

DEPARTMENT OF FINANCE

Financial Statements

YEAR ENDED MARCH 31, 2006

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AUDITOR'S REPORT

To the Minister of Finance

I have audited the statement of financial position of the Department of Finance as at March 31, 2006 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the management of the Department. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Department 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.

DEPARTMENT OF FINANCE

STATEMENT OF OPERATIONS

Year Ended March 31, 2006

| | 2006 | | 2005 |
|---|---------------------|---------------------|---------------------|
| | Budget | Actual | Actual |
| (Schedule 4) | | | |
| (\$ thousands) | | | |
| Revenues (Schedule 1) | | | |
| Internal government transfers | \$ 565,813 | \$ 1,306,425 | \$ 1,246,651 |
| Income taxes | 7,476,950 | 7,593,784 | 7,012,664 |
| Other taxes | 1,615,536 | 1,655,782 | 1,612,327 |
| Transfers from Government of Canada | 4,178 | 4,179 | 4,178 |
| Investment income | 310,402 | 410,097 | 263,750 |
| Fees, permits and licences | 17,899 | 17,853 | 17,314 |
| Other | 21,948 | 23,343 | 20,383 |
| | 10,012,726 | 11,011,463 | 10,177,267 |
| Expenses - directly incurred (Note 2 (B) and Schedule 21) | | | |
| Voted (Schedules 3 and 5) | | | |
| Ministry support services | 11,403 | 11,282 | 10,585 |
| Fiscal Planning and Financial Management | 35,371 | 33,585 | 30,840 |
| Investment, Treasury and Risk Management | 23,441 | 21,682 | 18,340 |
| Financial Sector and Pensions | 5,020 | 6,159 | 5,950 |
| Transfer to the Alberta Heritage Savings Trust Fund | - | 1,000,000 | - |
| Debt servicing costs - school construction | 45,247 | 45,236 | 53,011 |
| | 120,482 | 1,117,944 | 118,726 |
| Statutory (Schedules 3 and 5) | | | |
| Internal Government Transfers to: | | | |
| Access to the Future Fund | - | 11,250 | - |
| Alberta Heritage Foundation for Medical Research Endowment Fund | 200,000 | 200,000 | - |
| Alberta Heritage Savings Trust Fund to endow Access to the Future Fund | 250,000 | 750,000 | - |
| Alberta Heritage Scholarship Fund | - | 250,000 | - |
| Alberta Heritage Science and Engineering Research Endowment Fund | - | 100,000 | - |
| Farm credit stability program | 170 | 149 | 292 |
| Interest payments on corporate tax refunds | 20,000 | 12,888 | 27,358 |
| Pension liability funding | 74,700 | 71,846 | 71,045 |
| Debt servicing costs | 238,000 | 194,898 | 243,072 |
| Valuation adjustments (Schedule 6) | (12,000) | 39,539 | 5,944 |
| | 770,870 | 1,630,570 | 347,711 |
| | 891,352 | 2,748,514 | 466,437 |
| Net Operating Results | \$ 9,121,374 | \$ 8,262,949 | \$ 9,710,830 |

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

DEPARTMENT OF FINANCE

STATEMENT OF FINANCIAL POSITION

As At March 31, 2006

| | 2006 | 2005 |
|---|----------------------|----------------------|
| | (\$ thousands) | |
| Assets | | |
| Cash and temporary investments (Schedule 8) | \$ 5,024,508 | \$ 3,446,156 |
| Accounts and accrued interest receivable (Schedule 9) | 907,472 | 775,508 |
| Portfolio investments (Schedule 10) | 8,671,154 | 6,185,113 |
| Loans and advances to government entities (Schedule 11) | 1,146,239 | 1,212,918 |
| Other loans, advances and investments (Schedule 12) | 11,401 | 18,699 |
| Tangible capital assets (Schedule 13) | 9,365 | 8,853 |
| | <u>\$ 15,770,139</u> | <u>\$ 11,647,247</u> |
| Liabilities | | |
| Bank overdraft | \$ 1,655,887 | \$ 942,671 |
| Accounts and accrued interest payable (Schedule 14) | 743,469 | 498,005 |
| Unmatured debt (Schedule 15) | 2,538,496 | 3,722,250 |
| Pension obligations (Schedule 16) | 1,011,309 | 971,233 |
| Other accrued liabilities (Schedule 17) | 387,020 | 457,924 |
| | <u>6,336,181</u> | <u>6,592,083</u> |
| Net Assets | | |
| Net assets at beginning of year | 5,055,164 | 697,978 |
| Net operating results | 8,262,949 | 9,710,830 |
| Net transfer to general revenues | (3,884,155) | (5,353,644) |
| Net assets at end of year | <u>9,433,958</u> | <u>5,055,164</u> |
| | <u>\$ 15,770,139</u> | <u>\$ 11,647,247</u> |

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

DEPARTMENT OF FINANCE

STATEMENT OF CASH FLOWS

Year Ended March 31, 2006

| | 2006 | 2005 |
|--|---------------------|---------------------|
| | (\$ thousands) | |
| Operating transactions | | |
| Net operating results | \$ 8,262,949 | \$ 9,710,830 |
| Non-cash items included in net operating results | | |
| Amortization, gains and losses on investments and debt, net | 49,685 | 34,196 |
| Net income on investments valued at equity | (156) | (184) |
| Amortization of tangible capital assets (Schedule 3) | 2,892 | 2,695 |
| Valuation adjustments (Schedule 6) | 39,539 | 5,944 |
| | 8,354,909 | 9,753,481 |
| (Increase) decrease in receivables | (131,427) | 373,611 |
| Increase in payables | 244,111 | 16,500 |
| Cash provided by operating transactions | 8,467,593 | 10,143,592 |
| Capital transactions | | |
| Purchase of tangible capital assets (Schedule 5) | (3,404) | (2,444) |
| Proceeds from disposal of tangible capital assets | - | 35 |
| Cash used for capital transactions | (3,404) | (2,409) |
| Investing transactions | | |
| Disposals of portfolio investments | 4,194,126 | 3,526,809 |
| Portfolio investments purchased | (6,724,784) | (5,660,256) |
| Repayments of loans and advances | | |
| Government entities | 1,920,294 | 1,999,464 |
| Other | 7,764 | 13,454 |
| Loans and advances | | |
| Government entities | (1,851,385) | (1,966,713) |
| Other | (8) | (16) |
| Cash used for investing transactions | (2,453,993) | (2,087,258) |
| Financing transactions | | |
| Debt issues | 4,542,165 | 5,258,730 |
| Debt retirement | (5,733,519) | (6,736,619) |
| Voted non-budgetary disbursements to settle obligations (Schedule 5) | (69,551) | (74,969) |
| Net transfer to general revenues | (3,884,155) | (5,353,644) |
| Cash used for financing transactions | (5,145,060) | (6,906,502) |
| Net cash provided | 865,136 | 1,147,423 |
| Cash and temporary investments, net of bank overdraft, at beginning of year | 2,503,485 | 1,356,062 |
| Cash and temporary investments, net of bank overdraft, at end of year | \$ 3,368,621 | \$ 2,503,485 |

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

DEPARTMENT OF FINANCE

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 (\$ thousands)

NOTE 1 AUTHORITY AND PURPOSE

The Department of Finance (the Department) operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000.

The Department's core businesses are fiscal planning and financial management; regulation of provincial financial institutions; pensions policy, regulation and administration; financial services; long-term revenue and investment policy; manage revenue programs; manage and invest financial assets; manage risk associated with liability exposure and loss of public assets; and regulation and fostering of Alberta's capital market.

NOTE 2 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 that have been established by government for all departments.

(a) Reporting Entity

The reporting entity is the Department, which is part of the Ministry of Finance and for which the Minister of Finance is accountable. Other entities reporting to the Minister of Finance are the Alberta Heritage Savings Trust Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund, the Alberta Risk Management Fund, the Alberta Securities Commission, the Provincial Judges and Masters in Chambers Reserve Fund, the Supplementary Retirement Plan Reserve Fund, the Alberta Capital Finance Authority, the Alberta Insurance Council, the Alberta Pensions Administration Corporation, the Alberta Local Authorities Pension Plan Corporation, the Alberta Treasury Branches and its subsidiaries, the Credit Union Deposit Guarantee Corporation, N.A. Properties (1994) Ltd. and Gainers Inc. The activities of these organizations are not included in these financial statements.

The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of operations for which the Minister of Finance is accountable.

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Minister of Finance administers the Fund. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the Fund. Net transfer to general revenues is the difference between all cash deposits by other departments and all cash disbursements made on their behalf by the Department of Finance.

DEPARTMENT OF FINANCE

Note 2 (continued)

(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.

Internal Government Transfers

Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Dedicated Revenue Initiatives

Dedicated revenue initiatives provide a basis for authorizing spending. Dedicated revenues must be shown as credits or recoveries in the details of the Government Estimates for a supply vote. If actual dedicated revenues are less than budget and total voted expenses are not reduced by an amount sufficient to cover the deficiency in dedicated revenues, the following year's voted expenses are encumbered. If actual dedicated revenues exceed budget, the Department may, with the approval of the Treasury Board, use the excess revenue to fund additional expenses on the program. Schedule 2 discloses information on the Department's dedicated revenue initiatives.

Expenses**Directly Incurred**

Directly incurred expenses are those costs the Department has primary responsibility and accountability for, as reflected in the government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- Amortization of tangible capital assets.
- Pension costs, which comprise the cost of employer contributions for current service of employees during the year and additional government contributions for service relating to prior years.
- Valuation adjustments, which 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.
- Grants are recognized when authorized and eligibility criteria are met.

DEPARTMENT OF FINANCE

Note 2 (continued)**Incurred by Others**

Services contributed by other entities in support of the Department's operations are disclosed in Schedule 21.

Assets

Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Portfolio investments are carried at cost. Cost includes amortization of discount or premium using the straight-line method over the life of the investment. 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 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.

Investments are recorded at cost, except for investments in wholly owned provincial corporations operating as commercial enterprises which are valued on an equity basis. 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.

Tangible capital assets acquired by right are not included. Tangible capital assets of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is \$100 and the threshold for all other tangible capital assets is \$5.

Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

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 used to manage interest rate exposure is recorded as an adjustment to debt servicing costs.

DEPARTMENT OF FINANCE

Note 2 (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 differences on unhedged transactions are included in the determination of net operating results for the year.

Net Assets

Net assets represents the difference between the carrying value of assets held by the Department and its liabilities.

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 (see schedule 16). 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 and the effect on accrued pensions obligations of actual experience compared to assumptions.

Personal income tax revenue, totaling \$5,999,774 (2005 \$4,648,349), see schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. The estimate of personal income growth used in determining personal income tax for the current fiscal year is 8.2%. For every change in personal income growth of plus or minus 1%, personal income tax revenue will change 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 revenue, totaling \$2,916,528 (2005 \$2,364,315), see schedule 1, is subject to measurement uncertainty due primarily to the use of five year moving average of historical corporate income tax refund ratios in the determination of corporate income tax revenue. 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.

DEPARTMENT OF FINANCE

Note 2 (continued)

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 3 VALUATIONS 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.

Because of the short term nature of these instruments, 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.

Public fixed-income securities included in portfolio investments 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.

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 is an approximation of its fair value to the holder.

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

NOTE 4 RISK MANAGEMENT**(a) Liability Management**

The objective of the Department'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 Department manages four risks - interest rate risk, currency exchange risk, credit risk, and refinancing risk. The Department manages these four risks within approved policy guidelines. The management of these risks and the policy guidelines apply to the Department'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 Department 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.

DEPARTMENT OF FINANCE

Note 4 (continued)**(b) Asset Management**

Portfolio investments are used to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, disasters and natural gas rebates.

NOTE 5 CONTRACTUAL OBLIGATIONS**(a) Credit Union Act**

The Credit Union Deposit Guarantee Corporation, operating under the authority of the *Credit Union Act*, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The Credit Union Act provides that the Province, through the Department, will ensure that this obligation of the Corporation is carried out. As at December 31, 2005 credit unions in Alberta held deposits totaling \$10,034,758 (2004 \$8,963,176). Substantial assets are available from credit unions to safeguard the Department from risk of loss arising from its potential obligation under the Act.

(b) Other Commitment

| | 2006 | 2005 |
|-------------------|-----------------|-----------------|
| | (\$ thousands) | |
| Service contracts | \$ 6,048 | \$ 4,539 |
| Long-term leases | 198 | 204 |
| | <u>\$ 6,246</u> | <u>\$ 4,743</u> |

The aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

| | Service Contracts | Leases | Total |
|------|----------------------|---------------|-----------------|
| | (\$ thousands) | | |
| 2007 | \$ 5,052 | \$ 66 | \$ 5,118 |
| 2008 | 726 | 66 | 792 |
| 2009 | 177 | 66 | 243 |
| 2010 | 93 | - | 93 |
| | <u>\$ 6,048</u> | <u>\$ 198</u> | <u>\$ 6,246</u> |

DEPARTMENT OF FINANCE

NOTE 6 CONTINGENT LIABILITIES

Set out below are details of contingencies resulting from guarantees, indemnities and litigation, other than those reported as liabilities and shown in Schedule 17.

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

(a) Indemnities and Debenture, Deposit and Loan Guarantees

Guaranteed liabilities at March 31, 2006 of government entities amounting to \$20,948,682 (2005 \$18,588,537), and other guarantees amounting to \$5,523 (2005 \$14,791) are analyzed in Schedules 18 and 19 respectively. These schedules are included with the financial statements because payments under debenture and loan guarantees are a statutory charge on the Department.

Payments under the guarantee of Alberta Treasury Branches deposits would also be made by the Department, under authority of a supply vote.

(b) Legal Actions

At March 31, 2006, the Department is jointly or separately named as a defendant in twenty-three legal claims (2005 twenty legal claims). Of the twenty-three claims, nineteen have specified amounts totaling approximately \$3,812,242. One jointly named claim for \$3,750,000 concerns the methodology used to calculate pension benefits under three public service pension plans. Four claims have no specified amount. In 2005 nineteen claims had specified amounts totaling approximately \$3,813,056 including one jointly named claim for \$3,750,000 and one had no specified amount. Ten claims totaling \$2,485 (2005 seven totaling \$1,886) are covered by the Alberta Risk Management Fund. The resulting loss, if any, from these claims cannot be determined.

In addition, at March 31, 2006, some taxes assessed were under objection and some were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 7 TRUST FUNDS UNDER ADMINISTRATION

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

DEPARTMENT OF FINANCE

Note 7 (continued)

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 |

NOTE 8 DEFINED BENEFIT PLANS

The Department sponsors and participates in the multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan (see Schedule 16 (c)). The Department also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense of these plans is equivalent to the annual contributions of \$4,385 for the year ended March 31, 2006 (2005 \$3,266).

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 Department also participates in two multi-employer 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 9 COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to conform to the 2006 presentation.

NOTE 10 APPROVALS OF FINANCIAL STATEMENTS

The Senior Financial Officer and the Deputy Minister approved these financial statements.

DEPARTMENT OF FINANCE

SCHEDULES TO THE FINANCIAL STATEMENTS

REVENUE

Schedule 1

| | 2006 | | 2005 |
|---|----------------------|----------------------|----------------------|
| | Budget | Actual | Actual |
| | (\$ thousands) | | |
| Internal government transfers | | | |
| Alberta Heritage Savings Trust Fund | \$ 465,973 | \$ 1,015,296 | \$ 1,091,903 |
| Lottery Fund | 99,840 | 291,129 | 154,748 |
| | 565,813 | 1,306,425 | 1,246,651 |
| Income taxes | | | |
| Personal income tax | 5,199,124 | 5,999,774 | 4,648,349 |
| Alberta 2005 Resource rebates | - | (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 | 697,656 |
| 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 |
| Financial institutions capital tax | - | 282 | 149 |
| Special broker tax | 750 | 6,016 | 2,867 |
| | 1,615,536 | 1,655,782 | 1,612,327 |
| Transfers from Government of Canada | | | |
| Unconditional subsidy | 4,178 | 4,179 | 4,178 |
| Investment income | | | |
| Farm credit stability program | 1,019 | 1,572 | 2,245 |
| Other | 309,383 | 408,525 | 261,505 |
| | 310,402 | 410,097 | 263,750 |
| Fees, permits and licences | | | |
| Deposit guarantee fee | 16,400 | 15,236 | 15,785 |
| Insurance companies, agents and brokers | 250 | 264 | 246 |
| Other | 1,249 | 2,353 | 1,283 |
| | 17,899 | 17,853 | 17,314 |
| Other | | | |
| Recovery of expense (Schedule 2) | 19,615 | 18,117 | 15,330 |
| Refunds of expenditure | 170 | 75 | 465 |
| Sale of assets | - | 12 | 10 |
| Miscellaneous | 2,163 | 5,139 | 4,578 |
| | 21,948 | 23,343 | 20,383 |
| | \$ 10,012,726 | \$ 11,011,463 | \$ 10,177,267 |

DEPARTMENT OF FINANCE

DEDICATED REVENUE INITIATIVES

Schedule 2

| | Authorized Dedicated Revenues | 2006 | (Shortfall) (a)/ Excess |
|--|-------------------------------------|---------------------------------|----------------------------|
| | | Actual Dedicated Revenues | |
| | | (\$ thousands) | |
| Investment, treasury and risk management | \$ 19,390 | \$ 17,904 | \$ (1,486) |
| Fiscal planning and financial management | 225 | 213 | (12) |
| | <u>\$ 19,615</u> | <u>\$ 18,117</u> | <u>\$ (1,498)</u> |

Following is a brief description of each dedicated revenue initiative:

- Investment, treasury and risk management recovers the costs of managing various public sector investment funds and costs of risk management and insurance services.
- Fiscal planning and financial management recovers the costs associated with administration of the payment in lieu of tax program, related to municipally owned utilities, from the Power Pool of Alberta Balancing Pool.

The revenue of each initiative is reported in the statement of operations.

- a) The shortfall is deducted from the current year's authorized budget, as disclosed in Schedules 4 and 5 the financial statements.

DEPARTMENT OF FINANCE

EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

Schedule 3

| | 2006 | | 2005 |
|--|-------------------|---------------------|-------------------|
| | Budget | Actual | Actual |
| | (\$ thousands) | | |
| Voted | | | |
| Salaries, wages and employee benefits | \$ 48,397 | \$ 47,711 | \$ 40,651 |
| Supplies and services | 22,899 | 21,934 | 21,319 |
| Grants | 45,269 | 45,288 | 53,033 |
| Financial transactions and other | 1,113 | 207 | 1,113 |
| Transfers to the Alberta Heritage Savings Trust Fund | - | 1,000,000 | - |
| Amortization of tangible capital assets | 2,884 | 2,892 | 2,695 |
| Total voted expenses before recoveries | 120,562 | 1,118,032 | 118,811 |
| Less recovery from support service arrangements with related parties (a) | 80 | 88 | 85 |
| | \$ 120,482 | \$ 1,117,944 | \$ 118,726 |
| Statutory | | | |
| Internal Government Transfers to: | | | |
| Access to the Future Fund | \$ - | \$ 11,250 | \$ - |
| Alberta Heritage Foundation for Medical Research Endowment Fund | 200,000 | 200,000 | - |
| Alberta Heritage Savings Trust Fund to endow Access to the Future Fund | 250,000 | 750,000 | - |
| Alberta Heritage Scholarship Fund | - | 250,000 | - |
| Alberta Heritage Science and Engineering Research Endowment Fund | - | 100,000 | - |
| Farm credit stability program | 170 | 149 | 292 |
| Interest payments on corporate tax refunds | 20,000 | 12,888 | 27,358 |
| Pension liability funding | 74,700 | 71,846 | 71,045 |
| Debt servicing costs | 238,000 | 194,898 | 243,072 |
| Valuation adjustments (Schedule 6) | (12,000) | 39,539 | 5,944 |
| | \$ 770,870 | \$ 1,630,570 | \$ 347,711 |

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

DEPARTMENT OF FINANCE

BUDGET

Schedule 4

| | 2005-06 Estimates | Adjustments (a) | 2005-06 Budget | Authorized Supplementary Estimates (b) | 2005-06 Authorized Budget |
|--|----------------------|--------------------|---------------------|--|---------------------------------|
| | (\$ thousands) | | | | |
| Revenues | | | | | |
| Internal government transfers | \$ 565,813 | \$ - | \$ 565,813 | \$ - | \$ 565,813 |
| 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 |
| Investment income | 310,402 | - | 310,402 | - | 310,402 |
| Fees, permits and licences | 17,899 | - | 17,899 | - | 17,899 |
| Other | 21,948 | - | 21,948 | - | 21,948 |
| | 10,012,726 | - | 10,012,726 | - | 10,012,726 |
| Expenses - Directly Incurred | | | | | |
| Voted | | | | | |
| Ministry support services | 11,403 | - | 11,403 | - | 11,403 |
| Fiscal Planning and Financial Management | 35,371 | - | 35,371 | - | 35,371 |
| Investment, Treasury and Risk Management | 23,441 | - | 23,441 | - | 23,441 |
| Financial Sector and Pensions | 5,020 | - | 5,020 | - | 5,020 |
| Transfer to the Alberta Heritage Savings Trust Fund | - | - | - | 1,000,000 | 1,000,000 |
| Debt servicing costs - school construction | 45,247 | - | 45,247 | - | 45,247 |
| Dedicated revenue shortfall (Schedule 2) | - | (1,498) | (1,498) | - | (1,498) |
| | 120,482 | (1,498) | 118,984 | 1,000,000 | 1,118,984 |
| Statutory | | | | | |
| Transfer to the Alberta Heritage Foundation for Medical Research Endowment Fund | 200,000 | - | 200,000 | - | 200,000 |
| Transfer to the Alberta Heritage Savings Trust Fund to endow Access to the Future Fund | 250,000 | - | 250,000 | - | 250,000 |
| Farm credit stability program | 170 | - | 170 | - | 170 |
| Interest payments on corporate tax refunds | 20,000 | - | 20,000 | - | 20,000 |
| Pension liability funding | 74,700 | - | 74,700 | - | 74,700 |
| Debt servicing costs | 238,000 | - | 238,000 | - | 238,000 |
| Valuation adjustments (Schedule 6) | 1,000 | (13,000) | (12,000) | - | (12,000) |
| | 783,870 | (13,000) | 770,870 | - | 770,870 |
| | 904,352 | (14,498) | 889,854 | 1,000,000 | 1,889,854 |
| Net operating results | \$9,108,374 | \$ 14,498 | \$ 9,122,872 | \$ (1,000,000) | \$ 8,122,872 |
| Equipment/inventory purchases | \$ 2,899 | \$ - | \$ 2,899 | \$ - | \$ 2,899 |

a) Adjustments consist of \$1,498 for dedicated revenue shortfall and \$13,000 for pension provisions excluded from the Estimates.

b) Supplementary Estimates were approved on March 16, 2006.

DEPARTMENT OF FINANCE

COMPARISON OF EXPENSES, EQUIPMENT/INVENTORY PURCHASES AND DISBURSEMENTS BY ELEMENT TO AUTHORIZED BUDGET
Schedule 5

| | 2005-06 Budget | Authorized Supplementary Estimates (a) | 2005-06 Authorized Budget | 2005-06 Actual Expense (b) | Unexpended (Over Expended) |
|--|-------------------|--|---------------------------------|----------------------------------|----------------------------------|
| | (\$ thousands) | | | | |
| Voted Expenses and Equipment/ Inventory Purchases | | | | | |
| Program Ministry Support Services | | | | | |
| - Operating Expense | \$ 11,403 | \$ - | \$ 11,403 | \$ 11,282 | \$ 121 |
| - Equipment/Inventory Purchase | 150 | - | 150 | 311 | (161) |
| | 11,553 | - | 11,553 | 11,593 | (40) |
| Program - Fiscal Planning and Fiscal Management | | | | | |
| Tax and Revenue Administration | | | | | |
| - Operating Expense | 25,952 | - | 25,952 | 24,944 | 1,008 |
| - Equipment/Inventory Purchases | 1,159 | - | 1,159 | 1,721 | (562) |
| - Recovery of equipment purchases | - | - | - | (609) | 609 |
| Office of Budget and Management | | | | | |
| - Operating Expense | 9,419 | - | 9,419 | 8,641 | 778 |
| | 36,530 | - | 36,530 | 34,697 | 1,833 |
| Program - Investment, Treasury and Risk Management | | | | | |
| Investment Management | | | | | |
| - Operating Expense | 12,010 | - | 12,010 | 10,958 | 1,052 |
| Investment Administration | | | | | |
| - Operating Expense | 7,321 | - | 7,321 | 7,108 | 213 |
| - Equipment/Inventory Purchases | 1,560 | - | 1,560 | 1,372 | 188 |
| Internal Audit | | | | | |
| - Operating Expense | 500 | - | 500 | 330 | 170 |
| Treasury Management | | | | | |
| - Operating Expense | 2,333 | - | 2,333 | 2,032 | 301 |
| - Equipment/Inventory Purchases | 30 | - | 30 | - | 30 |
| Risk Management and Insurance | | | | | |
| - Operating Expense | 1,277 | - | 1,277 | 1,254 | 23 |
| | 25,031 | - | 25,031 | 23,054 | 1,977 |
| Program - Financial Sector and Pensions | | | | | |
| - Operating Expense | 5,020 | - | 5,020 | 6,159 | (1,139) |
| Program - Transfer to the Alberta Heritage Savings Trust Fund | | | | | |
| - Operating Expense | - | 1,000,000 | 1,000,000 | 1,000,000 | - |
| Debt Servicing | | | | | |
| Grants for School Construction | | | | | |
| Debenture Interest Payments | 45,247 | - | 45,247 | 45,236 | 11 |
| | 123,381 | 1,000,000 | 1,123,381 | 1,120,739 | 2,642 |
| Dedicated Revenue Shortfall (Schedule 2) | (1,498) | - | (1,498) | - | (1,498) |
| | 121,883 | 1,000,000 | 1,121,883 | 1,120,739 | 1,144 |
| Summary | | | | | |
| Program Operating Expense | \$ 118,984 | \$ 1,000,000 | \$ 1,118,984 | \$ 1,117,944 | \$ 1,040 |
| Equipment/Inventory Purchases | 2,899 | - | 2,899 | 3,404 | (505) |
| Recovery for equipment purchases | - | - | - | (609) | 609 |
| | \$ 121,883 | \$ 1,000,000 | \$ 1,121,883 | \$ 1,120,739 | \$ 1,144 |

DEPARTMENT OF FINANCE

**COMPARISON OF EXPENSES, EQUIPMENT/INVENTORY
PURCHASES AND DISBURSEMENTS BY ELEMENT TO
AUTHORIZED BUDGET**

Schedule 5 (cont'd)

| | 2005-06 Budget | Authorized Supplementary Estimates (a) | 2005-06 Authorized Budget | 2005-06 Actual Expense (b) | Unexpended (Over Expended) |
|--|-------------------|--|---------------------------------|----------------------------------|----------------------------------|
| | (\$ thousands) | | | | |
| Statutory Expenses | | | | | |
| Internal Government Transfers to: | | | | | |
| Access to the Future Fund | \$ - | \$ - | \$ - | \$ 11,250 | \$ (11,250) |
| Alberta Heritage Foundation for Medical Research Endowment Fund | 200,000 | - | 200,000 | 200,000 | - |
| Alberta Heritage Savings Trust Fund to endow Access to the Future Fund | 250,000 | - | 250,000 | 750,000 | (500,000) |
| Alberta Heritage Scholarship Fund | - | - | - | 250,000 | (250,000) |
| Alberta Heritage Science and Engineering Research Endowment Fund | - | - | - | 100,000 | (100,000) |
| Farm credit stability program | 170 | - | 170 | 149 | 21 |
| Interest payments on corporate tax refunds | 20,000 | - | 20,000 | 12,888 | 7,112 |
| Pension liability funding | 74,700 | - | 74,700 | 71,846 | 2,854 |
| Debt servicing costs | 238,000 | - | 238,000 | 194,898 | 43,102 |
| Valuation adjustments (Schedule 6) | (12,000) | - | (12,000) | 39,539 | (51,539) |
| | \$ 770,870 | \$ - | \$ 770,870 | \$ 1,630,570 | \$ (859,700) |
| Voted Non-Budgetary Disbursements | | | | | |
| Grants for school construction debenture principal repayment | \$ 69,651 | \$ - | \$ 69,651 | \$ 69,551 | \$ 100 |

a) Supplementary Estimates were approved in March 2006.

b) Includes achievement bonus of \$3,228.

VALUATION ADJUSTMENTS

Schedule 6

| | 2006 | | 2005 |
|---|--------------------|------------------|-----------------|
| | Budget | Actual | 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 |

DEPARTMENT OF FINANCE

SALARY AND BENEFITS DISCLOSURE

Schedule 7

| | 2006 | | | | 2005 |
|---|--------------------|-------------------------------|-----------------------------------|------------|------------|
| | Base Salary (1) | Other Cash Benefits (2) | Other Non-Cash Benefits (3) | Total | Total |
| Senior Officials | | | | | |
| Deputy Minister of Finance ⁽⁴⁾ | \$ 191,777 | \$ 65,962 | \$ 40,866 | \$ 298,605 | \$ 313,550 |
| Controller/Acting Controller ⁽⁴⁾⁽⁵⁾⁽⁶⁾ | 150,321 | 14,525 | 33,671 | 198,517 | 174,586 |
| Executives | | | | | |
| Assistant Deputy Minister - Pensions, Insurance and Financial Institutions | 148,584 | 63,343 | 33,018 | 244,945 | 197,724 |
| Assistant Deputy Minister - Revenue ⁽⁵⁾ | 100,191 | 31,785 | 22,410 | 154,386 | 181,510 |
| Chief Investment Officer ⁽⁷⁾ | 257,564 | 211,147 | 50,942 | 519,653 | 444,130 |
| Chief Administrative Officer | 148,588 | 22,337 | 33,757 | 204,682 | 190,897 |
| Executive Director, Treasury Management | 148,584 | 22,337 | 33,304 | 204,225 | 180,132 |
| Director, Human Resources | 123,464 | 18,287 | 28,690 | 170,441 | 152,784 |
| Executive Director, Strategic and Business Services | 123,464 | 18,287 | 28,645 | 170,396 | 153,911 |

- 1) Base salary includes regular base pay.
- 2) Other cash benefits include bonuses, vacation payouts and lump sum payments.
- 3) Other non-cash benefits include the government's share of all employee benefits and contributions or payments made on behalf of employees including pensions, health care, dental coverage, group life insurance, short and long term disability plans, professional memberships and tuition fees.
- 4) Automobile provided, no dollar amount included in other non-cash benefits.
- 5) The position was occupied by two individuals during the year.
- 6) Acting Controller occupied position starting February 27, 2006.
- 7) Base salary includes regular base pay and market modifier.

CASH AND TEMPORARY INVESTMENTS

Schedule 8

| | 2006 | 2005 |
|--|---------------------|---------------------|
| | (\$ thousands) | |
| Fixed-income securities (a) | | |
| Corporate | \$ 2,658,641 | \$ 1,439,061 |
| Provincial, direct and guaranteed | 261,141 | 129,585 |
| Alberta, guaranteed | 9,952 | - |
| Government of Canada, direct and guaranteed | - | 144,666 |
| | 2,929,734 | 1,713,312 |
| Deposit in Consolidated Cash Investment Trust Fund (b) | 1,922,301 | 948,606 |
| Cash in bank and in transit | 172,473 | 784,238 |
| | \$ 5,024,508 | \$ 3,446,156 |

- a) Fixed-income securities have an average effective yield of 3.9% (2005 2.7%) per annum. All of the securities have terms to maturity of less than one year (2005 less than one year).
- b) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term-to-maturity of three years. As at March 31, 2006, securities held by the Fund have an average effective market yield of 3.96% per annum (2005: 2.79%). 86% of the securities in the Fund mature within one year (2005: 84%).

DEPARTMENT OF FINANCE

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE

Schedule 9

| | 2006 | 2005 |
|--|-------------------|-------------------|
| | (\$ thousands) | |
| Personal income tax | \$ 385,506 | \$ 265,486 |
| Lottery Fund | 106,128 | 68,422 |
| Accrued interest receivable | 93,736 | 77,007 |
| Alberta Treasury Branches | 86,814 | 81,503 |
| Alberta Heritage Savings Trust Fund | 77,684 | 62,388 |
| Fuel tax | 61,056 | 62,529 |
| Insurance corporations tax | 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 |
| Other | 3,137 | 5,757 |
| Financial institutions capital tax | 2,176 | 1,965 |
| Swap accruals | 535 | 16,403 |
| Corporate income tax | - | 37,275 |
| | 909,481 | 778,974 |
| Less allowance for doubtful accounts | 2,009 | 3,466 |
| | <u>\$ 907,472</u> | <u>\$ 775,508</u> |

PORTFOLIO INVESTMENTS

Schedule 10

| | 2006 | | 2005 | |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Book Value | Fair Value | Book Value | Fair Value |
| | (\$ thousands) | | | |
| Fixed-income securities (a) | | | | |
| Corporate | \$ 4,631,375 | \$ 4,611,026 | \$ 3,360,124 | \$ 3,356,610 |
| Provincial, direct and guaranteed | 2,613,542 | 2,609,756 | 2,218,264 | 2,227,197 |
| Government of Canada, | | | | |
| direct and guaranteed | 1,277,043 | 1,272,175 | 535,086 | 535,649 |
| Municipal | 149,194 | 148,532 | 71,639 | 71,617 |
| | <u>\$ 8,671,154</u> | <u>\$ 8,641,489</u> | <u>\$ 6,185,113</u> | <u>\$ 6,191,073</u> |

- a) The Department's fixed-income securities are held to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, disasters and natural gas rebates. The securities held have an average effective market yield of 4.2% (2005 3.4%) per annum and 41% (2005 47%) of the securities have terms to maturity of less than one year.

DEPARTMENT OF FINANCE

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

Schedule 11

| | 2006 | 2005 |
|--|---------------------|---------------------|
| | (\$ thousands) | |
| Agriculture Financial Services Corporation | \$ 884,358 | \$ 899,750 |
| Alberta Social Housing Corporation | 261,657 | 312,944 |
| Public Trustee | 224 | 224 |
| | <u>\$ 1,146,239</u> | <u>\$ 1,212,918</u> |

OTHER LOANS, ADVANCES AND INVESTMENTS

Schedule 12

| | 2006 | 2005 |
|---|------------------|------------------|
| | (\$ thousands) | |
| Loans and advances | | |
| 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 |
| Judgement debts | 11 | 47 |
| Accountable advances | 29 | 21 |
| | <u>9,726</u> | <u>17,222</u> |
| Less allowance for doubtful loans and advances | 149 | 191 |
| | <u>9,577</u> | <u>17,031</u> |
| Investments | | |
| N.A. Properties (1994) Ltd. | 1,779 | 1,623 |
| Alberta Capital Finance Authority | 45 | 45 |
| | <u>1,824</u> | <u>1,668</u> |
| | <u>\$ 11,401</u> | <u>\$ 18,699</u> |

TANGIBLE CAPITAL ASSETS

Schedule 13

| | Estimated Useful Life | 2006 | | | 2005 |
|--------------------------------|-----------------------|-----------|--------------------------|----------------|----------------|
| | | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| (\$ thousands) | | | | | |
| Computer hardware and software | 5 years | \$ 24,650 | \$ 15,285 | \$ 9,365 | \$ 8,853 |

DEPARTMENT OF FINANCE

ACCOUNTS AND ACCRUED INTEREST PAYABLE**Schedule 14**

| | 2006 | 2005 |
|---|-------------------|-------------------|
| | (\$ thousands) | |
| Corporate income tax receipts in abeyance | \$ 366,662 | \$ 364,942 |
| Corporate income tax refunds payable | 263,842 | - |
| Accrued interest on unmatured debt | 31,537 | 61,889 |
| Other | 81,428 | 71,174 |
| | <u>\$ 743,469</u> | <u>\$ 498,005</u> |

UNMATURED DEBT**Schedule 15**

| | 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 |
| | 6.35 | 3.58 | \$2,538,496 | \$2,789,760 | \$ 3,722,250 | \$ 4,037,293 |

- a) Book value represents the amount the Department owes. Fair value is an approximation of market value to the holder. The book value, fair value and weighted average effective rate include the effect of interest rate and currency rate swaps. For non-marketable issues, the effective rate and fair value are determined by reference to yield curves for comparable quoted issues.
- b) 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.

DEPARTMENT OF FINANCE

UMATURED DEBT**Schedule 15 (cont'd)**

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 | <u>1,007,175</u> |
| | 2,545,199 |
| Unamortized discount | <u>(6,703)</u> |
| | <u><u>\$ 2,538,496</u></u> |

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

Derivative Financial Instruments

The Department uses interest rate swaps contracts to manage the interest rate risk associated with unmatured debt. Associated with these instruments are credit risks that could expose the Department 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. The Department minimizes its credit risk associated with these contracts by dealing with only the most 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, 2006, interest rate swap agreements were being used primarily to convert fixed interest rate payments to floating rates.

The following table summarizes the Department's derivative portfolio. Notional amount represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The notional amounts are not recorded in the financial statements. The fair value of interest rate swaps are based on discounted cash flows using current market yields and exchange rates.

| | 2006 | | 2005 | |
|------------------------------------|---------------------|-----------------|-------------------|------------------|
| | Notional Amount (1) | 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 |
| | <u>\$ 275,000</u> | <u>\$ 7,303</u> | <u>\$ 998,905</u> | <u>\$ 39,400</u> |

(1) Maturing 2007-08: \$25,000 and 2008-09 \$250,000.

DEPARTMENT OF FINANCE

PENSION OBLIGATIONS

Schedule 16

The Department's pension obligations are 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 (c) | 29,046 | 12,349 |
| Public Service Pension Plan (c) | 1,543 | 8,181 |
| | <u>757,926</u> | <u>723,574</u> |
| Obligations to pension plans for employees of organizations outside the government reporting entity | | |
| Universities Academic Pension Plan (d) | 190,291 | 184,760 |
| Special Forces Pension Plan (d) | 63,092 | 62,899 |
| | <u>253,383</u> | <u>247,659</u> |
| | <u>\$ 1,011,309</u> | <u>\$ 971,233</u> |

- a) 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 Department.
- b) The Department 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.
- c) The Department is the sponsor of two multi-employer defined benefit pension plans on behalf of the Government of Alberta. The two plans are the Management Employees Pension Plan (MEPP) and the Public Service Pension Plan (PSPP). As sponsor of the Plans, the Department records the Government's share of the employer's estimated accrued benefit liability. No obligation is recorded where there is an accrued benefit asset.
- For Management Employees, the unfunded liability as determined by actuarial fund valuations as at December 31, 2001 and 2004 is being financed by special payments totaling 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.
 - 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. Current services costs are funded by employers and employees.
- d) Under the *Public Sector Pension Plans Act*, the Department 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 the 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% of pensionable salaries by the Department, 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. Employers and employees fund current service costs.

DEPARTMENT OF FINANCE

PENSION OBLIGATIONS**Schedule 16 (cont'd)**

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

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

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 of Return % | Inflation Rate % | Investment Rate of Return % |
|---|-----------------------------|---|-----------------------------|--|
| Public Service Management (Closed Membership) Pension Plan (1) (2) | December 31, 2002 | 3.00 | 3.00 | 6.00 |
| Members of the Legislative Assembly Pension Plan (1) | March 31, 2003 | 3.00 | 3.00 | 6.00 |
| Management Employees Pension Plan | December 31, 2004 | 4.00 | 2.75 | 6.75 |
| Public Service Pension Plan (2) | December 31, 2002 | 3.75 | 3.25 | 7.00 |
| Universities Academic Pension Plan | December 31, 2004 | 4.00 | 2.75 | 6.75 |
| Special Forces Pension Plan | December 31, 2004 | 3.75 | 3.25 | 7.00 |

- 1) The inflation rate and investment rate of return used in extrapolation as at March 31, 2006 were 2.75% and 5.0% respectively.
- 2) As required by the *Public Service Pensions Plan Act*, an actuarial funding valuation as at December 31, 2005 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and the extrapolation results as reported in these financial statements will be accounted for in 2006-07.

These actuarial valuations indicated a deficiency of net assets over actuarial present value of accrued benefits. Including net deferred losses of \$99,426 (2005 \$354,932), 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.

DEPARTMENT OF FINANCE

OTHER ACCRUED LIABILITIES

Schedule 17

| | 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 19) | 470 | 2,550 |
| Vacation entitlements | 5,048 | 4,385 |
| Other | 395 | 332 |
| | <u>\$ 387,020</u> | <u>\$ 457,924</u> |

GUARANTEED DEBT OF GOVERNMENT ENTITIES

Schedule 18

| | Held by: | | | | Total 2006 | Total 2005 |
|---------------------------------------|--------------------------|--|----------------------|----------------------|----------------------|---------------|
| | Department of Finance | Alberta Heritage Savings Trust Fund | Others | Total | | |
| | (\$ thousands) | | | | | |
| Debentures | | | | | | |
| Alberta Capital Finance Authority | \$ - | \$ - | \$ 4,655,963 | \$ 4,655,963 | \$ 4,267,567 | |
| Alberta Social Housing Corporation | 261,657 | 80,927 | 78,512 | 421,096 | 480,938 | |
| | 261,657 | 80,927 | 4,734,475 | 5,077,059 | 4,748,505 | |
| Deposits | | | | | | |
| Alberta Treasury Branches | 1,315 | - | 15,870,308 | 15,871,623 | 13,840,032 | |
| | <u>\$ 262,972</u> | <u>\$ 80,927</u> | <u>\$ 20,604,783</u> | <u>\$ 20,948,682</u> | <u>\$ 18,588,537</u> | |

Guarantees include principal borrowings only and exclude guaranteed interest, the amount of which is not determinable.

The net asset position from the most recent financial statements of government entities with guaranteed liabilities are reported below.

| Entity | Date | Position | 2006 | 2005 |
|------------------------------------|-------------------|----------------------|--------------|--------------|
| Alberta Capital Finance Authority | December 31, 2005 | Shareholders' Equity | \$ 11,737 | \$ 12,728 |
| Alberta Social Housing Corporation | March 31, 2006 | Surplus | \$ 401,858 | \$ 371,674 |
| Alberta Treasury Branches | March 31, 2006 | Equity | \$ 1,348,995 | \$ 1,150,274 |

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OTHER GUARANTEES (a)**Schedule 19**

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

RELATED PARTY TRANSACTIONS**Schedule 20**

Related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements. Related parties also include management in the Department.

As explained in Note 2(A), the Department is responsible for managing all departments' cash transactions. As a result, the Department engages in transactions with its own funds and agencies and with all other departments and their funds and agencies in the normal course of operations.

The Deputy Minister of Finance is a director of the Alberta Pensions Administration Corporation and the Alberta Capital Finance Authority. Alberta Pensions Administration Corporation is wholly owned and Alberta Capital Finance Authority is 70% owned by the Government of Alberta, through the Department. The Deputy Minister of Finance did not receive any benefit during the year, in cash or in kind, as a result of these directorships.

The investment in Alberta Capital Finance Authority is recorded at cost (see Schedule 12) because the Corporation has the power to pay its retained earnings, which amounted to \$11,673,000 at December 31, 2005 (2004 \$12,664,000), to municipal and other shareholders, which have borrowed money from the Corporation. During the 2005-06 fiscal year, the Department paid \$114,787,000 (2005 \$127,980,000) to the Corporation by way of grants to school boards to satisfy their interest and principal repayment obligations in respect of school board debentures. The investment in Alberta Pensions Administration Corporation is not significant, either on a cost or on an equity basis.

The Department and its employees paid or collected certain taxes and fees set by regulation for permits, licenses 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.

DEPARTMENT OF FINANCE

RELATED PARTY TRANSACTIONS

Schedule 20 (cont'd)

The Department had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties.

| | Entities in the Ministry | | Other Entities | |
|---------------------------------------|--------------------------|---------------------|-------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 |
| | (\$ thousands) | | | |
| Revenues | | | | |
| Transfers | \$ 1,015,296 | \$ 1,091,903 | \$ 291,128 | \$ 154,748 |
| Interest | 3,424 | 3,937 | 65,559 | 65,435 |
| Charges for services | 19,634 | 19,961 | 231 | 45 |
| | <u>\$ 1,038,354</u> | <u>\$ 1,115,801</u> | <u>\$ 356,918</u> | <u>\$ 220,228</u> |
| Expenses | | | | |
| Cost of services | \$ 2,311,349 | \$ 73 | \$ 6,181 | \$ 6,106 |
| Assets | | | | |
| Accounts receivable | \$ 164,931 | \$ 144,361 | \$ 106,127 | \$ 68,439 |
| Accrued interest receivable | 857 | 1,695 | 13,593 | 11,812 |
| Loans, advances and investments | 1,824 | 1,668 | 1,146,014 | 1,212,694 |
| | <u>167,612</u> | <u>147,724</u> | <u>1,265,734</u> | <u>1,292,945</u> |
| Liabilities | | | | |
| Accounts and accrued interest payable | 12 | \$ 327 | \$ - | \$ - |
| School Construction Debentures | - | - | 381,107 | 450,657 |
| | <u>\$ 12</u> | <u>\$ 327</u> | <u>\$ 381,107</u> | <u>\$ 450,657</u> |

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

The Department 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 but are disclosed in Schedule 21.

| | Other Entities | |
|--------------------------------------|-----------------|-----------------|
| | 2006 | 2005 |
| | (\$ thousands) | |
| Expenses - incurred by others | | |
| Accommodation | \$ 3,369 | \$ 2,965 |
| Air Travel | 8 | - |
| Legal services | 2,123 | 2,059 |
| | <u>\$ 5,500</u> | <u>\$ 5,024</u> |

