans	4,921	6,744
Miscellaneous investments, net of allowance for loss	1,768	3,514
	\$ 27,997	\$ 29,746

The cash, treasury bills and marketable securities held in the investment portfolio, while forming part of the Consolidated Revenue Fund, are designated for the purpose of meeting the obligations of the Legislative Assembly Supplementary Retiring Allowance Plan I. The assets in the investment portfolio are managed by McLean Budden and UBS Global Asset Management. Supplementary Retiring Allowance Regulations restrict the investments McLean Budden and UBS Global Asset Management can make to those as permitted under the *Pension Benefits Standards Act*.

The average market yield on the portfolio is 2.7% (2003 - 3.6%) with maturity dates ranging from April 2004 to March 2035. The gain on investments, including interest, dividends and gains or losses on disposal was \$2,687,000 (2003 loss - \$2,304,000).

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2004

9. LOANS RECEIVABLE

	2004	2003
	(thousands of dollars)	
Northwest Territories Business Credit Corporation loans to businesses receivable over a maximum of 25 years, bearing fixed interest between 3.50% and 9.75%, net of allowance for doubtful accounts of \$8,955,000 (2003 - \$7,370,000)	\$ 31,579	\$ 28,521
Northwest Territories Housing Corporation mortgage and interim financing loans to individuals receivable over a maximum of 25 years, bearing fixed interest between 5.95% and 14.25%, net of allowance for doubtful accounts of \$9,365,000 (2003 - \$8,005,000)	3,015	3,380
Students Loan Fund loans due in installments to 2015, bearing fixed interest between 1.5% and 12.5%, net of allowance for doubtful accounts and loan remissions of \$18,579,000 (2003 - \$16,799,000)	9,500	9,457
Loans to municipalities due in installments to 2026, bearing fixed interest of 11.27%	2,618	2,713
Northwest Territories Power Corporation \$20,000,000 line of credit, secured by a promissory note, bearing interest between 2.16% and 3.24%	8,000	4,000
Other	2,372	3,072
	<hr/> \$ 57,084	<hr/> \$ 51,143

The amounts expected to be received in the upcoming year are \$13,515,000 (2003 - \$16,485,000). Interest earned on loans receivable during the year was \$4,127,000 (2003 - \$4,004,000).

The carrying value, at the lower of cost or net recoverable value, is estimated to be the fair value of these loans receivable due to the significant valuation allowances provided. The carrying value of the loans receivable should not be seen as the realizable value on immediate settlement of these loans due to the uncertainty associated with such a settlement.

Government of the Northwest Territories**Notes to Consolidated Financial Statements**

March 31, 2004

10. INVESTMENT IN NORTHWEST TERRITORIES POWER CORPORATION

The following is summarized financial information for Northwest Territories Power Corporation as at March 31, 2004:

	2004	2003
	(thousands of dollars)	
Investment in Northwest Territories Power Corporation		
Shareholder's Equity, including share capital of \$43,129	\$ 79,563	\$ 75,884
Shareholder's Equity is represented by:		
Assets	278,672	262,660
Liabilities	(199,109)	(186,776)
	\$ 79,563	\$ 75,884

Statement of Operations and Surplus

For the year ended March 31,	2004	2003
Revenue	\$ 68,955	\$ 67,242
Expenses	(61,776)	(59,517)
Net revenue	7,179	7,725
Surplus at beginning of the year	32,755	29,030
Dividend	(3,500)	(4,000)
Surplus at end of the year	\$ 36,434	\$ 32,755

Included in the above are revenues from and expenses to entities in the Government's reporting entity of \$20,138,000 (2003 - \$18,992,000) and \$2,755,000 (2003 - \$3,012,000) respectively.

Division of Northwest Territories Power Corporation

The Government's investment in Northwest Territories Power Corporation (NTPC) decreased on April 1, 2001 as a result of the transfer of NTPC's Nunavut operations to the Government of Nunavut. The transfer and the related allocation (estimated) of the Government's investment to Nunavut is subject to arbitration and subsequent ratification by each government. It is not known when the allocation will be finalized. Adjustments to the estimated allocation, if any, will be recorded when known, the same as was done for the original transfer, as a capital transfer of net financial resources and accumulated surplus.

Government of the Northwest Territories**Notes to Consolidated Financial Statements**

March 31, 2004

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2004	2003
	(thousands of dollars)	
Trade	\$ 74,560	\$ 55,450
Government of Nunavut	29	8,587
Other liabilities, payroll liabilities and contractors' holdbacks	15,316	13,863
Employee vacation pay	13,543	13,003
Provision for equal pay settlement	10,632	15,071
Accrued interest	481	498
Deferred funding for specified purposes	181	272
	114,742	106,744
Payable to related parties		
Divisional Education Councils and District Education Authorities	289	1,201
Hospitals and Regional Health Boards	10,290	8,351
Local Housing Associations and Authorities	690	1,388
Northwest Territories Power Corporation	1,007	988
Workers' Compensation Board (Northwest Territories and Nunavut)	611	-
	12,887	11,928
	\$ 127,629	\$ 118,672

12. CAPITAL LEASE OBLIGATIONS

	2004	2003
	(thousands of dollars)	
Buildings	\$ 22,848	\$ 24,119

Interest expense related to capital lease obligations for the year was \$2,547,000 (2003 - \$2,678,000), at an implied average interest rate of 10.85% (2003 - 10.82%). Capital lease obligations are based upon contractual minimum lease obligations for the leases in effect as of March 31, 2004.

	(thousands of dollars)	
	2005	\$ 3,964
	2006	3,964
	2007	3,964
	2008	3,964
	2009	3,367
	2010 and beyond	19,754
Total minimum lease payments		38,977
Less: imputed interest (10.6%)		16,129
Present value of minimum lease payments		\$ 22,848

Government of the Northwest Territories

Notes to Consolidated Financial Statements

March 31, 2004

13. LONG-TERM DEBT

	2004	2003
	(thousands of dollars)	
Northwest Territories Housing Corporation loans due to Canada Mortgage and Housing Corporation, repayable in annual installments of \$2,704,000 to the year 2033, bearing fixed interest at a rate of 6.97% (2003 - 6.97%). Fair value is estimated at \$28,324,000 (2003 - \$27,721,000)	\$ 26,659	\$ 27,225
Aurora Fund loan maturing 2004, bearing interest at 7%	-	1,620
Mortgage payable to Canada Mortgage and Housing Corporation, repayable in monthly installments of \$9,474, maturing September 2004 bearing interest at 5.77%	1,364	-
Immigrant investor loan, 0% interest, repayable as a single payment at the end of 5 years. Maturing between October 2008 and February 2009.	2,078	-
Other	3,345	3,430
	\$ 33,446	\$ 32,275

Principal and interest amounts due in each fiscal year for the next five years:

	Principal	Interest	Total
	(thousands of dollars)		
2005	\$ 754	\$ 2,065	\$ 2,819
2006	801	2,017	2,818
2007	852	1,965	2,817
2008	908	1,910	2,818
2009	3,044	1,850	4,894

The interest paid on long-term debt during the year was \$2,107,000 (2003 - \$2,470,000).

Debt Authority

Canada, pursuant to subsection 20(2) of the *Northwest Territories Act*, has approved the Government borrowing up to \$300 million.

	2004	2003
	(thousands of dollars)	
Bank overdraft	\$ -	\$ 2,389
Debt of the consolidated entities		
Government of the Northwest Territories, long-term debt	1,364	-
NWT Power Corporation, long-term debt	93,033	93,700
NWT Housing Corporation, loans payable	26,659	27,225
NWT Energy Corporation, debenture series	23,149	23,447
NWT Power Corporation, operational debt	12,772	10,003
	156,977	154,375
Total debt	156,977	156,764
Authorized borrowing limit	300,000	300,000
Available borrowing capacity	\$ 143,023	\$ 143,236

March 31, 2004

14. POST EMPLOYMENT BENEFITS

	2004	2003
	(thousands of dollars)	
Employee Future Benefits		
Resignation	\$ 14,728	\$ 13,236
Removal	5,317	5,417
Retirement	3,568	2,252
	23,613	20,905
Pension Liabilities		
Legislative Assembly Supplementary Retiring Allowance Plans	18,417	17,714
Judges' Supplemental Pension Plan	2,120	1,903
	20,537	19,617
Total	\$ 44,150	\$ 40,522

The expected payments due for employee future benefits in the current year are \$2,428,000 (2003 - \$2,085,000).

The Government maintains the Legislative Assembly Retiring Allowances Fund and the Territorial Court Judges' Registered Pension Plan. Both plans are contributory defined benefit registered pension plans. These two pension plans are fully funded, consequently the Government has no net liabilities as at March 31, 2004 (2003 - nil). The funds related to these plans are administered by independent trust companies. As well there are three supplementary plans known as the Legislative Assembly Supplementary Retiring Allowance Plan I, the Legislative Assembly Supplementary Retiring Allowance Plan II, and the Judges' Supplemental Pension Plan. The Legislative Assembly Supplementary Retiring Allowance Plan II came into force April 2002. These three plans are non-contributory defined benefit pension plans. The Government is liable for all benefits. Benefits provided under all five plans are based on service and/or earnings.

Actuarial valuations were completed for the Legislative Assembly and Judges' plans as of March 31, 2000 and April 1, 2001 respectively, using the projected benefit method prorated on service. Actuarial valuations have not been completed for the Legislative Assembly Supplementary Retiring Allowance Plan II. The valuation is based on a number of actuarial assumptions about matters such as mortality, service, withdrawal, earnings and interest rates. The assumptions are based on the Government's best estimates of expected long-term rates and short-term forecasts. The actuarial valuations were extrapolated to March 31, 2004, if they were not valued at the balance sheet date.

Pension Expense

Pension expense for the Legislative Assembly Retiring Allowance Fund, the Territorial Court Judges' Registered Pension Plan, the Legislative Assembly Supplementary Retiring Allowance, Plans I and II, and Judges' Supplemental Pension Plan for the year totaled \$1,555,000 (2003 - \$2,964,000). The Government's contributions to the Public Service Superannuation Plan were \$21,823,000 (2003 - \$22,016,000). The employees' contributions to the Public Service Superannuation Plan were \$10,198,000 (2003 - \$10,288,000).

March 31, 2004

15. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions relate to the portion of a tangible capital asset that was gifted from or cost shared with Canada. The most significant of these assets are roads and airports. The capital contributions are deferred and amortized to revenue over the same life as the related asset. Deferred capital contributions are recorded as a net to tangible capital assets (Schedule A).

	2004	2003
	(thousands of dollars)	
Deferred capital contributions at beginning of year	\$ 215,083	\$ 214,550
Add: Assets gifted or cost shared during the year	11,217	13,057
Less: Amortization of capital contributions	(13,090)	(12,524)
Deferred capital contributions at end of year	\$ 213,210	\$ 215,083

16. NET INVESTMENT IN TANGIBLE CAPITAL ASSETS

Net investment in tangible capital assets represents the total of tangible capital assets acquired, disposed of, and contributed during the year, net of the annual related amortization charged to operations.

17. TRUST ASSETS UNDER ADMINISTRATION

The Government administers trust assets on behalf of third parties, which are not included in the reported Government assets and liabilities. These consist of cash, term deposits, investments, real estate, and other sundry assets.

	2004	2003
	(thousands of dollars)	
Correctional institutions and other	\$ 245	\$ 233
Natural Resources - capital	188	188
Public Trustee	2,896	2,695
Territorial and Supreme Courts	841	420
Workers' Compensation Board (Northwest Territories and Nunavut)	258,215	263,585
	\$ 262,385	\$ 267,121

The Workers' Compensation Board (Northwest Territories and Nunavut) has a fiscal year end of December 31. Its most recent financial statements and those of the Public Trustee are reproduced in Section III of the Public Accounts of the Government.

Government of the Northwest Territories**Notes to Consolidated Financial Statements**

March 31, 2004

18. COMMITMENTS

The Government has entered into agreements for, or is contractually committed to, the following expenses payable subsequent to March 31, 2004:

	Expiry Date	2005	2006- 2039	Total
(thousands of dollars)				
Canada Mortgage and Housing Corporation	2038	\$ 3,831	\$ 56,076	\$ 59,907
Commercial and Residential Leases	2031	17,552	69,096	86,648
Equipment Leases	2008	1,111	1,191	2,302
Operational Commitments	2013	24,630	21,421	46,051
RCMP Policing Agreement	2012	22,409	179,272	201,681
Tangible Capital Asset Acquisition Commitments - projects in progress at March 31, 2004	2006	30,895	2,380	33,275
Western Harvesters' Assistance Program	2006	134	134	268
		\$ 100,562	\$ 329,570	\$ 430,132

(a) Canada Mortgage and Housing Corporation (CMHC)

In accordance with a Declaration of Trust Agreement, the Canada Mortgage and Housing Corporation (CMHC) transferred its ownership interest in territorial rental and loan portfolios to the Northwest Territories Housing Corporation (the Corporation), as Trustee. The Corporation assumed full responsibility and liability for the social housing programs related to the portfolios and receives annual funding from CMHC to manage these programs. The Agreement and funding expire in 2038.

A portion of this funding is used to make payments on portfolio-related CMHC mortgages of \$59,907,000 (2003 - \$63,363,000) maturing between 2005 and 2038, at interest rates ranging from 4.5% to 21.5%. As the related mortgages mature, the Corporation obtains clear title to CMHC's share of the book value of the respective assets. Until clear title is obtained, CMHC is entitled to its respective share of any gains on the disposal of any portfolio assets.

The portfolio assets and mortgages, held in trust, are recorded only as a commitment in these financial statements. CMHC retains the annual mortgage-related funding to make the mortgage payments, and accordingly neither the funding nor the mortgage payments are recorded by the Government. The mortgages, held in trust, are not included as borrowings for the purposes of the debt authority limits described in note 13.

(b) Charge back of services

The Government has 8 (2003 - 8) cost recovery service agreements with the Government of Nunavut for the provision of various corporate and program delivery services. The expenses on and costs recovered from these projects on behalf of Nunavut are estimated at \$10,484,000 (2003 - \$10,698,000) for the fiscal year 2004-2005.

March 31, 2004

19. CONTINGENCIES

(a) Environmental restoration costs

As circumstances and funding have permitted, the Government has been identifying sites of potential liability and remediating the sites as necessary. To date, the Government has remediated, or determined that no liability exists, at 44 sites. An additional 53 sites have plans in place for remediation while 229 require initial or additional studies to determine the existence and/or extent of the environmental liability.

Of the 229 total sites identified as requiring more investigation, 126 are active fuel caches managed by the Department of Resources, Wildlife and Economic Development that are located a distance from communities. Many of these caches, because of their remoteness and the small number of drums involved (with the potential for only limited local contamination), have not yet been formally assessed. As these sites are re-supplied, each is inspected for liabilities. In addition, the Department currently has 48 inactive fuel caches where there are no drums stored.

In the case of the Petroleum Products Stabilization Fund (PPRF) comprehensive site assessments at each of its bulk fuel storage pipeline distribution systems have been completed (included in sites with plans in place above). The assessments confirmed that hydrocarbon contamination is present in varying levels at all sites. There have been nine Phase III Assessments and one Risk Assessment completed to date. Costs cannot be obtained until remediation has commenced and the scope of work is established. Remediation plans have been prepared to reduce these liabilities over the next five to ten years.

The Government will continue with its program of site inspection, assessment and remediation on an ongoing basis. In those cases where the cost of remediating sites is quantifiable, an estimated liability is accrued. As at March 31, 2004, cost estimates of sufficient accuracy are not yet available to predict future costs, if any, of restoration, consequently, no liabilities have been accrued.

(b) Guarantees

The Government has guaranteed operating lines of credit for Sirius Diamonds NWT Ltd. to a maximum of \$8,000,000; Arslanian Cutting Works (NWT) Ltd. to a maximum of \$9,200,000 and Deh Cho Bridge Corporation Ltd. to a maximum of \$2,000,000 subject to terms of the guarantee agreements which may require specific approval for future advances. At March 31, 2004 balances on the operating lines of credit are \$7,960,000 and \$9,180,000 and \$1,499,000 respectively. Subsequent to March 31, 2004 the banks have called the guarantees for Sirius Diamonds NWT Ltd. and Arslanian Cutting Works (NWT). Sirius Diamonds NWT Ltd. has filed a Notice of Intention to File a Proposal under the *Bankruptcy and Insolvency Act* which provided them with a period of time to file a proposal to satisfy the guaranteed loan amount or restructure the company through new investment. At the date these financial statements were prepared this has not yet occurred. While the Government has booked a loss provision of \$3,000,000 for this guarantee it is not known what the final outcome will be. Arslanian Cutting Works (NWT) has subsequently restructured and the guaranteed amount has been reduced to \$3,200,000.

The Government has guaranteed residential housing loans to banks totaling \$6,533,000 (2003 - \$7,201,000) and indemnified Canada Mortgage and Housing for third party loans totaling \$39,035,000 (2003 - \$40,233,000). In addition, the Government has provided a guarantee to the Canadian Blood Agency and Canadian Blood Services to cover a share of potential claims made by users of the national blood supply. The Government's share is limited to the percentage the Northwest Territories' population is of the Canadian population. No claims have been made on these guarantees.

Government of the Northwest Territories**Notes to Consolidated Financial Statements**

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19. CONTINGENCIES (continued)**(c) Litigation**

More individuals have come forward alleging abuse by a former school teacher in Nunavut, formerly part of the Northwest Territories. Pursuant to agreements negotiated prior to the division of the territories, the Governments of the Northwest Territories and Nunavut will jointly defend the suits. The cost of defending this action and any damages that may eventually be awarded will be shared by the two Governments 56.66% and 44.34% respectively. An estimate of the Government of the Northwest Territories share of the loss arising from these suits has been accrued, however the final outcome may vary significantly from this estimate.

A number of new cases of alleged sexual abuse by former Government of the Northwest Territories employees or contractors have been filed, or are pending against the Government, in addition to the case disclosed above. The Northwest Territories and Nunavut will jointly defend any such proceedings and the cost of defending these actions and any damages that may eventually be awarded will be shared by the two Governments 56.66% and 44.34% respectively. An estimate of any potential liability that may result from these actions is not determinable at this time, consequently no liability has been accrued.

A claim related to the construction of the hydro system on the Taltson River has been filed against the Government, the Northwest Territories Power Corporation and the Government of Canada. It is anticipated that no significant loss will result from this claim.

20. EXPENSES BY PROGRAM

	2004	2003
	(thousands of dollars)	
Social Programs	\$ 683,659	\$ 642,224
Economic Programs	161,980	155,968
Other	125,110	121,687
	\$ 970,749	\$ 919,879

21. RELATED PARTIES

Transactions with related parties and balances at year end, not disclosed elsewhere in the financial statements, are disclosed in this note. During the year the Government made contributions and grants to the following related parties:

	2004	2003
	(thousands of dollars)	
Hospitals and Regional Health Boards	\$ 171,808	\$ 153,702
Divisional Education Councils and District Education Authorities	108,450	102,421
Local Housing Associations and Authorities	32,293	32,866
	\$ 312,551	\$ 288,989

March 31, 2004

21 RELATED PARTIES (continued)

The Government funds communities, boards, agencies and other organizations offering services to the public. These organizations operate independently of normal Government operations. The Government may be held responsible for any liabilities or deficits on behalf of boards and agencies. An estimate of this potential liability, if any, cannot be readily determined.

Under agreements with related boards and agencies, the Government provides services either at cost or for a service fee where direct costs cannot be determined. The fees charged for indirect costs are not necessarily the cost of providing those services. Services provided include personnel, payroll, financial, procurement, accommodation, buildings and works, utilities, legal and interpretation services. Direct costs of \$87,935,000 (2003- \$82,698,000) were incurred and recovered from related parties.

22. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments, including cash/bank overdraft, short-term investments, due (to) from Canada, accounts receivable, and accounts payable and accrued liabilities approximate the carrying amounts because of the short-term to maturity.

The fair value of the Government's long-term financial instruments, including designated cash and investments, loans receivable, capital lease obligations, and long-term debt is detailed in the related separate notes. Where fair value amounts are not detailed, the carrying amounts approximate the fair value.

23. OVEREXPENDITURE

The Department of Health and Social Services exceeded the amounts appropriated to them for operations and maintenance activities by \$1,248,000. This contravenes the *Financial Administration Act, (FAA)* section 32, which states "No person shall incur an expense that causes the amount of the item set out in the Estimates on which the appropriation is based to be exceeded".

24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

Government of the Northwest Territories

Schedule A

Consolidated Schedule of Tangible Capital Assets

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

	Land	Buildings	Other*	Leasehold Improvements	Equipment	Computers	2004	2003
Cost of tangible capital assets, opening **	\$ 2,029	\$ 735,575	\$ 612,734	\$ 19,173	\$ 54,725	\$ 20,263	\$ 1,444,499	\$ 1,329,619
Acquisitions	2	69,957	14,710	2,421	3,571	5,535	96,196	118,993
Disposals	(178)	(5,696)	(1,809)	-	(271)	(9)	(7,963)	(4,113)
Cost of tangible capital assets, closing	\$ 1,853	\$ 799,836	\$ 625,635	\$ 21,594	\$ 58,025	\$ 25,789	\$ 1,532,732	\$ 1,444,499
Accumulated amortization, opening	\$ -	\$ (274,610)	\$ (186,080)	\$ (11,669)	\$ (29,464)	\$ (11,694)	\$ (513,517)	\$ (468,786)
Amortization expense	-	(25,208)	(16,376)	(1,351)	(3,122)	(2,915)	(48,972)	(44,919)
Write-downs	-	-	-	-	2	(2)	-	(1,122)
Disposals	-	2,243	966	-	13	4	3,226	1,310
Accumulated amortization, closing	\$ -	\$ (297,575)	\$ (201,490)	\$ (13,020)	\$ (32,571)	\$ (14,607)	\$ (559,263)	\$ (513,517)
Net book value	\$ 1,853	\$ 502,261	\$ 424,145	\$ 8,574	\$ 25,454	\$ 11,182	973,469	930,982
Work in Progress							98,131	93,940
Deferred capital contributions (note 15)							(213,210)	(215,083)
							\$ 858,390	\$ 809,839

*includes roads, bridges, airstrips, aprons, and water/sewer works

**opening cost of tangible capital assets and related accumulated amortization were reallocated with no effect to total net book value

