MINISTRY OF FINANCE

Consolidated Financial Statements

YEAR ENDED MARCH 31, 2006

AUDITOR GENERAL
Alberta

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, 2006 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

Edmonton, Alberta
May 19, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

MINISTRY OF FINANCE

CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended March 31, 2006

	2006 Budget (Schedule 2)	2006 Actual	2005 Actual
	($ thousands)		
Revenues (Schedules 1 and 2)			
Income taxes	$ 7,476,950	$ 7,593,784	$ 7,012,664
Other taxes	1,615,536	1,655,782	1,612,326
Transfers from Government of Canada	4,178	4,179	4,178
Net investment income	1,352,904	2,305,477	1,786,526
Net income from commercial operations	167,126	205,922	193,380
Premiums, fees and licences	37,522	40,472	38,956
Internal government transfers	100,040	291,478	155,107
Other	53,012	53,176	49,346
	10,807,268	12,150,270	10,852,483
Expenses (Schedules 2 and 3)			
Fiscal planning and financial management	55,178	46,297	58,038
Investment, treasury and risk management	207,664	204,048	183,168
Financial sector and pensions	344,491	336,382	355,376
Ministry support services	11,391	11,270	10,584
Valuation adjustments (Schedule 4)	(12,000)	39,539	5,944
Debt servicing costs			
General government	238,000	194,897	241,487
School boards	45,247	45,236	53,011
	889,971	877,669	907,608
Net operating results	$ 9,917,297	$ 11,272,601	$ 9,944,875

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

MINISTRY OF FINANCE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31, 2006

	2006	2005
	($ thousands)	
Assets		
Cash and temporary investments (Schedule 5)	$ 5,636,540	$ 3,801,892
Accrued interest and accounts receivable (Schedule 6)	912,914	781,391
Portfolio investments (Schedule 7)	24,293,157	18,995,474
Equity in commercial enterprises (Schedule 8)	1,542,927	1,331,693
Loans and advances to government entities (Schedule 9)	1,227,166	1,301,258
Other loans and advances (Schedule 10)	4,501,834	4,204,188
Tangible capital assets (Schedule 11)	17,796	19,531
	$ 38,132,334	$ 30,435,427
Liabilities		
Bank overdraft	$ 1,655,887	$ 942,671
Accrued interest and accounts payable (Schedule 12)	1,151,822	730,221
Unmatured debt (Schedule 13)	2,538,496	3,722,250
Debt of Alberta Capital Finance Authority (Schedule 14)	4,655,963	4,267,567
Pension obligations (Schedule 15)	1,011,309	971,233
Other accrued liabilities (Schedule 16)	388,091	459,165
	11,401,568	11,093,107
Net Assets		
Net assets at beginning of year	19,342,320	14,751,089
Net operating results	11,272,601	9,944,875
Net transfer to general revenues	(3,884,155)	(5,353,644)
Net assets at end of year	26,730,766	19,342,320
	$ 38,132,334	$ 30,435,427

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, 2006

	2006	2005
	($ thousands)	
Operating activities		
Net operating results	$ 11,272,601	$ 9,944,875
Non-cash items included in net operating results	(294,895)	(370,801)
	10,977,706	9,574,074
(Increase) Decrease in receivables	(131,523)	298,883
Increase (Decrease) in payables	421,601	(911)
Other	(71)	(6,482)
Cash provided by operating activities	11,267,713	9,865,564
Capital activities		
Purchase of tangible capital assets	(5,120)	(6,670)
Proceeds from disposals of tangible capital assets	-	38
Cash used for capital activities	(5,120)	(6,632)
Investing activities		
Proceeds from disposals, repayments and redemptions of portfolio investments	5,493,657	6,618,986
Portfolio investments purchased	(10,658,954)	(8,576,066)
Repayments of loans and advances	559,982	497,221
Loans and advances made	(772,162)	(569,139)
Cash used for investing activities	(5,377,477)	(2,028,998)
Financing activities		
Debt issues	5,756,145	5,909,214
Debt retirement	(6,566,123)	(7,146,210)
Grants for school construction debenture principal repayment	(69,551)	(74,969)
Net transfer to general revenues	(3,884,155)	(5,353,644)
Cash used for financing activities	(4,763,684)	(6,665,609)
Net cash provided	1,121,432	1,164,325
Cash and temporary investments, net of bank overdraft, at beginning of year	2,859,221	1,694,896
Cash and temporary investments, net of bank overdraft, at end of year	$ 3,980,653	$ 2,859,221

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

MINISTRY OF FINANCE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

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)	*Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000
Alberta Heritage Foundation for Medical Research Endowment Fund	*Alberta Heritage Foundation for Medical Research Act*, Chapter A-21, Revised Statutes of Alberta 2000
Alberta Heritage Savings Trust Fund	*Alberta Heritage Savings Trust Fund Act*, Chapter A-23, Revised Statutes of Alberta 2000
Alberta Heritage Scholarship Fund	*Alberta Heritage Scholarship Act*, Chapter A-24, Revised Statutes of Alberta 2000
Alberta Heritage Science and Engineering Research Endowment Fund	*Alberta Heritage Foundation for Science and Engineering Research Act*, Chapter A-22, Revised Statutes of Alberta 2000
Alberta Risk Management Fund	*Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000
Provincial Judges and Masters in Chambers Reserve Fund	Treasury Board Directive pursuant to the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000
Supplementary Retirement Plan Reserve Fund	Treasury Board Directive pursuant to the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000
Alberta Capital Finance Authority	*Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000
Alberta Insurance Council	*Insurance Act*, Chapter I-3, Revised Statutes of Alberta 2000
Alberta Local Authorities Pension Plan Corporation	Incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000

MINISTRY OF FINANCE

Note 1 (continued)

Alberta Pensions Administration Corporation	Incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000
Alberta Securities Commission	Incorporated June 1, 1995 under the *Securities Act*, Chapter S-4, Revised Statutes of Alberta 2000
Alberta Treasury Branches and its subsidiaries	*Alberta Treasury Branches Act*, Chapter A-37, Revised Statutes of Alberta 2000
Credit Union Deposit Guarantee Corporation	*Credit Union Act,* Chapter C-32, Revised Statutes of Alberta 2000
N.A. Properties (1994) Ltd.	Amalgamated corporation under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000
Gainers Inc.	Incorporated under the *Business Corporations Act*, 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 Local Authorities Pension Plan Corporation, 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.

MINISTRY OF FINANCE

Note 3 (continued)

The accounts of Provincial agencies and other entities designated as commercial enterprises (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 Canadian generally accepted accounting principles applicable to these entities.

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, 2006 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.

MINISTRY OF FINANCE

Note 3 (continued)

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset or liability being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged asset or liability and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

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.

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, which are investments authorized by legislation to provide income for the long term or for other special purposes, 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.

LIABILITIES

Liabilities representing present obligations of the Ministry to external organizations and individuals arising from transactions or events occurring prior to the year end, are recorded to the extent when there is an appropriate basis of measurement and a reasonable estimate of the amount can be made.

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.

MINISTRY OF FINANCE

Note 3 (continued)

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.

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. The nature of the uncertainty in these items arises from several factors such as the effect on accrued income taxes of the verification of taxable income, and the effect on accrued pension obligations of actual experience compared to assumptions.

Personal income tax, recorded as $6,000 million (2005 $4,648 million) in these consolidated financial statements, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income has been assumed to increase by 8.2% in 2005-06. For every percentage change in the assumed personal income growth rate, personal income tax revenue will increase or decrease by $96 million. Use of this information in the past has resulted in a number that differs, on average, from final results by plus or minus $200 million.

Corporate income tax, recorded as $2,917 million (2005 $2,364 million) in these consolidated financial statements, is also subject to measurement uncertainty due primarily to the use of the five year moving average of historical corporate income tax refund ratios in the estimation of the corporate income tax revenue balance. Use of this information in the past has resulted in a number that differs, on average, from final results by plus or minus $160 million .

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.

MINISTRY OF FINANCE

Note 4 (continued)

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 limited partnerships, 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.

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.

As quoted market prices are not readily available for private and alternative investments and real estate, estimated fair values 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.

The fair value of loans and advances made under the authority of the *Alberta Capital Finance Authority Act* is based on the net present value of future cash flows discounted using the Authority's current cost of borrowing. Fair values of other 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.

MINISTRY OF FINANCE

NOTE 5 FINANCIAL 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. Debt of provincial corporations 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.

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 30%. 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 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.

MINISTRY OF FINANCE

NOTE 6 CONTRACTUAL OBLIGATIONS

($ thousands)

Obligations to outside organizations in respect of contracts entered into before March 31, 2006 amounted to $239,067 (2005 $247,105). 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:

2006-07	$ 65,191
2007-08	50,406
2008-09	41,706
2009-10	30,589
2010-11	29,570
Thereafter	21,605
	$ 239,067

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.

a) Indemnities and Guarantees

Guarantees at March 31, 2006 amounting to $5,523 (2005 $14,791) 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, 2005, credit unions in Alberta held deposits totalling $10,034,758 (2004 $8,963,176), and had assets in excess of deposits.

At March 31, 2006, Alberta Treasury Branches had a potential liability under guarantees and letters of credit amounting to $144,632 (2005 $132,708).

c) Legal Actions

The Ministry 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 Ministry has a contingent liability in respect of a claim concerning the methodology used to calculate pension benefit payments under three public sector pension plans. The claim has been filed jointly and severally against the Province of Alberta and the employers participating in these pension plans. The claim specified an amount of $3,750,000 plus a provision for interest and other costs that is not calculable.

MINISTRY OF FINANCE

Note 7 (continued)

Further, the Ministry was named as a defendant in 22 (2005 19) other legal actions in addition to the one noted above. The total claimed in specific legal actions amounts to approximately $62,242 (2005 $63,056).

NOTE 8 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, liabilities, indices, interest rates or currency rates. The Ministry uses derivative contracts to enhance investment return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. 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 insignificant in relation to the notional principal amount. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. 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.

As at March 31, 2006, the notional amount of all derivative contracts issued by the Ministry amounted to $15,775 million (2005 $9,319 million). All derivative contracts taken together had a net positive fair value of $244 million (2005 $117 million).

NOTE 9 TRUST FUNDS UNDER ADMINISTRATION

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, 2006, trust funds under administration were as follows:

	2006	2005
	($ thousands)	
Local Authorities Pension Plan Fund	$ 13,177,383	$ 11,121,963
Public Service Pension Plan Fund	5,276,618	4,550,299
The Workers' Compensation Board Accident Fund	3,316,853	2,606,800
Universities Academic Pension Plan Fund	2,265,342	1,928,313
Management Employees Pension Plan Fund	2,042,238	1,755,326
Special Forces Pension Plan Fund	1,346,707	1,175,418
Regional Health Authorities and various health institutions construction accounts	754,709	914,877
Other	186,247	168,870
	$ 28,366,097	$ 24,221,866

MINISTRY OF FINANCE

NOTE 10 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 $5,795 for the year ended March 31, 2006 (2005 $4,435).

At December 31, 2005, the Management Employees Pension Plan reported a deficiency of $165,895 (2004 $268,101) and the Public Service Pension Plan reported a deficiency of $187,704 (2004 $450,068). At December 31, 2005, the Supplementary Retirement Plan for Public Service Managers had a surplus of $10,018 (2004 $9,404).

The Ministry also participates in two multiemployer Long Term Disability Income Continuance Plans. At March 31, 2006, the Bargaining Unit Plan reported an actuarial deficiency of $8,699 (2005 $11,817) and the Management, Opted Out and Excluded Plan an actuarial surplus of $8,309 (2005 $3,208). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been restated, where necessary, to conform to 2006 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, 2006

	2006		2005
	Budget	**Actual**	**Actual**
		($ thousands)	
Income taxes			
Personal income tax	$ 5,199,124	$ 5,999,774	$ 4,648,349
Alberta 2005 Resource Rebate	-	(1,322,518)	-
Corporate income tax	2,277,826	2,916,528	2,364,315
	7,476,950	7,593,784	7,012,664
Other taxes			
Tobacco tax	735,000	719,091	697,655
Fuel tax	645,000	663,854	640,918
Insurance taxes	184,786	208,724	209,716
Tourism levy / Hotel room tax	50,000	57,815	61,021
Special broker tax	750	6,016	2,867
Financial institutions capital tax	-	282	149
	1,615,536	1,655,782	1,612,326
Transfers from Government of Canada			
Unconditional subsidy	4,178	4,179	4,178
Net investment income	1,352,904	2,305,477	1,786,526
Net income from commercial operations			
Alberta Treasury Branches	162,000	198,721	187,313
Other	5,126	7,201	6,067
	167,126	205,922	193,380
Premiums, fees, and licences			
Alberta Securities Commission	16,495	19,285	18,887
Deposit guarantee fee	16,400	15,236	15,785
Alberta Insurance Council	3,128	3,334	2,755
Other	1,499	2,617	1,529
	37,522	40,472	38,956
Internal government transfers			
Lottery Fund	99,840	291,128	154,748
Other	200	350	359
	100,040	291,478	155,107
Other			
Pensions administration	26,902	25,083	24,376
Service revenue	15,399	14,643	11,986
Insurance services	8,951	8,394	7,622
Refunds of expenditure	170	75	465
Miscellaneous	1,590	4,981	4,897
	53,012	53,176	49,346
	$ 10,807,268	$ 12,150,270	$ 10,852,483

MINISTRY OF FINANCE

BUDGET

Schedule 2

Year Ended March 31, 2006

	2005-06 Estimates	Adjustments (a)	2005-06 Budget	Authorized Supplementary	2005-06 Authorized Budget
			($ thousands)		
Revenues					
Income taxes	$ 7,476,950	$ -	$ 7,476,950	$ -	$ 7,476,950
Other taxes	1,615,536	-	1,615,536	-	1,615,536
Transfers from Government of Canada	4,178	-	4,178	-	4,178
Net investment income	1,352,904	-	1,352,904	-	1,352,904
Net income from commercial operations	167,126	-	167,126	-	167,126
Premiums, fees, and licences	37,522	-	37,522	-	37,522
Internal government transfers	100,040	-	100,040	-	100,040
Other	53,012	-	53,012	-	53,012
	10,807,268	-	10,807,268	-	10,807,268
Expenses					
Fiscal planning and financial management	55,178	-	55,178	-	55,178
Investment, treasury and risk management	207,664	-	207,664	-	207,664
Financial sector and pensions	344,491	-	344,491	-	344,491
Ministry support services	11,391	-	11,391	-	11,391
Valuation adjustments	1,000	(13,000)	(12,000)	-	(12,000)
Debt servicing costs					
General government	238,000	-	238,000	-	238,000
School boards	45,247	-	45,247	-	45,247
	902,971	(13,000)	889,971	-	889,971
Net operating results	$ 9,904,297	$ 13,000	$ 9,917,297	$ -	$ 9,917,297

(a) Adjustments consist of $13,000 for pension provisions excluded from the Estimates.

MINISTRY OF FINANCE

EXPENSES BY OBJECT

Schedule 3

	2006 Budget	2006 Actual	2005 Actual
	($ thousands)		
Salaries, wages and employee benefits	$ 80,173	$ 79,703	$ 70,339
Supplies and services	47,532	42,434	40,821
Grants	147,031	147,419	139,506
Interest and amortization of unrealized exchange gains and losses	524,360	475,976	545,219
Pension liability funding	74,700	71,780	71,002
Interest payments on corporate tax refunds	20,000	12,888	27,358
Valuation adjustments (Schedule 4)	(12,000)	39,539	5,944
Amortization of tangible capital assets	6,972	6,852	6,082
Other financial transactions	1,283	1,166	1,421
	890,051	877,757	907,692
Less recovery from support service arrangements with related parties [(a)]	80	88	84
	$ 889,971	$ 877,669	$ 907,608

(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

Schedule 4

	2006 Budget	2006 Actual	2005 Actual
	($ thousands)		
Pension provisions	$ (13,000)	$ 40,076	$ 6,541
Provision for doubtful accounts and loans	1,000	960	(581)
Provision for employee benefits other than pensions	-	534	(20)
Provision for guarantees and indemnities	-	(2,031)	4
	$ (12,000)	$ 39,539	$ 5,944

MINISTRY OF FINANCE

CASH AND TEMPORARY INVESTMENTS

Schedule 5

	2006	2005
	($ thousands)	
Fixed-income securities [a]		
Corporate	$ 2,658,641	$ 1,439,061
Provincial, direct and guaranteed	271,093	129,585
Pooled investment funds	17,697	14,757
Government of Canada, direct and guaranteed	-	144,666
Canadian equities		
Pooled investment funds	5,559	4,977
	2,952,990	1,733,046
Deposit in the Consolidated Cash Investment Trust Fund [b]	2,511,077	1,284,608
Cash in bank and in transit	172,473	784,238
	$ 5,636,540	$ 3,801,892

(a) At March 31, 2006, fixed-income securities held have an average effective market yield of 3.9% (2005 2.7%) per annum. All (2005 all) of the securities have terms to maturity of less than one year.

(b) At March 31, 2006, securities held by the Fund have an average effective market yield of 4.0% (2005 2.8%) per annum and an average duration of 120 days (2005 131 days).

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE

Schedule 6

	2006	2005
	($ thousands)	
Personal income tax	$ 385,506	$ 265,486
Accrued interest and receivable from sale of investments	260,656	238,223
Lottery Fund	106,128	68,422
Fuel tax	61,056	62,529
Insurance taxes	51,973	50,083
Present value of future contributions from credit union system	28,126	38,695
Tobacco tax	7,430	6,024
Tourism levy / Hotel room tax	5,180	5,437
Financial institutions capital tax	2,176	1,965
Corporate income tax	-	37,275
Other	6,727	10,731
	914,958	784,870
Less allowance for doubtful accounts	2,044	3,479
	$ 912,914	$ 781,391

MINISTRY OF FINANCE

PORTFOLIO INVESTMENTS

Schedule 7

	2006		2005	
	Book Value	Fair Value	Book Value	Fair Value
	($ thousands)			
Fixed-income securities [(a) (b) (c)]				
Government of Canada, direct and guaranteed	$ 1,299,358	$ 1,294,533	$ 558,153	$ 559,391
Provincial, direct and guaranteed	2,613,542	2,609,756	2,218,264	2,227,197
Municipal	149,194	148,532	71,639	71,617
Corporate	4,631,375	4,611,026	3,360,124	3,356,610
Pooled investment funds	5,175,467	5,196,646	4,106,381	4,192,555
	13,868,936	13,860,493	10,314,561	10,407,370
Equities [(c)]				
Pooled investment funds				
Canadian	3,098,429	3,525,135	2,519,453	2,829,252
Foreign	5,394,916	6,016,314	4,329,856	4,616,336
Real Estate	1,288,748	1,676,405	1,137,888	1,341,128
Absolute return strategies	642,128	645,017	693,716	688,677
	10,424,221	11,862,871	8,680,913	9,475,393
	$ 24,293,157	$ 25,723,364	$ 18,995,474	$ 19,882,763

(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, 2006, the Department held $8,671 million (2005 $6,185 million) of public fixed-income securities at cost (Fair value $8,641 million (2005 $6,191 million)). The securities held have an average effective market yield of 4.2% (2005 3.4%) per annum. 41% of the securities held had terms to maturity of less than one year.

(b) Fixed-income securities are also held by the Alberta Heritage Savings Trust Fund (Heritage Fund). As at March 31, 2006, the Heritage Fund held $4,530 million (2005 $3,661 million) of public fixed-income securities at cost (Fair value $4,548 million (2005 $3,735 million)). The securities held have an average effective market yield of 4.8% (2005 4.6%) per annum and the following term structure based on principal amount:

	2006	2005
	%	
Under 1 year	3	4
1 to 5 years	31	35
6 to 10 years	35	32
11 to 20 years	12	12
Over 20 years	19	17
	100	100

MINISTRY OF FINANCE

Schedule 7 (continued)

(c) The Heritage Fund and the endowment funds (see Note 5 (b)) use derivative contracts to enhance investment return, hedge risks, and manage asset mix.

As at March 31, 2006, the notional amount of all derivative contracts issued by the Heritage Fund amounted to $8,097 million (2005 $4,033 million). All derivative contracts taken together had a net positive fair value of $136 million (2005 $19 million) (see Note 8). The following is a summary of the notional amount and fair value of derivative contracts held by the Heritage Fund as at March 31, 2006.

	Maturity			2006		2005	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value	Notional Amount	Net Fair Value
	%			($ thousands)			
Equity index swap contracts	75	25	-	$ 2,460,014	$ 45,423	$ 1,534,324	$ 7,673
Forward foreign exchange contracts	100	-	-	1,554,419	(1,980)	935,430	13,334
Credit default swap contracts	2	5	93	1,298,187	2,984	128,430	1,384
Interest rate swap contracts	22	49	29	1,053,569	(2,391)	491,031	(12,449)
Equity index futures contracts	100	-	-	782,574	15,652	302,125	5,957
Cross-currency interest rate swap contracts	14	34	52	711,678	52,051	580,540	2,228
Bond index swap contracts	100	-	-	236,998	24,470	61,311	428
				$ 8,097,439	$ 136,209	$ 4,033,191	$ 18,555

As at March 31, 2006, the notional amount of all derivative contracts issued by the endowment funds amounted to $1,341 million (2005 $580 million). All derivative contracts taken together had a net positive fair value of $26 million (2005 $3 million) (see Note 8).

MINISTRY OF FINANCE

EQUITY IN COMMERCIAL ENTERPRISES

Schedule 8

	2006	2005
	($ thousands)	
Accumulated surpluses		
Accumulated surpluses at beginning of year	$ 1,250,190	$ 1,056,810
Total revenue	994,949	861,407
Total expense	789,026	668,027
Net revenue	205,923	193,380
Net transfers to departments	-	-
Accumulated surpluses at end of year	$ 1,456,113	$ 1,250,190
Represented by		
Assets		
Loans	$ 14,846,694	$ 13,137,917
Investments	1,485,799	1,029,285
Other assets	1,438,694	1,328,589
Total assets	17,771,187	15,495,791
Liabilities		
Accounts payable	373,187	339,850
Deposits	15,870,308	13,840,032
Unmatured debt	71,579	65,719
Total liabilities	16,315,074	14,245,601
	$ 1,456,113	$ 1,250,190
Accumulated surpluses at end of year		
Alberta Treasury Branches (ATB) [a]	$ 1,348,995	$ 1,150,274
Credit Union Deposit Guarantee Corporation	105,338	98,293
N.A. Properties (1994) Ltd.	1,780	1,623
	1,456,113	1,250,190
Elimination of inter fund/agency balances	86,814	81,503
Equity in commercial enterprises at end of year	$ 1,542,927	$ 1,331,693

(a) ATB uses derivative contracts for risk management purposes and to hedge its own exposure to interest rate and exchange rate risks. As at March 31, 2006, the notional amount of all derivative contracts issued by ATB amounted to $3,229 million (2005 $2,392 million). All derivative contracts taken together had a net positive fair value of $83 million (2005 $58 million) (see Note 8). The following is a summary of the notional amount and fair value of derivative contracts held by ATB as at March 31, 2006.

	Maturity			2006		2005	
	Under 1 Year	1 to 5 Years	Over 5 Years	Notional Amount	Net Fair Value	Notional Amount	Net Fair Value
	%			($ thousands)			
Interest rate swaps and options	58	42	-	$ 2,909,327	$ 4,529	$ 2,047,191	$ 2,516
Equity options	38	62	-	319,330	78,886	337,210	55,277
Other	100	-	-	453	4	7,273	6
				$ 3,229,110	$ 83,419	$ 2,391,674	$ 57,799

MINISTRY OF FINANCE

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

Schedule 9

	2006	2005
	($ thousands)	
Agriculture Financial Services Corporation	$ 884,358	$ 899,750
Alberta Social Housing Corporation	342,584	401,284
Public Trustee	224	224
	$ 1,227,166	$ 1,301,258

OTHER LOANS AND ADVANCES

Schedule 10

	2006	2005
	($ thousands)	
Alberta Capital Finance Authority [(a)]	$ 4,390,038	$ 4,093,860
Alberta Heritage Savings Trust Fund Act	192,380	185,815
Farm Credit Stability Act	8,128	14,445
Board of Governors of the University of Alberta	909	1,292
Pratt & Whitney Canada Ltd.	295	851
University of Lethbridge Students' Union	216	422
Implemented guarantees and indemnities	138	144
Accountable advances	29	20
Judgement debts	11	47
	4,592,144	4,296,896
Less allowance for doubtful loans, advances, implemented guarantees and indemnities	90,310	92,708
	$ 4,501,834	$ 4,204,188

(a) The fair value of the loans as at March 31. 2006 was $4,814 million (2005 $4,574 million). Municipal loans on average yield 6.4% per annum (2005 7.2%) and have the following term structure as at March 31, 2006.

	2006	2005
	%	
Under 1 year	9	12
1 to 5 years	35	36
6 to 10 years	26	25
Over 10 years	30	27
	100	100

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, 2006, loans to Crown-controlled school boards amounted to $392,755 (2005 $464,104).

MINISTRY OF FINANCE

TANGIBLE CAPITAL ASSETS

Schedule 11

		2006			2005
	Estimated Useful Life	**Cost**	**Accumulated Amortization**	**Net Book Value**	**Net Book Value**
		($ thousands)			
Equipment	10 years	$ 3,507	$ 1,635	$ 1,872	$ 2,200
Computer hardware and software	5 years	41,145	26,480	14,665	16,011
Other	10 years	2,633	1,374	1,259	1,320
		$ 47,285	$ 29,489	$ 17,796	$ 19,531

ACCRUED INTEREST AND ACCOUNTS PAYABLE

Schedule 12

	2006	2005
	($ thousands)	
Accrued interest on unmatured debt and debt of Alberta Capital Finance Authority	$ 146,744	$ 185,888
Corporate income tax receipts in abeyance	366,662	364,942
Corporate income tax refunds payable	263,842	-
Unearned revenue	1,137	814
Other	373,437	178,577
	$ 1,151,822	$ 730,221

MINISTRY OF FINANCE

UNMATURED DEBT

Schedule 13

	2006				2005	
	Effective Rate (a)	Modified Duration (b)	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
	%	years	($ thousands)			
Canadian dollar debt and fully hedged foreign currency debt						
Floating rate and short-term fixed rate (c)	3.50	0.28	$ 367,027	$ 366,440	$ 1,307,481	$ 1,313,269
Fixed rate long-term (d)	6.84	4.08	2,171,469	2,423,320	2,284,613	2,601,025
	6.35	3.58	2,538,496	2,789,760	3,592,094	3,914,294
Unhedged U.S. dollar debt						
Floating rate and short-term fixed rate	-	-	-	-	130,156	122,999
Total unmatured debt	6.35	3.58	$ 2,538,496	$ 2,789,760	$ 3,722,250	$ 4,037,293

(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 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) 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.

(c) 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.

(d) Canadian dollar fixed rate debt includes $678,696 (2005 $678,696) held by the Canada Pension Plan Investment Fund.

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2006-07, and thereafter are as follows:

	($ thousands)
2006-07	$ 177,379
2007-08	273,428
2008-09	730,679
2009-10	78,342
2010-11	278,196
Thereafter to 2016-17	1,007,175
	2,545,199
Unamortized discount	6,703
	$ 2,538,496

None of the debt has call provisions (2005 none).

MINISTRY OF FINANCE

Schedule 13 (continued)

Derivative financial instruments

The Ministry uses interest rate swaps contracts to manage the interest rate risk associated with unmatured debt. 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, 2006, interest rate swap agreements were being used primarily to convert fixed interest rate payments to floating rates.

The following table summarizes the Ministry's derivative portfolio and related credit exposure (see Note 8).

	2006		2005	
	Notional Amount (a)	Net Fair Value	Notional Amount	Net Fair Value
	($ thousands)			
Interest rate swaps	$ 275,000	$ 7,303	$ 825,000	$ 22,243
Cross currency interest rate swaps	-	-	173,905	17,157
	$ 275,000	$ 7,303	$ 998,905	$ 39,400

(a) Maturing 2007-08 $25,000 and 2008-09 $250,000.

MINISTRY OF FINANCE

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY

Schedule 14

	2006	2005
	($ thousands)	
Alberta Capital Finance Authority		
Canadian dollar fixed rate debt [(a)]	$ 4,655,963	$ 4,267,567

(a) Canadian dollar fixed rate debt includes $1,920,963 (2005 $2,204,567) held by the Canada Pension Plan Investment Fund and has the following characteristics as at March 31, 2006 (see Schedule 13 note (a)).

	2006	2005
	($ thousands)	
Fair value	$ 5,016,000	$ 4,699,000
Effective rate per annum	6.3%	6.9%

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.

As at March 31, 2006, the notional amount of all derivative contracts issued in relation to debt held by the Alberta Capital Finance Authority and related loans amounted to $2,833 million (2005 $1,315 million). 20% (2005 27%) of these contracts mature within one year. All derivative contracts taken together had a net negative fair value of $9.5 million (2005 $1.6 million)(see Note 8).

Debt principal repayment requirements in each of the next five years, including short-term debt maturing in 2006-07 and thereafter are as follows:

2006-07	$ 395,396
2007-08	351,383
2008-09	259,294
2009-10	380,523
2010-11	150,000
Thereafter	3,119,367
	$ 4,655,963

MINISTRY OF FINANCE

PENSION OBLIGATIONS

Schedule 15

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

	2006	2005
	($ thousands)	
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Public Service Management (Closed Membership) Pension Plan [a]	$ 677,833	$ 656,274
Members of the Legislative Assembly Pension Plan [b]	49,504	46,770
Management Employees Pension Plan [a]	29,046	12,349
Public Service Pension Plan [a]	1,543	8,181
	757,926	723,574
Obligations to pension plans for employees of organizations outside the government sector		
Universities Academic Pension Plan [c]	190,291	184,760
Special Forces Pension Plan [c]	63,092	62,899
	253,383	247,659
	$ 1,011,309	$ 971,233

(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 actuarial funding valuations as at December 31, 2001 and 2004 is being financed by special payments totalling 7.2% of pensionable earnings shared between employees and employers until December 31, 2015. The special payments will decrease to 5.1% of pensionable earnings on January 1, 2016 and continue until December 31, 2018 as required to eliminate the unfunded liability on or before that date. Current services costs are funded by employers and employees. 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, 2004	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, 2004	3.75	3.25	7.0

* Inflation rate and investment rate of return used in extrapolation as at March 31, 2006 were 2.75% and 5% respectively.

** Actuarial valuations as at December 31, 2005 are in progress and will be completed in 2006-07.

These actuarial valuations indicated a deficiency of net assets over actuarial present value of accrued benefits. Including deferred losses of $99.4 million (2005 $354.9 million), unfunded liabilities were extrapolated to March 31, 2006.

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

Schedule 16

	2006	2005
	($ thousands)	
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 381,107	$ 450,657
Guarantees and indemnities (Schedule 17)	470	2,550
Vacation entitlements	6,182	5,625
Other	332	333
	$ 388,091	$ 459,165

GUARANTEES [(a)]

Schedule 17

	2006	2005	Expiry Date
	($ thousands)		
Farm Credit Stability Act [(b)]	$ 4,603	$ 15,175	2011
University of Calgary	934	1,004	2016
Centre for Engineering Research Inc.	273	792	2007
Rural utilities loans	183	370	2015
	5,993	17,341	
Less estimated liability (Schedule 16)	470	2,550	
	$ 5,523	$ 14,791	

(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.

	2006	2005
	($ thousands)	
Revenues		
Transfers	$ 291,478	$ 155,107
Interest from loans and advances to government entities	80,364	81,377
Interest from loans and advances to school boards	45,966	53,590
Charges for services	7,697	6,743
	$ 425,505	$ 296,817
Expenses		
Debt servicing costs - school boards debt	$ 45,236	$ 53,011
Transfers	34,156	23,029
Cost of services	6,181	6,106
	$ 85,573	$ 82,146
Assets		
Accounts receivable	$ 107,011	$ 69,468
Accrued interest receivable	19,641	18,683
Loans and advances to government entities	1,226,942	1,301,034
Loans and advances to school boards	392,755	464,104
	$ 1,746,349	$ 1,853,289
Liabilities		
Other accrued liabilities - future funding of school boards debt	$ 381,107	$ 450,657

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.

	2006	2005
	($ thousands)	
Expenses - incurred by others		
Accommodation and other costs	$ 3,378	$ 2,965
Legal services	2,123	2,059
	$ 5,501	$ 5,024