PUBLIC ACCOUNTS

OF THE

GOVERNMENT OF THE NORTHWEST TERRITORIES

FOR THE YEAR ENDED MARCH 31, 2006

SECTION I

CONSOLIDATED FINANCIAL STATEMENTS

HONOURABLE FLOYD K. ROLAND

Minister of Finance

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Northwest Territories Financial Management Board

THE HONOURABLE TONY WHITFORD
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, 2006.

Floyd K. Roland
Chairman

July 21, 2006

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Public Accounts of the
Government of the Northwest Territories

Table of Contents **Page**

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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). 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.

Mark Cleveland
Comptroller General
Government of the Northwest Territories

July 21, 2006

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Auditor General of Canada
Vérificatrice générale du Canada

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, 2006 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, 2006 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. As required by the *Northwest Territories Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the reporting entity as explained in note 3 to the consolidated financial statements, 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 to the consolidated financial statements 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 to the consolidated financial statements.

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

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
July 21, 2006

Government of the Northwest Territories

Consolidated Statement of Financial Position

As at March 31, (thousands of dollars)		**2006**		**2005** (Restated - Note 3)
Financial resources				
Cash and cash equivalents (note 5)	$	464,541	$	333,881
Accounts receivable (note 6)		47,222		40,640
Inventories for resale (note 7)		11,734		9,149
Designated cash and investments (note 8)		26,620		26,462
Loans receivable (note 9)		53,193		56,670
Investment in Northwest Territories Power Corporation (note 10)		85,762		82,070
Equity in Divisional Education Councils and District Education Authorities (note 11)		42,067		35,340
		731,139		**584,212**
Liabilities				
Accounts payable and accrued liabilities (note 12)		195,150		163,300
Due to Canada (note 13)		384,635		322,300
Capital lease obligations (note 14)		19,598		21,314
Long-term debt (note 15)		90,006		62,459
Pension, retirement and other employee future benefits (note 16)		51,709		52,691
		741,098		**622,064**
Net debt	**$**	**(9,959)**	**$**	**(37,852)**
Non-financial assets				
Tangible capital assets (schedule A)		936,748		906,439
Prepaid expenses		8,321		7,568
		945,069		**914,007**
Accumulated surplus	**$**	**935,110**	**$**	**876,155**

Commitments and contingencies (notes 19 and 20)

Approved:

Floyd K. Roland
Minister of Finance

Mark Cleveland
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)	**2006**		**2005** (Restated - Note 3)
	Budget (unaudited)	**Actual**	**Actual**
Net debt at beginning of year, as previously reported	**$ (37,852)**	**$ (37,852)**	**$ (19,979)**
Reclassification of prepaid expenses to non-financial assets	-	-	(4,755)
Restatement of prior year (note 3)	-	-	30,815
Net financial resources (debt) at beginning of year, restated	(37,852)	(37,852)	6,081
Items affecting net financial resources:			
Annual surplus	85,648	58,955	4,685
Net investment in tangible capital assets (schedule A)			
Acquisitions	(118,209)	(104,638)	(89,944)
Disposals/write-downs	-	11,331	3,433
Amortization	57,430	53,280	50,919
Change in deferred capital contributions	13,420	9,718	(10,213)
Increase in prepaid expenses	-	(753)	(2,813)
Net resources (debt) at end of year	**$ 437**	**$ (9,959)**	**$ (37,852)**

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)	2006 Budget (unaudited)	2006 Actual	2005 (Restated - Note 3) Actual
Revenues			
From Canada			
Grant (note 4)	$ 724,280	$ 727,530	$ 710,675
Transfer payments (note 4)	80,890	157,673	92,180
	805,170	885,203	802,855
Generated revenues			
Corporate and Personal Income Taxes (note 4)	84,259	57,987	55,319
Other taxes	75,583	79,451	67,936
General	62,164	46,801	41,831
Sales (net of cost of goods sold of $29,877 (2005 - $22,551))	27,669	28,335	26,587
Recoveries and amortization of capital contributions	54,440	59,428	46,542
	304,115	272,002	238,215
Recoveries of prior years' expenses	3,000	5,318	3,724
	1,112,285	**1,162,523**	**1,044,794**
Expenses (note 21)			
Grants and contributions	220,916	273,398	234,578
Operations and maintenance	398,804	390,373	381,849
Compensation and benefits	356,898	395,177	369,333
Valuation allowances	-	6,529	9,396
Amortization of tangible capital assets	57,430	53,280	50,919
	1,034,048	**1,118,757**	**1,046,075**
Annual operating surplus (deficit)	**78,237**	**43,766**	**(1,281)**
Net income from investment in Northwest Territories Power Corporation (note 10)	7,411	7,192	5,807
Annual operating surplus of Divisional Education Councils and District Eduction Authorities (note 11)	-	7,997	159
Projects for Canada, Nunavut and others			
Expenses	(26,248)	(46,645)	(46,521)
Recoveries	26,248	46,645	46,521
Annual surplus	**$ 85,648**	**58,955**	**4,685**
Accumulated surplus, at beginning of year		876,155	871,470
Accumulated surplus, at end of year		**$ 935,110**	**$ 876,155**

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)	**2006**	**2005** (Restated - Note 3)
Operating transactions		
Cash received from:		
Canada	$ 910,172	$ 1,009,454
Taxation	152,042	181,298
Recoveries and general revenue	88,371	69,563
Projects for Canada, Nunavut and others	63,453	47,234
Recovery of costs incurred for related parties	58,779	51,856
Revolving fund sales	57,997	50,014
	1,330,814	1,409,419
Cash paid for:		
Compensation and benefits	390,695	366,863
Grants and contributions	228,667	231,956
Operations and maintenance	421,337	381,395
Projects for Canada, Nunavut and others	46,645	46,521
Direct costs incurred for related parties	59,615	55,478
	1,146,959	1,082,213
Cash provided by operating transactions	**183,855**	**327,206**
Investing transactions		
Acquisition of tangible capital assets	(104,638)	(89,944)
Capital contributions received and deferred	23,168	2,774
Designated cash and investments sold	2,716	3,270
Loans receivable receipts	12,128	12,742
Loans receivable advanced	(15,900)	(17,013)
Dividend from Northwest Territories Power Corporation	3,500	3,300
Cash used for investing transactions	**(79,026)**	**(84,871)**
Financing transactions		
Repayment of capital lease obligations	(1,716)	(1,534)
Long-term financing proceeds	28,363	29,763
Long-term financing repaid	(816)	(750)
Cash provided by financing transactions	**25,831**	**27,479**
Increase in cash and cash equivalents	**130,660**	**269,814**
Cash and cash equivalents at beginning of year	333,881	64,067
Cash and cash equivalents at end of year	**$ 464,541**	**$ 333,881**

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	*Public Colleges Act*
Northwest Territories Housing Corporation	*Northwest Territories Housing Corporation Act*
Northwest Territories Business Development and Investment Corporation*	*Northwest Territories Business Development and Investment Corporation Act*
Northwest Territories Opportunities Fund	*Northwest Territories Societies Act*
Health Authorities of the Northwest Territories	*Hospital Insurance and Health and Social Services Administration Act*
Status of Women Council of the Northwest Territories	*Status of Women Council Act*
TliCho Community Services Agency	*TliCho Community Services Agency Act*

* On April 1, 2005 the Northwest Territories Business Credit Corporation and the Northwest Territories Development Corporation merged to form the Northwest Territories Business Development and Investment Corporation.

Modified Equity:

Northwest Territories Power Corporation	*Northwest Territories Power Corporation Act*
Divisional Education Councils and District Education Authorities	*Education Act*

These organizations have a March 31 fiscal year end with the exception of Aurora College and the Divisional Education Councils and District Education Authorities, which have a fiscal year end of June 30. Transactions of these organizations that have occured during the period to March 31, 2006 and that significantly affect the consolidation have been recorded. Revolving funds are incorporated directly into the Government's accounts while trust assets administered by the Government on behalf of other parties, including the assets of the Workers' Compensation Board (Northwest Territories and Nunavut) (note 18), are excluded from the consolidated Government reporting entity.

The Public Sector Accounting Board has issued new standards that require government-controlled entities to be consolidated using the full consolidation method commencing on or before the 2009 fiscal year end. In a transition period to March 31, 2008, these government-controlled entities are allowed to be consolidated using the modified equity basis of accounting. The government has consolidated the Health Authorities, Tlicho Community Services Agency and the Status of Women Council on a full consolidation basis while the Divisional Education Councils and District Education Authorities have been consolidated on a modified equity basis.

1. AUTHORITY AND OPERATIONS (continued)

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

(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.

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 Transfer and Canada 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.

(b) Cash and cash equivalents/designated cash and investments

Cash and cash equivalents are comprised of bank account balances net of outstanding cheques and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition.

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 and are included as a component of investment income.

(c) Inventories for resale

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 the lower of cost and replacement cost. Other inventories are valued at the lower of cost, determined on a first in, first out basis and net replacement value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 recorded on an accrual basis. Interest revenue is not accrued when the collectibility of either principal or interest is not reasonably assured.

(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 income 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 a straight line basis over their estimated useful 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Tangible capital assets and leases (continued)

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 the obligation is incurred. Operating leases are charged to expenses. Works of art, historical treasures and crown lands are not recorded.

(h) Pension, retirement and other employee future benefits

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Government contributes at a rate of 2.14 times (2005 - 2.14 times) the employee's contribution. The Government's contributions are charged as an expense on a current year basis and represent the total pension obligations. The Government is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Pension 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 on a straight line basis 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) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using exchange rates at year-end. Foreign currency transactions are translated into Canadian dollars using rates in effect at the time the transactions were entered into. All exchange gains and losses are included in net income for the year according to the activities to which they relate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 liabilities. Recoveries are accrued when expenses, as allowed under the project contract, exceed advances.

(l) Taxes

Corporate and Personal 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.

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) Transfer payments and other revenues

Government transfers are recognized as revenue in the period in which the events giving rise to the transfer occurred, as long as the transfer is authorized, eligibility criteria have been met and a reasonable estimate of the amount can be made.

All other revenues are recorded on an accrual basis.

(n) Expenses

Government grants and contributions are recognized as expenses in the period in which the events giving rise to the grant or contribution occurred, as long as the grant or contribution is authorized, eligibility criteria have been met and a reasonable estimate of the amount can be made.

All other expenses are recognized on an accrual basis.

(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. REPORTING CHANGE

Effective April 1, 2005, the Government expanded its reporting entity to include the accounts of Health Authorities, Divisional Education Councils and District Education Authorities, the Tlicho Community Services Agency and the Status of Women Council of the Northwest Territories (see Note 1(a)). Previously, the financial statements of these Government-controlled entities were not included in the public accounts of the Northwest Territories.

This change has been applied retroactively and as a result, the net debt and accumulated surplus as at April 1, 2004 has been increased by $30,815,000 and $33,059,000 respectively, and the annual surplus for the year ended March 31, 2005 has increased by $812,000. The effect of the reporting change on the 2004-05 consolidated financial statements is summarized below:

	for the year ended, March 31, 2005		
	As Previously Reported	**Reporting Change** (thousands of dollars)	**As Restated**
Revenues	$ 1,020,847	$ 23,947	$ 1,044,794
Expenses	1,022,781	23,294	1,046,075
Annual operating deficit	(1,934)	653	(1,281)
Net income from investment in Northwest Territories Power Corporation	5,807	-	5,807
Net income from Divisional Education Councils and District Education Authorities	-	159	159
Annual surplus	3,873	812	4,685
Accumulated surplus at beginning of year	838,411	33,059	871,470
Accumulated surplus at end of year	**$ 842,284**	**$ 33,871**	**$ 876,155**

Had this change not been made, the accumulated surplus at March 31, 2006 would have been $889,231,000 and the annual surplus for the year ended March 31, 2006 would have been $46,947,000.

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

The Territorial Formula Financing Agreement with Canada expired on March 31, 2004 and has been replaced by Bill C-24: *An Act to amend the Federal-Provincial Fiscal Arrangements Act and to make consequential amendments to other Acts (fiscal equalization payments and funding to the territories).* The Grant entitlement is a fixed amount for the 2005-06 fiscal year with no prior year adjustments.

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

The Grant and transfer payments from Canada and own source revenues are no longer inter-related. As such, the year-to-year fluctuations in corporate and personal income tax revenue will have no impact on the 2005-06 Grant from Canada. However, fluctations in corporate and personal income tax still influence other transfer payments from Canada, most notably the Canada Social Transfer and the Canada Health Transfer.

In the 2000 tax year a Northwest Territories corporate taxpayer paid Northwest Territories corporate income tax on a capital gain resulting from the disposition of publicly traded shares. In the 2003 tax year the same corporation incurred a large capital loss and applied for a refund of Northwest Territories corporate income tax to be carried back to the 2000 tax year. The Canada Revenue Agency has reviewed the claim and determined that $36 million may be carried back to the 2000 tax year. The Government recognized the refund in Corporate Income Taxes in the 2004-05 fiscal year. Subsequent review by the Canada Revenue Agency has resulted in the determination that the taxpayer may be allowed a further $25 million for the 2000 tax year, which the Government recognized in the 2005-06 fiscal year. An additional amount of up to $108.6 million in Northwest Territories corporate income tax could be at risk, depending on the outcome of the Canada Revenue Agency review of the claim. The taxpayer has the right to appeal the Canada Revenue Agency's determination. In addition, the *Formula Financing Agreement* is currently under review and the possible impact on the Grant from Canada arising from this refund cannot be determined at this time.

5. CASH AND CASH EQUIVALENTS

	2006	**2006** (Restated - Note 3)
	(thousands of dollars)	
Cash	$ 146,759	$ 72,289
Short-term investments	317,782	261,592
	$ 464,541	**$ 333,881**

Short-term investments represent a diversified portfolio of high grade, short-term income producing assets. The portfolio yield for the year ended March 31, 2006 varied from 1.25% to 5.20% (2005 - 1.00% to 5.20%). 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 10% to 50% of the total portfolio. There is no significant concentration in any one investment. The average term to maturity, as at March 31, 2006, is 31 days (2005 - 41 days).

6. ACCOUNTS RECEIVABLE

	2006	2005 (Restated - Note 3)
	(thousands of dollars)	
General	$ 41,588	$ 35,468
Government of Nunavut	6,438	6,852
Revolving fund sales	3,594	3,379
Accrued interest	1,259	1,071
	52,879	46,770
Less: allowance for doubtful accounts	13,633	13,013
	39,246	**33,757**
Receivables from related parties:		
Divisional Education Councils and District Education Authorities	4,411	3,575
Northwest Territories Power Corporation	3,537	3,308
Workers' Compensation Board (Northwest Territories and Nunavut)	28	-
	7,976	**6,883**
	$ 47,222	**$ 40,640**

7. INVENTORIES FOR RESALE

	2006	2005 (Restated - Note 3)
	(thousands of dollars)	
Bulk fuels	$ 7,775	$ 5,048
Liquor products	2,967	2,668
Arts and crafts	124	1,295
Other	868	138
	$ 11,734	**$ 9,149**

8. DESIGNATED CASH AND INVESTMENTS

	2006	2005
	(thousands of dollars)	
Investment portfolio:		
Marketable securities (market value $25,204,000; 2005 - $22,948,000)	$ 22,074	$ 20,375
Treasury bills (market value approximates cost)	1,250	1,321
Cash and other assets (market value approximates cost)	110	121
	23,434	**21,817**
Students Loan Fund:		
Authorized limit	33,000	33,000
Less: Loans receivable	30,920	29,427
Segregated and designated for new loans	**2,080**	**3,573**
Miscellaneous investments, net of allowance for loss	**1,106**	**1,072**
	$ 26,620	**$ 26,462**

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. 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 3.1% (2005 - 1.1%) with maturity dates ranging from April 2006 to September 2040. The income on investments, including interest, dividends and gains or losses on disposal was $2,874,000 (2005 - $1,735,000).

9. LOANS RECEIVABLE

	2006	2005
	(thousands of dollars)	
Northwest Territories Business Development and Investment Corporation (note 1(a)) 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 $10,303,000 (2005 - $9,541,000)	$ 31,005	$ 31,985
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 $13,320,000 (2005 - $10,483,000)	3,806	3,416
Students Loan Fund loans due in installments to 2017, bearing fixed interest between 1.5% and 11.75%, net of allowance for doubtful accounts and loan remissions of $22,387,000 (2005 - $20,268,000)	8,533	9,159
Northwest Territories Power Corporation $20,000,000 line of credit, secured by a promissory note, bearing interest between 1.99% and 2.55%	8,000	10,000
Other	1,849	2,110
	$ 53,193	**$ 56,670**

The amounts expected to be received in the upcoming year are $6,451,000 (2005 - $6,422,000). Interest earned on loans receivable during the year was $4,527,000 (2005 - $4,654,000).

10. INVESTMENT IN NORTHWEST TERRITORIES POWER CORPORATION

The following is summarized financial information for Northwest Territories Power Corporation as at March 31, 2006:

	2006	2005
	(thousands of dollars)	
Investment in Northwest Territories Power Corporation		
Shareholder's Equity, including share capital of $43,129,000	**$ 85,762**	**$ 82,070**
Shareholder's Equity is represented by:		
Assets:		
Cash	2,360	156
Accounts receivable	12,670	13,646
Inventories	6,547	6,832
Prepaid expenses	628	647
Other long-term assets	50,521	45,371
Property, plant and equipment	239,310	226,726
Total assets	312,036	293,378
Liabilities:		
Short-term debt	8,000	10,000
Accounts payable and accrued liabilities	14,522	12,927
Dividends payable	3,500	3,300
Long-term debt	155,632	141,725
Other long-term liabilities	42,084	40,867
Employee future benefits	2,536	2,489
Total liabilities	226,274	211,308
	$ 85,762	**$ 82,070**

Statement of Operations and Surplus

For the year ended March 31,	**2006**	**2005**
Revenue	$ 71,254	$ 67,907
Expenses	(64,062)	(61,478)
Net income	7,192	6,429
Surplus at beginning of the year	38,941	36,434
Division adjustment	-	(622)
Dividend	(3,500)	(3,300)
Surplus at end of the year	**$ 42,633**	**$ 38,941**

10. INVESTMENT IN NORTHWEST TERRITORIES POWER CORPORATION (continued)

Included in the above are revenues from and expenses to entities in the Government's reporting entity of $20,838,000 (2005 - $18,589,000) and $7,685,000 (2005 - $2,895,000) respectively. The Government of the Northwest Territories has reported net income from its investment in Northwest Territories Power Corporation of $7,192,000 (2005 - $5,807,000 which is equal to the $6,429,000 less the $622,000 Division adjustment).

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 was subject to arbitration and subsequent ratification by each government. In September 2004 the arbitrator issued a decision on the disputed allocation. The final settlement with the Government of Nunavut resulted in a $622,000 adjustment to retained earnings in the year ended March 31, 2005.

11. EQUITY IN DIVISIONAL EDUCATION COUNCILS AND DISTRICT EDUCATION AUTHORITIES

Effective for the 2005-06 fiscal year, the Government expanded its reporting entity to include the accounts of Divisional Education Councils and District Education Authorities on a modified equity basis. The following provides summarized information for the Divisional Education Councils and District Education Authorities as at March 31, 2006:

	2006	2005
	(thousands of dollars)	
Opening equity in Divisional Education Councils and District Education Authorities	$ 35,340	$ 35,181
Total revenue	136,340	125,972
Total expenses	128,343	125,813
Annual operating surplus	7,997	159
Transfer of equity from Dogrib Divisional Board of Education to Tlicho Community Services Agency	(1,270)	-
Closing equity in Divisional Education Councils and District Education Authorities	**$ 42,067**	**$ 35,340**
Represented by:		
Assets:		
Cash and short-term investments	$ 20,996	$ 16,762
Accounts receivable	2,393	3,155
Prepaid expenses	138	134
Capital assets, net of accumulated amortization	46,257	39,436
Total assets	69,784	59,487
Liabilities:		
Accounts payable	10,488	6,217
Deferred revenue	2,558	2,517
Other liabilities	503	482
Capital lease obligations	111	130
Long-term debt	7,976	8,418
Leave and termination benefits	6,081	6,383
Total liabilities	27,717	24,147
	$ 42,067	**$ 35,340**

During the year, the Government made contributions to Divisional Education Councils and District Education Authorities of $112,928,000 (2005 - $114,634,000).

Under agreements with Divisional Education Councils and District Education Authorities, 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 and legal and interpretation services. Direct costs of $59,615,000 (2005- $55,478,000) were incurred and recovered from Divisional Education Council and District Education Authorities.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2006	2005 (Restated - Note 3)
	(thousands of dollars)	
Trade	$ 136,801	$ 111,742
Government of Nunavut	23	16
Other liabilities, payroll liabilities and contractors' holdbacks	29,793	20,518
Employee vacation pay	18,399	19,558
Provision for equal pay settlement	7,131	8,223
Accrued interest	460	470
Deferred funding for specified purposes	704	1,487
	193,311	**162,014**
Payable to related parties		
Divisional Education Councils and District Education Authorities	271	431
Northwest Territories Power Corporation	1,556	850
Workers' Compensation Board (Northwest Territories and Nunavut)	12	5
	1,839	**1,286**
	$ 195,150	**$ 163,300**

13. DUE TO CANADA

	2006	2005 (Restated - Note 3)
	(thousands of dollars)	
Grant receivable		
Grant per financing agreement	$ 727,530	$ 710,675
Less payments received	(760,421)	(911,558)
	(32,891)	(200,883)
Balance of receivable at beginning of year	36,917	237,800
	4,026	36,917
Other receivables		
Indian and Inuit hospital and medical care	2,431	14,653
Canada Mortgage and Housing Corporation	1,364	6,166
Projects on behalf of Canada	3,520	17,094
Miscellaneous receivables	38,675	13,098
	50,016	**87,928**
Other payables		
Excess income tax advanced	(398,982)	(385,403)
Advances for projects on behalf of Canada	(6,840)	(2,421)
Miscellaneous payables	(21,762)	(15,968)
Deferred revenue	(7,067)	(6,436)
	(434,651)	**(410,228)**
	$ (384,635)	**$ (322,300)**

The amounts due to Canada are non-interest bearing. The excess income tax advanced above is repayable over the following years:

	(thousands of dollars)
2007	$ 315,182
2008	25,929
2009	57,871
	$ 398,982

14. CAPITAL LEASE OBLIGATIONS

	2006	**2005**
	(thousands of dollars)	
Buildings	**$ 19,598**	**$ 21,314**

Interest expense related to capital lease obligations for the year was $2,247,000 (2005 - $2,430,000), at an implied average interest rate of 10.98% (2005 - 11.00%). Capital lease obligations are based upon contractual minimum lease obligations for the leases in effect as of March 31, 2006.

		(thousands of dollars)
	2007	$ 3,964
	2008	3,964
	2009	3,367
	2010	2,940
	2011	2,940
	2012 and beyond	13,873
Total minimum lease payments		31,048
Less: imputed interest (10.6%)		11,450
Present value of minimum lease payments		**$ 19,598**

15. LONG-TERM DEBT

	2006	**2005**
	(thousands of dollars)	
Northwest Territories Housing Corporation loans due to Canada Mortgage and Housing Corporation, repayable in annual installments of $2,718,000 to the year 2033, bearing fixed interest at a rate of 6.97% (2005 - 6.97%)	$ 25,404	$ 26,053
Mortgage payable to Canada Mortgage and Housing Corporation, repayable in monthly installments of $7,885, maturing June 2024, bearing interest at 3.50%	1,277	1,333
Immigrant investor loans, 0% interest, each repayable as a single payment 5 years after the date of issue, maturing between October 2008 and March 2011	60,204	31,841
Other	3,121	3,232
	$ 90,006	**$ 62,459**

15. LONG-TERM DEBT (continued)

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

	Principal	Interest	Total
		(thousands of dollars)	
2007	$ 853	$ 1,988	$ 2,841
2008	908	1,933	2,841
2009	2,988	1,873	4,861
2010	30,759	1,810	32,569
2011	30,554	1,742	32,296

The interest paid on long-term debt during the year was $1,982,000 (2005 - $2,032,000).

Debt Authority

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

	2006	2005
	(thousands of dollars)	
Government of the Northwest Territories, long-term debt	$ 1,277	$ 1,333
NWT Power Corporation, long-term debt	131,700	117,366
NWT Housing Corporation, loans payable	25,404	26,053
NWT Energy Corporation, debenture series	22,451	22,815
NWT Power Corporation, operational debt	8,000	10,000
Divisional Education Councils and District Education Authorities, long-term debt	7,976	8,418
	196,808	**185,985**
Total debt	**196,808**	**185,985**
Authorized borrowing limit	300,000	300,000
Available borrowing capacity	**$ 103,192**	**$ 114,015**

The Immigrant Investor Loans, while disclosed within the Government's long-term debt, are not part of the Government's debt for the purpose of its Authorized borrowing limit.

16. PENSION, RETIREMENT AND OTHER EMPLOYEE FUTURE BENEFITS

Pension Plans

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 and are fully funded. The funds related to these plans are administered by independent trust companies. As well there are two supplementary plans known as the Legislative Assembly Supplementary Retiring Allowance Plan and the Judges' Supplemental Pension Plan. These two plans are non-contributory defined benefit pension plans and are unfunded. The Government is liable for all benefits. Benefits provided under all four plans are based on years of service and earnings.

	2006	2005 (Restated - Note 3)
	(thousands of dollars)	
Pensions		
Legislative Assembly Supplementary Retiring Allowance Plan and Judges' Supplemental Pension Plan balance, beginning of year	$ 21,502	$ 20,537
Benefits earned	645	627
Benefits paid to pensioners	(790)	(786)
Interest on benefit obligations	1,335	1,332
Actuarial and other gains and losses	(438)	(208)
	22,254	21,502
Legislative Assembly Retiring Allowances Fund and Territorial Court Judges' Registered Pension Plan, net assets	(5,670)	-
Balance, end of year	**16,584**	**21,502**
Retirement and other employee future benefits		
Retirement	4,811	4,197
Resignation	21,422	19,047
Removal	8,892	7,945
	35,125	**31,189**
Total	**$ 51,709**	**$ 52,691**

The portion of the pension liability that relates to the Legislative Assembly Supplementary Retiring Allowance Plan is $19,604,000 (2005 - $19,065,000) and to the Judges' Supplemental Pension Plan is $2,650,000 (2005 - $2,437,000). The investment portfolio included in designated cash and investments (Note 8) is restricted by the Government for the Legislative Assembly Supplementary Retiring Allowance Plan, included in the unfunded pension liability above. The expected payments for employee future benefits in the current year are $9,325,000 (2005 - $2,768,000).

16. PENSION, RETIREMENT AND OTHER EMPLOYEE FUTURE BENEFITS (continued)

Pension Expense

Pension expense for the Legislative Assembly Retiring Allowance Fund, the Territorial Court Judges' Registered Pension Plan, the Legislative Assembly Supplementary Retiring Allowance Plan and Judges' Supplemental Pension Plan for the year totaled $1,596,000 (2005 - $1,650,000). The Government's contributions to the Public Service Pension Plan were $23,864,000 (2005 - $22,325,000). The employees' contributions to the Public Service Pension Plan were $10,813,000 (2005 - $10,432,000).

The changes in the accrued pension assets and liabilities of the Legislative Assembly Retiring Allowances Fund and the Territorial Court Judges' Registered Pension Plan during the year are as follows:

	Assets	Liabilities	Net Assets 2006	Net Assets 2005
			(thousands of dollars)	
Balance, beginning of year	$ 20,375	$ 14,815	$ 5,560	$ 5,209
Benefits earned	-	568	(568)	(535)
Benefits paid to pensioners	(747)	(747)	-	-
Contributions - plan members	37	-	37	36
Contributions - Government	213	-	213	179
Interest earned on plan assets	1,455	-	1,455	1,423
Interest on benefit obligations	-	1,095	(1,095)	(1,062)
Actuarial and other gains and losses	615	547	68	310
Balance, end of year	**$ 21,948**	**$ 16,278**	**$ 5,670**	**$ 5,560**

Actuarial valuations were completed for the Legislative Assembly Retiring Allowances Fund and Legislative Assembly Supplementary Retiring Allowance Plan and for the Judges' plans as of April 1, 2005, using the projected benefit method prorated on service. The valuations are 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. As the actuarial valuations were not valued as at the year-end, the Legislative Assembly Plans were extrapolated to January 31, 2006 and the Judges' plans were extrapolated to March 31, 2006.

Actuarial valuations on the plan assets and liabilities were prepared based on the assumptions of an annual inflation rate of 4% and an annual interest rate of 7%. The retirement assumptions are as follows:

- Members of Legislative Assembly at later of age 50, 4 years of service, and end of current session
- Judges at the latter of age 60 or when age plus service equals 80

17. 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).

	2006	2005
	(thousands of dollars)	
Deferred capital contributions at beginning of year	$ 202,997	$ 213,210
Add: Assets gifted or cost shared during the year	23,168	2,774
Less: Amortization of capital contributions	(13,450)	(12,987)
Deferred capital contributions at end of year	**$ 212,715**	**$ 202,997**

18. 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.

	2006	2005
	(thousands of dollars)	
Correctional institutions and other	$ 232	$ 212
Natural Resources - capital	248	221
Public Trustee	3,282	3,267
Territorial and Supreme Courts	1,028	632
Workers' Compensation Board (Northwest Territories and Nunavut)	294,888	272,457
	$ 299,678	**$ 276,789**

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.

19. COMMITMENTS

The Government has entered into agreements for, or is contractually committed to the following expenses payable subsequent to March 31, 2006:

	Expiry Date	2007	2008-2033	Total
			(thousands of dollars)	
Canada Mortgage and Housing Corporation	2033	$ 4,545	$ 47,277	$ 51,822
Commercial and Residential Leases	2026	20,658	73,060	93,718
Equipment Leases	2011	4,842	13,550	18,392
Operational Commitments	2010	42,360	32,684	75,044
RCMP Policing Agreement	2012	24,639	122,675	147,314
Tangible Capital Asset Acquisition Commitments - projects in progress at March 31, 2006	2010	22,672	2,529	25,201
Western Harvesters' Assistance Program	2008	138	458	596
		$ 119,854	**$ 292,233**	**$ 412,087**

(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 2033.

A portion of this funding is used to make payments on portfolio-related CMHC mortgages of $51,821,000 (2005 - $56,075,000) maturing between 2005 and 2033, at interest rates ranging from 2.0% 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 15.

(b) Charge back of services

The Government has 3 (2005 - 4) 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 $2,046,000 for the fiscal year ending 2006 (2005 - $2,057,000).

20.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. As of March 31, 2006, the Government has 175 sites, excluding fuel caches, that have been identified as possibly requiring environmental restoration. Of these sites, 28 have had either initial evaluations or have a plan in place to complete evaluation and/or remediation. The remaining 147 sites require initial or additional studies to determine the existence and/or extent of the environmental liability.

The Department of Environmental and Natural Resources maintains bulk fuel and forest fire suppression chemical storage facilities at 18 air tanker and helibase locations. These facilities are located within or adjacent to 12 communities. A Phase I and II environmental site assessment was completed on each of these facilities by the Department. The need for remedial actions or further assessment has been identified for six of these sites.

In addition, during 2006, the Department of Environmental and Natural Resources maintained 17 active fuel caches within communities, at locations other than those indicated above, and 150 active fuel caches at locations a distance from communities. Environmental site assessments have not been undertaken at these sites due to the relatively small number of drums on-site at any time (with the potential for limited local contamination) or the remoteness of the location. As these sites are re-supplied, each is inspected for potential environmental liabilities.

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 24 Phase III Assessments and two 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 has undertaken an initiative to act upon remediation plans in the near future. 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, 2006, the Government has recorded a $22.75 million liability for the above ground remediation of Giant Mine. The estimated cost for Canada's share of the clean-up is $300 million and includes both below and above ground remediation. The remaining sites do not yet have cost estimates of sufficient accuracy to predict the future costs, consequently, no liabilities have been accrued.

(b) Guarantees

The Government has guaranteed operating lines of credit for Arslanian Cutting Works (NWT) Ltd. to a maximum of $9,000,000 and Deh Cho Bridge Corporation Ltd. to a maximum of $3,350,000. At March 31, 2006, balances on the operating lines of credit are $8,988,000 and $3,261,000 respectively. In the event of default, the Government has access to the assets of these parties which have been pledged as security for the loan guarantees.

20. CONTINGENCIES (continued)

(c) Guarantees (continued)

The Government has guaranteed residential housing loans to banks totaling $10,701,000 (2005 - $12,553,000) and indemnified Canada Mortgage and Housing for third party loans totaling $36,392,000 (2005 - $37,781,000). 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 percentage is limited to the Northwest Territories' population to the Canadian population.

(d) 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.

21. EXPENSES BY PROGRAM

	2006	2005 (Restated - Note 3)
	(thousands of dollars)	
Social Programs	$ 809,438	$ 727,873
Economic Programs	118,305	191,835
Other	191,014	126,367
	$ 1,118,757	**$ 1,046,075**

22. RELATED PARTIES

Significant transactions with related parties and balances at year-end are disclosed separately in the financial statements and notes thereto.

23. FAIR VALUE

The fair value of short-term financial instruments, including cash, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate the carrying amounts because of the short-term to maturity.

The fair value, and the methods of calculation and assumptions used, for the Government's long-term financial instruments are as detailed below:

	2006		2005 (Restated - Note 3)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands of dollars)			
Designated cash and investments	$ 26,620	$ 28,644	$ 26,462	$ 27,963
Loans receivable	53,193	53,193	56,670	56,670
Due to Canada	384,635	363,357	322,300	289,769
Capital lease obligations	19,598	25,714	21,314	29,392
Long-term debt	90,006	84,106	62,459	59,316

The fair value of publicly traded investments is based on quoted market prices.

The carrying value, at the lower of cost or net recoverable value, is estimated to be the fair value of loans receivable due to the nature of these loans. 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.

The estimated fair value for due to Canada, capital lease obligations and long-term debt is calculated by discounting the expected future cash flows at year-end using market interest rates for equivalent terms to maturity.

24. SUBSEQUENT EVENTS

In the May 2006 budget of the Federal Government, a one-time payment of $50 million was announced for the Northwest Territories to be paid into a third-party trust, contingent on sufficient federal funds from the 2005-06 surplus in excess of $2 billion. The Northern Housing Trust will support investment to increase the supply of affordable housing in the Northwest Territories.

25. 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	2006	2005 (Restated - Note 3)
Cost of tangible capital assets, opening	$ 1,867	$ 864,806	$ 666,182	$ 22,484	$ 65,704	$ 31,238	$ 1,652,281	$ 1,535,283
Acquisitions	-	27,469	17,509	2,664	6,302	5,437	59,381	123,702
Disposals	(99)	(12,703)	(3,370)	(282)	(1,135)	(184)	(17,773)	(6,704)
Cost of tangible capital assets, closing	$ 1,768	$ 879,572	$ 680,321	$ 24,866	$ 70,871	$ 36,491	$ 1,693,889	$ 1,652,281
Accumulated amortization, opening	$ -	$ (320,357)	$ (218,704)	$ (14,389)	$ (36,536)	$ (17,232)	$ (607,218)	$ (559,570)
Amortization expense	-	(26,579)	(17,651)	(1,870)	(3,660)	(3,520)	(53,280)	(50,919)
Write-downs	-	-	-	-	-	-	-	(502)
Disposals	-	4,125	1,024	283	989	21	6,442	3,773
Accumulated amortization, closing	$ -	$ (342,811)	$ (235,331)	$ (15,976)	$ (39,207)	$ (20,731)	$ (654,056)	$ (607,218)
Net book value	$ 1,768	$ 536,761	$ 444,990	$ 8,890	$ 31,664	$ 15,760	1,039,833	1,045,063
Work in Progress							109,630	64,373
Deferred capital contributions (note 17)							(212,715)	(202,997)
							$ 936,748	**$ 906,439**

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

GOVERNMENT OF THE NORTHWEST TERRITORIES
GOVERNMENT INDICATORS
FOR THE YEAR ENDED MARCH 31, 2006
(Unaudited)

HONOURABLE FLOYD K. ROLAND
Minister of Finance

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TABLE OF CONTENTS

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INTRODUCTION

The Public Accounts of a government report on the fiscal year's revenues and expenses and how they relate to the overall financial position of the Government. The Statement of Financial Position discloses the assets, liabilities, total surplus or deficit and the net debt position or net financial resource position of a government. The 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. 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 a 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 Public Accounts in their assessment of the Government's financial health. It is important to note that the information contained within the current year Consolidated Public Accounts has been expanded to include full consolidation of many new government organizations and modified equity consolidation of various other government organizations (details of which are contained in note 1 of the Public Accounts Section I). This expansion of the Government of the Northwest Territories reporting entity is a requirement of the Public Sector Accounting Board, which sets the generally accepted accounting principles for government reporting within Canada and whose standards the Government abides by. In the year ending March 2007 the government will again be required to fully consolidate additional government organizations making trend analysis of the consolidated entity difficult due to the lack of comparability.

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 demand 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 $4,083 million for 2005, which represents a 2.2% decline relative to the 2004 estimate of $4,174 million. A final estimate of 2005 GDP for the NWT, and the other provinces and territories, is scheduled for release in October 2006; preliminary estimates of 2006 GDP will be released in April 2007.

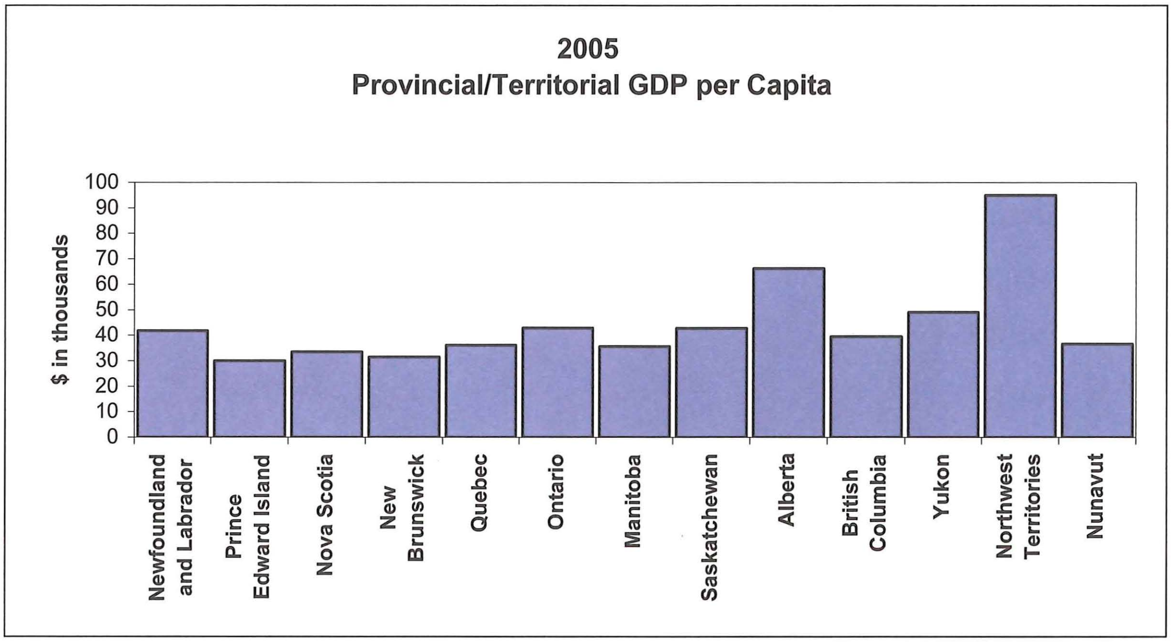
The decline in current dollar GDP is largely attributable to the significant decrease in exports and increase in imports in 2005. Exports decreased by 10.0%, or $307 million, while imports increased by 9.8%, or $234 million between 2004 and 2005. The export decline is closely linked to the decline in diamond production in 2005 - the value of diamond production declined by over $400 million in 2005 relative to 2004, directly impacting exports.

Gross Domestic Product at Market Prices, 2004 and 2005
Canada, Provinces and Territories
Current Dollars ($millions)

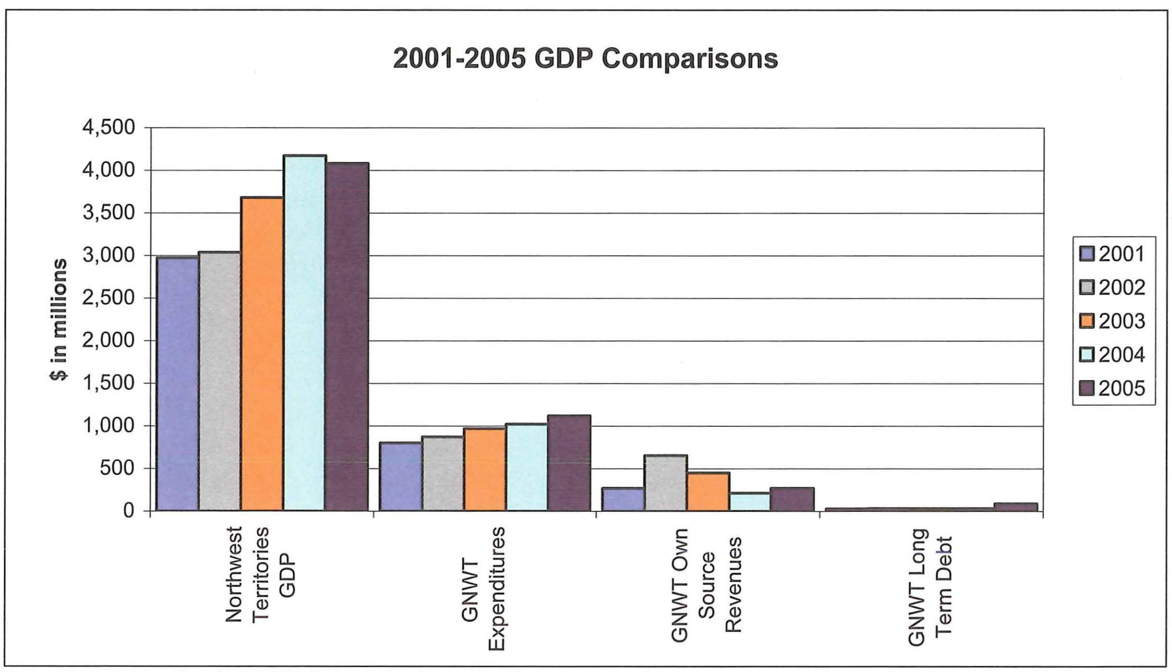
	2005	2004	Percent Change
Canada	$ 1,368,726	$ 1,290,185	6.1
Northwest Territories	4,083	4,174	-2.2
Nunavut	1,101	1,055	4.4
Yukon	1,522	1,412	7.8
British Columbia	168,011	157,241	6.8
Alberta	215,858	187,152	15.3
Saskatchewan	42,490	39,999	6.2
Manitoba	41,933	39,990	4.9
Ontario	537,604	517,407	3.9
Quebec	274,863	265,063	3.7
New Brunswick	23,727	22,976	3.3
Nova Scotia	31,451	29,879	5.3
Prince Edward Island	4,142	4,023	3.0
Newfoundland and Labrador	21,534	19,433	10.8

Source: Statistics Canada
Prepared by: NWT Bureau of Statistics

GROSS DOMESTIC PRODUCT (continued)

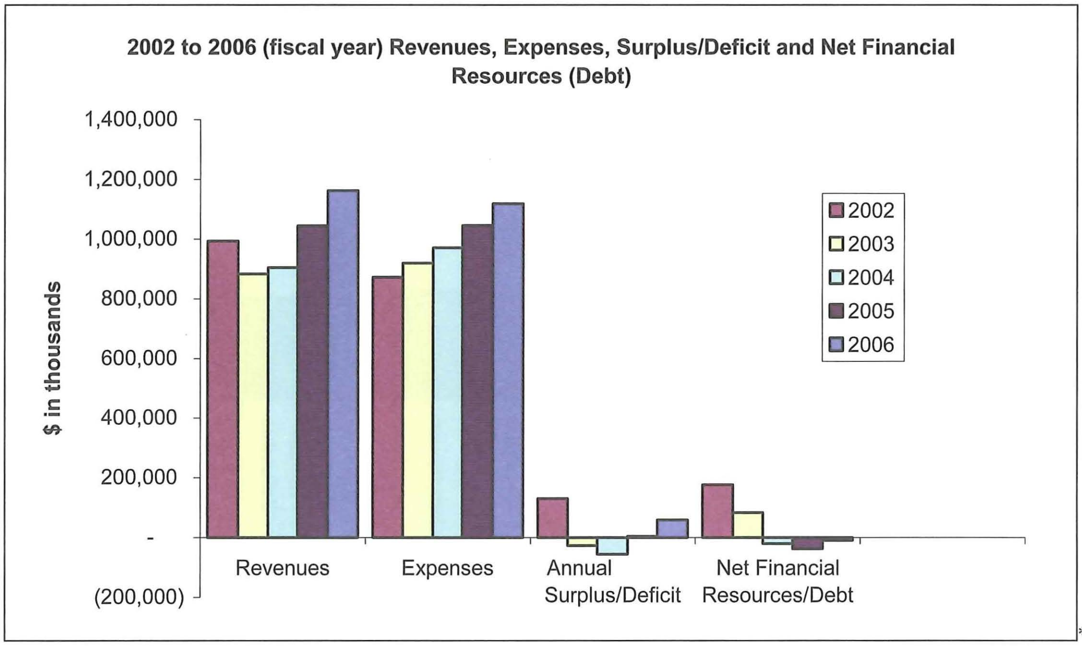


Based on population estimates of Statistics Canada as on July 1, 2005



*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.

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



*

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

The Government remains in a net debt position, which translates into there being more outstanding liabilities than financial resources (assets) at the fiscal year end. This is graphically depicted in the following pages. Over the last four years the Government's net financial resources have been drawn down from a high of $177 million to a net debt position of $10 million, a decline of approximately $167 million. As discussed on page 6, some of the factors that contributed to this draw down are of a one-time nature, however should net debt continue to increase 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 (DEBT) (continued)

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

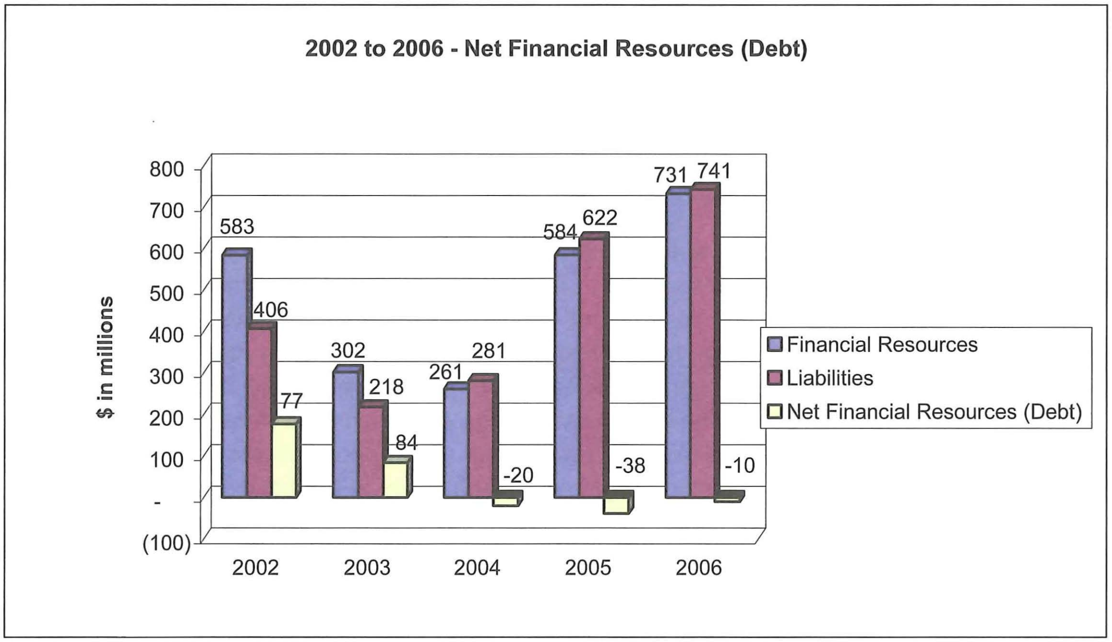
	2002 to 2003		2003 to 2004		2004 to 2005		2005 to 2006	
	$ Change (in thousands)	Percent Change	$ Change (in thousands)	Percent Change	$ Change (in thousands)	Percent Change	$ Change (in thousands)	Percent Change
Revenues	(109,916)	(11%)	21,693	2.5%	136,562	15.0%	117,729	11.3%
Expenses	47,397	5.4%	50,870	5.5%	75,326	7.8%	72,682	6.9%

While an increase (or decrease) may in one area be significant, it is important to also look at 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; such as inflation, or new initiatives. These changes are important when assessing the long-term sustainability of the present level of services.

The trend over the last few years shows a steady increase in expenses of approximately 6.4% while revenues have fluctuated up and down with no apparent trend discernable. While the trend is subject to an increased margin of error given the change in the government reporting entity, noted on page 1, the fact remains that most of the expenses incurred by the newly consolidated organizations are funded by the Government and have simply been reallocated within the current year statements. The most significant factor that contributes to revenues being more unpredictable than expenses in any given year is the volatility in corporate income tax. To further complicate the situation, up until March 2004, the Grant from Canada was adjusted for fluctuations in our own source revenues, this adjustment would then occur in the following fiscal year. In 2004-05 and 2005-06, the Grant became a fixed amount with a fixed percentage increase each year. Changes to overall government revenue will still remain difficult to predict even with a fixed Grant amount and a known annual increase as our own sources of revenues are subject to volatility.

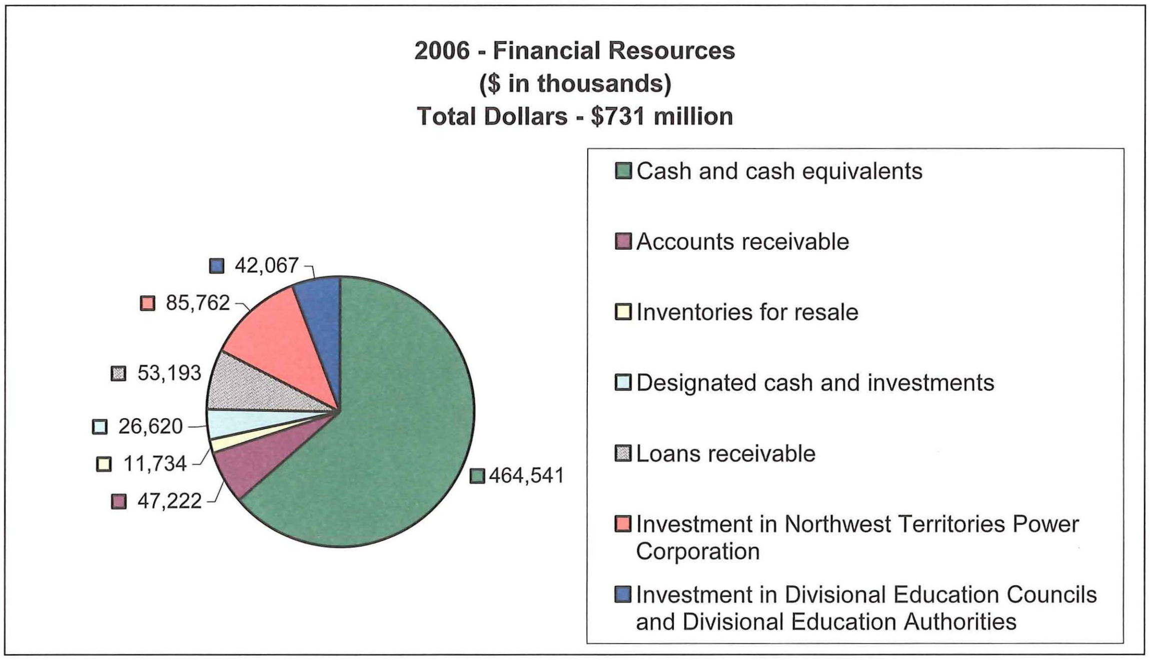
NET FINANCIAL RESOURCES (DEBT)

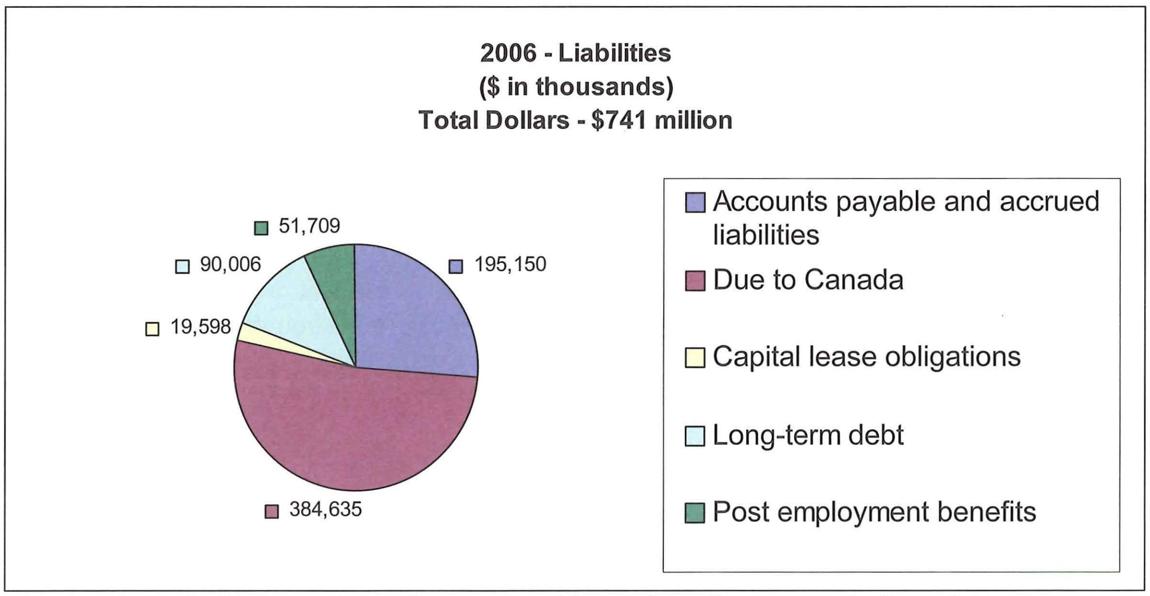
Net financial resources are the financial resources remaining after being reduced by all liabilities of the government; net debt results when there is an excess of liabilities over financial resources (as detailed on the next page). The graph below depicts the Government's net financial resource (debt)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



Net financial resources (debt) are a good indicator of a government's ability to meet its existing financial obligations. 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, which increased our net resources beyond their average boundaries. The increase was the result of a significant increase to cash on hand due to a prepayment of the Grant by Canada and an overpayment of corporate income taxes, which Canada collects for us. 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 opposite effect, as these windfall items did not reoccur. In 2004, we continued to see the effect as Canada adjusted downward its calculation of the corporate income taxes due to us to take into account the effect of the tax windfall and in 2005 and 2006 a downward adjustment was required due to a required refund of tax to a significant corporate taxpayer. As mentioned previously, the Grant, at least for the short-term, is now a fixed amount and this may stabilize the ratio of resources to liabilities somewhat. Ongoing discussions with Canada regarding revenue sharing may result in additional financial resources; however, in the interim, we may have to fund tangible capital assets with debt and this will impact our net financial position as discussed in the following pages. With so many variables in the calculation of our net financial position a prediction of an increase in our net debt cannot be made without in depth research. 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.

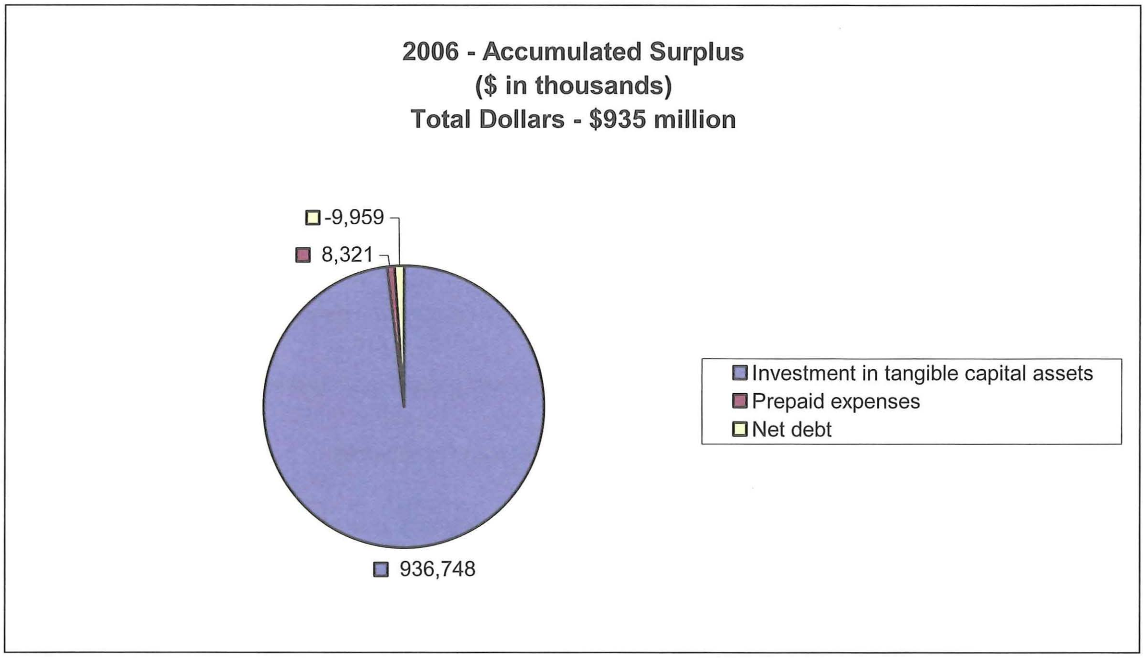
FINANCIAL POSITION





The above graphs illustrate the various compositions of the Government's financial resources and liabilities.

FINANCIAL POSITION (continued)

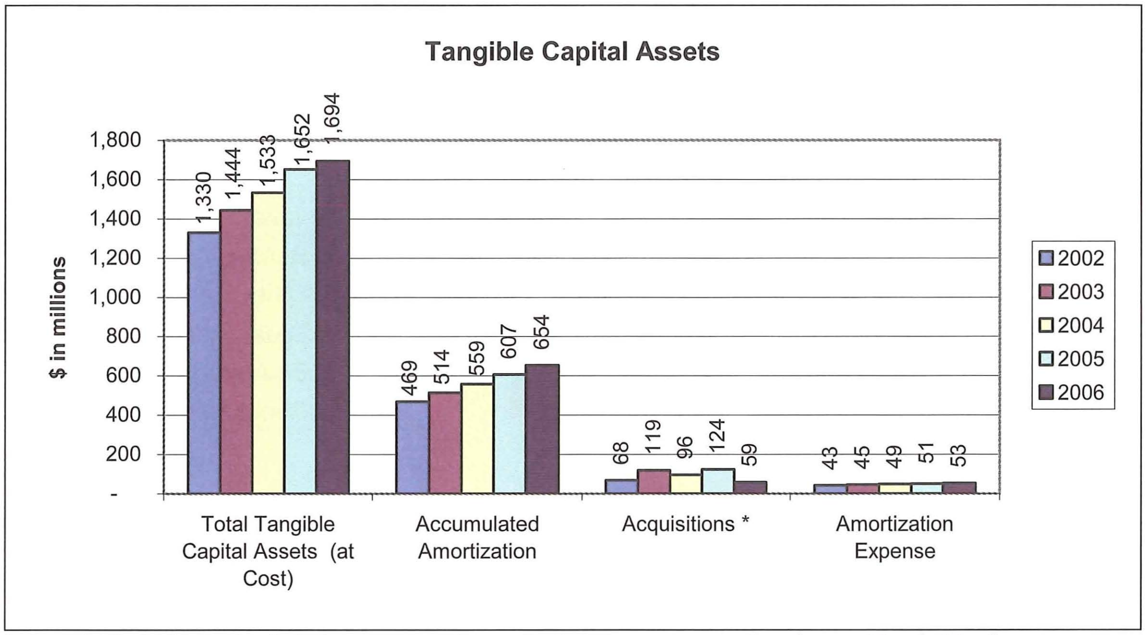


Up until the end of the 2004 fiscal year, the Government was in a net financial resource position; this positive amount was added to the Government's investment in tangible capital assets to produce the accumulated surplus to date. However, since the Government has moved to a net debt position this amount 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 if there are surplus financial assets available to meet current and future obligations, as well as to absorb any budgeted annual deficit. A net debt or net financial resource position is not a direct reflection of cash available 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 its 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.

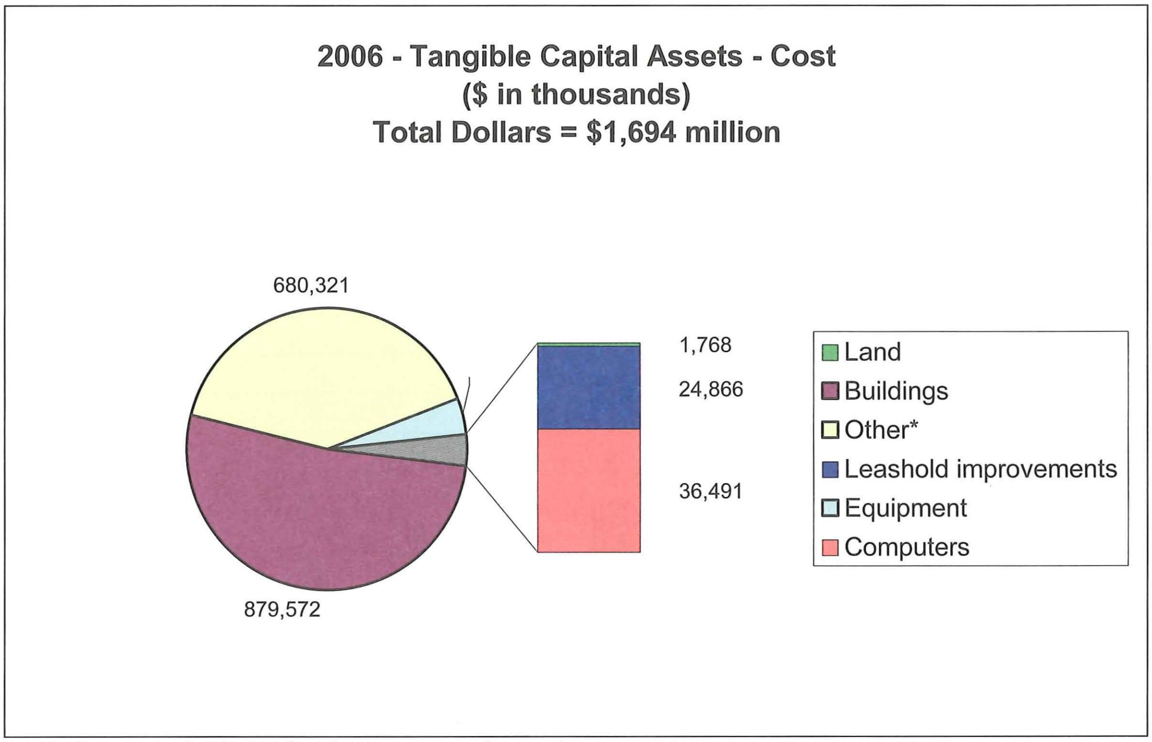


* Acquisitions do not include investments in assets that were not completed as at March 31 of any year. Such assets are recognized when completed and placed into service.

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 rate that, over time, approximates the rate at which assets are being consumed, as well as expanded, to meet both population and economic growth. Therefore capital asset investment planning must address two essential points; (1) maintaining existing assets and (2) providing for growth.



*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.

The Northwest Territories requires a significant investment in infrastructure. To ensure on-going fiscal sustainability, but still allow for necessary investments to address high priority infrastructure needs, the Government introduced the Fiscal Responsibility Policy effective April 1, 2005.

The Policy establishes an ongoing approach to finance the Government's infrastructure investments. The Policy requires that, at a minimum, 50 percent of its annual infrastructure investment will be financed by the cash generated from operations. A maximum of 50 percent of the annual infrastructure investment will be financed by debt. This will require the Government to plan for, budget and realize sufficient cash operating surpluses on an ongoing basis to finance 50 per cent of capital investments as well as make the debt servicing payments on the amounts borrowed.

TANGIBLE CAPITAL ASSETS (continued)

The Policy will require the Government to be accountable for its level of borrowing. To do this, performance criteria for debt management have been established to ensure the total debt of the Government does not exceed the capacity of the Government to repay the debt as it becomes due. These include:

i) Ratio: Government Debt to Revenue

This ratio is an indicator of the increase in debt in proportion to the increase in revenue, where *decreasing* ratios are a positive indicator that the rate of increase in revenue is greater than the rate of increase in debt.

From year to year, the ratio of total Government debt, excluding guaranteed debt, compared to non-consolidated revenue, in relation to provinces *shall be in the lowest 4.*

ii) Ratio: Debt per Capita

This ratio is a measure of the debt burden, on a per person basis, where a *decreasing* ratio is a positive indicator of a decreasing debt burden.

From year to year, the total debt per capita ratio, compared to provinces *shall be in the lowest 5.*

iii) Debt Servicing Costs (interest), as a % of Revenue

This ratio is a measure of the extent that Government revenues are being applied to debt charges, rather than to programs and services, or tax reduction.

From year to year, debt servicing costs on Government debt, excluding amounts paid by Public Agencies, as a % of non-consolidated revenue, compared to other provinces and territories *shall be in the lowest 4.*

iv) Debt Servicing Payments, as a % of Revenue

This is a measure of the extent that Government revenues are being applied to debt charges and debt repayment, rather than on programs and services or to reducing taxes.

From year to year, payments on Government debt, excluding Public Agency debt service payments, as a % of non-consolidated revenue *shall not exceed 5% of revenue.*

TANGIBLE CAPITAL ASSETS (continued)

v) Debt Servicing Payments as a % of 3-year moving GDP average

This ratio is a measure of debt growth in relation to economic growth, where ideally economic growth exceeds the growth rate of public debt. A *decreasing* ratio reflects a consistent improvement in financial position.

Given the volatility of GDP in the Northwest Territories, a 3-year moving average GDP shall be used.

From year to year, debt-servicing payments, excluding Public Agency debt, as a % of the 3-year moving GDP average, compared to debt servicing payments of provinces *shall be in the lowest 4*.

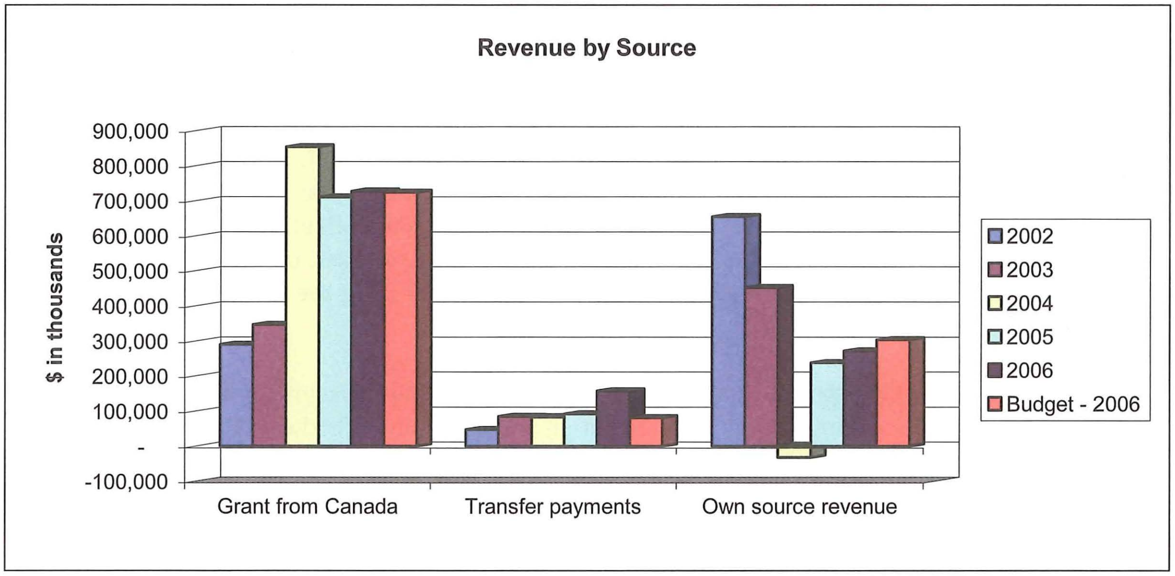
vi) Net Debt per Capita

Net debt is the excess of liabilities over financial assets.

From year to year, non-consolidated net debt per capita, compared to provinces *shall be in the lowest 5*.

The GNWT policy on borrowing and performance measurement criteria, for management of debt, will be reviewed and updated annually. Annual reports shall be tabled in the Legislative Assembly.

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 23 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 sharing of those resource revenues.

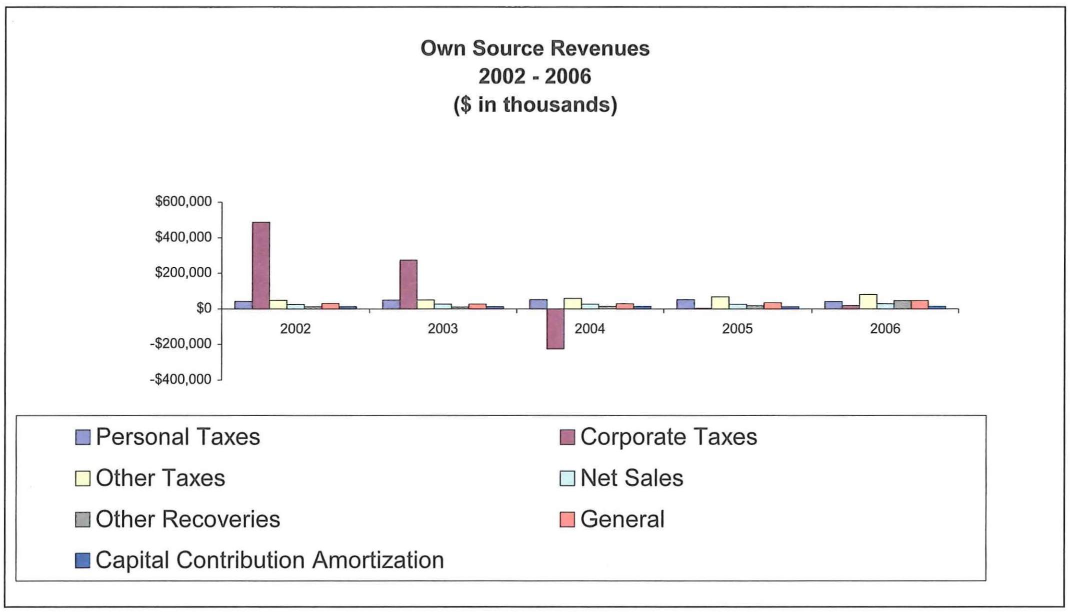
Prior to 2004-05, the Grant from Canada was based on a formula designed to cover the difference between expenditure needs and the Government of the Northwest Territories' revenue-raising ability. Therefore, changes to the Government of Northwest Territories' own source revenue levels would change the Grant in the opposite direction. Since the revenue-raising ability measured what the Government could raise at eighty-five percent of national average tax rates in the base year and included an Economic Development Incentive, changes in own source revenue levels would not change the Grant by an exactly corresponding amount, rather there was an incentive to raise own source revenues.

In October 2004, the federal government introduced a New Framework for Territorial Formula Financing (TFF), which resulted in the TFF Grants for 2004-05 and 2005-06 being set in federal legislation at a fixed amount. The 2006-07 Grant will also be a fixed amount as the federal and territorial governments are still discussing the future design of TFF Grants. Until the federal government announces any new arrangements, the effect of future changes to the Government's own source revenues on the Grant will not be known.

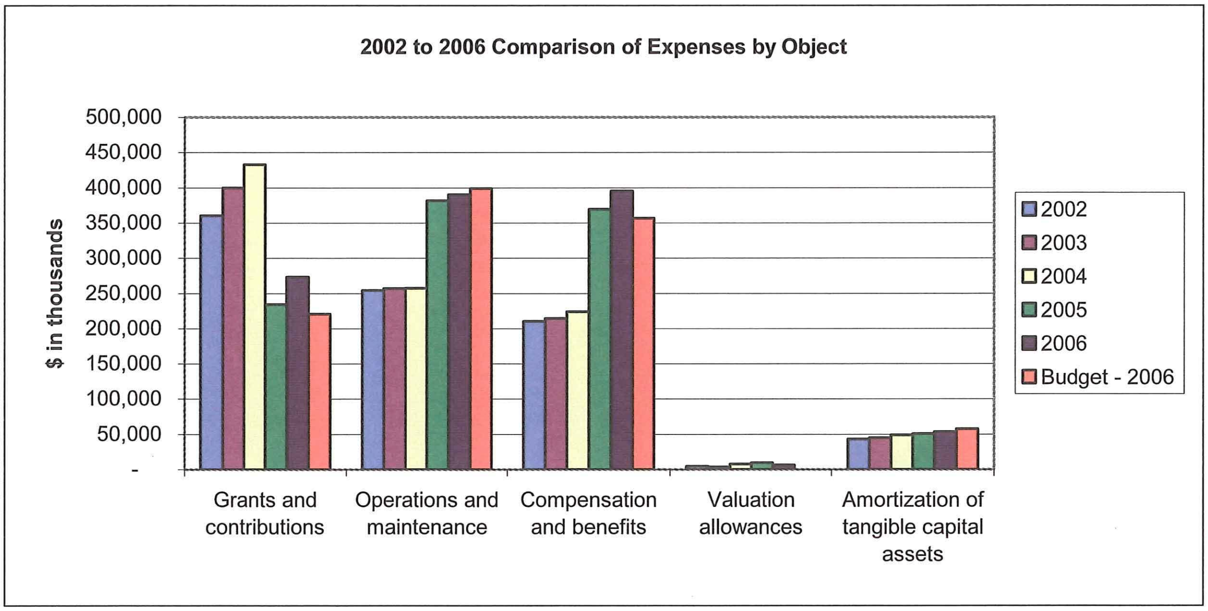
REVENUE BY SOURCE (continued)

With the exception of Corporate Income Tax, other own source revenues have proven to be fairly consistent over the fiscal years. Corporate Income Tax relies on a small base of significant taxpayers which accounts for the volatile nature of this tax. Corporate Income Tax revenue is negative for the 2003-04 fiscal year. This negative amount is the result of an overpayment of 2002 Corporate Income Tax to the GNWT by the federal government. The federal government bases estimates of Corporate Income Tax on the latest actual prior year tax revenue information available (for example, 2002 estimates were based on 2000 actual collections). The 2002 estimate of NWT Corporate Income Tax was based on a large one-time payment in 2000, and the resulting overpayment in 2002 more than offsets the estimated revenue from the 2003 Corporate Income Tax.

This overpayment of Corporate Income Tax was also the main reason for the increase in the 2003-04 Formula Financing Grant entitlement in comparison with the 2002-03 amount. The downward revision of Corporate Income Tax revenues caused an increase in the 2002-03 Grant. This increase was recorded in 2003-04 as an adjustment to the Grant revenue.



EXPENSES BY OBJECT

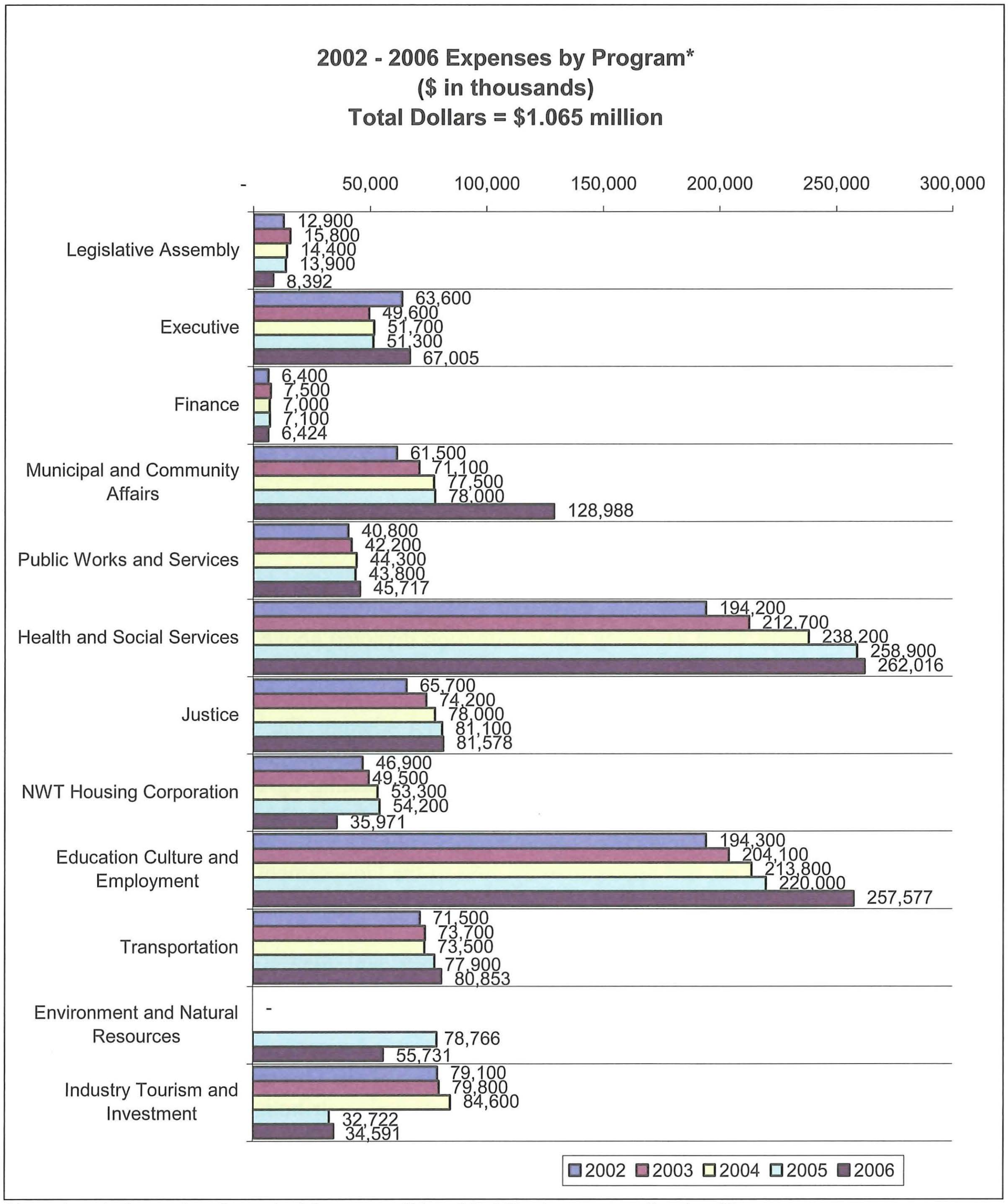


The expenses of the Government are such that a large percentage of its costs are fixed. An important consideration when assessing the information depicted above is that the contributions to those government organizations that are now fully consolidated, within Section I of the Public Accounts, have been reallocated on a line-by-line basis within the other categories as appropriate for both 2005 and 2006. This reallocation does not change the way these government organizations are funded as many of our social and educational programs are funded by these contributions. The fact remains that many components of funding agreements with boards and agencies are fixed costs 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. In Section II of the Public Accounts one can see that approximately 50% of the Government's total expenses flow as Grants and Contributions to third parties.

Additional types of fixed costs are long-term, such as lease and other commitments, disclosed in note 19 to the Consolidated Public Accounts.

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 vulnerable to this but wages also make up a significant portion of the grants and contributions given to third parties, whether they have been consolidated within the Public Accounts or not.

EXPENSES BY PROGRAM



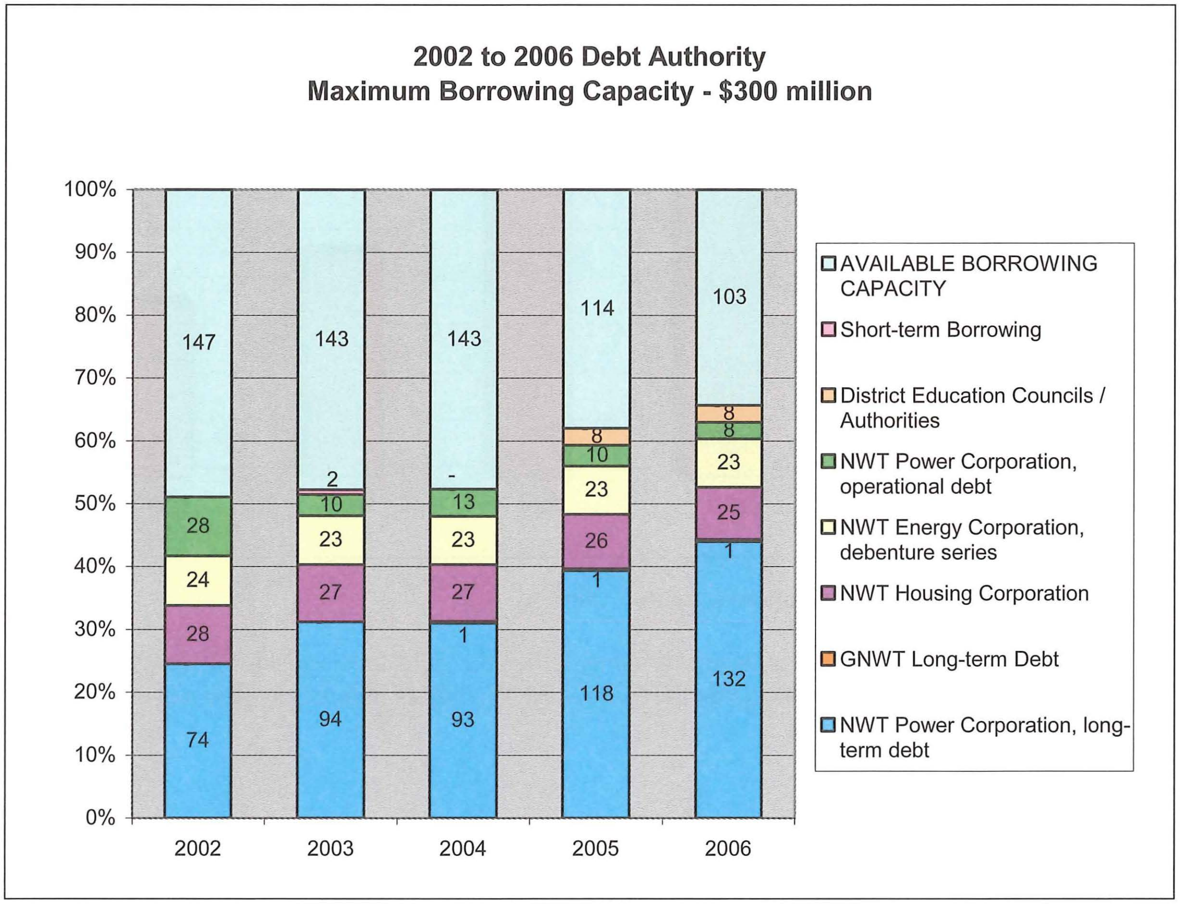
*based on information from the Non-consolidated Public Accounts – Section II

The Government spends the vast majority of its budget on social programs (education, health, support to community governments, justice and housing), with the remaining budget 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 debt of the various Government entities' that are consolidated. The consolidation includes the Northwest Territories Housing Corporation and the Northwest Territories Power Corporation and includes the Northwest Territories Opportunities Fund, however the latter is excluded for purposes of the calculation of government borrowing.

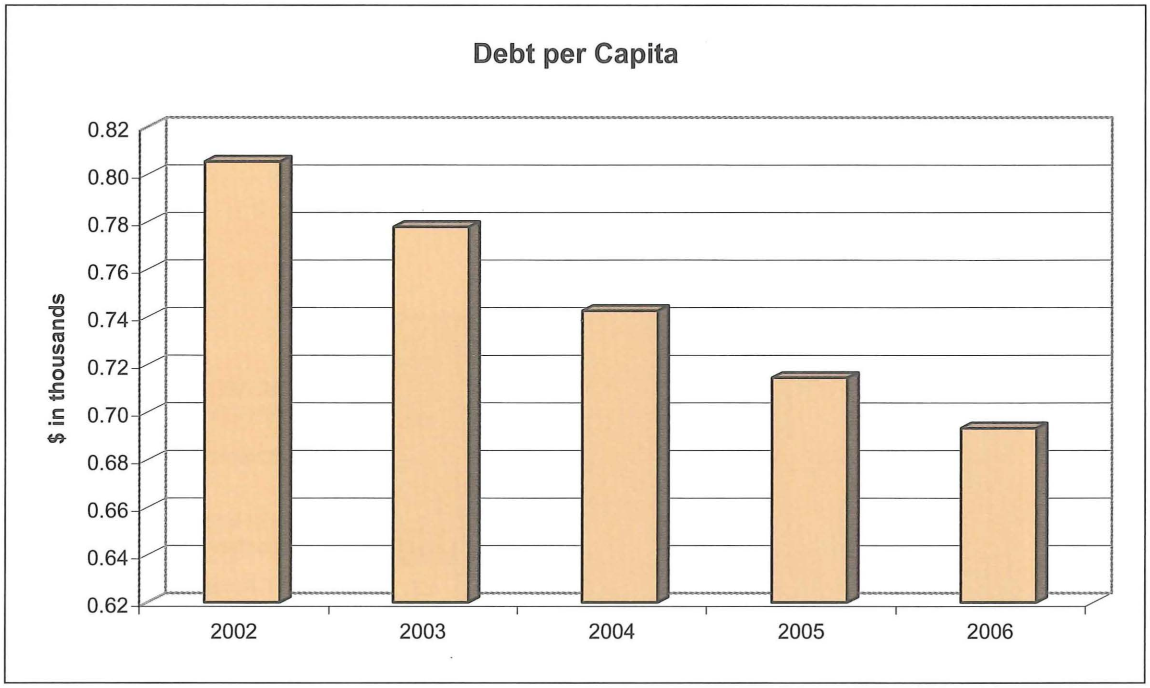
The borrowings of the Northwest Territories Power Corporation (NTPC) and the Northwest Territories Energy Corporation are serviced through revenues generated by the NTPC and Northwest Territories Energy Corporation and, as such, do not require the Government fund the related interest expense or principal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



The debt level will likely continue to increase given that the Government has had to implement a borrowing strategy to allow it to address current infrastructure needs while a revenue sharing agreement has not yet been reached. The Government continues to work towards renegotiating the debt cap of $300M and in anticipation of implementing the new borrowing strategy has obtained a credit rating of Aa3 for the Government from Moody's Investors Service.

DEBT PER CAPITA

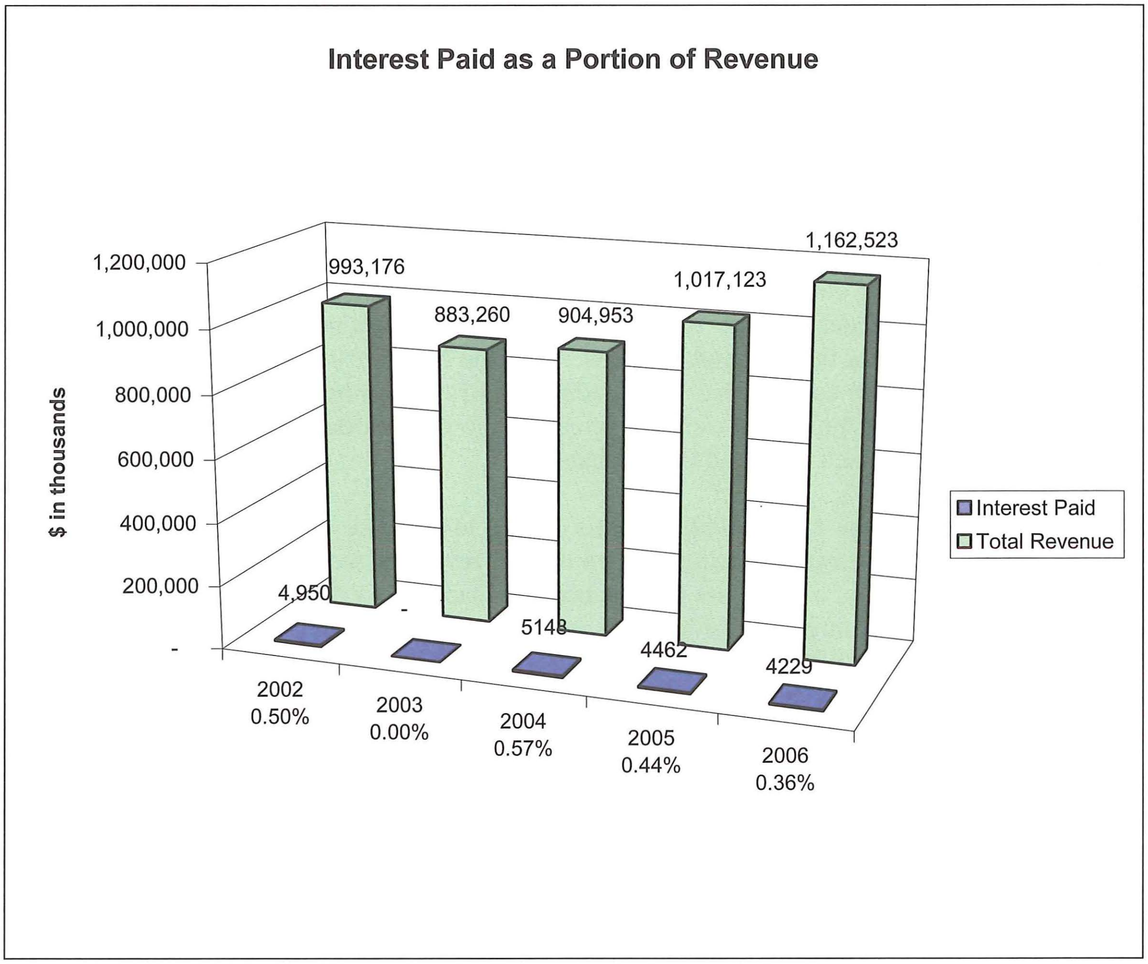
The following chart depicts the debt per capita with respect to the entire debt load that the Government of the Northwest Territories is directly responsible for. This debt is defined as short and long-term borrowing and excludes the borrowings of the Northwest Territories Opportunity Fund. At March 31, 2006 the long-term debt was $30 million, with no short-term borrowings.



Based on Statistics Canada population as at July 1, 2005

The trend above can best be analyzed by considering the debt levels disclosed on the previous page and taking into consideration that the Northwest Territories population grows every year.

INTEREST



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

The new initiative related to purchasing of Tangible Capital Assets through the use of debt has the ratio above as one of the parameters that will be reported on to ensure that any new debt we assume does not affect our long-term sustainability.

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. This suggests the following conclusions:

Sustainability – at the end of the 2005-06 fiscal year the Government of the Northwest Territories had decreased its liabilities in excess of financial assets by $28 million. This net debt position decrease means that approximately 2.5% of the year's expenses, or 1.3 weeks of operations were used to repay debt using our existing financial assets. The Government's long-term debt was $30 million (excluding the debt of the Northwest Territories Opportunity Fund) or 2.6% 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 but that an increased debt load is sustainable.

Flexibility – this pertains to the Government's ability to increase its financial resources. The Government of the Northwest Territories own source revenues were negative in the 2003-04 fiscal year, as the result of a corporate income tax claw back by the federal government. In order to make a meaningful comparison, prior years own source revenues must be looked at excluding any income tax revenue. When own source revenues are reviewed in this manner, the increase in revenues in the current year is 17%. The balance of revenues came largely through the Grant (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 27% of 2005-06 expenses or 14 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 and the volatility related to corporate income tax. The Grant from Canada has been renegotiated for both the current year and 2006-07 at a fixed amount; however, beyond that, the level of funding is not known with any certainty at this time. The agreement is normally renewed every five years at which time it is subject to negotiation or federally imposed changes.

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 II – Non-Consolidated Financial Statements
  - Section III – Supplementary Financial Statements (Entities included in the Government Reporting Entity)
  - Section IV – Supplementary Financial Statements (Other Boards & Agencies)
- Government of the Northwest Territories Main Estimates
- Business Plans
- Geographic Tracking Report
- Results Report

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