Audited Information

Alberta Teachers' Retirement Fund Board

Teachers' Pension Plan and
Private School Teachers' Pension Plan

Financial Statements
August 31, 2005

Auditor's Report

To the Alberta Teachers' Retirement Fund Board

I have audited the Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Deficiency of the Alberta Teachers' Retirement Fund Board (the "Board") as at August 31, 2005 and the Statements of Changes in Net Assets Available for Benefits and Changes in Accrued Pension Benefits for the year then ended. These financial statements are the responsibility of the Board's management. 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 management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Pension Benefits and Deficiency of the Board as at August 31, 2005 and the Changes in Net Assets Available for Benefits and Changes in Accrued Pension Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

[original signed by Fred J. Dunn in printed version]

FCA
Auditor General

Edmonton, Alberta
November 4, 2005

Alberta Teachers’ Retirement Fund Board
Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Deficiency

As at August 31, 2005

	(in thousands) 2005	2004
Assets		
Cash	$ 1,321	$ 2,104
Investments (Note 4)	3,326,099	2,856,941
Receivables (Note 5)	26,426	30,943
Capital assets (Note 6)	999	1,253
	3,354,845	2,891,241
Liabilities		
Accounts payable (Note 7)	7,673	30,538
Net assets available for benefits	3,347,172	2,860,703
Actuarial Value of Accrued Pension Benefits	10,285,480	9,681,624
Deficiency (Note 11 and 12)	$ 6,938,308	$ 6,820,921

The accompanying notes are part of these financial statements.

Alberta Teachers' Retirement Fund Board
Statement of Changes In Net Assets Available for Benefits

For the year ended August 31, 2005

	(in thousands)	
	2005	2004
Increase in Net Assets		
Investment Earnings (Note 8)	$ 373,233	$ 287,870
Contributions (Note 9)		
Teachers	238,388	218,659
Province of Alberta	285,713	266,786
Employers	429	430
Past service purchases	3,693	3,126
Transfers from other plans	4,991	7,215
	533,214	496,216
Total increase in net assets	906,447	784,086
Decrease in Net Assets		
Pension benefits	394,499	367,548
Termination benefits	13,293	11,331
Transfers to other plans	1,944	3,797
Administrative expenses (Note 10)	10,242	9,237
Total decrease in net assets	419,978	391,913
Change in Net Assets for the Year	486,469	392,173
Net Assets Available for Benefits at Beginning of Year	2,860,703	2,468,530
Net Assets Available for Benefits at End of Year	$ 3,347,172	$ 2,860,703

Alberta Teachers' Retirement Fund Board
Statement of Changes in Accrued Pension Benefits

For the Year Ended August 31, 2005

	(in thousands)	
	2005	2004
Accrued Pension Benefits at Beginning of Year	$ 9,681,624	$ 8,703,159
Increase in Accrued Pension Benefits		
Interest on accrued benefits	698,892	649,815
Benefits accrued	306,016	295,140
Changes in actuarial economic assumptions	—	319,851
Experience losses	—	85,992
	1,004,908	1,350,798
Decrease in Accrued Pension Benefits		
Benefits paid	(401,052)	(372,333)
Accrued Pension Benefits at End of Year	$ 10,285,480	$ 9,681,624

Alberta Teachers' Retirement Fund Board
Notes to the Financial Statements

August 31, 2005

NOTE 1 AUTHORITY AND NATURE OF OPERATIONS

The Alberta Teachers' Retirement Fund Board, a Provincial corporation, is the trustee and administrator of the Teachers' Pension Plan and the Private School Teachers' Pension Plan (the "Plans"). The Alberta Teachers' Retirement Fund Board operates under the authority of the *Teachers' Pension Plans Act,* Chapter T-1, RSA 2000.

The Plans are Registered Pension Plans as defined in the *Income Tax Act* and are not subject to income taxes. The income tax registration number is 0359125.

NOTE 2 DESCRIPTION OF THE PENSION PLANS

The following description of the Plans is a summary only.

a) General

The Plans are contributory defined-benefit pension plans for the teachers of Alberta.

b) Guarantee

The payment of all benefits for service prior to September 1, 1992 under the Teachers' Pension Plan is guaranteed by the Province of Alberta (the "Province").

c) Funding

The determination of the value of the benefits and the required contributions for the Plans is made on the basis of periodic actuarial valuations (Note 11).

All teachers under contract with school jurisdictions and charter schools in Alberta are required to contribute to the Teachers' Pension Plan. Current service costs and related deficiencies are funded by equal contributions from the Province and the teachers. An additional 10 percent cost-of-living adjustment for service earned after 1992, as described in Note 2(i), is funded entirely by the teachers.

The unfunded liability for service credited prior to September 1, 1992 is being funded by additional contributions in the proportions of 67.35 percent by the Province and 32.65 percent by the teachers over the period ending August 31, 2060.

Certain public colleges and other designated organizations in Alberta also participate in the Teachers' Pension Plan under the same funding arrangements, except these organizations make the employer contributions rather than the Province.

Certain private schools participate in the Private School Teachers' Pension Plan. Plan costs are funded by contributions from the employers and the teachers.

NOTE 2 DESCRIPTION OF PENSION PLANS (CONTINUED)

d) Retirement Pensions

Retirement pensions are based on the number of years of pensionable service and the highest consecutive five-year average salary. Pensions are payable to teachers who retire after completion of at least five years of pensionable service, with certain restrictions, and who have attained age 65. Unreduced pensions are also payable to teachers who have reached at least age 55 and the sum of their age and service equals 85. With certain restrictions, reduced early retirement pensions are payable to teachers who retire on or after age 55 with a minimum of five years of pensionable service.

e) Disability Benefits

Teachers who are disabled after August 31, 1992 are credited with pensionable service while disabled. Teachers do not contribute to the Plans while disabled.

f) Termination Benefits

Subject to lock-in provisions, refunds and commuted value transfers are available when a teacher ceases employment.

g) Death Benefits

Death benefits are available upon the death of a teacher and may be available upon the death of a pensioner. The benefit may take the form of a lump sum payment or a survivor pension.

h) Other Provisions

Purchase of past service and reinstatement of refunded service is allowed on a basis that is cost neutral to the Plans.

i) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to 60 percent of the increase in the Alberta Consumer Price Index. The portion of pension earned after 1992 is increased by an additional 10 percent of the increase in the Alberta Consumer Price Index.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) Basis of Presentation

The financial statements are prepared on a going-concern basis in accordance with Canadian generally accepted accounting principles and present the aggregate financial position of the Plans. The statements disclose the net assets available to meet future benefit payments, and are prepared to assist participants and others in reviewing the activities of the Plans for the fiscal year.

b) Investments

Investments are recorded as of the trade date and are stated at fair value. The methods used to determine year-end fair value are explained in the following paragraphs.

- Money-market securities are recorded at cost which approximates fair value.
- The fair value of publicly traded securities is based on market prices quoted by independent suppliers of securities related data.
- Fair value of real estate, oil and gas properties, and private placements, not publicly traded, is based on estimates as determined by management in conjunction with industry specialists.

Premiums and discounts arising on acquisitions are amortized using the effective interest rate method and included in investment income. Changes in fair value subsequent to acquisition are included in change in fair value of investments (Note 8).

c) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars at rates of exchange prevailing at the dates of the transactions. At year end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Gains or losses resulting from exchange differences are included in the determination of the change in fair value of investments.

d) Derivative Financial Instruments

Gains or losses on forward foreign exchange contracts are recognized with changes in market value, and are included in the determination of current year change in fair value of investments.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (CONTINUED)

e) Capital Assets

Capital assets are recorded at cost and amortized over their estimated useful lives. Amortization is calculated using the straight-line method at the following annual rates:

Furniture and equipment	10-25%
Computer hardware and software	20-33.3%

Software under development is not amortized until implemented.

f) Measurement Uncertainty

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits. Uncertainty arises because the Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits.

Differences between actual results and estimates are disclosed in the statement of changes in accrued benefits in the year when actual results are known.

NOTE 4 INVESTMENTS

	(in thousands)			
	2005		2004	
	Fair Value	Cost	Fair Value	Cost
Fixed Income and Cash				
Cash	$ 9,977	$ 9,977	$ 13,568	$ 13,568
Money-market securities	91,022	91,022	94,759	94,759
Bonds and debentures	812,352	765,633	543,068	520,503
Real return bonds	—	—	187,602	145,713
	913,351	866,632	838,997	774,543
Equities				
Canadian	955,641	636,504	795,130	634,479
International	664,955	604,163	538,377	509,873
US pooled funds	785,331	733,660	681,469	646,304
Private and other	6,821	7,405	2,968	3,551
	2,412,748	1,981,732	2,017,944	1,794,207
	$ 3,326,099	$ 2,848,364	$ 2,856,941	$ 2,568,750

NOTE 4 INVESTMENTS (CONTINUED)

a) US Pooled Funds

The Plans' US equity investments are held through ownership of units in two pooled funds each managed using a passive strategy with the objective of replicating the return of the *Standard & Poor's 500 United States Equity Index*. One fund invests directly in the US equity market and as at August 31, 2005, the Plans' proportionate interest in this pool had a fair value of $227,702,000 (2004: $176,101,000). The other fund invests in stock index futures contracts and Canadian dollar short-term fixed income investments. As at August 31, 2005, the Plans' proportionate interest in this pool had a fair value of $557,629,000 (2004: $505,368,000). A stock index futures contract is an agreement to take or make a delivery of an amount of cash equal to the difference between changes in the level of the stock index over a specified period.

b) Interest Rate Risk

Interest rate risk relates to the impact of interest rate changes on the Plans' cash flows and financial position. This risk arises from differences in the timing and amount of cash flows related to the Plans' assets and liabilities.

As at August 31, 2005, a 1% increase in nominal interest rates would result in a decline in the fair value of Fixed Income investments of 5.9% (2004: 7.9%).

Based on fair values at August 31, 2005, Fixed Income investments have the following average effective yields and term structures:

(in thousands)

	2005					2004	
	Terms of Maturity Within 1 Year	1 to 5 Years	Over 5 Years	Total	Average Effective Yield	Total	Average Effective Yield
Money-market securities	$ 91,022	$ —	$ —	$ 91,022	2.57%	$ 94,759	2.03%
Bonds and debentures	4,002	309,016	499,334	812,352	4.13%	543,068	4.71%
Real return bonds	—	—	—	—	—	187,602	1.48%

c) Credit Risk

Credit risk arises from the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

The Plans limit their credit risk by dealing with counter parties that are considered to be of high quality, setting and monitoring compliance with portfolio guidelines, diversification and obtaining collateral where appropriate.

The Plans record all investments at fair value. Consequently, investment values reflected in Note 4 of these financial statements represent the maximum credit risk exposure of the Plans as at August 31, 2005.

NOTE 4 INVESTMENTS (CONTINUED)

d) Currency Risk

Currency risk arises from the Plans' holding of equities that are denominated in foreign currencies. A portion of the currency exposure may be hedged by foreign currency forwards. Foreign currency forwards are contractual obligations either to buy or sell a specified amount of foreign currencies at predetermined future dates and exchange rates.

The Plans' foreign currency exposure is as follows:

	(in thousands)			
	2005			2004
	Foreign Currency Exposure	Foreign Currency Hedge	Net Foreign Currency Exposure	Net Foreign Currency Exposure
United States	$ 837,651	$ —	$ 837,651	$ 725,417
Euro	219,848	—	219,848	178,139
United Kingdom	146,062	—	146,062	95,039
Japan	81,690	—	81,690	82,183
Switzerland	70,039	—	70,039	48,955
Australia	9,244	—	9,244	9,587
Other	95,642	—	95,642	65,789
	$ 1,460,176	$ —	$ 1,460,176	$ 1,205,109

Foreign currency exposure includes $9,890,000 (2004: $13,559,000) in cash.

NOTE 5 RECEIVABLES

	(in thousands)	
	2005	2004
Accrued income	$ 14,426	$ 13,187
Amounts due from pending trades	—	7,435
Contributions — teachers	11,003	10,186
Contributions — Province of Alberta	861	—
Other	136	135
	$ 26,426	$ 30,943

NOTE 6 CAPITAL ASSETS

	(in thousands)			
	2005			2004
	Cost	Accumulated Amortization	Net	Net
Furniture and equipment	$ 381	$ 352	$ 29	$ 39
Computer hardware and software	4,492	3,522	970	1,214
	$ 4,873	$ 3,874	$ 999	$ 1,253

NOTE 7 ACCOUNTS PAYABLE

	(in thousands)	
	2005	2004
Tax withholdings	$ 5,334	$ 4,912
Contributions — Province of Alberta	—	2,229
Amounts payable from pending trades	—	20,987
Other investment transactions	1,312	1,096
Miscellaneous	1,027	1,314
	$ 7,673	$ 30,538

NOTE 8 INVESTMENT EARNINGS

	(in thousands)	
	2005	2004
Interest and dividend income		
Cash and money-market securities	$ 3,646	$ 2,127
Bonds and debentures	32,991	27,141
Real return bonds	600	11,625
Canadian equities	17,079	14,936
International equities	39,574	17,460
Private equity and other assets	106	327
	93,996	73,616
Realized net gain on disposal of investments	89,691	45,727
Unrealized net gain on investments	189,546	168,527
	$ 373,233	$ 287,870

NOTE 9 CONTRIBUTIONS (NOTE 2c)

	(in thousands) 2005	2004
Teachers		
Current service	$ 143,129	$ 131,253
Current Service Additional 10% COLA	10,469	9,619
Post-August 1992 deficiency	19,755	18,123
Pre-September 1992 unfunded liability	65,035	59,664
	238,388	218,659
Province of Alberta		
Current service	138,027	128,883
Post-August 1992 deficiency	17,817	16,637
Pre-September 1992 unfunded liability	129,869	121,266
	285,713	266,786
Employers		
Current service	384	383
Post-August 1992 deficiency	5	6
Pre-September 1992 unfunded liability	40	41
	$ 429	$ 430

NOTE 10 ADMINISTRATIVE EXPENSES

	(in thousands) 2005 Budget	2005 Actual	2004 Actual
External investment management fees	$ 4,117	$ 4,369	$ 3,780
Salaries and benefits (Note 14)	3,404	3,301	2,955
Premises and equipment	828	770	860
External professional services	734	577	545
Custodial and banking charges	494	536	461
Communication	615	504	502
Board and Investment Committee	102	94	44
Audit fees	56	60	66
Other	26	31	24
	$ 10,376	$ 10,242	$ 9,237

NOTE 11 OBLIGATIONS FOR BENEFITS

a) Extrapolations and Assumptions

Actuarial valuations of the Plans were done as at August 31, 2004. Extrapolations were prepared for reporting purposes as at August 31, 2005. The present value of accrued benefits was determined using the projected benefit method prorated on service. The assumptions used in the valuations and extrapolations are based on management's best estimate of future events.

The major long-term economic assumptions used in the current year actuarial extrapolations and the 2004 valuations are:

	2005	2004
Rate of return on invested assets	7.25%	7.25%
Rate of inflation	3.00%	3.00%
Real wage increases	1.00%	1.00%
Teacher population growth	0.25%	0.25%

Future experience will differ from those assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future actuarial valuations.

b) Sensitivity of Changes in Major Assumptions

As at August 31, 2005, a 0.25% decrease in population growth rate under the Teachers' Pension Plan, holding all other assumptions constant, would increase the amount of contributions required to fund the unfunded liability attributable to service credited prior to September 1992 by 0.51% of total teacher salaries. No change would occur to the value of accrued pension benefits. The amount of contributions required to fund the deficiency attributable to service credited after August 1992 would increase by 0.04%.

As at August 31, 2005, a 0.50% decrease in the rate of return on invested assets and in the real rate of return under the Teachers' Pension Plan, holding all other assumptions constant, would increase the amount of contributions, expressed as a percentage of total teacher salaries, required to fund:

i) current service costs by 1.46%,

ii) the unfunded liability attributable to service credited prior to September 1992 by 0.57%, and

iii) the deficiency attributable to service credited after August 1992 by 1.40%.

The accrued pension benefits would increase approximately $722 million.

NOTE 11 OBLIGATIONS FOR BENEFITS (CONTINUED)

c) Results Based on Extrapolations

The extrapolation for the Teachers' Pension Plan to August 31, 2005 determined an unfunded liability of $6.266 billion, attributable to service credited prior to September 1992 and a $672 million deficiency attributable to service after August 1992. The unfunded liability and deficiency are being funded as described in Note 2c.

The extrapolation for the Private School Teachers' Pension Plan to August 31, 2005 determined a surplus of $0.175 million.

	(in thousands)				
	2005				2004
	Teachers' Pension Plan		Private School Teachers' Pension Plan		
	Pre -Sept. 1992	Post-Aug. 1992		Total	Total
Net assets at beginning of year	$ (228,192)	$ 3,064,054	$ 24,841	$ 2,860,703	$ 2,468,530
Net contributions	190,724	326,503	750	517,977	481,280
Benefits	(324,804)	(68,603)	(1,092)	(394,499)	(367,740)
Investment earnings	—	370,070	3,163	373,233	287,870
Administrative expenses	—	(10,158)	(84)	(10,242)	(9,237)
Net assets (liabilities)	(362,272)	3,681,866	27,578	3,347,172	2,860,703
Interest on net liabilities	(21,761)	21,761	—	—	—
Actuarial value of accrued benefits	(5,882,039)	(4,376,038)	(27,403)	(10,285,480)	(9,681,624)
(Deficiency)/surplus	$ (6,266,072)	$ (672,411)	$ 175	$ (6,938,308)	$ (6,820,921)

d) Post-fund Receivable from Pre-fund

The net assets available for benefits related to the Teachers' Pension Plan are segregated into pre-September 1992 and post-August 1992 funds. All disbursements and receipts since September 1992 have been charged or credited to the appropriate fund.

During the 2002-2003 year, assets available to the pre-September 1992 fund were depleted. In accordance with legislation, each month since that time, assets have been advanced from the post-August 1992 fund to the pre-September 1992 fund to enable it to meet its ongoing commitments.

A rate of interest equal to the assumed rate of return on invested assets was used to charge interest on amounts advanced.

	(in thousands)	
	2005	2004
Opening balance	$ 228,192	$ 82,125
Advances during the year	134,080	135,122
Interest on advances	21,761	10,945
Receivable from Pre-fund	$ 384,033	$ 228,192

NOTE 12 CHANGE IN ACCOUNTING POLICY

Effective August 31, 2005, management introduced a change in accounting policy to value assets on the fair value basis for accounting purposes with no smoothed value reported. For funding purposes, the actuarial value of net assets available for benefits will continue to be determined by averaging projected net assets available for benefits over a five-year period. Previously the actuarial method was also used for accounting purposes.

As at August 31, 2005, this change in accounting policy has the effect of decreasing the Plans' deficiency by $28 million. If the change had not been made, the Teachers' Pension Plan's deficiency would have been $6,966 million, and the Private School Teachers' Pension Plan's surplus would have been $18 thousand at August 31, 2005.

This change in accounting policy has been applied retroactively and the Plans' deficiency at August 31, 2003 and 2004 have been restated. The effect of this change in accounting policy is to increase retroactively the Plans' deficiency by $239 million at August 31, 2003 and $129 million at August 31, 2004.

NOTE 13 INVESTMENT PERFORMANCE

The following is a summary of the investment performance results attained by the Alberta Teachers' Retirement Fund Board:

	One-Year Return	Five-Year Average Annual Compound Rate
Alberta Teachers' Retirement Fund Board	12.8%	3.9%
Benchmark (a)	12.7%	2.0%

(a) The benchmark return is a weighted average of certain market index returns, approved by the Board, based on the fund's policy asset mix.

The long-term real rate of return assumption is based on management's best estimate of future events. This long-term rate of return target was set at 3.5 percent over inflation for the year ended August 31, 1993, 4 percent over inflation for the four years ended August 31, 1997, 4.5 percent over inflation from September 1, 1997 to August 31, 2004, and then 4.25 percent from September 1, 2004. Over the thirteen-year period since September 1, 1992, the Fund's average annual compound rate of return was 8.7 percent, compared to the long-term target of 6.6 percent.

NOTE 14 REMUNERATION AND COMPENSATION

a) Board Member Remuneration

Five Board members, who are employed by the Province of Alberta or by an employer participating in the plans, are not paid fees for Board and committee meetings attended. One other Board member received remuneration of $13,400 (2004: $8,300). For the year ended August 31, 2005 the Board Chair received remuneration of nil (2004: nil).

b) Senior Staff Compensation

	(in dollars)				
	2005				2004
	Base Salary	Bonus (a)	Benefits & Allowances (b)	Total	Total
Chief Executive Officer (c)	$174,000	$51,000	$34,000	$259,000	$248,000
Chief Investment Officer (c)	160,000	67,000	29,000	256,000	248,000
Portfolio Manager, Equities	156,000	95,000	23,000	274,000	275,000
Portfolio Manager, Bonds	128,000	13,000	17,000	158,000	156,000
Senior Investment Analyst	105,000	24,000	18,000	147,000	142,000

(a) Senior staff are eligible to receive bonuses based on the achievement of pre-set corporate and investment targets established by the Board. Bonuses for investment professionals are based on a combination of total fund and portfolio performance targets, measured in value added above benchmarks. Performance versus benchmark is measured over five-year and one-year performance periods.

(b) Benefits and Allowances includes the employer's share of all employee benefits and contributions or payments made on behalf of employees, including pension, health care, dental coverage, vision coverage, group life insurance, long-term disability plan, professional memberships and tuitions, and car allowances.

(c) Position titles changed from Executive Director to Chief Executive Officer, and from Director of Investments to Chief Investment Officer.

NOTE 15 BUDGET INFORMATION

The accrued pension benefits are based on management's best estimates of future events after consultation with the Plans' actuary. Differences between actual results and management's expectations are disclosed as net experience gains in the statement of changes in accrued pension benefits. Accordingly, a budget is not included in these financial statements, with the exception of administrative expenses (Note 10).