

Consolidated Financial Statements



**Government of Alberta
Annual Report 2003-04**

Consolidated Financial Statements of the Province of Alberta

Year ended March 31, 2004

INTRODUCTION

The financial statements in this annual report of the Government of Alberta are consolidations of ministry consolidated financial statements, which themselves are consolidations of the financial statements of departments, regulated funds, Provincial agencies and Crown-controlled corporations, for which separate financial statements are presented in ministry annual reports. A listing of these organizations is provided in Schedule 16 to the financial statements.

The method of consolidation is described in the Accounting Policies note that forms part of the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Responsibility for the integrity and objectivity of the consolidated financial statements of the Province of Alberta rests with the government. The consolidated financial statements are prepared by the Controller under the general direction of the Deputy Minister of Finance, as authorized by the Minister of Finance pursuant to the *Financial Administration Act*. The consolidated financial statements are prepared in accordance with the government's stated accounting policies, and of necessity include some amounts that are based on estimates and judgements. As required by the *Government Accountability Act*, the consolidated financial statements are included in the consolidated annual report of the Government of Alberta that forms part of the Public Accounts.

To fulfill its accounting and reporting responsibilities, the government maintains systems of financial management and internal control which give consideration to costs, benefits and risks, and which are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability for public money, and
- safeguard the assets and properties of the Province of Alberta under government administration.

Under the *Financial Administration Act*, deputy heads are responsible for the collection of revenue payable to the Crown, and for making and controlling disbursements with respect to their departments. They are also responsible for prescribing the accounting systems to be used in their departments. In order to meet government accounting and reporting requirements, the Controller obtains information relating to departments, regulated funds, Provincial agencies and Crown-controlled corporations from ministries as necessary.

The consolidated financial statements are reviewed by the Audit Committee established under the *Auditor General Act*. Under the *Fiscal Responsibility Act*, the Audit Committee must report publicly to the Executive Council on the progress made in eliminating the accumulated debt. The Audit Committee advises the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of the consolidated financial statements of the Province.

The Auditor General of Alberta provides an independent opinion on the consolidated financial statements prepared by the government. The duties of the Auditor General in that respect are contained in the *Auditor General Act*.

Annually, the consolidated annual report is tabled in the Legislature as a part of the Public Accounts and is referred to the Standing Committee on Public Accounts of the Legislative Assembly.

Approved on behalf of the Finance Department:

Peter Kruselnicki, P.Eng.
Deputy Minister of Finance

Tim Wiles, CA
Controller

Edmonton, Alberta
June 21, 2004



AUDITOR'S REPORT

To the Members of the Legislative Assembly

I have audited the consolidated statement of financial position of the Province of Alberta as at March 31, 2004 and the consolidated statements of operations, change in net financial assets and cash flows for the year then ended. These financial statements are the responsibility of the Government of Alberta and are prepared on its behalf by Finance Department 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 consolidated financial statements present fairly, in all material respects, the financial position of the Province of Alberta as at March 31, 2004 and the results of its operations, change in its net financial assets and its cash flows for the year then ended in accordance with the disclosed basis of accounting as described in Note 1 to the consolidated financial statements.

[original signed]

Fred J. Dunn.

FCA
Auditor General

Edmonton, Alberta
June 15, 2004

Consolidated Statement of Operations

YEAR ENDED MARCH 31, 2004

In millions

| | 2004 | | 2003 |
|--|--------------------|-----------|--------------------------------|
| | Budget (Note 5) | Actual | Restated Actual (Note 2) |
| Revenues (Schedule 1) | | | |
| Income taxes | \$ 7,051 | \$ 6,309 | \$ 6,853 |
| Other taxes | 2,811 | 3,016 | 2,746 |
| Non-renewable resource revenue | 4,776 | 7,676 | 7,130 |
| Transfers from Government of Canada | 2,386 | 2,926 | 2,074 |
| Net income from commercial operations | 1,795 | 1,882 | 1,849 |
| Net investment income (loss) | 1,019 | 1,838 | (462) |
| Fees, permits and licences | 1,725 | 1,814 | 1,644 |
| Other | 365 | 426 | 828 |
| | 21,928 | 25,887 | 22,662 |
| Expenses by function (Schedules 2 and 3) | | | |
| Health | 7,651 | 7,634 | 6,917 |
| Education | 5,766 | 5,850 | 5,461 |
| Social services | 2,230 | 2,265 | 2,108 |
| Agriculture, resource management and economic development | 1,408 | 2,056 | 2,306 |
| Transportation, communications and utilities | 857 | 1,020 | 652 |
| Protection of persons and property | 704 | 842 | 901 |
| Regional planning and development | 438 | 446 | 484 |
| Recreation and culture | 280 | 273 | 231 |
| Environment | 161 | 164 | 147 |
| Housing | 125 | 158 | 132 |
| General government | 715 | 772 | 714 |
| Debt servicing costs | 465 | 271 | 476 |
| Pension provisions | 121 | 132 | 156 |
| | 20,921 | 21,883 | 20,685 |
| Excess of revenues over expenses for the year | \$ 1,007 | 4,004 | 1,977 |
| Net assets at beginning of year | | 17,078 | 15,101 |
| Net assets at end of year | | \$ 21,082 | \$ 17,078 |

The accompanying notes and schedules are part of these financial statements.

Consolidated Statement of Financial Position

MARCH 31, 2004

| | <i>In millions</i> | |
|---|--------------------|------------------------------|
| | 2004 | 2003 Restated (Note 2) |
| Financial assets | | |
| Cash and temporary investments (Schedule 5) | \$ 2,973 | \$ 1,711 |
| Accounts and accrued interest receivable | 2,907 | 3,409 |
| Portfolio investments (Schedule 6) | 16,852 | 15,192 |
| Equity in commercial enterprises (Schedule 7) | 1,319 | 1,148 |
| Loans and advances (Schedule 8) | 5,185 | 5,022 |
| Inventories for resale (Schedule 9) | 29 | 42 |
| | 29,265 | 26,524 |
| Liabilities | | |
| Accounts and accrued interest payable | 3,638 | 3,412 |
| Unmatured debt (Note 6) (Schedule 10) | 5,228 | 6,893 |
| Debt of Alberta Capital Finance Authority (Schedule 11) | 4,070 | 3,671 |
| Pension obligations (Schedule 12) | 5,059 | 4,927 |
| Other accrued liabilities (Schedule 13) | 722 | 852 |
| | 18,717 | 19,755 |
| Net financial assets | 10,548 | 6,769 |
| Non-financial assets | | |
| Tangible capital assets (Schedule 14) | 10,512 | 10,285 |
| Inventories of supplies | 22 | 24 |
| | 10,534 | 10,309 |
| Net assets (Note 5) | \$ 21,082 | \$ 17,078 |

The accompanying notes and schedules are part of these financial statements.

Consolidated Statement of Change in Net Financial Assets

YEAR ENDED MARCH 31, 2004

| | <i>In millions</i> | |
|--|--------------------|----------|
| | 2004 | 2003 |
| Excess of revenues over expenses for the year | \$ 4,004 | \$ 1,977 |
| Acquisition of tangible capital assets and supplies inventory | (633) | (537) |
| Amortization of tangible capital assets and consumption of supplies inventory | 389 | 346 |
| Net gain on disposal and write-down of tangible capital assets | (27) | (19) |
| Proceeds on sale of tangible capital assets | 46 | 66 |
| Increase in net financial assets | 3,779 | 1,833 |
| Net financial assets at beginning of year | 6,769 | 4,936 |
| Net financial assets at end of year | \$ 10,548 | \$ 6,769 |

The accompanying notes and schedules are part of these financial statements.

Consolidated Statement of Cash Flows

YEAR ENDED MARCH 31, 2004

| | <i>In millions</i> | |
|---|--------------------|------------------------------|
| | 2004 | 2003 Restated (Note 2) |
| Operating transactions | | |
| Excess of revenues over expenses for the year | \$ 4,004 | \$ 1,977 |
| Non-cash items | 51 | 423 |
| | 4,055 | 2,400 |
| Decrease (increase) in receivables | 502 | (1,674) |
| Increase (decrease) in payables | 226 | (168) |
| Other | (125) | (117) |
| Cash provided by operating transactions | 4,658 | 441 |
| Capital transactions | | |
| Acquisition of tangible capital assets and supplies inventory | (633) | (537) |
| Proceeds on sale of tangible capital assets | 46 | 66 |
| Cash applied to capital transactions | (587) | (471) |
| Investing transactions | | |
| Purchase of portfolio investments | (9,119) | (9,897) |
| Disposals of portfolio investments | 7,655 | 11,383 |
| Loans and advances made | (810) | (821) |
| Repayment of loans and advances | 717 | 618 |
| Cash (applied to) provided by investing transactions | (1,557) | 1,283 |
| Financing transactions | | |
| Debt retirement | (15,205) | (13,261) |
| Debt issues | 13,953 | 11,777 |
| Cash applied to financing transactions | (1,252) | (1,484) |
| Increase (decrease) in cash and temporary investments | 1,262 | (231) |
| Cash and temporary investments at beginning of year | 1,711 | 1,942 |
| Cash and temporary investments at end of year | \$ 2,973 | \$ 1,711 |

The accompanying notes and schedules are part of these financial statements.

Notes to the 2003-04 Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

These financial statements are prepared in accordance with the following accounting policies.

A) REPORTING ENTITY

These financial statements include the accounts of the Offices of the Legislative Assembly and all government entities including departments, the Alberta Heritage Savings Trust Fund, and other regulated funds, Provincial agencies and Crown-controlled corporations. A listing of these organizations is provided in Schedule 16. Accountable organizations such as universities, public colleges, technical institutes, regional health authorities and school boards are not included in the consolidated financial statements.

The Public Sector Accounting Board has released new guidance that controlled entities are to be included and how they are to be included effective April 1, 2005. This may affect how the Province reports accountable organizations such as universities, public colleges, technical institutes, regional health authorities and school boards depending on whether control exists. The government has agreed in principle to include the financial statements of these entities commencing from fiscal year beginning April 1, 2006, if it is determined that control exists.

B) METHOD OF CONSOLIDATION

The accounts of the Offices of the Legislative Assembly, departments, regulated funds and Provincial agencies, except those designated as commercial enterprises, are consolidated. Revenue and expense transactions, capital, investing and financing transactions, and related asset and liability accounts between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and Provincial agencies designated as commercial enterprises are reported on the modified equity basis, the equity being computed in accordance with Canadian generally accepted accounting principles.

The year end of some Provincial agencies is other than March 31. Transactions of these agencies that have occurred during the period to March 31, 2004 and that significantly affect the consolidation have been recorded.

C) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as unearned revenue and included in accounts payable.

NOTE 1 (continued)

Expenses

Expenses represent the cost of resources consumed during the year on government operations. Expenses include provisions for amortization of acquired tangible capital assets and expenses incurred in accordance with the terms of approved grant programs, including grants for capital purposes. Grants are recognized when authorized and when eligibility criteria are met.

Pension costs comprise the cost of pension benefits earned by employees during the year, interest on the Province's share of the unfunded pension liability, and the amortization over the expected average remaining service life of employees of deferred adjustments arising from experience gains and losses and changes in actuarial assumptions. Schedule 12 provides additional information on the amortization policy relating to pensions. In the Consolidated Statement of Operations, pension costs which are funded are included in expenses by function and costs which have not been funded are recorded as pension provisions.

Costs arising from obligations under guarantees and indemnities are recorded as expenses when management determines that the Province will likely be called upon to make payment. The expense represents management's estimate of future payments less recoveries.

The estimated increase or decrease for the year in accrued employee vacation entitlements is also recorded in the appropriate expense function.

Financial Assets

Financial assets are limited to financial claims on external organizations and individuals and inventories for resale at the year end.

Temporary investments are valued at cost or fair value, whichever is lower, on an aggregate basis.

Portfolio investments, which are investments to provide income for the long term, are carried at cost. Realized gains and losses on disposals of these investments are included in the determination of excess of revenues over expenses for the year. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

Loans are recorded at cost less any discounts and allowance for credit loss.

Inventories for resale representing the Province's share of royalty oil in feeder and trunk pipelines are stated at net realizable value. Other inventories for resale are valued at the lower of cost, determined on a first-in, first-out basis, and estimated net realizable value.

NOTE 1 (continued)

Liabilities

Liabilities include all financial claims payable by the Province at the year end.

Debentures included in unmatured debt are recorded at the face amount of the issue less net unamortized discount, which includes issue expenses and hedging costs.

Income or expense on interest rate swaps and forward interest rate agreements used to manage interest rate exposure is recorded as an adjustment to debt servicing costs. The exchange gain or loss on the foreign exchange contracts used to manage currency exposure is deferred and amortized over the life of the contract.

Liabilities also include the following:

- estimates of the present value of the Province's obligations for future pension contributions and/or benefits under defined benefit pension plans for current and former provincial and other public sector employees, and certain current and former Members of the Legislative Assembly, including deferred adjustments,
- the Province's obligation to provide future funding to school boards to enable them to repay the principal portion of their debentures to the Alberta Capital Finance Authority, and
- accrued employee vacation entitlements.

Non-financial Assets

Non-financial assets are limited to tangible capital assets and inventories of supplies.

Tangible capital assets of commercial enterprises are included in the Consolidated Statement of Financial Position within equity in commercial enterprises. Other tangible capital assets are included in non-financial assets on the Consolidated Statement of Financial Position.

Tangible capital assets on the Consolidated Statement of Financial Position are restricted to capital assets the Province acquired for cash or for other assets, and donated assets. Tangible capital assets acquired by right, such as Crown lands, forests, water and mineral resources, are not included.

Amortization of tangible capital assets is calculated on a straight line basis over the periods expected to benefit from their use (see Schedule 14), and the annual amortization is included in the expenses reported in the Consolidated Statement of Operations. The annual amortization of the costs of tangible capital assets is allocated to the functions of the government that employ those assets.

Inventories of supplies are valued at the lower of cost, determined on a first-in, first-out basis, and replacement cost.

Foreign Currency

Assets and liabilities denominated in foreign currency are translated at the year end rate of exchange.

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts.

Amortization of deferred exchange gains and losses and other exchange differences on unhedged transactions are included in the determination of excess of revenues over expenses for the year.

NOTE 1 (continued)

Measurement Uncertainty

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of personal and corporate income taxes, royalties derived from non-renewable resources, farm safety-net payments under the Canadian Agricultural Income Stabilization (CAIS) Program and corresponding contributions from the Government of Canada, and provisions for pensions and loans and advances. The nature of the uncertainty in these items arises from several factors such as the effect on accrued taxes of the verification of taxable income, the effect on accrued royalties of the receipt of revised production data and reassessments, the effect of CAIS being a new program with no historical experience, therefore the actual payments could vary from the estimates, the effect on accrued pension obligations of actual experience compared to assumptions, and the effect on loans and advances of actual collectibility and changes in economic conditions.

Personal income tax, recorded as \$4,613 million (2003 \$4,834 million) in these consolidated financial statements, is subject to measurement uncertainty due to the use of economic estimates of personal income growth. Use of this information in the past has resulted in a number that differs from final results by a geometric average of plus or minus \$200 million over the last four years.

While best estimates have been used for reporting items subject to measurement uncertainty, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

NOTE 2 REPORTING CHANGES

The government made the following reporting changes during 2003-04.

A) CHANGE IN REPORTING MODEL

In accordance with recommendations of the Public Sector Accounting Board, the government changed from a reporting model focusing on financial resources to an economic resources focus.

The principal effect of the change is that non-financial assets, consisting of tangible capital assets and inventories of supplies, are now reported on the Consolidated Statement of Financial Position. This presentation provides information on net assets, a new measure of financial position for government that supplements the net financial assets measure.

As a result of these changes, the Consolidated Statement of Operations reflects revenues less expenses instead of expenditures. The Consolidated Statement of Change in Net Financial Assets provides important accountability information regarding the extent to which expenditures are met by revenues recognized in the period.

NOTE 2 (continued)

Recognition and measurement of non-financial assets are based on their service potential. These assets will not provide resources to discharge the liabilities of the government. For government non-financial assets, the future economic benefit consists of their capacity to provide service to further the government's objectives.

B) CHANGES IN ACCOUNTING POLICY

Motor vehicle accident claims

The Province has changed its policy for recognizing expenses arising under the Motor Vehicle Accident Claims Act such that it now recognizes the cost of unsettled claims based on the probability that they will be settled. Previously, the Province did not recognize the cost of unsettled claims until they were settled. The change has been applied retroactively and, as a result of the change, net assets at April 1, 2002 have been reduced by \$82 million.

Other changes

As an integral part of the change in reporting model described in a) above, the Province has changed its policy for reporting of certain prepaid and inventory items which are now included in financial and non-financial assets respectively. Previously, these items were charged to expenses. This change has been applied retroactively and, as a result of the change, net assets at April 1, 2002 have been increased by \$13 million.

The government also changed the way it accounts for disposals and write-downs of tangible capital assets. Previously, proceeds of disposal of tangible capital assets were included in revenue, and the net book value of disposals and write-downs of capital assets were not reported in the financial statements but were instead disclosed in the notes.

Under the new policy, the difference between the net book value of tangible capital assets and their disposal proceeds is accounted for as net gain on disposal and included in other revenue and the fair market value of nominal sum disposals is included in expenses by function on the Consolidated Statement of Operations.

This change has been applied retroactively and, as a result of the change, other revenue decreased by \$19 million and expenses increased by \$28 million for the year ended March 31, 2003.

C) OTHER

The Province has adjusted its accumulated provision for site remediation costs relating to the Swan Hills Waste Treatment Centre by retroactively increasing the provision by \$14 million, based on an environmental consultant's report received in October 2002 which indicates that the work will be performed in 2018 at a cost of \$38 million.

The following is a summary of the effect of the reporting changes on the 2002-03 consolidated financial statements.

NOTE 2 (continued)

| | <i>In millions</i> | | |
|---|---------------------------|----------------------|----------------|
| | March 31, 2003 | | |
| | As Previously Reported | Reporting Changes | As Restated |
| Revenues | \$ 22,681 | \$ (19) | \$ 22,662 |
| Expenses | 20,657 | 28 | 20,685 |
| Excess of revenues over expenses for the year | 2,024 | (47) | 1,977 |
| Disposals and write-downs of tangible capital assets | (47) | 47 | - |
| Net financial assets at beginning of year | 5,043 | (107) | 4,936 |
| Non-financial assets at beginning of year (a) | 10,141 | 24 | 10,165 |
| Net assets at beginning of year | 15,184 | (83) | 15,101 |
| Net assets at end of year | \$ 17,161 | \$ (83) | \$ 17,078 |

a) As shown on the consolidated statement of capital assets.

NOTE 3 VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Due to their short term nature, the fair values of cash and cash equivalents, accrued interest, receivables, payables and accrued liabilities are estimated to approximate their book values. Fair values of some of the loans and advances are not reported due to there being no organized financial market for all of the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair values with sufficient reliability.

The fair value of unmatured debt and debt of Alberta Capital Finance Authority is an approximation of its fair value to the holder.

The methods used to determine the fair values of temporary investments and portfolio investments are as follows:

Public fixed-income securities and equities are valued at the year-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

The value of derivative contracts is included in the fair value of portfolio investments. Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and equity index futures contracts are valued based on quoted market prices.

Mortgages and certain non-public provincial debentures are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

The fair value of private equities is estimated by management using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

NOTE 3 (continued)

Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

At the year end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated to Canadian dollars at the year end exchange rate.

NOTE 4 RISK MANAGEMENT

A) LIABILITY MANAGEMENT

The objective of the Province's liability management program is to achieve the lowest cost on debt within an acceptable degree of variability of debt servicing costs. In order to achieve this objective, the Province manages four risks - interest rate risk, currency exchange risk, credit risk, and refinancing risk. The Province manages these four risks within approved policy guidelines. The management of these risks and the policy guidelines apply to the Province's direct debt, excluding debt raised to fund requirements of provincial corporations and regulated funds. Debt of provincial corporations and regulated funds is managed separately in relation to their assets.

The Province has decided, in light of the current debt reduction environment, that the most effective liability risk management strategy is to allow existing debt instruments to mature in accordance with their terms.

B) ASSET MANAGEMENT

The majority of the Province's portfolio investments are in the Alberta Heritage Savings Trust Fund (Heritage Fund). The investment objective is to invest in a diversified portfolio to maximize long-term returns at an acceptable level of risk. The policy asset mix for fixed income securities is 35%. The policy mix for public equity investment is 45%. The remainder of the portfolio is invested in real estate, private equities and absolute return strategies.

The General Revenue Fund also holds substantial amounts of the Province's portfolio investments. Portfolio investments of the General Revenue Fund are used to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short term declines in revenue and the costs of emergencies, disasters and natural gas rebates. The investment objective is to preserve the value of the investments while maintaining appropriate liquidity and earning a fair or reasonable rate of return.

The investments in the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Science and Engineering Research Endowment Fund and the Alberta Heritage Scholarship Fund are managed to preserve the capital of the funds over the long term and to provide an annual level of income to intermediary boards responsible for making grants to researchers in the fields of medicine, science and engineering, and to students.

NOTE 5 BUDGET

The budget amounts were derived from Budget 2003 tabled in the Legislature on April 8, 2003.

The following table compares the Province's net financial position with the March 31, 2004 estimate provided in Budget 2003. The table uses the same grouping of financial assets and liabilities as the budget.

NOTE 5 (continued)

| | <i>In millions</i> | | |
|--|--------------------|-----------|-----------|
| | 2004 | | 2003 |
| | Estimate | Actual | Actual |
| Financial assets | | | |
| Heritage Fund external investments | \$ 11,565 | \$ 11,267 | \$ 11,262 |
| Self-supporting lending organizations (a) | 5,231 | 5,597 | 5,293 |
| Alberta Sustainability Fund (b) | 2,217 | 2,500 | - |
| Endowment funds (c) | 1,548 | 1,622 | 1,551 |
| Debt retirement account (Note 6) | 251 | 1,241 | 2,010 |
| Capital account (d) | 287 | 1,180 | 910 |
| Other financial assets | 3,535 | 5,858 | 5,498 |
| | 24,634 | 29,265 | 26,524 |
| Liabilities | | | |
| Accumulated debt (Note 6) | 5,012 | 4,971 | 6,746 |
| Pension obligations | 4,970 | 5,059 | 4,927 |
| Self-supporting lending organizations (a) | 4,050 | 4,556 | 4,070 |
| Accounts and interest payable and other liabilities | 3,158 | 4,260 | 4,147 |
| Less debt held internally by consolidated entities | (130) | (129) | (135) |
| | 17,060 | 18,717 | 19,755 |
| Net financial assets for financial statement purposes | 7,574 | 10,548 | 6,769 |
| Tangible capital assets and inventory of supplies | 10,358 | 10,534 | 10,309 |
| Net assets for financial statement purposes | 17,932 | 21,082 | 17,078 |
| Pension obligations | 4,970 | 5,059 | 4,927 |
| Net assets for fiscal policy purposes | \$ 22,902 | \$ 26,141 | \$ 22,005 |

- a) Alberta Capital Finance Authority and Agriculture Financial Services Corporation.
- b) The Alberta Sustainability Fund was established on April 1, 2003 to help protect operating and capital spending from short term declines in revenue and the costs of emergencies, disasters and natural gas rebates.
- c) Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Science and Engineering Research Endowment Fund and Alberta Heritage Scholarship Fund.
- d) The Capital Account was established in 2002-03 to provide funding for the capital plan. Under the Province's fiscal framework, funds can be deposited into the Capital Account in one year and carried forward to following years to pay for capital projects.

NOTE 6 FISCAL RESPONSIBILITY LEGISLATION

Since 1999, the Fiscal Responsibility Act (the Act) has required that the Province not incur a deficit, as defined under the Act, in any fiscal year and that accumulated debt be eliminated according to a defined schedule. During 2003-04, the Province complied with the Act.

ACCUMULATED DEBT

Under the Act, accumulated debt, as defined, must be no greater than \$6,245 million by the end of the 2004-05 fiscal year and must be eliminated by March 31, 2025.

The table below shows the progress made in eliminating accumulated debt during 2003-04.

NOTE 6 (continued)

| | <i>In millions</i> | |
|--|--------------------|-----------------|
| | 2004 | 2003 |
| Unmatured debt (Schedule 10) | \$ 5,228 | \$ 6,893 |
| Funding obligation for school board debentures (Schedule 13) | 526 | 608 |
| Adjustments to conform to statutory definition | | |
| Borrowings for provincial corporations | (912) | (890) |
| Other | 129 | 135 |
| Accumulated debt at end of year | <u>\$ 4,971</u> | <u>\$ 6,746</u> |

In addition, Note 5 shows that funds amounting to \$1,241 million (2003 \$2,010 million), at cost, have been set aside to retire accumulated debt that has not yet matured:

| | <i>In millions</i> | | |
|---------------------------------------|--------------------|-----------------|-----------------|
| | 2004 | | 2003 |
| | Estimate | Actual | Actual |
| Accumulated debt at end of year | \$ 5,012 | \$ 4,971 | \$ 6,746 |
| Funds available for debt repayment | 251 | 1,241 | 2,010 |
| Accumulated debt less funds set aside | <u>\$ 4,761</u> | <u>\$ 3,730</u> | <u>\$ 4,736</u> |

NOTE 7 COMMITMENTS

| | <i>In millions</i> | |
|--|--------------------|-----------------|
| | 2004 | 2003 |
| Obligations under long-term leases, contracts and programs | \$ 8,301 | \$ 4,679 |
| Loans and advances approved | 44 | 37 |
| | <u>\$ 8,345</u> | <u>\$ 4,716</u> |

Estimated payment requirements for each of the next five years and thereafter are as follows:

| | <i>In millions</i> |
|------------|--------------------|
| 2004-05 | \$ 3,529 |
| 2005-06 | 2,713 |
| 2006-07 | 643 |
| 2007-08 | 363 |
| 2008-09 | 224 |
| Thereafter | 829 |
| | <u>\$ 8,301</u> |

The government has various commitments relating to the devolution of services or disposition of assets to the private sector. Those commitments include the performance of duties and obligations if the private sector organization fails to meet them.

NOTE 8 CONTINGENCIES

Set out below are details of contingencies resulting from guarantees, indemnities and litigation, other than those reported as liabilities and shown in Schedule 13. Any losses arising from the settlement of contingencies are treated as current year expenses.

A) INDEMNITIES AND GUARANTEES

Guarantees amounting to \$190 million (2003 \$227 million) are analyzed in Schedule 15.

B) CONTINGENCIES OF COMMERCIAL ENTERPRISES

The Credit Union Deposit Guarantee Corporation has a potential liability under guarantees relating to deposits of credit unions. At December 31, 2003 credit unions in Alberta held deposits totalling \$8.2 billion (2002 \$7.6 billion) and had assets in excess of deposits.

At March 31, 2004, Alberta Treasury Branches had a potential liability under guarantees and letters of credit amounting to \$108 million (2003 \$101 million).

N.A. Properties (1994) Ltd. has provided guarantees of principal and interest on mortgages sold to a chartered bank. The principal and interest on these mortgages totalled \$2 million at March 31, 2004 (2003 \$3 million).

C) LEGAL ACTIONS

At March 31, 2004, the Province was involved in various legal actions, the outcome of which is not determinable. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued cannot be determined.

The Province has a contingent liability in respect of 39 claims (2003 37) concerning aboriginal rights, Indian title and treaty rights. In most cases, these claims have been filed jointly and severally against the Province of Alberta and the Government of Canada, and in some cases involve third parties. Of these claims, 24 (2003 21) have specified amounts totalling \$129.5 billion (2003 \$64.4 billion) plus a provision for interest and other costs that is not calculable. The other 15 claims (2003 16) have not specified any amounts.

Further, the Province was named as defendant in various other legal actions in addition to those noted above. The total claimed in specific legal actions amounts to approximately \$3.6 billion (2003 \$4.2 billion).

NOTE 9 TRUST FUNDS UNDER ADMINISTRATION

Trust funds under administration are regulated and other funds consisting of public money over which the Legislature has no power of appropriation. Because the Province has no equity in the funds and administers them for the purposes of various trusts, they are not included in the consolidated financial statements.

At March 31, 2004, trust funds under administration were as follows:

| | <i>In millions</i> | |
|---|--------------------|------------------|
| | 2004 | 2003 |
| Public Sector Pension Plan Funds | \$ 18,847 | \$ 15,121 |
| Teachers' Pension Plan Funds | 2,876 | 2,583 |
| The Workers' Compensation Board Accident Fund | 2,329 | 2,025 |
| Public Trustee | 476 | 466 |
| Regional Health Authorities and various health institutions construction accounts | 396 | 420 |
| Power Pool of Alberta Balancing Pool | 116 | 146 |
| Special Areas Trust Account | 72 | 71 |
| Various Court Offices and Fines Distribution Trust | 46 | 39 |
| Miscellaneous trust funds | 139 | 165 |
| | <u>\$ 25,297</u> | <u>\$ 21,036</u> |

NOTE 10 DEFINED BENEFIT PLANS

A) PENSION PLANS

The government administers three contributory defined benefit pension plans for its current employees, namely, the Public Service Pension Plan, Management Employees Pension Plan and Supplementary Retirement Plan for Public Service Managers. Expenses for these plans during 2003-04 amounting to \$99 million (2003 \$80 million) have been recognized in these financial statements.

Benefits paid from these plans are based on length of service and pensionable earnings. The average age of the approximately 42,800 active employees is 44. In addition, there are approximately 10,100 former employees who are entitled to refunds of contributions with interest or pension benefits when all of the eligibility requirements are met. At present, these plans provide benefits for approximately 18,900 retirees. Benefit payments were \$227 million in 2003-04 (2003 \$213 million). Total contributions were \$241 million in 2003-04 (2003 \$188 million), of which employee contributions amounted to \$115 million (2003 \$92 million). The government guarantees payment of all benefits under the Management Employees Pension Plan arising from service before 1994.

A separate pension plan fund administered by the government is maintained for each pension plan. Pension plan fund assets are invested in both marketable investments of organizations external to the government and in Province of Alberta bonds and promissory notes.

Actuarial valuations are performed at least triennially using the projected benefit method prorated on services. Information about the economic assumptions used in the most recent actuarial valuations is provided below for each plan. Demographic assumptions used in the valuations reflect the experience of the plans.

NOTE 10 (continued)

| Plan | Latest Valuation | Real Rate of Return % | Inflation Rate % | Investment Rate of Return % |
|---|-------------------------|------------------------------|-------------------------|------------------------------------|
| Public Service Pension Plan | December 31, 2002 | 3.75 | 3.25 | 7.0 |
| Management Employees Pension Plan | December 31, 2002 | 4.0 | 2.75 | 6.75 |
| Supplementary Retirement Plan for Public Service Managers | December 31, 2002 | 3.0 | 3.0 | 6.0 |

At December 31, 2003, the Public Service Pension Plan reported an actuarial deficiency of \$596 million (2002 \$176 million), and the Management Employees Pension Plan and Supplementary Retirement Plan for Public Service Managers taken together reported a deficiency of \$281 million (2002 \$296 million). As a result of deferring and amortizing adjustments arising from experience gains and losses and changes in actuarial assumptions as described in Note 1, the government had no outstanding costs or obligations with respect to these plans at March 31, 2004 (2003 \$Nil).

B) LONG TERM DISABILITY INCOME CONTINUANCE PLANS

The government also administers two long term disability income continuance plans. At March 31, 2004, these plans taken together reported an actuarial deficiency of \$8 million (2003 \$18 million). At March 31, 2004, the government's share of the estimated accrued benefit liability for these plans amounting to \$7 million (2003 \$4 million) has been recognized in these financial statements.

NOTE 11 SUBSEQUENT EVENT

The Canadian Agricultural Income Stabilization Program is administered in accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement. Amendments to the Agreement are implemented from time to time in support of program evolution and delivery. A third amendment was implemented on May 21, 2004 to enhance the program for the 2003 taxation year to provide coverage for negative margins, increase payment caps for claims and modify the deposit requirements. As of March 31, 2004, Alberta had committed to the anticipated amendment, however the financial impact of the amendment will be reflected in the next fiscal year, the period in which the amendment to the agreement comes into force. The estimated cost of this amendment is \$120 million, to be shared as to 60% by the Government of Canada and 40% by the Province of Alberta. The \$120 million cost and the corresponding \$72 million contribution from the Government of Canada are subject to measurement uncertainty (see Note 1).

NOTE 12 COMPARATIVE FIGURES

Certain 2003 figures have been reclassified to conform to 2004 presentation, the most significant of which are reclassifications of \$547 million from environment expense to protection of persons and property expense (\$303 million), agriculture, resource management and economic development expense (\$203 million) and recreation and culture expense (\$41 million), \$64 million from protection of persons and property expense to social services expense, and \$51 million from agriculture, resource management and economic development expense to health expense.

Schedules to the 2003-04 Consolidated Financial Statements

REVENUES

Schedule 1

| | <i>In millions</i> | | |
|---|--------------------|------------------|------------------|
| | 2004 | | 2003 |
| | Budget (Note 5) | Actual | Actual |
| Income taxes | | | |
| Personal income tax | \$ 5,035 | \$ 4,613 | \$ 4,834 |
| Corporate income tax | 2,016 | 1,696 | 2,019 |
| | <u>7,051</u> | <u>6,309</u> | <u>6,853</u> |
| Other taxes | | | |
| School property tax | 1,165 | 1,178 | 1,113 |
| Tobacco tax | 624 | 671 | 618 |
| Fuel tax | 602 | 620 | 597 |
| Freehold mineral rights tax | 214 | 288 | 202 |
| Insurance taxes | 148 | 206 | 162 |
| Hotel room tax | 58 | 53 | 54 |
| | <u>2,811</u> | <u>3,016</u> | <u>2,746</u> |
| Non-renewable resource revenue | | | |
| Natural gas and by-products royalty | 3,480 | 5,450 | 5,125 |
| Crude oil royalty | 502 | 981 | 1,177 |
| Bonuses and sales of Crown leases | 679 | 967 | 565 |
| Synthetic crude oil and bitumen royalty | 103 | 197 | 183 |
| Rentals and fees | 144 | 154 | 153 |
| Coal royalty | 11 | 9 | 10 |
| Royalty tax credit | (143) | (82) | (83) |
| | <u>4,776</u> | <u>7,676</u> | <u>7,130</u> |
| Transfers from Government of Canada | | | |
| Canada health and social transfer | 1,613 | 1,767 | 1,332 |
| Health transfers | 284 | 276 | 19 |
| Agriculture support programs | 169 | 561 | 416 |
| Other | 320 | 322 | 307 |
| | <u>2,386</u> | <u>2,926</u> | <u>2,074</u> |
| Net income from commercial operations | | | |
| Lottery operations | 1,093 | 1,125 | 1,089 |
| Liquor operations | 546 | 557 | 535 |
| Other | 156 | 200 | 225 |
| | <u>1,795</u> | <u>1,882</u> | <u>1,849</u> |
| Net investment income (loss) | <u>1,019</u> | <u>1,838</u> | <u>(462)</u> |
| Fees, permits and licences | | | |
| Health care insurance premiums | 913 | 940 | 914 |
| Motor vehicle licences | 262 | 266 | 248 |
| Crop and hail insurance premiums | 164 | 146 | 102 |
| Other | 386 | 462 | 380 |
| | <u>1,725</u> | <u>1,814</u> | <u>1,644</u> |
| Other | 365 | 426 | 828 |
| | <u>\$ 21,928</u> | <u>\$ 25,887</u> | <u>\$ 22,662</u> |

EXPENSES BY MINISTRY

Schedule 2

| | <i>In millions</i> | | |
|---|--------------------|------------------|------------------|
| | 2004 | | 2003 |
| | Budget (Note 5) | Actual | Actual |
| Program expenses | | | |
| Offices of the Legislative Assembly | \$ 61 | \$ 56 | \$ 54 |
| Ministries | | | |
| Health and Wellness | 7,350 | 7,366 | 6,836 |
| Learning | 4,912 | 4,981 | 4,753 |
| Agriculture, Food and Rural Development | 814 | 1,500 | 1,783 |
| Infrastructure | 1,203 | 1,429 | 815 |
| Human Resources and Employment | 1,071 | 1,131 | 1,067 |
| Transportation | 889 | 842 | 673 |
| Children's Services | 708 | 699 | 657 |
| Community Development | 647 | 634 | 573 |
| Finance | 435 | 437 | 444 |
| Seniors | 354 | 402 | 341 |
| Sustainable Resource Development | 202 | 324 | 415 |
| Solicitor General | 278 | 283 | 266 |
| Justice | 263 | 257 | 244 |
| Energy | 185 | 199 | 163 |
| Innovation and Science | 200 | 186 | 184 |
| Revenue | 166 | 146 | 179 |
| Gaming | 150 | 144 | 123 |
| Municipal Affairs | 132 | 139 | 161 |
| Environment | 121 | 122 | 107 |
| Government Services | 83 | 86 | 73 |
| Economic Development | 55 | 58 | 55 |
| Aboriginal Affairs and Northern Development | 32 | 35 | 64 |
| Executive Council | 18 | 18 | 17 |
| International and Intergovernmental Relations | 6 | 6 | 6 |
| | 20,335 | 21,480 | 20,053 |
| Debt servicing costs (a) | 465 | 271 | 476 |
| Pension provisions (b) | 121 | 132 | 156 |
| | \$ 20,921 | \$ 21,883 | \$ 20,685 |

a) Debt servicing costs are related to Finance and Seniors.

b) Pension provisions are related to Learning and Finance.

EXPENSES BY OBJECT

Schedule 3

| | <i>In millions</i> | |
|--|--------------------|------------------|
| | 2004 | 2003 |
| Grants | \$ 15,738 | \$ 13,926 |
| Services | 2,761 | 3,208 |
| Salaries, wages, employment contracts and benefits | 1,681 | 1,557 |
| Interest and amortization of exchange gains and losses | 534 | 743 |
| Amortization of tangible capital assets | 389 | 346 |
| Valuation adjustments (Schedule 4) | 213 | 294 |
| Materials and supplies | 209 | 210 |
| Pension liability funding | 189 | 186 |
| Travel and communication | 136 | 131 |
| Corporate tax interest refunds | 16 | 64 |
| Other | 17 | 20 |
| | <u>\$ 21,883</u> | <u>\$ 20,685</u> |

VALUATION ADJUSTMENTS

Schedule 4

| | <i>In millions</i> | | |
|---|--------------------|---------------|---------------|
| | 2004 | | 2003 |
| | Budget (Note 5) | Actual | Actual |
| Pension provisions | \$ 121 | \$ 132 | \$ 156 |
| Provision for losses, doubtful accounts, loans, guarantees and indemnities | 82 | 71 | 132 |
| Provision for employee benefits other than pensions | 8 | 10 | 6 |
| | <u>\$ 211</u> | <u>\$ 213</u> | <u>\$ 294</u> |

CASH AND TEMPORARY INVESTMENTS

Schedule 5

| | <i>In millions</i> | | | |
|---|--------------------|-----------------|-----------------|-----------------|
| | 2004 | | 2003 | |
| | Book Value | Fair Value | Book Value | Fair Value |
| Fixed-income securities (a) | | | | |
| Government of Canada, direct and guaranteed | \$ 478 | \$ 480 | \$ 110 | \$ 110 |
| Provincial, direct and guaranteed | 58 | 59 | 43 | 44 |
| Municipal, direct and guaranteed | 2 | 2 | 2 | 2 |
| Corporate | 693 | 695 | 523 | 524 |
| Pooled investment funds | 21 | 22 | 15 | 15 |
| | <u>1,252</u> | <u>1,258</u> | <u>693</u> | <u>695</u> |
| Cash and cash equivalents | 1,721 | 1,721 | 1,018 | 1,018 |
| | <u>\$ 2,973</u> | <u>\$ 2,979</u> | <u>\$ 1,711</u> | <u>\$ 1,713</u> |

a) Fixed-income securities had an average effective market yield of 2.2% per annum (2003 3.0% per annum). 92% (2003 85%) of the securities had terms to maturity of less than one year.

| | <i>In millions</i> | | | |
|---|--------------------|-----------------|-----------------|-----------------|
| | 2004 | | 2003 | |
| | Book Value | Fair Value | Book Value | Fair Value |
| Fixed-income securities (a)(b)(c) | | | | |
| Government of Canada, direct and guaranteed | \$ 987 | \$ 993 | \$ 392 | \$ 393 |
| Provincial, direct and guaranteed | 1,000 | 1,007 | 963 | 967 |
| Municipal | 14 | 14 | 82 | 82 |
| Corporate | 2,061 | 2,072 | 1,368 | 1,367 |
| Pooled investment funds | 4,153 | 4,273 | 3,859 | 3,842 |
| | <u>8,215</u> | <u>8,359</u> | <u>6,664</u> | <u>6,651</u> |
| Equities (c) | | | | |
| Canadian | 2,939 | 3,343 | 2,810 | 2,818 |
| Foreign | 4,145 | 4,584 | 4,498 | 3,960 |
| Real estate | 975 | 1,063 | 899 | 973 |
| Absolute return strategies | 578 | 573 | 321 | 320 |
| | <u>8,637</u> | <u>9,563</u> | <u>8,528</u> | <u>8,071</u> |
| | <u>\$16,852</u> | <u>\$17,922</u> | <u>\$15,192</u> | <u>\$14,722</u> |

- a) The majority of the Province's fixed-income securities are held by the Alberta Heritage Savings Trust Fund (Heritage Fund). As at March 31, 2004, the Heritage Fund held \$3.70 billion (2003 \$3.47 billion) of public fixed-income securities at cost (Fair value \$3.81 billion (2003 \$3.45 billion)). The securities held have an average effective market yield of 4.4% (2003 5.5%) per annum and the following term structure based on principal amount.

| | 2004 | 2003 |
|----------------|------------|------------|
| | % | % |
| Under 1 year | 3 | 2 |
| 1 to 5 years | 38 | 37 |
| 6 to 10 years | 29 | 29 |
| 11 to 20 years | 11 | 13 |
| Over 20 years | 19 | 19 |
| | <u>100</u> | <u>100</u> |

- b) Fixed-income securities are also held by the General Revenue Fund to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, disasters and natural gas rebates. As at March 31, 2004, the General Revenue Fund held \$4.04 billion (2003 \$2.78 billion) of public fixed-income securities at cost (Fair value \$4.06 billion (2003 \$2.78 billion)). The securities held have an average effective market yield of 2.3% (2003 3.4%) per annum. 77.3% (2003 all) of the securities held had terms to maturity of less than two years.
- c) The Heritage Fund and the endowment funds identified in Note 4 use derivative contracts to enhance return, hedge risks and manage asset mix. As at March 31, 2004, the notional amount of all derivative contracts issued by these funds amounted to \$3.3 billion (2003 \$2.2 billion). 68% (2003 72%) of these contracts mature within one year. As at March 31, 2004, all derivative contracts taken together had a net negative fair value of \$89 million (2003 \$66 million).

EQUITY IN COMMERCIAL ENTERPRISES

Schedule 7

| | <i>In millions</i> | |
|--|--------------------|-----------|
| | 2004 | 2003 |
| Accumulated surpluses | | |
| Accumulated surpluses at beginning of year | \$ 1,062 | \$ 839 |
| Total revenue | 3,634 | 3,454 |
| Total expense | 1,752 | 1,605 |
| Net revenue | 1,882 | 1,849 |
| Net transfers to departments and other adjustments | (1,699) | (1,626) |
| Accumulated surpluses at end of year | \$ 1,245 | \$ 1,062 |
| Represented by | | |
| Assets | | |
| Loans | \$ 12,131 | \$ 11,691 |
| Investments | 944 | 661 |
| Other | 1,621 | 1,256 |
| | 14,696 | 13,608 |
| Liabilities | | |
| Accounts payable | 371 | 404 |
| Deposits | 13,035 | 12,097 |
| Unmatured debt | 45 | 45 |
| | 13,451 | 12,546 |
| | \$ 1,245 | \$ 1,062 |
| Equity in commercial enterprises at end of year | | |
| As reported by the entities | | |
| Alberta Treasury Branches | \$ 962 | \$ 791 |
| Alberta Gaming and Liquor Commission | 189 | 184 |
| Credit Union Deposit Guarantee Corporation | 93 | 85 |
| N.A. Properties (1994) Ltd. | 1 | 2 |
| | 1,245 | 1,062 |
| Elimination of inter fund/agency balances | 74 | 86 |
| | \$ 1,319 | \$ 1,148 |

LOANS AND ADVANCES
Schedule 8

| | <i>In millions</i> | |
|--|--------------------|----------|
| | 2004 | 2003 |
| Loans and advances made under the authority of | | |
| Alberta Capital Finance Authority Act (a) | \$ 3,961 | \$ 3,830 |
| Agriculture Financial Services Act (b) | 1,005 | 981 |
| Student Loan Act | 196 | 149 |
| Alberta Heritage Savings Trust Fund Act | 182 | 174 |
| Farm Credit Stability Act | 26 | 42 |
| Alberta Housing Act | 22 | 21 |
| Financial Administration Act | 11 | 13 |
| | 5,403 | 5,210 |
| Less allowance for doubtful accounts | 218 | 188 |
| | \$ 5,185 | \$ 5,022 |

- a) Municipal loans on average yield 7.8% (2003 8.3%) per annum and have the following term structure as at March 31, 2004.

| | 2004 | 2003 |
|---------------|------|------|
| | % | % |
| Under 1 year | 1 | 2 |
| 1 to 5 years | 21 | 23 |
| 6 to 10 years | 31 | 32 |
| Over 10 years | 47 | 43 |
| | 100 | 100 |

The fair value of the loans as at March 31, 2004 was \$4,488 million (2003 \$4,419 million).

- b) Agricultural loan portfolios on average yield 6.9% to 7.2% (2003 7.2% to 7.4%) per annum and have the following term structure as at March 31, 2004.

| | 2004 | 2003 |
|---------------|------|------|
| | % | % |
| Under 1 year | 13 | 11 |
| 1 to 5 years | 35 | 36 |
| 6 to 10 years | 27 | 27 |
| Over 10 years | 25 | 26 |
| | 100 | 100 |

The fair value of the loans as at March 31, 2004 was \$947 million (2003 \$927 million).

INVENTORIES FOR RESALE
Schedule 9

| | <i>In millions</i> | |
|-------------------|--------------------|-------|
| | 2004 | 2003 |
| Royalty oil | \$ 17 | \$ 32 |
| Other inventories | 12 | 10 |
| | \$ 29 | \$ 42 |

| | <i>In millions</i> | | | | | |
|--|-------------------------------------|--------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2004 | | | 2003 | | |
| | Effective Rate (a)(b)(c) % | Duration (d) years | Book Value (a) | Fair Value (a) | Book Value (a) | Fair Value (a) |
| Direct debt | | | | | | |
| Canadian dollar debt and fully hedged foreign currency debt | | | | | | |
| Floating rate and short-term fixed rate (e) | 4.65 | 0.36 | \$ 1,486 | \$ 1,512 | \$ 1,456 | \$ 1,493 |
| Fixed rate long-term (f) | 7.11 | 4.64 | 2,933 | 3,429 | 3,795 | 4,245 |
| | 6.28 | 3.33 | 4,419 | 4,941 | 5,251 | 5,738 |
| Unhedged U.S. dollar debt (g) | | | | | | |
| Floating rate and short-term fixed rate (e) | 3.77 | 0.21 | 680 | 694 | 1,056 | 1,050 |
| Fixed rate long-term | 5.68 | 1.58 | 48 | 53 | 504 | 554 |
| | 3.90 | 0.31 | 728 | 747 | 1,560 | 1,604 |
| | 5.95 | 2.93 | 5,147 | 5,688 | 6,811 | 7,342 |
| Alberta Social Housing Corporation | | | | | | |
| Canadian dollar fixed rate debt | | | 81 | 119 | 82 | 115 |
| | | | \$ 5,228 | \$ 5,807 | \$ 6,893 | \$ 7,457 |

- a) Book value represents the amount the Province owes. Fair value is an approximation of market value to the holder. The book value, fair value and weighted average effective rate include the effect of interest rate and currency rate swaps. For non-marketable issues, the effective rate and fair value are determined by reference to yield curves for comparable quoted issues.
- b) Weighted average effective rates on unhedged U.S. dollar debt are based upon debt stated in U.S. dollars.
- c) Weighted average effective rate on total direct debt is on debt inclusive of deferred exchange gains and losses on unhedged U.S. dollar debt (see note (g)).
- d) Duration is the weighted average term to maturity of a security's cash flows (i.e. interest and principal) and is a measure of price volatility. The greater the duration of a bond, the greater its percentage price volatility.
- e) Floating rate debt includes short-term debt, term debt with less than one year remaining to maturity, and term debt with interest rate reset within a year.
- f) Canadian dollar fixed rate debt includes \$679 million (2003 \$679 million) held by the Canada Pension Plan Investment Fund.
- g) Unhedged U.S. dollar debt is translated into Canadian dollars at the March 31 noon exchange rate of \$1.31 per U.S. dollar (2003 \$1.47 per U.S. dollar). Deferred exchange gains on unhedged U.S. dollar debt amounted to \$5 million at March 31, 2004 (2003 \$23 million). Amortization of deferred exchange gains amounted to \$146 million for the year ended March 31, 2004 (2003 \$50 million). In Budget 2003, a change in the exchange rate of one U.S. cent to the Canadian dollar was estimated to have a \$25 million effect on debt servicing costs.

Schedule 10 (continued)

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2004-05 and thereafter, are as follows:

| | <i>In millions</i> | |
|------------|--------------------|------------------------------|
| | Total | Includes Unhedged |
| 2004-05 | \$ 1,596 | US\$ 439 |
| 2005-06 | 1,306 | 108 |
| 2006-07 | 151 | - |
| 2007-08 | 275 | - |
| 2008-09 | 632 | - |
| Thereafter | 1,277 | - |
| | \$ 5,237 | US\$ 547 |

Derivative financial instruments

The Province uses interest rate swaps and currency rate swaps and contracts to manage the interest rate risk and currency exposure associated with unmaturing debt. In addition, forward interest rate agreements may be used to manage interest rate exposure in the short term. Associated with these instruments are credit risks that could expose the Province to potential losses. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit exposure to counterparties is insignificant in relation to the notional principal amount, as shown in the table below. The Province minimizes its credit risk associated with these contracts by dealing with only credit worthy counterparties.

Interest rate swaps involve the exchange of a series of interest payments, either at a fixed or floating rate, based upon a contractual or notional principal amount. An interest rate swap agreement based upon a notional amount involves no exchange of underlying principal. The notional amount serves as the basis for determining the exchange of interest payments. At March 31, 2004, interest rate swap agreements were being used primarily to convert fixed interest rate payments to floating rates.

Cross currency interest rate swaps involve both the swapping of interest rates and currencies.

The following table summarizes the Province's derivative portfolio and related credit exposure. Notional amount represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Replacement cost represents what it would cost to replace at current market rates all contracts which have a positive market value.

| | <i>In millions</i> | | | |
|------------------------------------|--------------------|---------------------|--------------------|---------------------|
| | 2004 | | 2003 | |
| | Notional Amount | Replacement Cost | Notional Amount | Replacement Cost |
| Interest rate swaps | \$ 1,131 | \$ 14 | \$ 1,908 | \$ 24 |
| Cross currency interest rate swaps | 483 | 11 | 536 | - |
| | \$ 1,614 | \$ 25 | \$ 2,444 | \$ 24 |

| | <i>In millions</i> | |
|-------------------------------------|--------------------|----------|
| | 2004 | 2003 |
| Canadian dollar fixed rate debt (a) | \$ 4,070 | \$ 3,671 |

- a) Canadian dollar fixed rate debt includes \$2,465 million (2003 \$2,706 million) held by the Canada Pension Plan Investment Fund and has the following characteristics as at March 31, 2004 (see Schedule 10 note (a)).

| | 2004 | 2003 |
|--------------------------|----------|----------|
| Fair value (in millions) | \$ 4,544 | \$ 4,245 |
| Effective rate per annum | 8.1% | 8.9% |

Debt principal repayment requirements in each of the next five years, including short-term debt maturing in 2004-05 and thereafter, are as follows:

| | <i>In millions</i> | |
|------------|--------------------|-------|
| 2004-05 | \$ | 453 |
| 2005-06 | | 424 |
| 2006-07 | | 396 |
| 2007-08 | | 335 |
| 2008-09 | | 259 |
| Thereafter | | 2,203 |
| | \$ | 4,070 |

While the Province is committed to provide future funding to pension plans for its active employees, as disclosed in Note 10(a), the Province had no outstanding costs or obligations in respect of these pension plans at March 31, 2004.

However, in respect of other public sector pension plans, the Province has pension obligations as described below.

| | <i>In millions</i> | |
|---|--------------------|----------|
| | 2004 | 2003 |
| Obligations to pension plans for employees of organizations outside the government reporting entity | | |
| Teachers' Pension Plan (a) | \$ 4,094 | \$ 3,965 |
| Universities Academic Pension Plan (b) | 171 | 157 |
| Special Forces Pension Plan (b) | 68 | 60 |
| | 4,333 | 4,182 |
| Obligations to pension plans for current and former employees and Members of the Legislative Assembly | | |
| Public Service Management (Closed Membership) Pension Plan (c) | 676 | 696 |
| Members of the Legislative Assembly Pension Plan (d) | 50 | 49 |
| | 726 | 745 |
| | \$ 5,059 | \$ 4,927 |

- a) The Teachers' Pension Plans Act requires all teachers under contract with public and separate school jurisdictions in Alberta to contribute to the Teachers' Pension Plan. Under the Act, the unfunded liability for service credited prior to September 1, 1992 is being financed by additional contributions in the ratio of 67.35% by the Province and 32.65% by the teachers over the period ending August 31, 2060. In addition, for service after August 1992, the Province funds 50% of any current service costs and related actuarial adjustments, including certain cost of living benefits.

The Act provides that payment of all benefits prior to September 1, 1992 is guaranteed by the Province.

- b) Under the Public Sector Pension Plans Act, the Province has obligations for payment of additional contributions under defined benefit pension plans for certain employees of post-secondary educational institutions and municipalities. The plans are the Universities Academic and Special Forces pension plans.

For Universities Academic, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions of 1.25% of pensionable salaries by the Province, and contributions by employers and employees to fund the remaining amount, as determined by the plan valuation, over the period ending on or before December 31, 2043. Current service costs are funded by employers and employees.

For Special Forces, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions in the ratio of 45.45% by the Province and 27.27% each by employers and employees, over the period ending on or before December 31, 2036. Current service costs are funded by employers and employees. The Act provides that payment of all benefits arising from pensionable service prior to 1994, excluding post-1991 cost of living adjustment benefits, is guaranteed by the Province.

Schedule 12 (continued)

- c) The Public Service Management (Closed Membership) pension plan provides benefits to former members of the Public Service Management pension plan who were retired, were entitled to receive a deferred pension or had attained 35 years of service before August 1, 1992.
- d) The Province has a liability for payment of pension benefits under a defined benefit pension plan for certain current and former Members of the Legislative Assembly. Active participation in this plan was terminated as of June 1993, and no benefits can be earned for service after that date.

Pension obligations are based upon actuarial valuations performed at least triennially using the projected benefit method prorated on services. The assumptions used in the valuations were adopted after consultation between the pension plan boards, the government and the actuaries, depending on the plan, and represent best estimates of future events. Each plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses are amortized over the expected average remaining service lives of the related employee groups.

Information about the economic assumptions used in the most recent actuarial valuations is provided below for each plan for which there is an obligation. Demographic assumptions used in the valuations reflect the experience of the plans.

| Plan | Latest Valuation | Real Rate of Return % | Inflation Rate % | Investment Rate of Return % |
|--|-------------------|-----------------------|------------------|-----------------------------|
| Teachers' Pension Plan | August 31, 2002 | 4.5 | 3.0 | 7.5 |
| Universities Academic Pension Plan | December 31, 2002 | 4.0 | 3.0 | 7.0 |
| Special Forces Pension Plan | December 31, 2001 | 3.75 | 3.25 | 7.0 |
| Public Service Management (Closed Membership) Pension Plan | December 31, 2002 | 3.0 | 3.0 | 6.0 |
| Members of the Legislative Assembly Pension Plan | March 31, 2003 | 3.0 | 3.0 | 6.0 |

These actuarial valuations indicated a deficiency of net assets over the actuarial present value of accrued benefits. Including net deferred gains of \$44 million (2003 \$77 million), these unfunded liabilities were extrapolated to March 31, 2004.

A separate pension plan fund is maintained for each pension plan except for the Members of the Legislative Assembly plan. Pension plan fund assets are invested in both marketable investments of organizations external to the government and in Province of Alberta bonds and promissory notes.

OTHER ACCRUED LIABILITIES

Schedule 13

| | <i>In millions</i> | |
|--|--------------------|--------|
| | 2004 | 2003 |
| Future funding to school boards to enable them to repay debentures issued to Alberta Capital Finance Authority | \$ 526 | \$ 608 |
| Vacation entitlements | 163 | 153 |
| Guarantees, indemnities and remissions | | |
| Guarantees (Schedule 15) | 13 | 14 |
| Remissions for guaranteed student loans (Schedule 15) | 3 | 6 |
| Remissions for non-guaranteed student loans | 15 | 68 |
| | 31 | 88 |
| Other | 2 | 3 |
| | \$ 722 | \$ 852 |

| | | <i>In millions</i> | | | |
|---|--------------------------|--------------------|-------------------------------------|-------------------|---------------------------|
| | Estimated Useful Life | 2004 Cost | 2004 Accumulated Amortization | Net Book Value | 2003 Net Book Value |
| General capital assets | | | | | |
| Land (a) | Indefinite | \$ 1,229 | \$ - | \$ 1,229 | \$ 1,202 |
| Buildings | 40 years | 2,891 | 1,382 | 1,509 | 1,541 |
| Computer hardware and software | 5-10 years | 558 | 303 | 255 | 229 |
| Equipment (b) | 3-10 years | 370 | 134 | 236 | 181 |
| Other (c) | 20-50 years | 206 | 133 | 73 | 64 |
| | | 5,254 | 1,952 | 3,302 | 3,217 |
| Infrastructure assets | | | | | |
| Land improvements (d) | 10-40 years | 188 | 108 | 80 | 81 |
| Provincial highways, roads and airstrips (e) | 50 years | 7,840 | 2,215 | 5,625 | 5,502 |
| Bridges (e) | 50 years | 813 | 213 | 600 | 594 |
| Dams and water management structures (f) | 25-80 years | 1,129 | 224 | 905 | 891 |
| | | 9,970 | 2,760 | 7,210 | 7,068 |
| | | \$ 15,224 | \$ 4,712 | \$ 10,512 | \$ 10,285 |

- a) Land includes land acquired for parks and recreation, building sites, infrastructure and other program use. It does not include land held for resale or Crown lands acquired by right.
- b) Equipment includes SuperNet, vehicles, heavy equipment, fire protection equipment, office equipment and furniture, and other equipment.
- c) Other capital assets include leasehold improvements (amortized over the life of the lease), rail cars and trailers.
- d) Land improvements include parks development and grazing reserves.
- e) Provincial highways and roads consist of original pavement, roadbed, drainage works and traffic control devices, and include secondary highways and bridges and some key arterial roadways within cities.
- f) Dams and water management structures include dams, reservoirs, weirs, canals, dikes, ditches, channels, diversions, cut-offs, pump houses and erosion protection structures.

| | <i>In millions</i> | | Expiry Date |
|---|--------------------|---------------|-------------|
| | 2004 | 2003 | |
| Feeder Associations Guarantee Act | \$ 52 | \$ 44 | Ongoing |
| Alberta Housing Act | 42 | 50 | 2018 |
| Student Loan Act | 41 | 58 | Ongoing |
| Agriculture Financial Services Act | 39 | 46 | Ongoing |
| Farm Credit Stability Act (a) | 27 | 43 | 2011 |
| Securities Act | 2 | 2 | Ongoing |
| Centre for Engineering Research Inc. | 1 | 2 | 2005 |
| University of Calgary | 1 | 1 | 2016 |
| Rural utilities loans | 1 | 1 | 2015 |
| | <u>206</u> | <u>247</u> | |
| Less estimated liability (Schedule 13) | | | |
| Guarantees | 13 | 14 | |
| Remissions for guaranteed student loans | 3 | 6 | |
| | <u>16</u> | <u>20</u> | |
| | <u>\$ 190</u> | <u>\$ 227</u> | |

Authorized loan guarantee limits are shown below where applicable. Where authorized loan guarantee limits are not noted, the authorized limits decline as guaranteed or indemnified loans are repaid.

No new program guarantees are being issued under the Farm Credit Stability Act and the Rural Utilities Act.

Guarantee programs under the following Acts are ongoing:

- Student Loan Act (authorized guarantee limit set by Order in Council is \$400 million),
- Feeder Associations Guarantee Act (authorized guarantee limit set by Order in Council is \$55 million),
- Agriculture Financial Services Act, and
- Securities Act.

The lender takes appropriate security prior to issuing to the borrower a loan which is guaranteed by the Province. The security taken depends on the nature of the loan. Interest rates are negotiated with the lender by the borrower and typically range from prime to prime plus two per cent.

a) The expiry date shown is the latest expiry date for guaranteed loans under the program.

The financial statements of the following organizations are consolidated in these financial statements:

Offices of the Legislative Assembly

Support to the Legislative Assembly
Office of the Auditor General
Office of the Ombudsman
Office of the Chief Electoral Officer
Office of the Ethics Commissioner
Office of the Information and Privacy Commissioner

Departments

Aboriginal Affairs and Northern Development
Agriculture, Food and Rural Development
Children's Services
Community Development
Economic Development
Energy
Environment
Executive Council
Finance
Gaming
Government Services
Health and Wellness
Human Resources and Employment
Infrastructure
Innovation and Science
International and Intergovernmental Relations
Justice
Learning
Municipal Affairs
Revenue
Seniors
Solicitor General
Sustainable Resource Development
Transportation

Regulated Funds

Alberta Heritage Foundation for Medical Research Endowment Fund
Alberta Heritage Savings Trust Fund
Alberta Heritage Scholarship Fund
Alberta Heritage Science and Engineering Research Endowment Fund
Alberta Risk Management Fund
Alberta School Foundation Fund
Crop Reinsurance Fund of Alberta
Environmental Protection and Enhancement Fund

Schedule 16 (continued)

Regulated Funds (continued)

Historic Resources Fund
Lottery Fund
Provincial Judges and Masters in Chambers Reserve Fund
Supplementary Retirement Plan Reserve Fund
Victims of Crime Fund

Provincial Agencies

Agriculture Financial Services Corporation
Alberta Alcohol and Drug Abuse Commission
Alberta Capital Finance Authority (a)
Alberta Dairy Control Board (b)
Alberta Energy and Utilities Board
Alberta Foundation for the Arts
The Alberta Historical Resources Foundation
Alberta Informatics Circle of Research Excellence Inc.
Alberta Municipal Financing Corporation (a)
Alberta Pensions Administration Corporation
Alberta Petroleum Marketing Commission
Alberta Research Council Inc.
Alberta Science and Research Authority
Alberta Securities Commission
Alberta Social Housing Corporation
Alberta Sport, Recreation, Parks and Wildlife Foundation
Awasak Child and Family Services Authority (b)
Calgary and Area Child and Family Services Authority
Calgary Rocky View Child and Family Services Authority (b)
Central Alberta Child and Family Services Authority
Child and Family Services Authority Region 13 (b)
Diamond Willow Child and Family Services Authority (b)
East Central Alberta Child and Family Services Authority
Edmonton and Area Child and Family Services Authority
Edmonton Community Board for Persons with Developmental Disabilities (b)
The Government House Foundation
Hearthstone Child and Family Services Authority (b)
Human Rights, Citizenship and Multiculturalism Education Fund
Keystone Child and Family Services Authority (b)
Ma'Mowe Capital Region Child and Family Services Authority (b)
Metis Settlements Child and Family Services Authority
Natural Resources Conservation Board
Neegan Awas'sak Child and Family Services Authority (b)
North Central Alberta Child and Family Services Authority
Northeast Alberta Child and Family Services Authority

Schedule 16 (continued)

Provincial Agencies (continued)

Northwest Alberta Child and Family Services Authority
Persons with Developmental Disabilities Calgary Region Community Board
Persons with Developmental Disabilities Central Region Community Board
Persons with Developmental Disabilities Edmonton Region Community Board
Persons with Developmental Disabilities Michener Centre Facility Board (b)
Persons with Developmental Disabilities Northeast Region Community Board
Persons with Developmental Disabilities Northwest Region Community Board
Persons with Developmental Disabilities Provincial Board
Persons with Developmental Disabilities South Region Community Board
Region 14 Child and Family Services Authority (b)
Ribstone Child and Family Services Authority (b)
Sakaigun Asky Child and Family Services Authority (b)
Sakaw-Askiy Child and Family Services Authority (b)
Silver Birch Child and Family Services Authority (b)
Southeast Alberta Child and Family Services Authority
Southwest Alberta Child and Family Services Authority
West Yellowhead Child and Family Services Authority (b)
The Wild Rose Foundation
Windsong Child and Family Services Authority (b)

Non-commercial Crown-controlled Corporation

Alberta Insurance Council

The following organizations are accounted for on the modified equity basis in these financial statements:

Commercial Enterprises

Alberta Gaming and Liquor Commission
The Alberta Government Telephones Commission
Alberta Treasury Branches
Credit Union Deposit Guarantee Corporation
N.A. Properties (1994) Ltd.

Commercial Crown-controlled Corporation

Gainers Inc.

- a) Alberta Municipal Financing Corporation was renamed Alberta Capital Finance Authority during 2003-04.
- b) Dissolved or merged with another entity in 2003-04.