

MINISTRY OF FINANCE

Consolidated Financial Statements

YEAR ENDED MARCH 31, 2005

Auditor's Report	60
Consolidated Statement of Operations	61
Consolidated Statement of Financial Position	62
Consolidated Statement of Cash Flows	63
Notes to the Consolidated Financial Statements	64
Schedules to the Consolidated Financial Statements	
1 Revenues	73
2 Budget	74
3 Expenses by Object	75
4 Valuation Adjustments	75
5 Cash and Temporary Investments	76
6 Accrued Interest and Accounts Receivable	76
7 Portfolio Investments	77
8 Equity in Commercial Enterprises	79
9 Loans and Advances to Government Entities	80
10 Other Loans and Advances	80
11 Tangible Capital Assets	81
12 Accrued Interest and Accounts Payable	81
13 Unmatured Debt	82
14 Debt of Alberta Capital Finance Authority	85
15 Pension Obligations	86
16 Other Accrued Liabilities	88
17 Guarantees	88
18 Related Party Transactions	89



AUDITOR'S REPORT

To the Members of the Legislative Assembly

I have audited the consolidated statement of financial position of the Ministry of Finance as at March 31, 2005 and the consolidated statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the management of the Ministry. 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 Ministry as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
May 20, 2005

[Original Signed]
Fred J. Dunn, FCA
Auditor General

MINISTRY OF FINANCE

CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended March 31, 2005 (*thousands*)

	Budget (Schedule 2)	2005 Actual	2004 Restated Actual (Note 10)
Revenues (Schedules 1 and 2)			
Income taxes	\$ 7,041,956	\$ 7,012,664	\$ 6,308,958
Other taxes	1,492,481	1,612,326	1,550,087
Transfers from Government of Canada	4,055	4,178	4,100
Net investment income	1,204,269	1,786,526	1,812,227
Net income from commercial operations	155,837	193,380	200,183
Premiums, fees and licences	38,771	38,956	31,643
Internal government transfers	84,565	155,107	159,289
Other	49,236	49,346	43,819
	<u>10,071,170</u>	<u>10,852,483</u>	<u>10,110,306</u>
Expenses (Schedules 2 and 3)			
Fiscal planning and financial management	53,490	58,038	43,323
Investment, treasury and risk management	197,540	183,168	184,492
Financial sector and pensions	366,577	355,376	369,488
Ministry support services	10,540	10,584	9,964
Valuation adjustments (Schedule 4)	(12,500)	5,944	5,520
Debt servicing costs			
General government	302,000	241,487	201,613
School boards	53,020	53,011	61,493
	<u>970,667</u>	<u>907,608</u>	<u>875,893</u>
Net operating results	<u>\$ 9,100,503</u>	<u>\$ 9,944,875</u>	<u>\$ 9,234,413</u>

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

MINISTRY OF FINANCE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31, 2005 (*thousands*)

	2005	2004 Restated (Note 10)
Assets		
Cash and temporary investments (Schedule 5)	\$ 3,801,892	\$ 2,481,824
Accrued interest and accounts receivable (Schedule 6)	781,391	1,080,274
Portfolio investments (Schedule 7)	18,995,474	16,852,138
Equity in commercial enterprises (Schedule 8)	1,331,693	1,130,232
Loans and advances to government entities (Schedule 9)	1,301,258	1,337,116
Other loans and advances (Schedule 10)	4,204,188	4,084,201
Tangible capital assets (Schedule 11)	19,531	18,980
	<u>\$ 30,435,427</u>	<u>\$ 26,984,765</u>
Liabilities		
Bank overdraft	\$ 942,671	\$ 786,928
Accrued interest and accounts payable (Schedule 12)	730,221	731,132
Unmatured debt (Schedule 13)	3,722,250	5,147,016
Debt of Alberta Capital Finance Authority (Schedule 14)	4,267,567	4,069,558
Pension obligations (Schedule 15)	971,233	964,692
Other accrued liabilities (Schedule 16)	459,165	534,350
	<u>11,093,107</u>	<u>12,233,676</u>
Net Assets		
Net assets at beginning of year	14,751,089	10,180,504
Net operating results	9,944,875	9,234,413
Net transfer to general revenues	(5,353,644)	(4,663,828)
Net assets at end of year	<u>19,342,320</u>	<u>14,751,089</u>
	<u>\$ 30,435,427</u>	<u>\$ 26,984,765</u>

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

MINISTRY OF FINANCE

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2005 (*thousands*)

	2005	2004 Restated (Note 10)
Operating activities		
Net operating results	\$ 9,944,875	\$ 9,234,413
Non-cash items included in net operating results	(370,801)	(510,034)
	<u>9,574,074</u>	<u>8,724,379</u>
Other	291,490	(81,827)
Cash provided by operating activities	<u>9,865,564</u>	<u>8,642,552</u>
Capital activities		
Purchase of tangible capital assets	(6,670)	(7,127)
Proceeds from disposals of tangible capital assets	38	6
Cash used for capital activities	<u>(6,632)</u>	<u>(7,121)</u>
Investing activities		
Proceeds from disposals, repayments and redemptions of portfolio investments	6,618,986	7,655,404
Portfolio investments purchased	(8,576,066)	(9,119,056)
Repayments of loans and advances	497,221	553,084
Loans and advances made	(569,139)	(541,871)
Cash used for investing activities	<u>(2,028,998)</u>	<u>(1,452,439)</u>
Financing activities		
Debt issues	5,909,214	13,952,981
Debt retirement	(7,146,210)	(15,122,195)
Grants for school construction debenture principal repayment	(74,969)	(82,509)
Net transfer to general revenues	(5,353,644)	(4,663,828)
Cash used for financing activities	<u>(6,665,609)</u>	<u>(5,915,551)</u>
Net cash provided	1,164,325	1,267,441
Cash and temporary investments, net of bank overdraft, at beginning of year	1,694,896	427,455
Cash and temporary investments, net of bank overdraft, at end of year	<u>\$ 2,859,221</u>	<u>\$ 1,694,896</u>

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

MINISTRY OF FINANCE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2005

NOTE 1 AUTHORITY

The Minister of Finance has been designated as responsible for various Acts by the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000, and its regulations. To fulfil these responsibilities, the Minister of Finance administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Finance (the Ministry).

Department of Finance (the Department)	<i>Government Organization Act</i> , Chapter G-10, Revised Statutes of Alberta 2000
Alberta Heritage Foundation for Medical Research Endowment Fund	<i>Alberta Heritage Foundation for Medical Research Act</i> , Chapter A-21, Revised Statutes of Alberta 2000
Alberta Heritage Savings Trust Fund	<i>Alberta Heritage Savings Trust Fund Act</i> , Chapter A-23, Revised Statutes of Alberta 2000
Alberta Heritage Scholarship Fund	<i>Alberta Heritage Scholarship Act</i> , Chapter A-24, Revised Statutes of Alberta 2000
Alberta Heritage Science and Engineering Research Endowment Fund	<i>Alberta Heritage Foundation for Science and Engineering Research Act</i> , Chapter A-22, Revised Statutes of Alberta 2000
Alberta Risk Management Fund	<i>Financial Administration Act</i> , Chapter F-12, Revised Statutes of Alberta 2000
Provincial Judges and Masters in Chambers Reserve Fund	Treasury Board Directive pursuant to the <i>Financial Administration Act</i> , Chapter F-12, Revised Statutes of Alberta 2000
Supplementary Retirement Plan Reserve Fund	Treasury Board Directive pursuant to the <i>Financial Administration Act</i> , Chapter F-12, Revised Statutes of Alberta 2000
Alberta Capital Finance Authority	<i>Alberta Capital Finance Authority Act</i> , Chapter A-14.5, Revised Statutes of Alberta 2000
Alberta Insurance Council	<i>Insurance Act</i> , Chapter I-3, Revised Statutes of Alberta 2000
Alberta Pensions Administration Corporation	Incorporated under the <i>Business Corporations Act</i> , Chapter B-9, Revised Statutes of Alberta 2000
Alberta Securities Commission	Incorporated June 1, 1995 under the <i>Securities Act</i> , Chapter S-4, Revised Statutes of Alberta 2000

MINISTRY OF FINANCE

NOTE 1 (continued)

The Alberta Government Telephones Commission and its subsidiaries	<i>Telecommunications Act</i> , Chapter T-3.5, Statutes of Alberta 1988
Alberta Treasury Branches and its subsidiaries	<i>Alberta Treasury Branches Act</i> , Chapter A-37, Revised Statutes of Alberta 2000
Credit Union Deposit Guarantee Corporation	<i>Credit Union Act</i> , Chapter C-32, Revised Statutes of Alberta 2000
N.A. Properties (1994) Ltd.	Amalgamated corporation under the <i>Business Corporations Act</i> , Chapter B-9, Revised Statutes of Alberta 2000
Gainers Inc.	Incorporated under the <i>Business Corporations Act</i> , Chapter B-9, Revised Statutes of Alberta 2000

NOTE 2 PURPOSE

The Ministry's core businesses are:

- a) fiscal planning and financial management,
- b) investment, treasury and risk management,
- c) regulation of financial institutions, capital market and pensions, and
- d) financial services.

NOTE 3 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. These financial statements are prepared in accordance with the following accounting policies.

a) Method of Consolidation

The accounts of the Department, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Savings Trust Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund, the Alberta Risk Management Fund, Provincial Judges and Masters in Chambers Reserve Fund, Supplementary Retirement Plan Reserve Fund, Alberta Capital Finance Authority, Alberta Insurance Council, Alberta Pensions Administration Corporation and Alberta Securities Commission, are consolidated after adjusting them to a basis consistent with the accounting policies described below in (b). Intra-ministry transactions (revenues, expenses, capital, investing and financing transactions, and related asset and liability accounts) have been eliminated.

The accounts of Provincial agencies and other entities designated as commercial enterprises (The Alberta Government Telephones Commission and its subsidiaries, Alberta Treasury Branches and its subsidiaries, Credit Union Deposit Guarantee Corporation, and N.A. Properties (1994) Ltd.), and the commercial Crown-controlled corporation (Gainers Inc.) are reported on the modified equity basis, the equity being computed in accordance with generally accepted accounting principles.

MINISTRY OF FINANCE

NOTE 3 (continued)

The reporting period of some of the Provincial agencies is other than March 31. Transactions of these agencies that have occurred during the period to March 31, 2005 and that significantly affect the consolidation have been recorded.

b) Basis of Financial Reporting**REVENUES**

All revenues are reported on the accrual method of accounting. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable.

EXPENSES

Expenses represent the cost of resources consumed during the year on Ministry operations. Expenses include amortization of tangible capital assets. Grants are recognized as expenses when authorized, eligibility criteria if any are met, and a reasonable estimate of the amounts can be made.

Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year and additional government and employer contributions for service relating to prior years.

Certain expenses, primarily for office space and legal advice, incurred on behalf of the Ministry by other ministries are not reflected in the consolidated statement of operations. Schedule 18 discloses information on these related party transactions.

VALUATION ADJUSTMENTS

Valuation adjustments include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to guarantees, indemnities, pension obligations, loans repayable from future appropriations, and accrued employee vacation entitlements.

Valuation adjustments for pension obligations include interest on the Ministry's share of the unfunded liability and amortization of deferred adjustments over the expected average remaining service life of employees.

DERIVATIVE CONTRACTS

Income and expense from derivative contracts are included in investment income or debt servicing costs. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the same period as the gains and losses of the specific assets and liabilities being hedged.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures contracts and forward foreign exchange contracts, are recorded at fair value.

MINISTRY OF FINANCE

NOTE 3 (continued)

The estimated amount receivable and payable from derivative contracts are included in accrued interest receivable and payable respectively.

ASSETS

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

Portfolio investments are carried at cost. Cost includes amortization of discount or premium using the straight line method over the life of the investments. Realized gains and losses on disposals of these investments are included in the determination of net operating results 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 allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Assets acquired by right are not included. Tangible capital assets of the Ministry are recorded at historical cost and amortized on a straight line basis over the estimated useful lives of the assets (see Schedule 11). The threshold for capitalizing new systems development is \$100,000 and the threshold for all other capital assets is \$5,000 (2004 \$15,000).

LIABILITIES

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

Debentures included in unmatured debt are recorded at the face amount of the issue less 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.

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.

Exchange gains and losses that arise on translation of fixed term foreign currency denominated monetary items are deferred and amortized over the life of the contract. Amortization of deferred exchange gains and losses and other exchange differences on unhedged transactions are included in the determination of net operating results for the year.

MINISTRY OF FINANCE

NOTE 3 (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 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 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 \$4,648,349,000 (2004 \$4,612,531,000) in these consolidated financial statements, is subject to measurement uncertainty due primarily 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 4 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 temporary investments, accrued interest, receivables, bank overdraft, payables and other accrued liabilities are estimated to approximate their book values.

The methods used to determine the fair values of portfolio investments are explained in the following paragraphs.

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.

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 alternative investments including absolute return strategy investments, investments in private investment funds, private equities and securities with limited marketability is estimated using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate and may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

MINISTRY OF FINANCE

NOTE 4 (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 replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

Fair values of loans and advances are not reported due to there being no organized financial market for 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 held by Alberta Capital Finance Authority is an approximation of its fair value to the holder.

The fair value of derivative contracts relating to portfolio investments is included in the fair value of portfolio investments.

The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest. Forward foreign exchange contracts and equity index futures contracts are valued based on quoted market prices. 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.

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

NOTE 5 RISK MANAGEMENT**a) Liability Management**

The objective of the Ministry'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 Ministry manages four risks: interest rate risk, currency exchange risk, credit risk, and refinancing risk. The Ministry manages these four risks within approved policy guidelines. The management of these risks and the policy guidelines apply to the Ministry's unmatured 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 Ministry has decided, in light of the current debt reduction environment, that the most effective liability risk management strategy would be to allow existing debt instruments to mature in accordance with their terms.

MINISTRY OF FINANCE

NOTE 5 (continued)**b) Asset Management**

The majority of the Ministry's portfolio investments are in the Alberta Heritage Savings Trust Fund (Heritage Fund). Income and financial returns are exposed to credit risk and price risk. Price risk is comprised of currency risk, interest rate risk and market risk. Risk is reduced through asset class diversification, quality constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets.

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 46%. The remainder of the portfolio is invested in real estate, private equities and absolute return strategies.

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

The investments of the Department 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, natural gas rebates and settlements with First Nations.

NOTE 6 CONTRACTUAL OBLIGATIONS*(thousands)*

Obligations to outside organizations in respect of contracts entered into before March 31, 2005 amounted to \$247,105 (2004 \$235,074). These amounts include obligations under operating leases which expire on various dates. The aggregate amounts payable for the unexpired terms of these leases are as follows:

2005-06	\$	55,116
2006-07		51,398
2007-08		46,858
2008-09		36,860
2009-10		22,027
Thereafter		34,846
	\$	<u>247,105</u>

NOTE 7 CONTINGENT LIABILITIES*(thousands)*

Set out below are details of contingent liabilities resulting from guarantees, indemnities and litigation, other than those reported as liabilities and shown in Schedule 16.

Any losses arising from the settlement of contingent liabilities are treated as current year expenses.

MINISTRY OF FINANCE

NOTE 7 (continued)**a) Indemnities and Guarantees**

Guarantees at March 31, 2005 amounting to \$16,951 (2004 \$29,502) are analyzed in Schedule 17. This schedule is included with the financial statements because payments under guarantees are a statutory charge on the Ministry.

b) Contingent Liabilities of Commercial Enterprises

The Credit Union Deposit Guarantee Corporation has a potential liability under guarantees relating to deposits of credit unions. At December 31, 2004, credit unions in Alberta held deposits totalling \$8,963,176 (2003 \$8,240,449), and had assets in excess of deposits.

At March 31, 2005, Alberta Treasury Branches had a potential liability under guarantees and letters of credit amounting to \$132,708 (2004 \$107,786).

N.A. Properties (1994) Ltd. has provided guarantees of principal and interest on mortgages sold to Canadian Western Bank. The principal and interest on these mortgages totalled \$2,058 at March 31, 2005 (2004 \$2,239).

c) Legal Actions

At March 31, 2005, the Ministry is a defendant in various legal actions. The total claimed in specific legal actions amounts to approximately \$3,813,056. The resulting loss, if any, from these claims cannot be determined. Included in this amount are claims for \$3,750,000 in which the Ministry has been jointly named with other entities. The resulting loss, if any, from these claims cannot be determined.

NOTE 8 TRUST FUNDS UNDER ADMINISTRATION*(thousands)*

The Ministry administers trust funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Ministry has no equity in the funds and administers them for the purposes of various trusts, they are not included in the Ministry's consolidated financial statements.

As at March 31, 2005, trust funds under administration were as follows:

	2005	2004 Restated (Note 10)
Local Authorities Pension Plan Fund	\$ 11,121,963	\$ 10,068,470
Public Service Pension Plan Fund	4,550,299	4,235,063
The Workers' Compensation Board Accident Fund	2,606,800	2,328,797
Universities Academic Pension Plan Fund	1,928,313	1,808,091
Management Employees Pension Plan Fund	1,755,326	1,633,697
Special Forces Pension Plan Fund	1,175,418	1,102,139
Regional Health Authorities and various health institutions construction accounts	914,877	395,975
Power Pool of Alberta Balancing Pool	32,697	115,892
Other	136,173	88,565
	<u>\$ 24,221,866</u>	<u>\$ 21,776,689</u>

MINISTRY OF FINANCE

NOTE 9 DEFINED BENEFIT PLANS*(thousands)*

The Ministry participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Ministry also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers. The expense for these plans is equivalent to the annual contributions of \$4,190 for the year ended March 31, 2005 (2004 \$3,844).

At December 31, 2004, the Management Employees Pension Plan reported a deficiency of \$268,101 (2003 \$290,014) and the Public Service Pension Plan reported a deficiency of \$450,068 (2003 \$584,213). At December 31, 2004, the Supplementary Retirement Plan for Public Service Managers had a surplus of \$9,404 (2003 \$9,312).

The Ministry also participates in two multiemployer Long Term Disability Income Continuance Plans. At March 31, 2005, the Bargaining Unit Plan reported an actuarial deficiency of \$11,817 (2004 \$9,766) and the Management, Opted Out and Excluded Plan an actuarial surplus of \$3,208 (2004 \$1,298). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 10 GOVERNMENT REORGANIZATION*(thousands)*

As a result of government restructuring announced on November 24, 2004, the former Finance and Revenue Ministries have been merged into a single Finance Ministry. These financial statements are prepared on the basis as if the Ministry had always been assigned its current responsibilities.

Net assets (liabilities) as at March 31, 2004 and March 31, 2003 have been restated as follows:

	March 31, 2004	March 31, 2003
Net assets (liabilities) as originally reported		
Ministry of Finance	\$ 1,080,346	\$ (3,147,261)
Ministry of Revenue	13,670,743	13,327,765
Net assets as restated	<u>\$ 14,751,089</u>	<u>\$ 10,180,504</u>

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been restated to conform to 2005 presentation.

NOTE 12 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Senior Financial Officer and the Deputy Minister.

MINISTRY OF FINANCE

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

REVENUES**Schedule 1**Year Ended March 31, 2005 (*thousands*)

	2005		2004
	Budget	Actual	Restated Actual (Note 10)
Income taxes			
Personal income tax	\$ 5,084,671	\$ 4,648,349	\$ 4,612,531
Corporate income tax	1,957,285	2,364,315	1,696,427
	<u>7,041,956</u>	<u>7,012,664</u>	<u>6,308,958</u>
Other taxes			
Tobacco tax	660,000	697,655	670,502
Fuel tax	607,000	640,918	619,585
Insurance taxes	164,731	209,716	203,492
Hotel room tax	60,000	61,021	53,325
Special broker tax	750	2,867	2,668
Financial institutions capital tax	-	149	515
	<u>1,492,481</u>	<u>1,612,326</u>	<u>1,550,087</u>
Transfers from Government of Canada			
Unconditional subsidy	4,055	4,178	4,100
	<u>1,204,269</u>	<u>1,786,526</u>	<u>1,812,227</u>
Net investment income	1,204,269	1,786,526	1,812,227
Net income from commercial operations			
Alberta Treasury Branches	150,590	187,313	172,024
Other	5,247	6,067	28,159
	<u>155,837</u>	<u>193,380</u>	<u>200,183</u>
Premiums, fees, and licences			
Alberta Securities Commission	18,260	18,887	16,406
Deposit guarantee fee	16,585	15,785	11,836
Insurance companies, agents and brokers	2,467	2,755	1,859
Other	1,459	1,529	1,542
	<u>38,771</u>	<u>38,956</u>	<u>31,643</u>
Internal government transfers			
Lottery Fund	84,365	154,748	137,755
Other	200	359	21,534
	<u>84,565</u>	<u>155,107</u>	<u>159,289</u>
Other			
Sale of assets	-	10	3
Refunds of expenditure	500	465	183
Service revenue	13,631	11,986	9,444
Insurance services	8,106	7,622	6,590
Miscellaneous	26,999	29,263	27,599
	<u>49,236</u>	<u>49,346</u>	<u>43,819</u>
	<u>\$ 10,071,170</u>	<u>\$ 10,852,483</u>	<u>\$ 10,110,306</u>

MINISTRY OF FINANCE

BUDGET**Schedule 2**Year Ended March 31, 2005 (*thousands*)

	2004-05 Estimates	Adjustments (a)	2004-05 Budget	Authorized Supplementary (b)	2004-05 Authorized Budget
Revenues					
Income taxes	\$ 7,041,956	\$ -	\$ 7,041,956	\$ -	\$ 7,041,956
Other taxes	1,492,481	-	1,492,481	-	1,492,481
Transfers from Government of Canada	4,055	-	4,055	-	4,055
Net investment income	1,204,269	-	1,204,269	-	1,204,269
Net income from commercial operations	155,837	-	155,837	-	155,837
Premiums, fees, and licences	38,771	-	38,771	-	38,771
Internal government transfers	84,565	-	84,565	-	84,565
Other	49,236	-	49,236	-	49,236
	10,071,170	-	10,071,170	-	10,071,170
Expenses					
Fiscal planning and financial management	53,490	-	53,490	-	53,490
Investment, treasury and risk management	197,540	-	197,540	-	197,540
Financial sector and pensions	366,577	-	366,577	1,400	367,977
Ministry support services	10,540	-	10,540	-	10,540
Valuation adjustments	500	(13,000)	(12,500)	-	(12,500)
Debt servicing costs					
General government	302,000	-	302,000	-	302,000
School boards	53,020	-	53,020	-	53,020
	983,667	(13,000)	970,667	1,400	972,067
Net operating results	\$ 9,087,503	\$ 13,000	\$ 9,100,503	\$ (1,400)	\$ 9,099,103

- a) Adjustments consist of \$13,000 for pension provisions excluded from the Estimates.
- b) Supplementary Estimates were approved on March 24, 2005.

MINISTRY OF FINANCE

EXPENSES BY OBJECT*(thousands)***Schedule 3**

	2005		2004
	Budget	Actual	Restated Actual (Note 10)
Salaries, wages and employee benefits	\$ 66,796	\$ 70,339	\$ 62,548
Supplies and services	53,569	40,821	51,093
Grants	146,649	139,506	144,316
Interest and amortization of unrealized exchange gains and losses	614,720	545,219	520,669
Pension liability funding	73,700	71,002	69,172
Corporate tax interest refunds	20,000	27,358	15,641
Valuation adjustments (Schedule 4)	(12,500)	5,944	5,520
Amortization of tangible capital assets	6,167	6,082	5,356
Other financial transactions	1,630	1,421	1,651
	<u>970,731</u>	<u>907,692</u>	<u>875,966</u>
Less recovery from support service arrangements with related parties (a)	64	84	73
	<u>\$ 970,667</u>	<u>\$ 907,608</u>	<u>\$ 875,893</u>

- a) The Ministry provides financial, administrative and human resource services to various ministries and Offices of the Legislative Assembly. Costs incurred by the Ministry are recovered from the recipients of the services.

VALUATION ADJUSTMENTS*(thousands)***Schedule 4**

	2005		2004
	Budget	Actual	Restated Actual (Note 10)
Pension provisions	\$ (13,000)	\$ 6,541	\$ 2,445
Provision for doubtful accounts and loans	500	(581)	3,570
Provision for employee benefits other than pensions	-	(20)	471
Provision for guarantees and indemnities	-	4	(966)
	<u>\$ (12,500)</u>	<u>\$ 5,944</u>	<u>\$ 5,520</u>

MINISTRY OF FINANCE

CASH AND TEMPORARY INVESTMENTS**Schedule 5***(thousands)*

	2005	2004 Restated (Note 10)
Fixed-income securities (a)		
Government of Canada, direct and guaranteed	\$ 144,666	\$ 431,770
Provincial, direct and guaranteed	129,585	39,850
Corporate	1,439,061	659,932
Pooled investment funds	14,757	12,386
Canadian equities		
Pooled investment funds	4,977	4,818
	<u>1,733,046</u>	<u>1,148,756</u>
Deposit in the Consolidated Cash Investment Trust Fund	1,284,608	1,184,439
Cash in bank and in transit	784,238	148,629
	<u>\$ 3,801,892</u>	<u>\$ 2,481,824</u>

- a) At March 31, 2005, fixed-income securities held have an average effective market yield of 2.7% (2004 2.2%) per annum. All (2004 98%) of the securities have terms to maturity of less than one year.

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE**Schedule 6***(thousands)*

	2005	2004 Restated (Note 10)
Personal income tax	\$ 265,486	\$ 346,065
Accrued interest receivable	238,223	218,913
Lottery Fund	68,422	52,756
Fuel tax	62,529	56,911
Insurance taxes	50,083	39,573
Present value of future contributions from credit union system	38,695	47,695
Corporate income tax (a)	37,275	291,935
Tobacco tax	6,024	16,992
Hotel room tax	5,437	4,851
Financial institutions capital tax	1,965	1,855
Other	10,731	6,761
	<u>784,870</u>	<u>1,084,307</u>
Less allowance for doubtful accounts	3,479	4,033
	<u>\$ 781,391</u>	<u>\$ 1,080,274</u>

- a) During the year, the methodology used to estimate corporate income tax receivable was changed to include an estimated accrual for corporate income tax refunds payable based on a five year moving average.

MINISTRY OF FINANCE

PORTFOLIO INVESTMENTS

Schedule 7

(thousands)

	2005		2004 Restated (Note 10)	
	Book Value	Fair Value	Book Value	Fair Value
Fixed-income securities (a) (b) (c)				
Government of Canada, direct and guaranteed	\$ 558,153	\$ 559,391	\$ 987,038	\$ 992,521
Provincial, direct and guaranteed	2,218,264	2,227,197	1,000,396	1,006,801
Municipal	71,639	71,617	14,250	14,459
Corporate	3,360,124	3,356,610	2,060,381	2,071,659
Pooled investment funds	4,106,381	4,192,555	4,152,550	4,273,154
	<u>10,314,561</u>	<u>10,407,370</u>	<u>8,214,615</u>	<u>8,358,594</u>
Equities (c)				
Pooled investment funds				
Canadian	2,519,453	2,829,252	2,939,065	3,342,695
Foreign	4,329,856	4,616,336	4,145,054	4,584,224
Real Estate	1,137,888	1,341,128	974,955	1,062,957
Absolute return strategies	693,716	688,677	578,449	573,532
	<u>8,680,913</u>	<u>9,475,393</u>	<u>8,637,523</u>	<u>9,563,408</u>
	<u>\$ 18,995,474</u>	<u>\$ 19,882,763</u>	<u>\$ 16,852,138</u>	<u>\$ 17,922,002</u>

- a) The majority of the Ministry's fixed-income securities are held by the Department 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, natural gas rebates and settlements with First Nations. At March 31, 2005, the Department held \$6,185 million (2004 \$4,038 million) of public fixed-income securities at cost (Fair value \$6,191 million (2004 \$4,060 million)). The securities held have an average effective market yield of 3.4% (2004 2.3%) per annum. 65.8% (2004 77.3%) of the securities held had terms to maturity of less than two years.
- b) Fixed-income securities are also held in the Alberta Heritage Savings Trust Fund (Heritage Fund). As at March 31, 2005, the Heritage Fund held \$3,661 million (2004 \$3,703 million) of public fixed-income securities at cost (Fair value \$3,735 million (2004 \$3,807 million)). The securities held have an average effective market yield of 4.5% (2004 4.4%) per annum and the following term structure based on principal amount:

	2005	2004
	%	%
Under 1 year	4	3
1 to 5 years	35	38
6 to 10 years	32	29
11 to 20 years	12	11
Over 20 years	17	19
	<u>100</u>	<u>100</u>

MINISTRY OF FINANCE

SCHEDULE 7 (continued)

- c) The Ministry uses derivative contracts to enhance return, hedge risks, and manage asset mix. As at March 31, 2005, the notional amount of all derivative contracts issued by the Ministry relating to portfolio investments amounted to \$4,613 million (2004 \$3,308 million). 64% (2004 68%) of these contracts mature within one year. As at March 31, 2005, all derivative contracts taken together had a net positive fair value of \$21 million (2004 negative fair value of \$89 million).

The following is a summary of the notional amount of derivative contracts held at March 31, 2005. The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Ministry attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

(thousands)

	2005	2004
Equity index swap contracts	\$ 1,761,100	\$ 1,283,800
Forward foreign exchange contracts	1,061,900	667,700
Cross-currency interest rate swaps	663,500	452,500
Interest rate swap contracts	565,400	786,300
Other	561,000	117,800
	<u>\$ 4,612,900</u>	<u>\$ 3,308,100</u>

MINISTRY OF FINANCE

EQUITY IN COMMERCIAL ENTERPRISES**Schedule 8***(thousands)*

	2005	2004 Restated (Note 10)
Accumulated surpluses		
Accumulated surpluses at beginning of year	\$ 1,056,810	\$ 878,122
Total revenue	861,407	901,846
Total expense	668,027	701,740
Net revenue	193,380	200,106
Net transfers to departments	-	(21,418)
Accumulated surpluses at end of year	<u>\$ 1,250,190</u>	<u>\$ 1,056,810</u>
Represented by		
Assets		
Loans	\$ 13,137,917	\$ 12,131,053
Investments	1,029,285	944,399
Other assets	1,328,589	1,337,946
Total assets	<u>15,495,791</u>	<u>14,413,398</u>
Liabilities		
Accounts payable	339,850	276,052
Deposits	13,840,032	13,035,120
Unmatured debt	65,719	45,416
Total liabilities	<u>14,245,601</u>	<u>13,356,588</u>
	<u>\$ 1,250,190</u>	<u>\$ 1,056,810</u>
Accumulated surpluses at end of year		
Alberta Treasury Branches	\$ 1,150,274	\$ 962,961
Credit Union Deposit Guarantee Corporation	98,293	92,410
N.A. Properties (1994) Ltd.	1,623	1,439
	<u>1,250,190</u>	<u>1,056,810</u>
Elimination of inter fund/agency balances	81,503	73,422
Equity in commercial enterprises at end of year	<u>\$ 1,331,693</u>	<u>\$ 1,130,232</u>

MINISTRY OF FINANCE

LOANS AND ADVANCES TO GOVERNMENT ENTITIES**Schedule 9***(thousands)*

	2005	2004 Restated (Note 10)
Agriculture Financial Services Corporation	\$ 899,750	\$ 911,867
Alberta Social Housing Corporation	401,284	425,025
Public Trustee	224	224
	<u>\$ 1,301,258</u>	<u>\$ 1,337,116</u>

OTHER LOANS AND ADVANCES**Schedule 10***(thousands)*

	2005	2004 Restated (Note 10)
Alberta Capital Finance Authority (a)	\$ 4,093,860	\$ 3,961,104
Alberta Heritage Savings Trust Fund Act	185,815	181,559
Farm Credit Stability Act	14,445	25,878
Board of Governors of the University of Alberta	1,292	1,663
Pratt & Whitney Canada Ltd.	851	1,407
University of Lethbridge Students' Union	422	611
Implemented guarantees and indemnities	144	201
Judgement debts	47	51
Accountable advances	20	395
	<u>4,296,896</u>	<u>4,172,869</u>
Less allowance for doubtful loans, advances, implemented guarantees and indemnities	<u>92,708</u>	<u>88,668</u>
	<u>\$ 4,204,188</u>	<u>\$ 4,084,201</u>

- a) Municipal loans on average yield 7.2% per annum (2004 7.8%) and have the following term structure as at March 31, 2005.

	2005	2004
	%	%
Under 1 year	12	1
1 to 5 years	36	21
6 to 10 years	25	31
Over 10 years	27	47
	<u>100</u>	<u>100</u>

Interest rate contracts are used to manage exposure to fluctuations in interest rates in certain fixed rate loans and related debt (see Schedule 14) made after January 1, 2004. As at March 31, 2005, the notional amount of all derivative contracts issued by the Ministry relating to loans and related debt amounted to \$1,315 million (2004 \$nil). 27% (2004 0%) of these contracts mature within one year. As at March 31, 2005, all derivative contracts taken together had a net negative fair value of \$1.6 million (2004 \$nil). The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

MINISTRY OF FINANCE

TANGIBLE CAPITAL ASSETS

Schedule 11

(thousands)

		2005			2004 Restated (Note 10)
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment	10 years	\$ 3,366	\$ 1,166	\$ 2,200	\$ 708
Computer hardware and software	5 years	36,734	20,723	16,011	16,814
Other	10 years	2,448	1,128	1,320	1,458
		<u>\$ 42,548</u>	<u>\$ 23,017</u>	<u>\$ 19,531</u>	<u>\$ 18,980</u>

ACCRUED INTEREST AND ACCOUNTS PAYABLE

Schedule 12

(thousands)

	2005	2004 Restated (Note 10)
Accrued interest on unmatured debt and debt of Alberta Capital Finance Authority	\$ 185,888	\$ 232,507
Corporate income tax receipts in abeyance	364,942	345,925
Unearned revenue	814	726
Other	178,577	151,974
	<u>\$ 730,221</u>	<u>\$ 731,132</u>

MINISTRY OF FINANCE

UNMATURED DEBT

Schedule 13

(thousands)

	Effective Rate (a)(b)(c) %	Modified Duration (d) years	2005		2004 Restated (Note 10)	
			Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
Canadian dollar debt and fully hedged foreign currency debt						
Floating rate and short-term fixed rate (e)	5.25	0.42	\$1,307,481	\$1,313,269	\$1,486,133	\$1,511,606
Fixed rate long-term (f)	6.92	4.22	2,284,613	2,601,025	2,932,683	3,429,457
	6.31	2.94	3,592,094	3,914,294	4,418,816	4,941,063
Unhedged U.S. dollar debt (g)						
Floating rate and short-term fixed rate (e)	3.75	0.32	130,156	122,999	680,239	694,077
Fixed rate long-term	-	-	-	-	47,961	52,941
	3.75	0.32	130,156	122,999	728,200	747,018
Total unmatured debt	6.22	2.86	\$3,722,250	\$4,037,293	\$5,147,016	\$5,688,081

- a) Book value represents the amount the Ministry 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. Effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the debt to the net carrying amount. 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 unmatured debt is on debt inclusive of deferred exchange losses on unhedged U.S. dollar debt (see note (g)).
- d) Modified duration is the weighted average term to maturity of the security's cash flows (i.e., interest and principal) and is a measure of price volatility; the greater the modified 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 \$678,696 (2004 \$678,696) held by the Canada Pension Plan Investment Fund.
- g) U.S. dollar debt includes the Ministry's effective exposure to U.S. dollars through cross currency swaps totalling \$107,600 U.S. at March 31, 2005. Unhedged U.S. dollar debt is translated into Canadian dollars at the March 31 noon exchange rate of \$1.21 per U.S. dollar (2004 \$1.31 per U.S. dollar). Deferred exchange gains on unhedged U.S. dollar debt amounted to \$5,879 at March 31, 2005 (2004 \$4,653). Amortization of deferred exchange gains amounted to \$1,420 for the year ended March 31, 2005 (2004 \$146,260). In Budget 2004, a change in the exchange rate of one U.S. cent to the Canadian dollar was estimated to have a \$6 million effect on debt servicing costs.

MINISTRY OF FINANCE

Schedule 13 (continued)

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2005-06, and thereafter are as follows:

(thousands)

	Total in Canadian Dollars	Unhedged in US Dollars
2005-06	\$ 1,355,119	\$ 107,600
2006-07	149,379	-
2007-08	273,428	-
2008-09	730,679	-
2009-10	78,342	-
Thereafter to 2016-17	1,144,171	-
	<u>\$ 3,731,118</u>	<u>\$ 107,600</u>

None of the debt has call provisions (2004 none).

Derivative financial instruments

The Ministry uses interest rate swaps and currency rate swaps and contracts to manage the interest rate risk and currency exposure associated with unmatured debt. In addition, forward interest rate agreements are used to manage interest rate exposure in the short term. Associated with these instruments are credit risks that could expose the Ministry 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 a fraction of the notional principal amount, as shown in the table below. The Ministry 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, 2005, 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.

MINISTRY OF FINANCE

Schedule 13 (continued)

The following table summarizes the Ministry'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 the cost of replacing, at current market rates, all contracts which have a positive fair value.

(thousands)

	2005		2004	
	Notional Amount	Replacement Cost	Restated (Note 10) Notional Amount	Replacement Cost
Interest rate swaps	\$825,000	\$ 25,825	\$1,131,000	\$ 50,394
Cross currency interest rate swaps	173,905	21,365	498,173	29,727
	<u>\$998,905</u>	<u>\$ 47,190</u>	<u>\$1,629,173</u>	<u>\$ 80,121</u>

MINISTRY OF FINANCE

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY

Schedule 14

(thousands)

	2005	2004 Restated (Note 10)
Alberta Capital Finance Authority		
Canadian dollar fixed rate debt (a)	\$ 4,267,567	\$ 4,069,558

- a) Canadian dollar fixed rate debt includes \$2,204,567 (2004 \$2,465,058) held by the Canada Pension Plan Investment Fund and has the following characteristics as at March 31, 2005 (see Schedule 13 note (a)).

	2005	2004
Fair value	\$4,699,000	\$4,544,000
Effective rate per annum	7.3%	8.1%

Interest rate contracts are used to manage exposure to fluctuations in interest rates in certain fixed rate loans (see Schedule 10) and related debt made after January 1, 2004.

Debt principal repayment requirements in each of the next five years, including short-term debt maturing in 2005-06 and thereafter are as follows:

2005-06	\$ 423,604
2006-07	395,396
2007-08	351,383
2008-09	259,294
2009-10	470,523
Thereafter	2,367,367
	<u>\$ 4,267,567</u>

MINISTRY OF FINANCE

PENSION OBLIGATIONS**Schedule 15**

The Ministry has pension obligations in respect of public sector pension plans as described below.

(thousands)

	2005	2004 Restated (Note 10)
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Public Service Management (Closed Membership) Pension Plan (a)	\$ 656,274	\$ 675,856
Members of the Legislative Assembly Pension Plan (b)	46,770	49,625
Management Employees Pension Plan (a)	12,349	-
Public Service Pension Plan (a)	8,181	-
	<u>723,574</u>	<u>725,481</u>
Obligations to pension plans for employees of organizations outside the government reporting entity		
Universities Academic Pension Plan (c)	184,760	171,501
Special Forces Pension Plan (c)	62,899	67,710
	<u>247,659</u>	<u>239,211</u>
	<u>\$ 971,233</u>	<u>\$ 964,692</u>

- a) The Ministry administers three defined benefit pension plans for substantially all of the government's employees. The three plans are the Public Service Management (Closed Membership), Management Employees and the Public Service pension plans. An employee can be a member of only one plan at a time. The Ministry also administers the Supplementary Retirement Plan for Public Service Managers.

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. The costs of all benefits under the plan are paid by the Ministry.

For Management Employees, the unfunded liability as determined by an actuarial valuation as at December 31, 2003 is being financed by a special payment of 6.8% of pensionable earnings shared between employees and employers as required to eliminate the unfunded liability over the period ending on or before December 31, 2018. As sponsor of the Plan, the Ministry records the Government's share of the employer's estimated accrued benefit liability. Current services costs are funded by employers and employees.

For Public Service, the unfunded liability as determined by an actuarial valuation as at December 31, 2002 is being financed by a special payment of 2.76% of pensionable earnings shared equally between employees and employers as required to eliminate the unfunded liability over the period ending on or before December 31, 2017. As sponsor of the Plan, the Ministry records the Government's share of the employer's estimated accrued benefit liability. Current service costs are funded by employers and employees.

- b) The Ministry has a liability for payment of pension benefits under a defined benefit pension plan for 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 this date.

MINISTRY OF FINANCE

Schedule 15 (continued)

- c) Under the *Public Sector Pension Plans Act*, the Ministry 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 plans.

For Universities Academic, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions of 1.25 per cent of pensionable salaries by the Ministry, 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 per cent by the Ministry and 27.27 per cent 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.

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 among 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. 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 %
Public Service Management (Closed Membership) Pension Plan	December 31, 2002	3.0	3.0	6.0
Management Employees Pension Plan	December 31, 2003	4.0	2.75	6.75
Public Service Pension Plan	December 31, 2002	3.75	3.25	7.0
Members of the Legislative Assembly Pension Plan	March 31, 2003	3.0	3.0	6.0
Universities Academic Pension Plan	December 31, 2004	4.0	2.75	6.75
Special Forces Pension Plan	December 31, 2001	3.75	3.25	7.0

These actuarial valuations indicated a deficiency of net assets over actuarial present value of accrued benefits. Including deferred losses of \$354.9 million (2004 \$369.2 million), unfunded liabilities were extrapolated to March 31, 2005.

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.

MINISTRY OF FINANCE

OTHER ACCRUED LIABILITIES*(thousands)***Schedule 16**

	2005	2004 Restated (Note 10)
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	\$ 450,657	\$ 525,626
Guarantees and indemnities (Schedule 17)	2,550	2,550
Vacation entitlements	5,625	5,829
Other	333	345
	<u>\$ 459,165</u>	<u>\$ 534,350</u>

GUARANTEES (a)*(thousands)***Schedule 17**

	2005	2004 Restated (Note 10)	Expiry Date
Farm Credit Stability Act (b)	\$ 15,175	\$ 27,081	2011
Securities Act	2,160	2,160	Ongoing
Centre for Engineering Research Inc.	792	1,149	2005
University of Calgary	1,004	1,071	2016
Rural utilities loans	370	591	2015
	<u>19,501</u>	<u>32,052</u>	
Less estimated liability (Schedule 16)	2,550	2,550	
	<u>\$ 16,951</u>	<u>\$ 29,502</u>	

- a) Authorized loan guarantee limits decline as guaranteed loans are repaid.

The lender takes appropriate security prior to issuing a loan to the borrower 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.

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

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

MINISTRY OF FINANCE

RELATED PARTY TRANSACTIONS**Schedule 18**

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management of the Ministry.

The Ministry is responsible for managing cash transactions of all departments and their funds. As a result, the Ministry engages in transactions with all other ministries in the normal course of operations.

The Ministry and its employees paid or collected certain taxes and fees set by regulation for permits, licences and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Ministry had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties.

(thousands)

	2005	2004 Restated (Note 10)
Revenues		
Transfers	\$ 155,107	\$ 159,289
Interest	81,377	85,911
Charges for services	6,743	6,615
	<u>\$ 243,227</u>	<u>\$ 251,815</u>
Expenses		
Transfers	\$ 23,029	\$ 22,264
Cost of services	6,106	6,057
	<u>\$ 29,135</u>	<u>\$ 28,321</u>
Assets		
Accounts receivable	\$ 69,468	\$ 54,099
Accrued interest receivable	18,683	21,124
Loans and advances	1,301,034	1,336,892
	<u>\$ 1,389,185</u>	<u>\$ 1,412,115</u>
Liabilities		
Accounts and accrued interest payable	\$ -	\$ 46

The above transactions do not include support service arrangement transactions disclosed in Schedule 3.

The Ministry also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements and are mainly allocated to the fiscal planning and financial management and the investment, treasury and risk management programs administered by the Department of Finance.

(thousands)

	2005	2004 Restated (Note 10)
Expenses - incurred by others		
Accommodation	\$ 2,965	\$ 2,965
Legal services	2,059	1,993
	<u>\$ 5,024</u>	<u>\$ 4,958</u>

