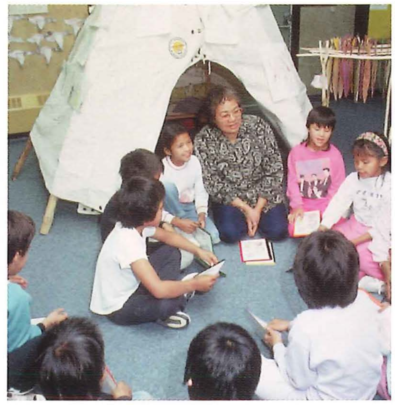

PUBLIC ACCOUNTS

NORTHWEST TERRITORIES 2003 - 2004

Section IV Government Indicators

Northwest Territories

We have been asked by the Financial Management Board Secretariat to distribute the following revised pages in table document 59-15(3):

1. **Inside cover page Section III Supplementary Financial Statements.**

2. **Inside cover page Section IV Government Indicators.**

Sorry for the inconvenience.
Thank you

PUBLIC ACCOUNTS

OF THE

GOVERNMENT OF THE NORTHWEST TERRITORIES

FOR THE YEAR ENDED MARCH 31, 2004

SECTION IV

GOVERNMENT INDICATORS

(Unaudited)

HONOURABLE FLOYD K. ROLAND

Minister of Finance

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

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TABLE OF CONTENTS

INTRODUCTION

The Public Accounts of a government report on the fiscal year's revenues and expenses and how they relate to the overall surplus or deficit position of the Government. It is important to note that the financial condition of a government is often quite different from the financial condition of the economy.

A research study conducted by the Canadian Institute of Chartered Accountants states:

The financial health of a government is it's financial health as measured by sustainability, vulnerability and flexibility, looked at in the context of the overall economic and financial environment. These terms are defined as follows:

- *Sustainability: the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.*
- *Flexibility: the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues, or increasing its debt burden.*
- *Vulnerability: the degree to which government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.*

The information provided in the following pages is intended to assist readers of the Consolidated Public Accounts in their assessment of the Government's financial health. Information relating to assets or liabilities of the Government is specific to a point in time, whereas information relating to revenues and expenses encompasses the results of a fiscal year.

GROSS DOMESTIC PRODUCT

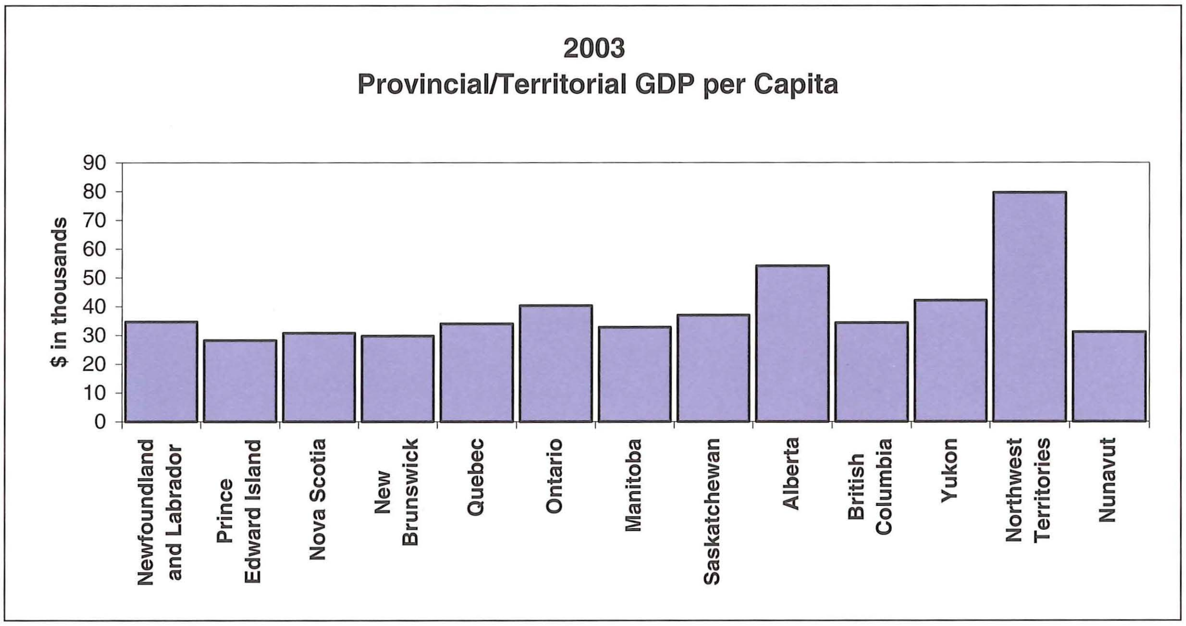
Gross Domestic Product (GDP) represents the total unduplicated value of goods and services produced within the geographical boundaries of a country, or province or territory, irrespective of whether the factors of production involved are resident or non-resident. GDP is typically measured in two ways: as total incomes earned in current production (income-based); and, as total final sales of current production (expenditure-based). Both methods yield the same estimate of GDP. Estimates of GDP are typically expressed at market prices, which includes the impact of taxes and subsidies in the estimate.

For the Northwest Territories (NWT), Statistics Canada estimates current dollar GDP at market prices at $3,332 million for 2003; this represents an increase of 13.0% over the 2002 estimate of $2,949 million. A final estimate of 2003 GDP for the NWT, and the other provinces and territories, is scheduled for release in October 2004; preliminary estimates of 2004 GDP will be released in April 2005.

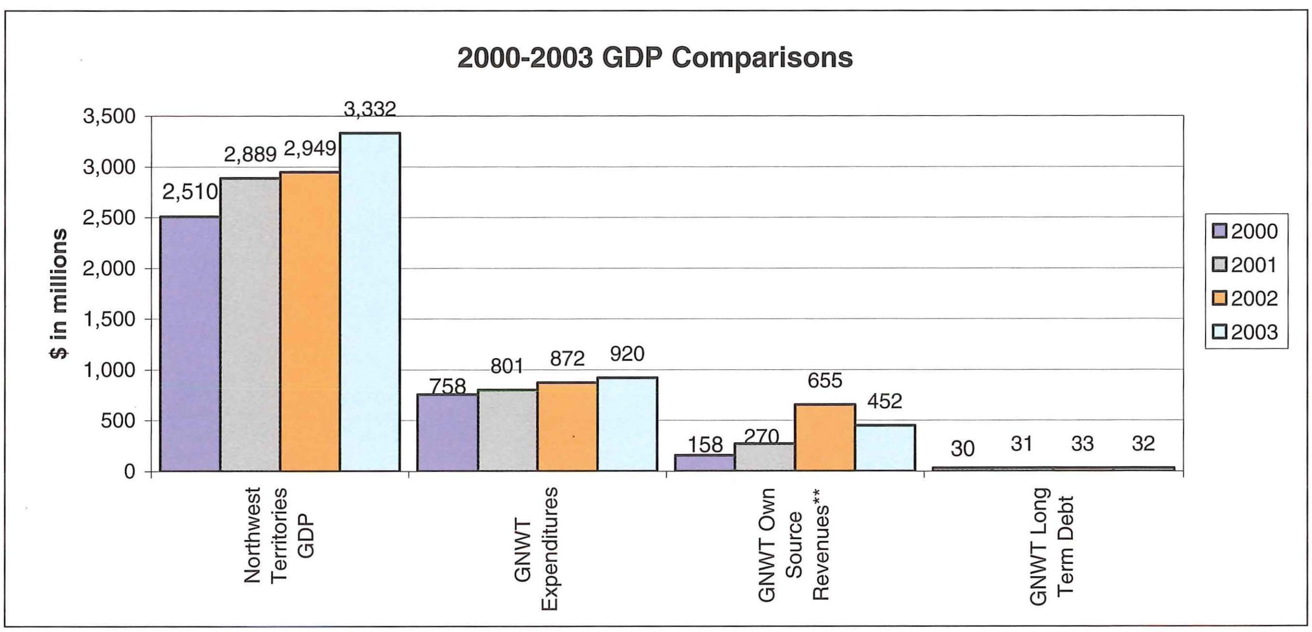
Gross Domestic Product at Market Prices, 2002 and 2003
Canada, Provinces and Territories
Current Dollars ($millions)

	2003	2002	Percent Change
Canada	1,214,601	1,154,949	5.2
Northwest Territories	3,332	2,949	13.0
Nunavut	916	931	-1.6
Yukon	1,310	1,246	5.1
British Columbia	142,418	135,552	5.1
Alberta	170,631	149,998	13.8
Saskatchewan	36,778	34,592	6.3
Manitoba	38,078	37,075	2.7
Ontario	493,416	478,112	3.2
Quebec	254,263	245,559	3.5
New Brunswick	22,358	21,163	5.6
Nova Scotia	28,813	27,102	6.3
Prince Edward Island	3,883	3,748	3.6
Newfoundland and Labrador	18,015	16,555	8.8

GROSS DOMESTIC PRODUCT (continued)



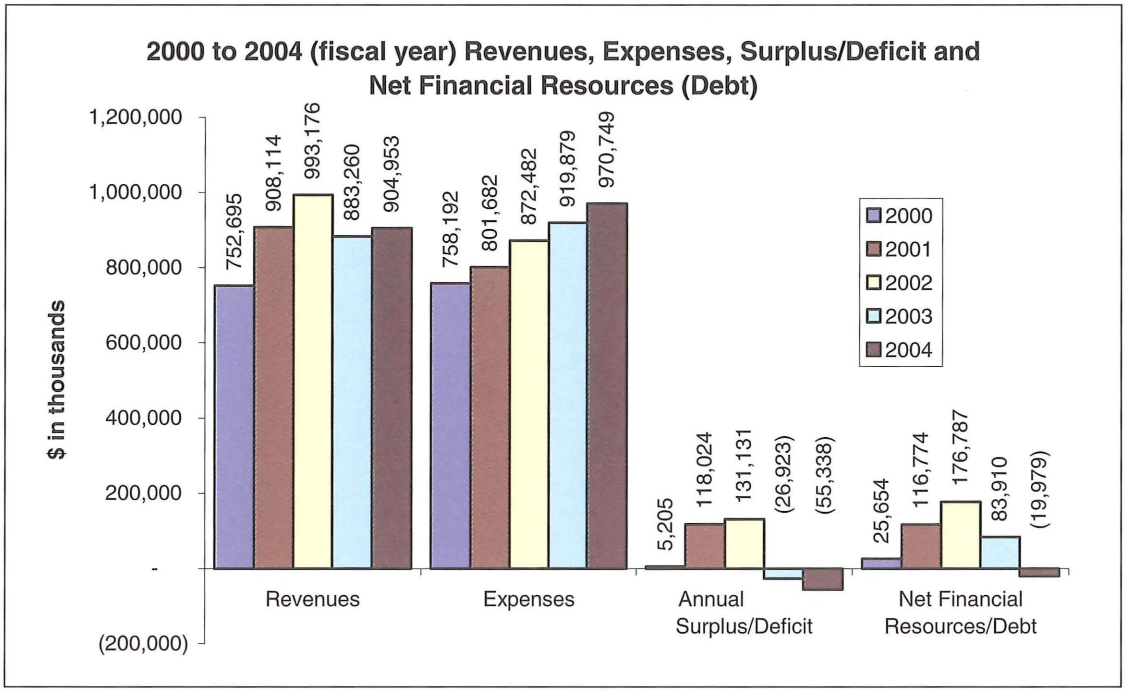
Based on population estimates of Statistics Canada as on July 1, 2003



*Northwest Territories GDP is based on a calendar year, while the balance of the information is based on amounts from March 31 fiscal year-ends.

** see page 11 for discussion on how Own Source Revenue interacts with the Grant from Canada.

REVENUE, EXPENSES, SURPLUS AND NET FINANCIAL RESOURCES



* Revenues depicted above exclude both recovery of prior years expenditures and revenue from the Northwest Territories Power Corporation.

The Government has moved from a positive net financial resources position to a net debt position. This is graphically depicted in the following pages and translates into now having more outstanding liabilities than financial resources (assets) at the fiscal year end. During the last three years the Government's net financial resources have been drawn down from a high of $176 million to a net debt position of $20 million, a change of over $196 million. As discussed on page 6, some of the factors that contributed to this draw down are of a one-time nature, however that does not negate the fact that the Government is now in a much less favourable financial position. Should the trend continue to show net debt increasing then a corresponding concern will be the $300 million borrowing limit set by Canada. In order that the Government's financial position remains sustainable, at least in the short-term, the Government must operate within these confines and yet ensure that it retains some flexibility to adapt and meet future needs.

REVENUE, EXPENSES, SURPLUS AND NET FINANCIAL RESOURCES (continued)

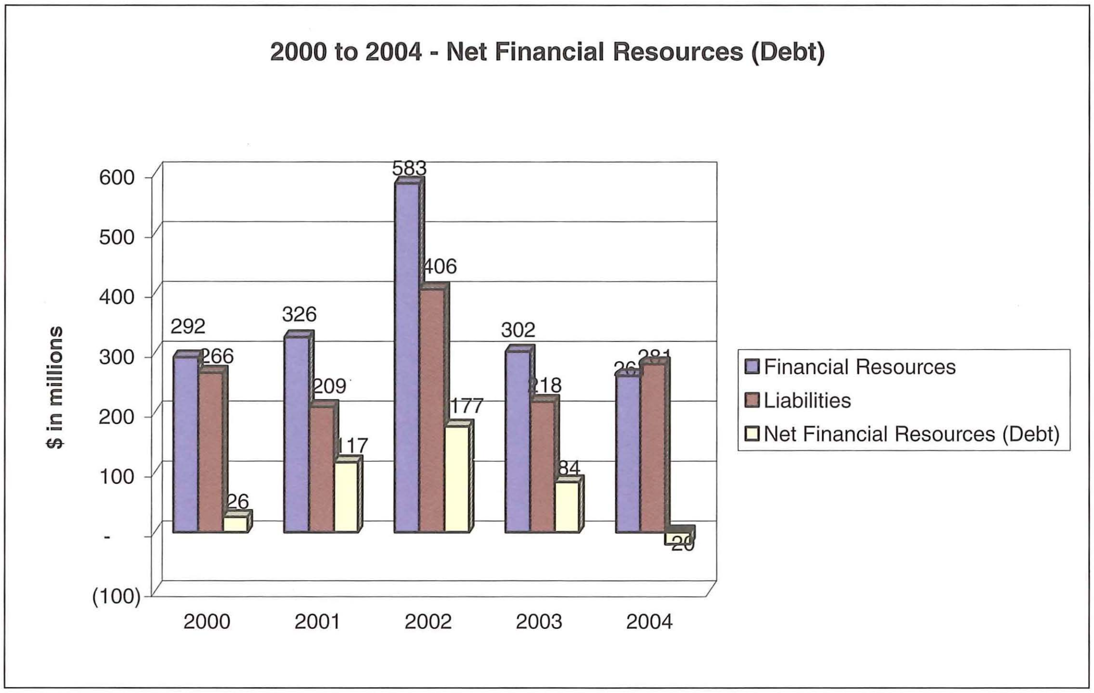
The table below illustrates, both as dollars and as a percentage, the increase in revenue and expenses for the last four fiscal years.

	2000 to 2001		2001 to 2002		2002 to 2003		2003 to 2004	
	$ Change (in thousands)	Percent Change	$ Change (in thousands)	Percent Change	$ Change (in thousands)	Percent Change	$ Change (in thousands)	Percent Change
Revenues	155,419	20.6%	85,062	9.4%	(109,916)	(11%)	21,693	2.5%
Expenses	43,490	5.7%	70,800	8.8%	47,397	5.4%	50,870	5.5%

While an increase (or decrease) maybe be significant, it is important to relate that change to the rate of change in other components. Examples of things to watch are: (1) expenses increasing at a faster rate than revenues, (2) an increase in net debt to maintain or improve services or (3) a fluctuation related to a one-time event or an event that may not re-occur in the future. Assessing the likelihood of any change in the level of revenues or expenses continuing into the future is an important factor to consider. This information can only be reviewed on a meaningful level when consideration is given to what is the driving factor; inflation, new initiatives or other factors. These changes are important when assessing the long-term sustainability of the present level of services.

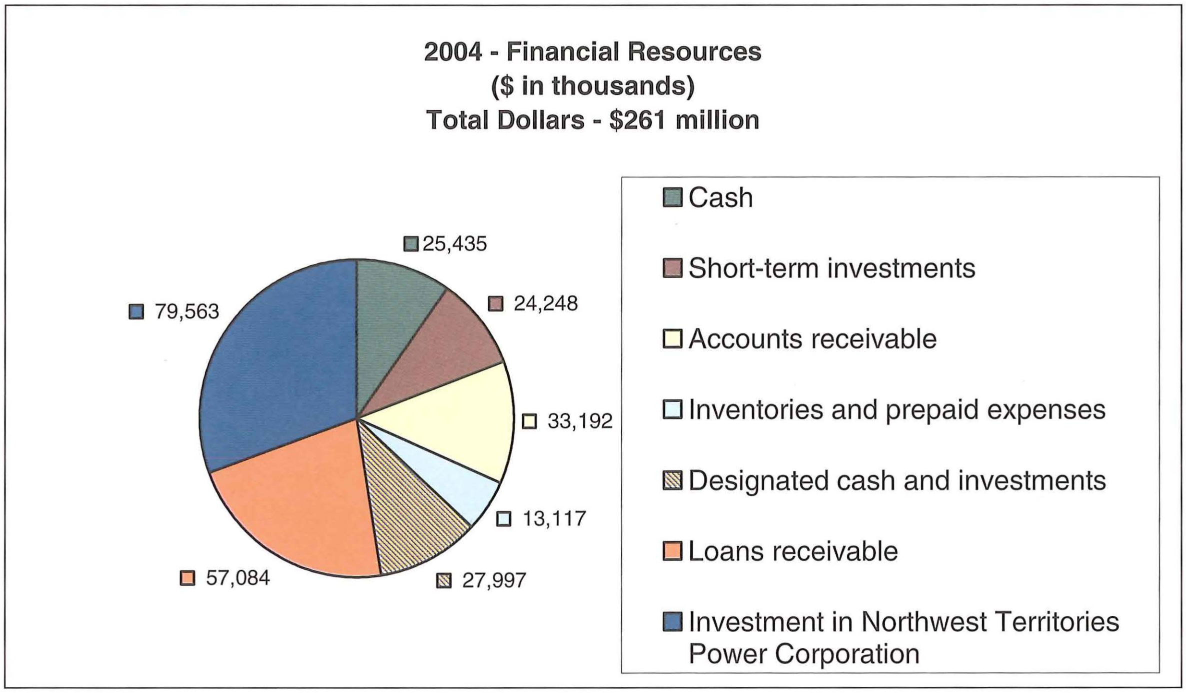
NET FINANCIAL RESOURCES (DEBT)

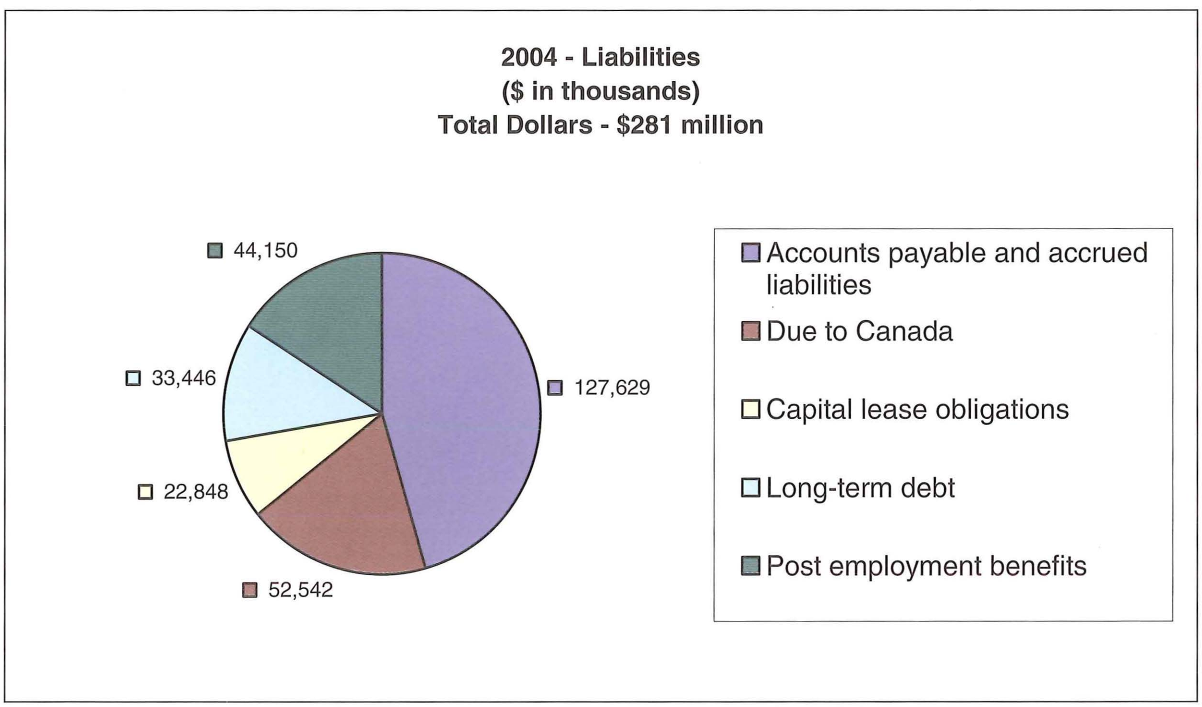
Net financial resources are the residual financial resources after being reduced by all liabilities of the government; net debt results when there is an excess of liabilities over financial resources (as detailed on the next page). The graph below depicts the Government's net financial resource (debt) position at the end of the last five fiscal years.



Net financial resources (debt) is a good indicator of a government's ability to meet its existing financial obligations. However a significant shift in the level of net financial resources versus liabilities has occurred over the last few years resulting in the Government moving to a net debt position. The fluctuation is exaggerated by unusual events that occurred in 2002 increasing our net resources beyond their average boundaries. The increase was the result of excess of cash on hand due to the prepayment of the Grant by Canada and higher corporate taxes. While our 2002 liabilities were also increased by the requirement to repay funds advanced on the Grant, the net effect was to temporarily inflate our net financial resources. In 2003 we saw the reverse effect, as these items did not reoccur. Now in 2004 we continue to see the effect as Canada adjusts the corporate taxes payable to us downward to take into account the effect of the tax windfall washing through the tax calculation. Net financial resources (debt) will always be affected by any dramatic changes in revenues or expenses. Long-term, net debt will increase if revenues do not keep pace or exceed the cost of government operations.

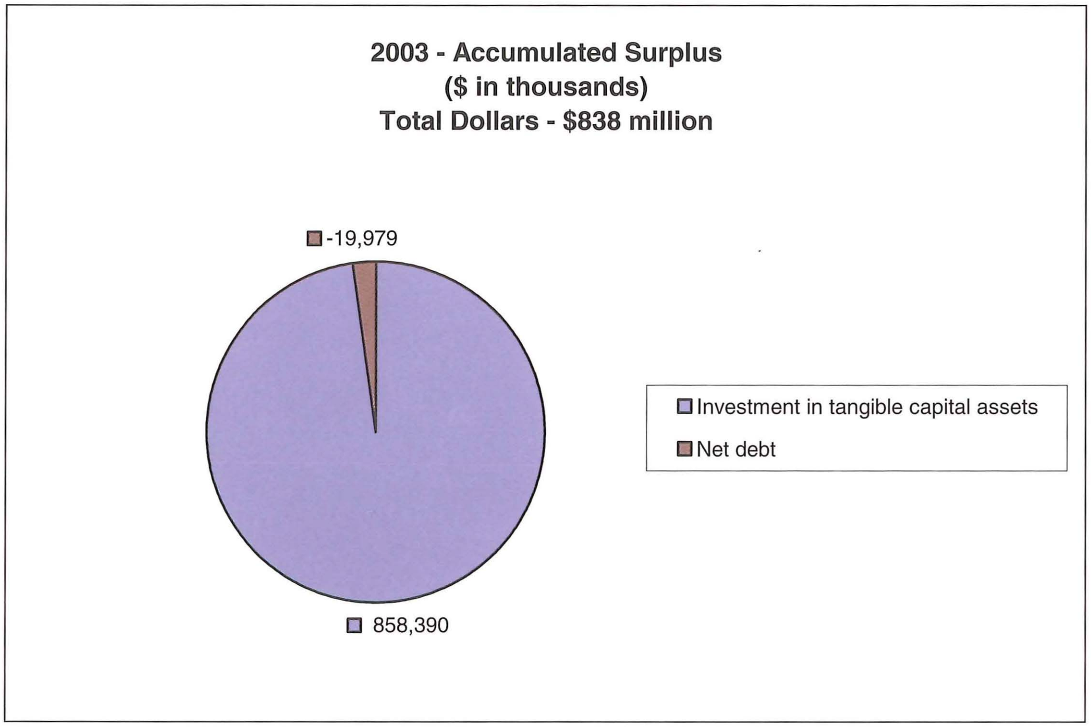
FINANCIAL POSITION





The above graphs illustrate the varied composition of the Government's financial resources and liabilities.

FINANCIAL POSITION (continued)

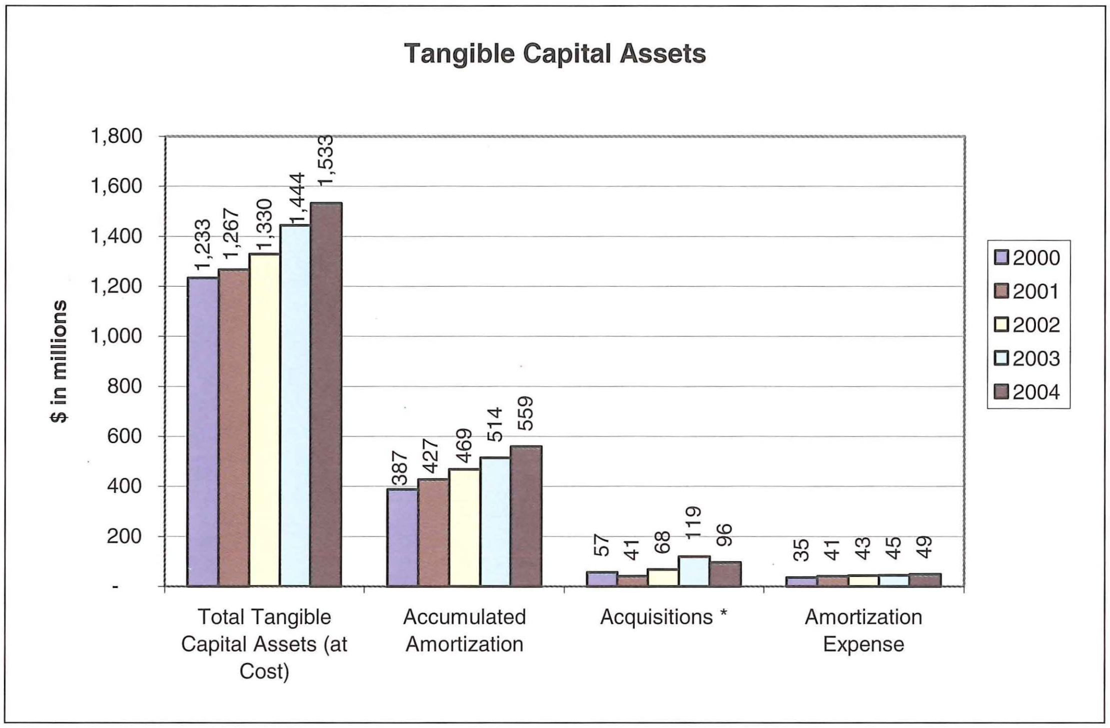


In prior years the Government was in a net financial resources position; this positive amount was added to the Government's investment in tangible capital assets to produce the accumulated surplus to date. However, now that the Government has moved to a net debt position this amount is removed from the Government's investment in tangible capital assets to show the remainder as accumulated surplus to date. The Government would only move to an accumulated deficit if the net debt position of the Government grew over time to the point where it exceeded the total investment in tangible capital assets. An important measure of the flexibility of a Government is when there are surplus financial assets available to meet current and future obligations, as well as, absorb any budgeted annual deficit. A net debt or net financial resource position is not a direct reflection of the available cash but more an indication of sources where cash will or will not be available from to meet current and future obligations.

TANGIBLE CAPITAL ASSETS

Tangible capital assets include assets purchased directly by the Government and assets that were fully or partially contributed to the Government of the Northwest Territories by Canada or other parties.

The Government of the Northwest Territories records Tangible Capital Assets as non-financial assets on the Statement of Financial Position within the Public Accounts. Under this policy the existing assets are capitalized and then expensed as amortization in the financial statements of the Government based on their average useful life.



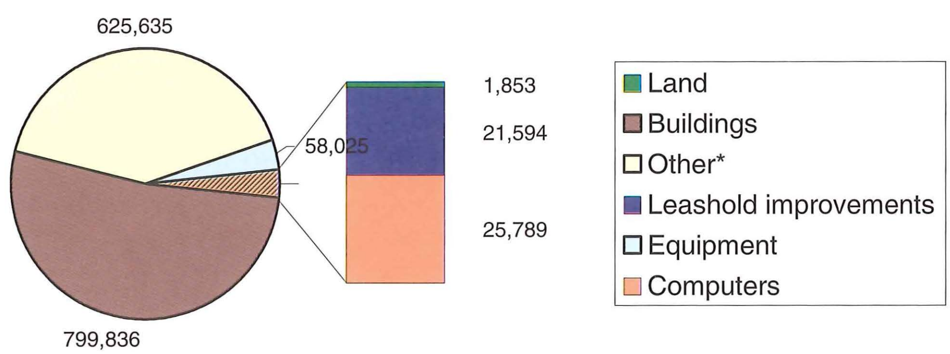
* Acquisitions do not include investments in assets that were not completed as at March 31 of any year. Such assets are recognized when completed and placed into service.

The Government must plan its capital expenditures to ensure that the existing assets are replaced and/or expanded in a timely manner and in conjunction with the Government's direction and priorities.

TANGIBLE CAPITAL ASSETS (continued)

The Government should continue to invest in the replacement of tangible capital assets, at a minimum rate that, over time, approximates the rate at which assets are being consumed. Capital asset investment planning must address two essential points; (1) maintaining existing assets and (2) providing for growth.

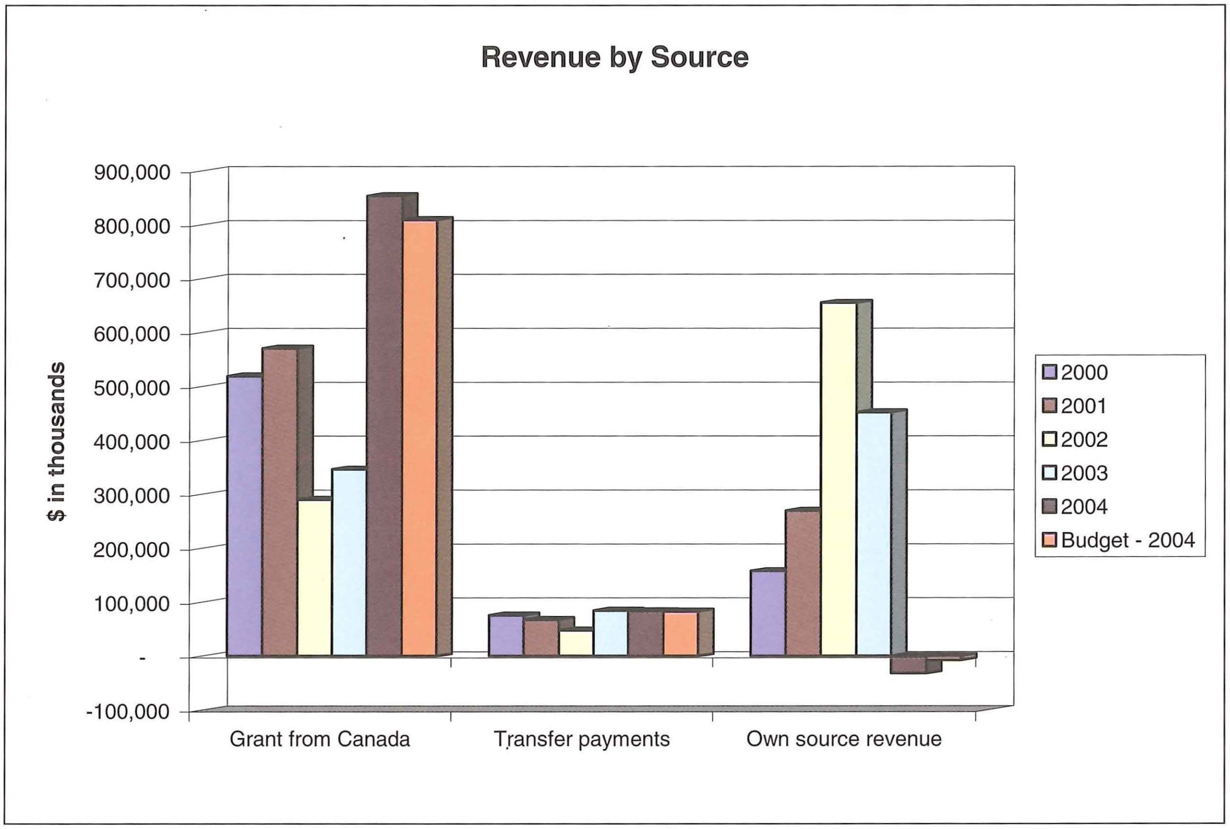
2004 - Tangible Capital Assets - Cost
($ in thousands)
Total Dollars = $1,533 million



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

The Government of the Northwest Territories is currently investing in tangible capital assets at a level that represents between 50% and 60% of the estimated investment needed for replacement and growth.

REVENUE BY SOURCE



In a normal year the Government of the Northwest Territories receives between 65 to 75 percent of its revenues from the Formula Financing Grant from Canada. Major own-source revenues, such as corporate and personal income tax, tobacco tax, fuel taxes, and payroll tax are approximately 25 to 30% of total revenues. Other transfers are approximately 7% of total revenues. Although the Northwest Territories has a vast reserve of non-renewable resources, it does not currently share in the revenue produced by those resources (royalties, etc). The intended result of tri-party negotiations between Canada, the Government of Northwest Territories and Northwest Territories Aboriginal Governments, is the devolution and sharing of resource revenues.

The Grant from Canada is based on a formula designed to cover the difference between expenditure needs and the Government of the Northwest Territories' revenue-raising ability. Therefore, changes to the Government of Northwest Territories' own source revenue levels will change the Grant in the opposite direction. Since the revenue-raising ability measures what the Government could raise at eighty-five percent of national average tax rates in the base year and includes an Economic Development Incentive, changes in own source revenue levels will not change the Grant by a corresponding amount.

REVENUE BY SOURCE (continued)

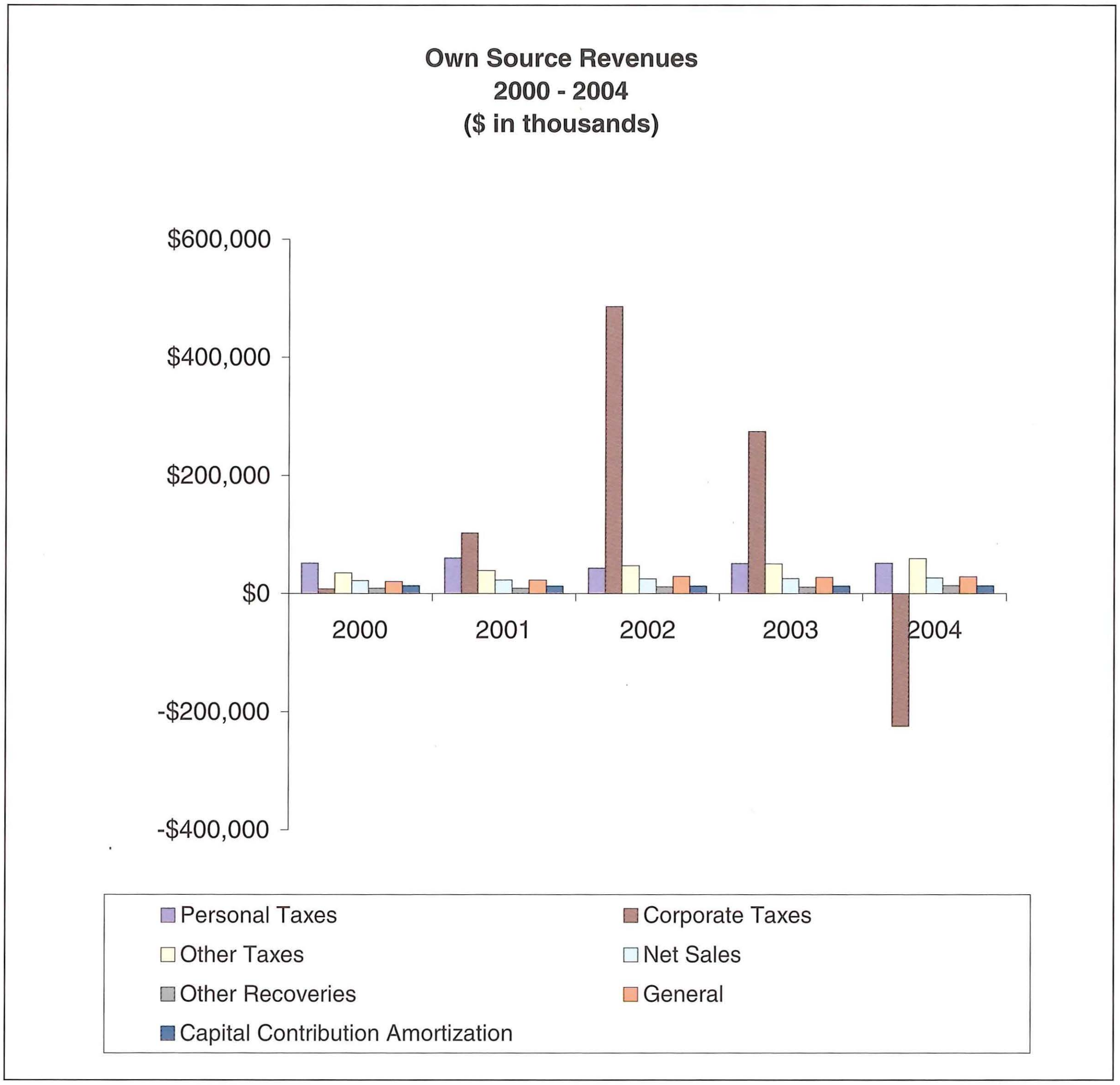
The Grant is designed to provide an incentive for the Government of the Northwest Territories to raise revenues. Therefore, an increase in tax rates that provides increased tax revenues will not affect the Grant. For example, if fuel taxes are raised one cent per litre from the base year rate, the fuel tax revenue for purposes of calculating the Grant will still be at the lower rate. Therefore, the Government of the Northwest Territories keeps the additional revenue generated by increasing the tax rate.

The Grant's expenditure base amount is escalated each year by the growth in provincial/local government spending and the ratio of population growth in NWT to the growth of the Canadian population. The data used to calculate these growth rates is not finalized until three years later for provincial/local government spending and five years later for population data. Therefore, adjustments to the Grant for a fiscal year can occur up to five years later. Since the escalation is cumulative, adjustments for prior years can have significant effects on total revenues. Corporate and personal income taxes estimates also take three years to finalize and require adjustments to the Grant.

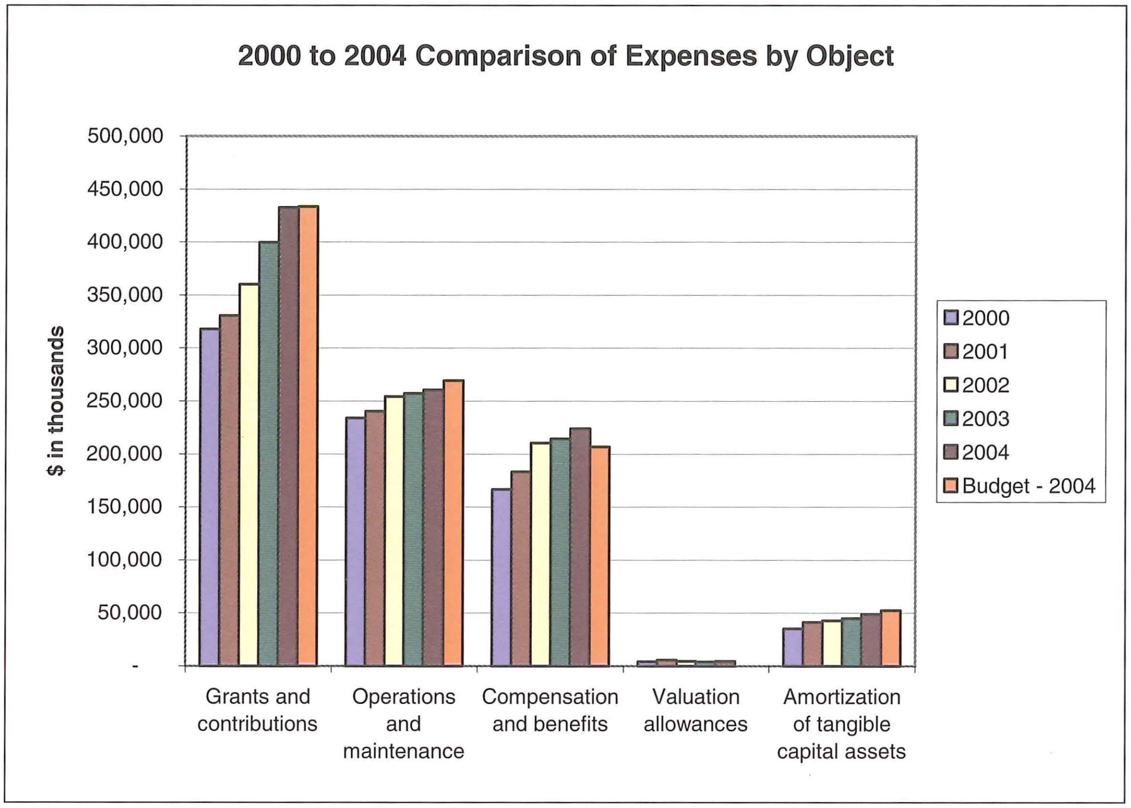
As indicated in the graph on the following page, Corporate Income Tax is a negative revenue for the 2004 fiscal year. This negative amount is the result of an overpayment of 2003 Corporate Income Tax. to us by the Federal Government. The federal government bases estimates of Corporate Income Tax on the latest actual prior year tax revenues (for example, 2002 estimates were based on 2000 actual collections). The 2002 estimate of NWT Corporate Income Tax was based on the large one-time payment from 2000, and the overpayment more than offsets the 2003 Corporate Income Tax estimated revenues.

This overpayment of Corporate Income Tax is also the main reason for the increase in the 2004 Formula Financing Grant entitlement over the 2003 amount. The downward revision of Corporate Income Tax revenues caused an increase in the 2003 Grant. This increase is recorded in 2004 as an adjustment to the current year Grant revenue.

REVENUE BY SOURCE (continued)



EXPENSES BY OBJECT

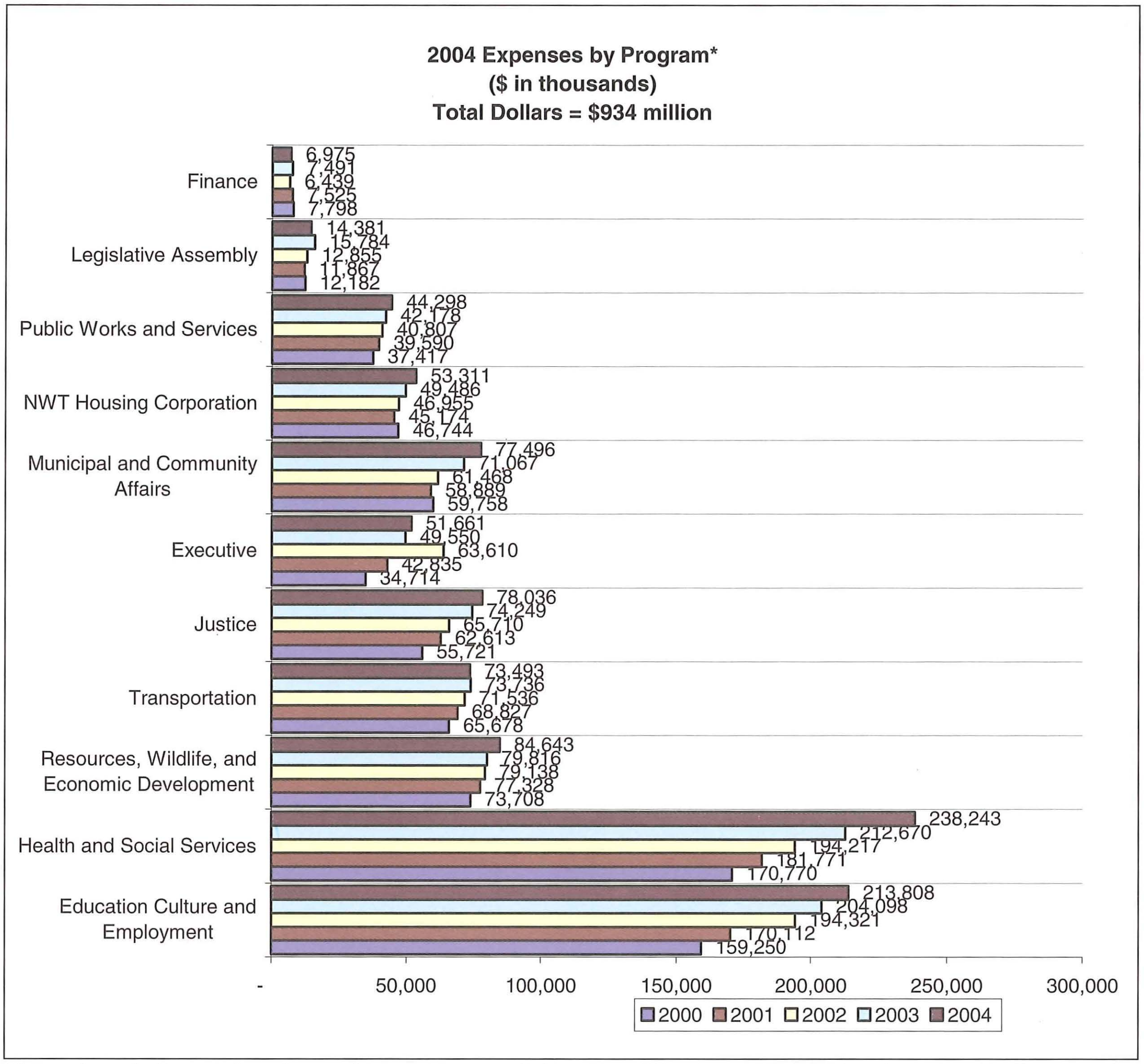


The expenses of the Government are such that a large percentage of its costs are fixed. Grants and contributions to third parties also have many components that are fixed and as the major (or sole) provider of funds, the Government cannot vary the funding without affecting the level of output by these boards and agencies. Approximately 44.7% (2003 – 43.5%) of the Government's total expenditures for 2003/2004 were for Grants and Contributions. Many of our social and educational programs are funded by these contributions.

Additional types of fixed costs are long-term, such as lease and other commitments as disclosed in the note 18 to the Consolidated Public Accounts. A department's operational expenses do not include principal payments on long-term debt (including capital leases).

The Government is also vulnerable to inflation as it is an important factor when negotiating compensation and benefits. Not only are the direct wages of the Government (approximately 23 % (2003 – 23.3%) of the government's total expenditures) vulnerable to this but wages also make up a significant portion of the grants and contributions given to third parties.

EXPENSES BY PROGRAM



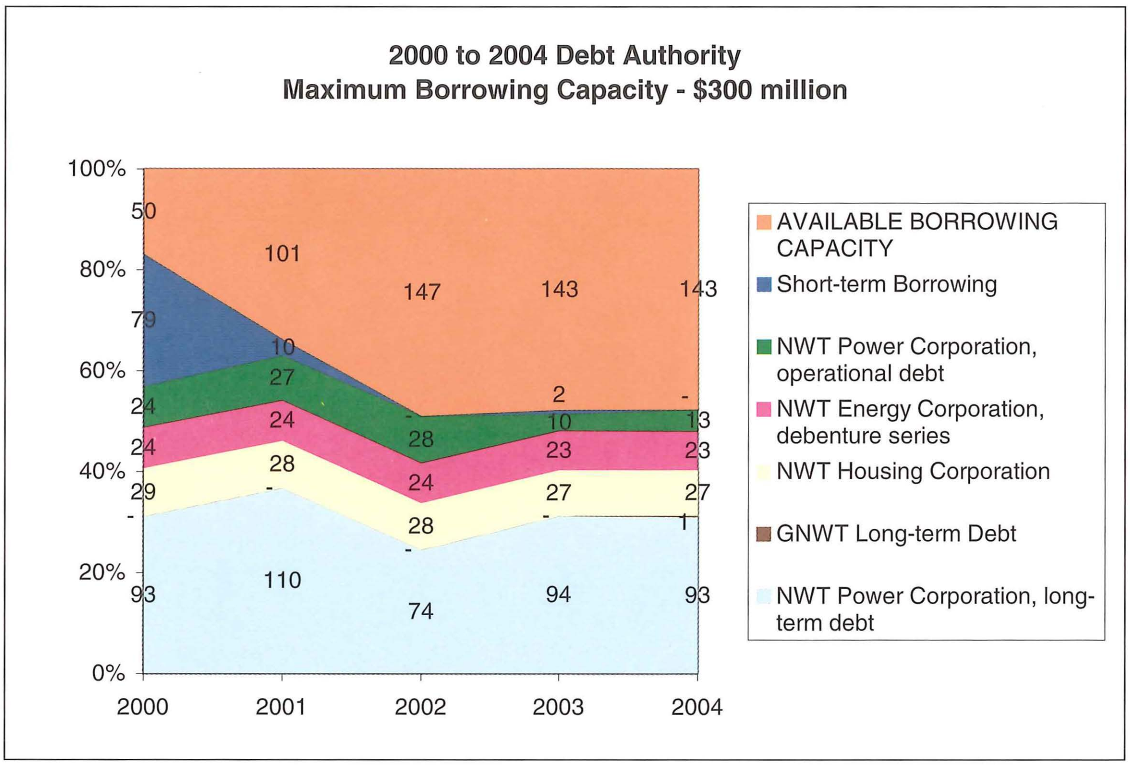
*based on information from the Non-consolidated Public Accounts – Section II

In the 2004 fiscal year, the Government spent 62% (2003 – 60%) of its total budget on social programs (education, health, justice and housing). Most of the remaining budget is allocated to infrastructure, natural resources and economic development. Any additional resources to improve a service often have to be made at the expense of other important needs. Balancing a budget entails not only controlling expenses but also finding the most effective and efficient mix of programs.

LONG-TERM DEBT BORROWING CAPACITY

Canada, pursuant to subsection 20(2) of the *Northwest Territories Act,* has approved Government borrowing up to $300 million. This includes all debt of the various Government entities' that are consolidated. These entities include the Northwest Territories Housing Corporation and the Northwest Territories Power Corporation. If future monetary requirements should require borrowing in excess of the approved amount a review of the Government's overall borrowing capacity with Canada would be required.

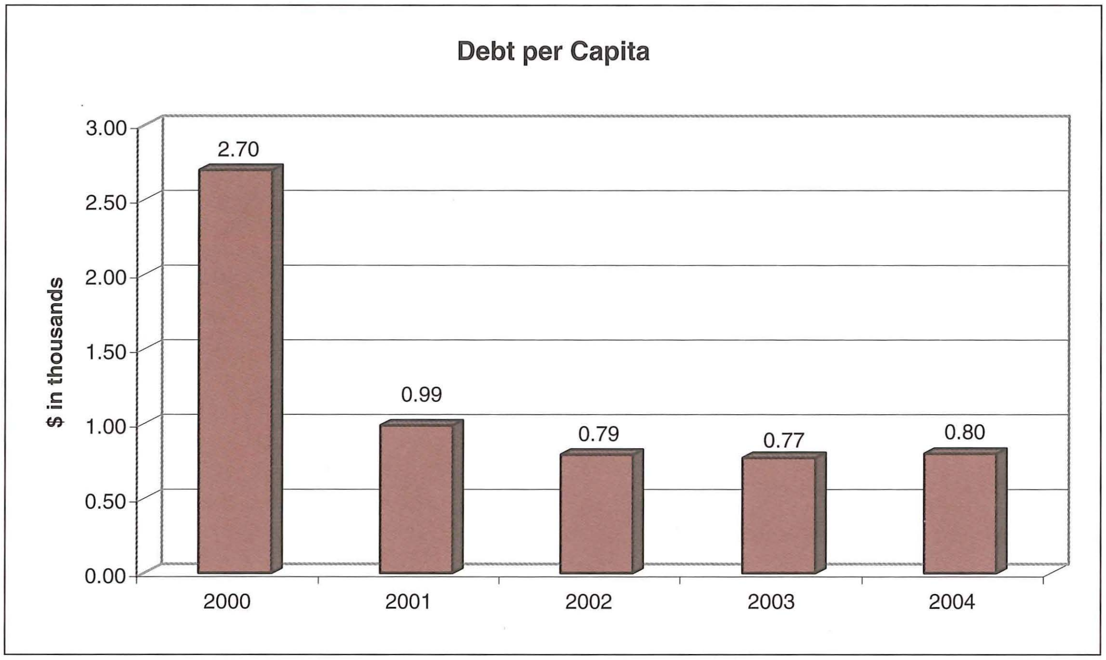
The borrowings of the Northwest Territories Power Corporation (NTPC) and the Northwest Territories Energy Corporation are serviced through revenues generated by the NTPC and Northwest Territories Energy Corporation and, as such, do not require the Government fund the related interest expense or principal repayment.



While the Government's borrowing has levelled off in the last couple of years the move from a net financial resources position to a net debt position will require the Government to incur additional debt in the future to sustain current service levels if current trends in revenue and expense ratios continue to follow the pattern indicated on page 5. This would draw down the available borrowing capacity over time.

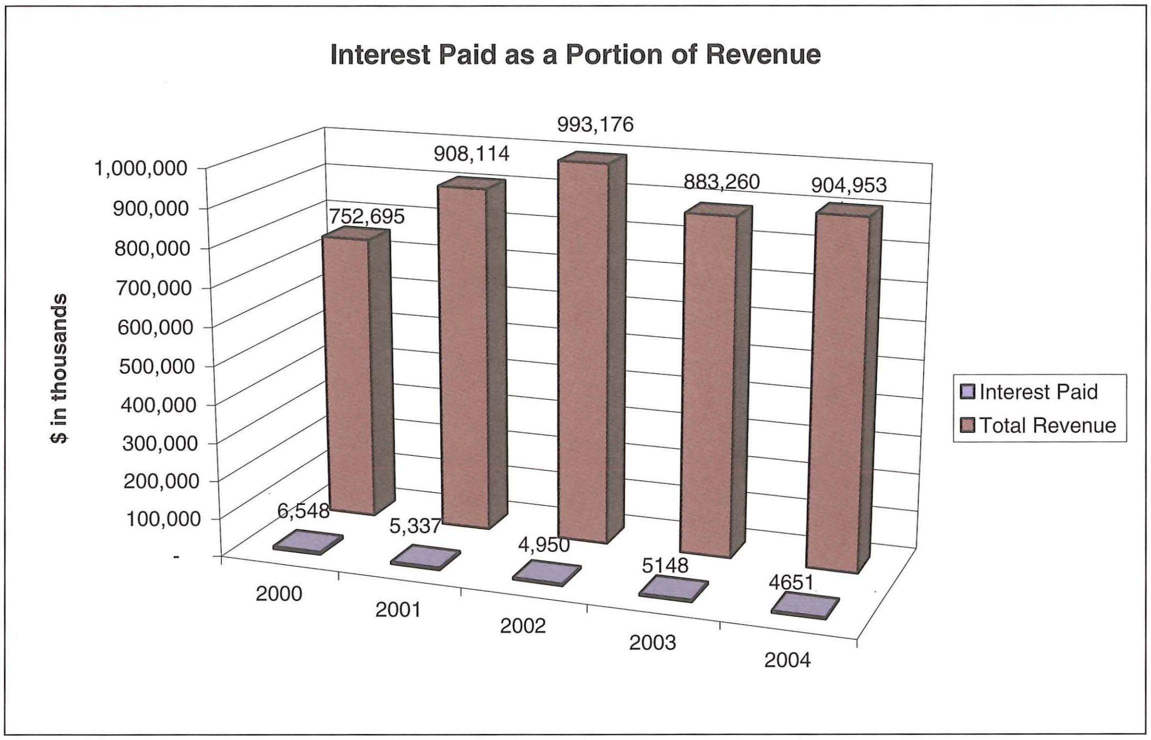
DEBT PER CAPITA

The following chart depicts the debt per capita with respect to the entire debt load that the Government of the Northwest Territories is directly responsible for. This debt is defined as short and long-term borrowing. At March 31, 2004 the long-term debt was $33 million, with no short-term borrowings.



Based on Statistics Canada population as at July 1, 2003

INTEREST



The Government of the Northwest Territories is in the enviable position of having less than 1% of its total revenues expended to service its debt load.

CONCLUSION

As described in the Introduction, the CICA has suggested that a government's financial health should be measured in terms of sustainability, flexibility and vulnerability. The preceding measures have attempted to illustrate how the Government of the Northwest Territories' fiscal health measures up from this standpoint. The following conclusions are suggested:

Sustainability – at the end of the 2004 fiscal year the Government of the Northwest Territories switched from having a surplus of financial assets over financial liabilities of \$84 million to liabilities in excess of financial assets by \$20 million. This net debt position means approximately 2% of the year's expenses, or 1 week of operations were financed by incurring debt beyond our financial assets. The Government's long-term debt was \$33 million or 3.6% of the Government revenues for the year and less than 1% of the Northwest Territories Gross Domestic Product. These measures suggest that the Government of the Northwest Territories may not be able to maintain current programs without increasing the debt burden on the economy to some degree.

Flexibility – this pertains to the Government's ability to increase its financial resources. The Government of the Northwest Territories own source revenues were negative as the result of a 2002 overpayment of corporate taxes realized in the 2004 fiscal year. If the effects of corporate tax are ignored, own source revenues increased in 2004. When own source revenues are looked at net of all income tax the increase in the current year is 10.5%. The balance of revenues came largely through the Formula Financing Agreement with the federal government. The Government does not have access to resource royalty revenues as the federal government continues to control all Northwest Territories subsurface resources. The Government of the Northwest Territories has a federally imposed limit on its borrowing of \$300 million, and although it is currently under its limit, \$300 million represents only 31% of 2003/2004 expenses or 16 weeks of operations. The Government of the Northwest Territories' flexibility is severely constrained by these factors.

Vulnerability – this is a measure of how dependent a government is on sources of funding outside its control or influence. To assess the Government of the Northwest Territories vulnerability it is not necessary to look further than the Government's limited own source revenues, their volatility related to corporate income tax and their effect on the Formula Financing Agreement. This agreement is renewed every five years at which time it is subject to negotiated or federally imposed changes. The current agreement expired March 31, 2004. Discussions are currently underway to finalize the next agreement. Until the new agreement is finalized the Government will receive Formula Financing Grant payments based on the old Agreement.

In summary, the Government of the Northwest Territories is financially stable at this point in time but it has limited flexibility to raise new revenues or incur debt and it is very vulnerable to federal changes to its future revenues.

ADDITIONAL SOURCES OF INFORMATION

The Government of the Northwest Territories produces several other documents and web sites that may be referenced for additional information.

Sources include:

- Government of the Northwest Territories Web Site at www.gov.nt.ca
- Government of the Northwest Territories Public Accounts
  - Section I – Consolidated Financial Statements
  - Section II – Non-Consolidated Financial Statements
  - Section III – Supplementary Financial Statements
- Government of the Northwest Territories Main Estimates
- Business Plans
- Geographic Tracking Report
- Results Report