

# Ministry of Finance

## Consolidated Financial Statements

### Year ended March 31, 2003

	Page
Auditor's Report .....	56
Consolidated Statement of Operations .....	57
Consolidated Statement of Financial Position .....	58
Consolidated Statement of Changes in Financial Position .....	59
Notes to the Consolidated Financial Statements .....	60
Schedules to the Consolidated Financial Statements	
1 Revenues .....	67
2 Budget .....	68
3 Expenses by Object .....	69
4 Valuation Adjustments .....	69
5 Cash and Temporary Investments .....	70
6 Accrued Interest and Accounts Receivable .....	70
7 Portfolio Investments .....	71
8 Equity in Commercial Enterprises .....	72
9 Loans and Advances to Government Entities .....	73
10 Other Loans and Advances .....	73
11 Capital Assets .....	74
12 Accrued Interest and Accounts Payable .....	74
13 Unmatured Debt .....	75
14 Debt and Equity of Alberta Municipal Financing Corporation .....	77
15 Pension Obligations .....	78
16 Other Accrued Liabilities .....	80
17 Guarantees .....	80
18 Related Party Transactions .....	81



## 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, 2003 and the consolidated statements of operations and changes in financial position 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.

Alberta Finance establishes the corporate government accounting policies and reporting practices including the following policy that is an exception from Canadian generally accepted accounting principles. Capital assets costing less than \$15,000 have been expensed in the year acquired and have not been recognized as an asset in the accompanying consolidated statement of financial position. The effect of this is that capital assets are understated by approximately \$1,894,000 as at March 31, 2003 and expenses are overstated by approximately \$104,000 for the year ended March 31, 2003.

In my opinion, except for the effects of the matter discussed in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Ministry as at March 31, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA  
Auditor General

Edmonton, Alberta  
May 23, 2003

## Consolidated Statement of Operations

YEAR ENDED MARCH 31, 2003

	<i>In thousands</i>		
	2003		2002
	Budget (Schedule 2)	Actual	Actual
<b>Revenues</b> (Schedule 1)			
Internal government transfers	\$ 319,830	\$ 280,243	\$ 153,376
Taxes	400	1,702	1,014
Transfers from Government of Canada	4,030	4,055	4,434
Investment income	498,339	528,710	569,177
Net income from commercial operations	121,722	224,899	165,510
Fees, permits and licences	21,753	19,406	18,401
Other	123,038	126,144	20,955
	<u>1,089,112</u>	<u>1,185,159</u>	<u>932,867</u>
<b>Expenses</b> (Schedule 3)			
Treasury management	71,009	72,132	71,060
Public sector pension policy and administration	21,532	23,343	16,631
Fiscal planning and accountability	8,276	7,735	7,160
Ministry support services	4,912	5,272	4,336
Financial sector operations	4,425	4,483	3,822
Valuation adjustments (Schedule 4)	(6,650)	81,004	(42,581)
Debt servicing costs			
General government	506,000	397,429	687,081
Local authorities	331,287	331,257	339,634
School boards	70,706	70,675	80,463
	<u>1,011,497</u>	<u>993,330</u>	<u>1,167,606</u>
<b>Net operating results</b>	<u>\$ 77,615</u>	<u>\$ 191,829</u>	<u>\$ (234,739)</u>

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

## Consolidated Statement of Financial Position

MARCH 31, 2003

	<i>In thousands</i>	
	2003	2002
<b>Assets</b>		
Cash and temporary investments (Schedule 5)	\$ 774,387	\$ 1,461,187
Accrued interest and accounts receivable (Schedule 6)	336,797	319,451
Portfolio investments (Schedule 7)	2,780,340	2,777,051
Equity in commercial enterprises (Schedule 8)	964,095	723,211
Loans and advances to government entities (Schedule 9)	1,346,036	1,249,518
Other loans and advances (Schedule 10)	3,876,528	3,769,647
Capital assets (Schedule 11)	8,726	5,494
	<u>\$ 10,086,909</u>	<u>\$ 10,305,559</u>
<b>Liabilities</b>		
Bank overdraft	\$ 777,775	\$ 1,016,212
Accrued interest and accounts payable (Schedule 12)	369,158	572,382
Unmatured debt (Schedule 13)	6,811,591	8,382,503
Debt of Alberta Municipal Financing Corporation (Schedule 14)	3,671,081	3,430,816
Pension obligations (Schedule 15)	962,247	880,898
Other accrued liabilities (Schedule 16)	614,677	782,168
Equity of Alberta Municipal Financing Corporation (Schedule 14)	27,641	127,958
	<u>13,234,170</u>	<u>15,192,937</u>
<b>Net Liabilities</b>		
Net liabilities at beginning of year	(4,887,378)	(8,670,041)
Net operating results	191,829	(234,739)
Net transfer from general revenues	1,548,288	4,017,402
Net liabilities at end of year	<u>(3,147,261)</u>	<u>(4,887,378)</u>
	<u>\$ 10,086,909</u>	<u>\$ 10,305,559</u>

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

## Consolidated Statement of Changes in Financial Position

YEAR ENDED MARCH 31, 2003

	<i>In thousands</i>	
	2003	2002
<b>Operating activities</b>		
Net operating results	\$ 191,829	\$ (234,739)
Non-cash items included in net operating results	(162,430)	(97,684)
	29,399	(332,423)
Decrease in equity of Alberta Municipal Financing Corporation	(100,317)	(10,783)
Other	(241,729)	54,095
Cash used for operating activities	(312,647)	(289,111)
<b>Investing activities</b>		
Proceeds from disposals, repayments and redemptions of portfolio investments	5,561,857	4,364,365
Portfolio investments purchased	(5,573,527)	(5,095,962)
Repayment of loans and advances	454,443	491,264
Loans and advances made	(638,668)	(744,506)
Other	(4,422)	(4,042)
Cash used for investing activities	(200,317)	(988,881)
<b>Financing activities</b>		
Debt issues	11,777,394	7,316,677
Debt retirement	(13,093,943)	(9,006,546)
Grants for school construction debenture principal repayment	(167,138)	(95,382)
Net transfer from general revenues	1,548,288	4,017,402
Cash provided by financing activities	64,601	2,232,151
<b>Net cash (used) provided</b>	(448,363)	954,159
<b>Cash and temporary investments, net of bank overdraft, at beginning of year</b>	444,975	(509,184)
<b>Bank overdraft, net of cash and temporary investments, at end of year</b>	\$ (3,388)	\$ 444,975

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

## Notes to the 2002-03 Ministry of Finance Consolidated Financial Statements

### 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
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 Insurance Council	Insurance Act, Chapter I-3, Revised Statutes of Alberta 2000
Alberta Municipal Financing Corporation	Alberta Municipal Financing Corporation Act, Chapter A-27, Revised Statutes of Alberta 2000
Alberta Pensions Administration Corporation	Incorporated under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000
The Alberta Government Telephones Commission and its subsidiaries	Telecommunications Act, Chapter T-3.5, Statutes of Alberta 1988
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
S C Financial Ltd.	Incorporated under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000, as a wholly owned company of the Credit Union Deposit Guarantee Corporation. The company ceased operations on October 31, 2002 and was dissolved in March 2003.
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 to:

- a) Establish the fiscal framework and facilitate sound fiscal planning and decision-making,
- b) Foster an effective accountability framework,
- c) Manage financial assets and liabilities prudently,
- d) Foster access to comprehensive and competitive financial products and services and pension plans, and
- e) Administer the regulatory framework to reduce the risk of financial loss to pension plan members, depositors and policyholders.

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

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

**A) METHOD OF CONSOLIDATION**

The accounts of the Department, Provincial Judges and Masters in Chambers Reserve Fund, Supplementary Retirement Plan Reserve Fund, Alberta Insurance Council, Alberta Municipal Financing Corporation, and Alberta Pensions Administration Corporation are consolidated after adjusting them to a basis consistent with the accounting policies described below in (b). Intra-ministry transactions (revenues, expenses, investing and financing transactions, and related asset and liability accounts) have been eliminated.

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

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, 2003 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.

**NOTE 3** (continued)**Expenses**

Expenses represent the cost of resources consumed during the year on Ministry operations. Expenses include amortization of capital assets.

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.

**Assets**

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

Portfolio investments are carried at cost. 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 discounts and allowance for credit loss. Discounts recorded as the result of interest rate reductions given on loans to local authorities are amortized to investment income over the term of the loans. 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. 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.

**Liabilities**

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

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



**NOTE 3** (continued)

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

**Foreign Currency**

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

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

Exchange gains and losses that arise on translation of fixed term foreign currency denominated monetary items are deferred. 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 provisions for pensions and loans and advances. The nature of the uncertainty in these items arises from several factors such as the effect on accrued pension obligations of actual experience compared to assumptions, and the effect on loans and advances of actual collectibility and changes in economic conditions. 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.

The fair values of cash and temporary investments, accrued interest, receivables, bank overdraft, payables and accrued liabilities are estimated to approximate their book values.

**NOTE 4** (continued)

Public fixed-income securities 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 and debt held by Alberta Municipal Financing Corporation is an approximation of its fair value to the holder.

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

**NOTE 5 RISK MANAGEMENT****A) LIABILITY MANAGEMENT**

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

The Ministry decided in February 2001, 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**

All of the Ministry's portfolio investments are held by the Department. Portfolio investments of the Department are used to repay debt as it matures and to provide funding for the capital plan.

**NOTE 6 COMMITMENTS**  
*(in thousands)*

Commitments to outside organizations in respect of contracts entered into before March 31, 2003 amounted to \$126,064 (2002 \$126,766). 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:

2003-04	\$	23,377
2004-05		18,288
2005-06		17,584
2006-07		16,486
2007-08		15,156
Thereafter		35,173
	\$	126,064

**NOTE 7 CONTINGENCIES**  
(in thousands)

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

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

**A) INDEMNITIES AND GUARANTEES**

The Province's indemnity to fund interest to the extent necessary on \$335,000 of debentures issued by S C Financial Ltd. to credit unions in exchange for stabilization preferred shares of the credit unions expired on October 31, 2002.

Guarantees at March 31, 2003 amounting to \$43,150 (2002 \$73,518) 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) CONTINGENCIES OF COMMERCIAL ENTERPRISES**

The Credit Union Deposit Guarantee Corporation has a potential liability under guarantees relating to deposits of credit unions. At December 31, 2002, credit unions in Alberta held deposits totalling \$7,583,130 (2001 \$6,941,026), and had assets in excess of deposits.

At March 31, 2003, Alberta Treasury Branches had a potential liability under guarantees and letters of credit amounting to \$101,211 (2002 \$443,770).

N.A. Properties (1994) Ltd. has provided guarantees of principal and interest on mortgages sold to Canadian Western Bank. The principal and interest on these mortgages totalled \$3,053 at March 31, 2003 (2002 \$7,348).

**C) LEGAL ACTIONS**

At March 31, 2003, the Ministry is a defendant in various legal actions. The total claimed in specific legal actions amounts to approximately \$55,807 (2002 \$279,396). The resulting loss, if any, from these claims cannot be determined.

**NOTE 8 TRUST FUNDS UNDER ADMINISTRATION**  
(in thousands)

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

**NOTE 8** (continued)

As at March 31, 2003, trust funds under administration were as follows:

	<b>2003</b>	<b>2002</b>
Local Authorities Pension Plan Fund	\$ 8,049,940	\$ 9,058,058
Public Service Pension Plan Fund	3,400,249	3,864,447
Universities Academic Pension Plan Fund	1,446,909	1,697,905
Management Employees Pension Plan Fund	1,329,315	1,490,696
Special Forces Pension Plan Fund	894,183	1,020,063
Regional Health Authorities and various health institutions construction accounts	419,765	511,871
Other	113,797	93,632
	<u>\$ 15,654,158</u>	<u>\$ 17,736,672</u>

**NOTE 9 DEFINED BENEFIT PLANS**  
(in 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 \$1,520 for the year ended March 31, 2003 (2002 \$1,331).

At December 31, 2002, the Management Employees Pension Plan reported a deficiency of \$301,968 (2001 surplus of \$5,338) and the Public Service Pension Plan reported an actuarial deficiency of \$175,528 (2001 actuarial surplus of \$320,487). At December 31, 2002, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of \$6,472 (2001 actuarial deficiency of \$399).

The Ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2003, the Bargaining Unit Plan reported an actuarial deficiency of \$14,434 (2002 \$8,646) and the Management, Opted Out and Excluded Plan an actuarial deficiency of \$3,053 (2002 \$2,656). The expense for these two plans is limited to employer's annual contributions for the year.

**NOTE 10 COMPARATIVE FIGURES**

Certain 2002 figures have been reclassified to conform to 2003 presentation.

**NOTE 11 APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved by the Corporate Secretary and the Deputy Minister of Finance.

## Schedules to the 2002-03 Ministry of Finance Consolidated Financial Statements

**REVENUES****Schedule 1**

	<i>In thousands</i>		
	<b>2003</b>		<b>2002</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
Internal government transfers			
Lottery Fund	\$ 319,830	\$ 280,243	\$ 153,376
Taxes			
Special broker tax	400	1,702	1,014
Transfers from Government of Canada			
Unconditional subsidy	4,030	4,055	4,434
Investment income			
Farm credit stability program	6,800	6,139	11,251
Other	491,539	522,571	557,926
	<u>498,339</u>	<u>528,710</u>	<u>569,177</u>
Net income from commercial operations			
Alberta Treasury Branches	117,000	198,904	157,926
The Alberta Government Telephones Commission	-	19,549	186
Other	4,722	6,446	7,398
	<u>121,722</u>	<u>224,899</u>	<u>165,510</u>
Fees, permits and licences			
Deposit guarantee fee	18,206	15,988	15,234
Insurance companies, agents and brokers	2,205	2,093	1,891
Other	1,342	1,325	1,276
	<u>21,753</u>	<u>19,406</u>	<u>18,401</u>
Other			
Transfer from Alberta Municipal Financing Corporation	100,000	100,000	-
Sale of assets	-	3	6
Refunds of expenditure	550	275	2,070
Miscellaneous	22,488	25,866	18,879
	<u>123,038</u>	<u>126,144</u>	<u>20,955</u>
	<u>\$ 1,089,112</u>	<u>\$ 1,185,159</u>	<u>\$ 932,867</u>

**BUDGET****Schedule 2**

	<i>In thousands</i>		
	<b>2002-03 Estimates</b>	<b>Adjustments (a)</b>	<b>2002-03 Budget</b>
<b>Revenues</b>			
Internal government transfers	\$ 319,830	\$ -	\$ 319,830
Other taxes	400	-	400
Transfers from Government of Canada	4,030	-	4,030
Investment income	498,339	-	498,339
Net income from commercial operations	121,722	-	121,722
Fees, permits and licences	21,753	-	21,753
Other	123,038	-	123,038
	<u>1,089,112</u>	<u>-</u>	<u>1,089,112</u>
<b>Expenses</b>			
Treasury management	71,009	-	71,009
Public sector pension policy and administration	21,532	-	21,532
Fiscal planning and accountability	8,276	-	8,276
Ministry support services	4,912	-	4,912
Financial sector operations	4,425	-	4,425
Valuation adjustments	350	(7,000)	(6,650)
Debt servicing costs			
General government	506,000	-	506,000
Local authorities	331,287	-	331,287
School boards	70,706	-	70,706
	<u>1,018,497</u>	<u>(7,000)</u>	<u>1,011,497</u>
<b>Net operating results</b>	<u>\$ 70,615</u>	<u>\$ 7,000</u>	<u>\$ 77,615</u>

a) Adjustments consist of \$7,000 for pension provisions excluded from the Estimates.

**EXPENSES BY OBJECT**

**Schedule 3**

	<i>In thousands</i>		
	<b>2003</b>		<b>2002</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
Salaries, wages and employee benefits	\$ 23,497	\$ 24,904	\$ 20,317
Supplies and services	19,471	19,946	15,559
Grants	70,706	70,675	80,463
Interest and amortization of unrealized exchange gains and losses	837,287	727,899	1,026,028
Pension liability funding	66,840	68,255	67,216
Other financial transactions	2,093	1,922	2,343
Amortization of capital assets	844	1,190	697
Valuation adjustments	(6,650)	81,004	(42,581)
	<u>1,014,088</u>	<u>995,795</u>	<u>1,170,042</u>
Less recovery from support service arrangements with related parties (a)	2,591	2,465	2,436
	<u>\$ 1,011,497</u>	<u>\$ 993,330</u>	<u>\$ 1,167,606</u>

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

**VALUATION ADJUSTMENTS**

**Schedule 4**

	<i>In thousands</i>		
	<b>2003</b>		<b>2002</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
Pension provisions	\$ (7,000)	\$ 81,349	\$ (9,560)
Provision for employee benefits other than pensions	-	288	97
Provision for doubtful accounts and loans	-	(27)	(36)
Provision for guarantees and indemnities	350	(606)	(33,082)
	<u>\$ (6,650)</u>	<u>\$ 81,004</u>	<u>\$ (42,581)</u>

**CASH AND TEMPORARY INVESTMENTS****Schedule 5**

	<i>In thousands</i>	
	<b>2003</b>	<b>2002</b>
Fixed-income securities		
Corporate (a)	\$ 574,360	\$ 1,263,876
Deposit in the Consolidated Cash Investment Trust Fund	172,615	184,225
Cash in bank and in transit	27,412	13,086
	<u>\$ 774,387</u>	<u>\$ 1,461,187</u>

- a) At March 31, 2003, fixed-income securities held have an average effective market yield of 3.0% (2002 2.8%) per annum. All of the securities have terms to maturity of less than three years (2002 less than two years).

**ACCRUED INTEREST AND ACCOUNTS RECEIVABLE****Schedule 6**

	<i>In thousands</i>	
	<b>2003</b>	<b>2002</b>
Accrued interest receivable	\$ 212,792	\$ 230,191
Lottery Fund	72,243	28,376
Present value of future contributions from credit union system	47,043	53,831
Other	5,531	7,841
	<u>337,609</u>	<u>320,239</u>
Less allowance for doubtful accounts	812	788
	<u>\$ 336,797</u>	<u>\$ 319,451</u>



## PORTFOLIO INVESTMENTS

Schedule 7

	<i>In thousands</i>			
	2003		2002	
	Book Value	Fair Value	Book Value	Fair Value
Fixed-income securities (a)				
Government of Canada, direct and guaranteed	\$ 367,530	\$ 367,797	\$ 524,388	\$ 526,842
Provincial, direct and guaranteed	962,663	966,652	841,534	851,907
Municipal	81,971	82,367	140,092	141,804
Corporate	1,368,176	1,366,784	1,271,037	1,277,853
	<u>\$ 2,780,340</u>	<u>\$ 2,783,600</u>	<u>\$ 2,777,051</u>	<u>\$ 2,798,406</u>

- a) All of the Ministry's fixed-income securities are held to repay debt as it matures and to provide funding for the capital plan. At March 31, 2003, the securities held have an average effective market yield of 3.4% (2002 3.3%) per annum. All (2002 98%) of the securities held had terms to maturity of less than two years.

## EQUITY IN COMMERCIAL ENTERPRISES

Schedule 8

	<i>In thousands</i>	
	2003	2002
<b>Accumulated surpluses</b>		
Accumulated surpluses at beginning of year	\$ 672,772	\$ 507,448
Total revenue	849,513	867,726
Total expenditure	624,614	702,216
Net revenue	224,899	165,510
Net transfers to departments	(19,549)	(186)
Accumulated surpluses at end of year	\$ 878,122	\$ 672,772
<b>Represented by</b>		
Assets		
Loans	\$ 11,691,483	\$ 10,398,571
Investments	660,700	790,232
Other assets	997,125	1,448,603
Total assets	13,349,308	12,637,406
Liabilities		
Accounts payable	328,859	509,242
Deposits	12,096,911	11,425,210
Unmatured debt	45,416	30,182
Total liabilities	12,471,186	11,964,634
	\$ 878,122	\$ 672,772
<b>Accumulated surpluses at end of year</b>		
Alberta Treasury Branches	\$ 790,937	\$ 592,033
Credit Union Deposit Guarantee Corporation	85,199	79,104
N.A. Properties (1994) Ltd.	1,986	1,635
	878,122	672,772
<b>Elimination of inter fund/agency balances</b>	85,973	50,439
<b>Equity in commercial enterprises at end of year</b>	\$ 964,095	\$ 723,211

**LOANS AND ADVANCES TO GOVERNMENT ENTITIES**

**Schedule 9**

	<i>In thousands</i>	
	<b>2003</b>	<b>2002</b>
Agriculture Financial Services Corporation	\$ 999,734	\$ 888,191
Alberta Social Housing Corporation	346,078	361,103
Public Trustee	224	224
	<u>\$ 1,346,036</u>	<u>\$ 1,249,518</u>

**OTHER LOANS AND ADVANCES**

**Schedule 10**

	<i>In thousands</i>	
	<b>2003</b>	<b>2002</b>
Alberta Municipal Financing Corporation Act (a)	\$ 3,829,869	\$ 3,690,575
Farm Credit Stability Act	41,889	73,263
Board of Governors of the University of Alberta	2,018	2,342
Pratt & Whitney Canada Ltd.	1,963	2,519
University of Lethbridge Students' Union	786	948
Implemented guarantees and indemnities	224	236
Judgement debts	51	91
Accountable advances	4	-
	<u>3,876,804</u>	<u>3,769,974</u>
Less allowance for doubtful loans, advances, implemented guarantees and indemnities	<u>276</u>	<u>327</u>
	<u>\$ 3,876,528</u>	<u>\$ 3,769,647</u>

a) Municipal loans on average yield 8.3% per annum (2002 9.0%) and have the following term structure as at March 31, 2003.

	<b>2003</b>	<b>2002</b>
	%	
Under 1 year	2	1
1 to 5 years	23	19
6 to 10 years	32	39
Over 10 years	43	41
	<u>100</u>	<u>100</u>

**CAPITAL ASSETS**

**Schedule 11**

		<i>In thousands</i>			
		2003		2002	
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment	10 years	\$ 1,146	\$ 612	\$ 534	\$ 369
Computer hardware and software	5 years	11,014	2,845	8,169	5,093
Other	10 years	67	44	23	32
		<u>\$ 12,227</u>	<u>\$ 3,501</u>	<u>\$ 8,726</u>	<u>\$ 5,494</u>

**ACCRUED INTEREST AND ACCOUNTS PAYABLE**

**Schedule 12**

		<i>In thousands</i>	
		2003	2002
Accrued interest on unmatured debt and debt of Alberta Municipal Financing Corporation		\$ 296,883	\$ 373,204
Unearned revenue		8,613	4,961
Investment purchases		-	146,407
Other		63,662	47,810
		<u>\$ 369,158</u>	<u>\$ 572,382</u>

## UNMATURED DEBT

Schedule 13

	<i>In thousands</i>					
	2003			2002		
	Effective Rate (a)(b)(c) %	Modified Duration (d) years	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
Canadian dollar debt and fully hedged foreign currency debt						
Floating rate and short-term fixed rate (e)	4.89	0.28	\$ 1,456,592	\$ 1,493,278	\$ 1,065,431	\$ 1,090,976
Fixed rate long-term (f)	6.89	4.43	3,794,895	4,244,327	4,504,171	4,908,642
	6.33	3.35	5,251,487	5,737,605	5,569,602	5,999,618
Unhedged U.S. dollar debt (g)						
Floating rate and short-term fixed rate (e)	1.61	0.10	1,055,900	1,050,468	2,302,804	2,448,501
Fixed rate long-term	6.68	1.19	504,204	553,938	510,097	593,097
	3.25	0.48	1,560,104	1,604,406	2,812,901	3,041,598
Total unmatured debt	5.63	2.72	\$ 6,811,591	\$ 7,342,011	\$ 8,382,503	\$ 9,041,216

- a) Book value represents the amount the Ministry owes. Fair value is an approximation of market value to the holder. The book value, fair value and weighted average effective rate include the effect of interest rate and currency rate swaps. For non-marketable issues, the effective rate and fair value are determined by reference to yield curves for comparable quoted issues.
- b) Weighted average effective rates on unhedged U.S. dollar debt are based upon debt stated in U.S. dollars.
- c) Weighted average effective rate on total unmatured debt is on debt inclusive of deferred exchange losses on unhedged U.S. dollar debt (see note (g)).
- d) Modified duration is the weighted average term to maturity of the security's cash flows (i.e., interest and principal) and is a measure of price volatility; the greater the modified duration of a bond, the greater its percentage price volatility.
- e) Floating rate debt includes short-term debt, term debt with less than one year remaining to maturity, and term debt with interest rate reset within a year.
- f) Canadian dollar fixed rate debt includes \$678,696 (2002 \$678,696) held by the Canada Pension Plan Investment Fund.
- g) Unhedged U.S. dollar debt is translated into Canadian dollars at the March 31 noon exchange rate of \$1.47 per U.S. dollar (2002 \$1.59 per U.S. dollar). Deferred exchange gains on unhedged U.S. dollar debt amounted to \$23,457 at March 31, 2003 (2002 deferred exchange losses of \$82,616). Amortization of deferred exchange gains amounted to \$50,105 for the year ended March 31, 2003 (2002 amortization of deferred exchange losses \$106,627).

**Schedule 13** (continued)

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2003-04, and thereafter are as follows:

	<i>In millions</i>	
	<b>Total in Canadian Dollars</b>	<b>Unhedged in US Dollars</b>
2003-04	\$1,779	\$ 500
2004-05	1,591	439
2005-06	1,300	108
2006-07	114	-
2007-08	268	-
Thereafter to 2016-17	1,754	-
	<b>\$6,806</b>	<b>\$1,047</b>

None of the debt has call provisions (2002 \$110,000).

**Derivative financial instruments**

The Ministry uses interest rate swaps and currency rate swaps and contracts to manage the interest rate risk and currency exposure associated with unmatured debt. In addition, forward interest rate agreements are used to manage interest rate exposure in the short term. Associated with these instruments are credit risks that could expose the Ministry to potential losses. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit exposure to counterparties is a fraction of the notional principal amount, as shown in the table below. The Ministry minimizes its credit risk associated with these contracts by dealing with only 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, 2003, interest rate swap agreements were being used primarily to convert fixed interest rate payments to floating rates.

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

**Schedule 13** (continued)

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

	<i>In thousands</i>			
	2003		2002	
	Notional Amount	Replacement Cost	Notional Amount	Replacement Cost
Interest rate swaps	\$ 1,908,000	\$ 24,491	\$ 2,493,000	\$ 28,818
Cross currency interest rate swaps	536,000	-	1,070,000	-
	<u>\$ 2,444,000</u>	<u>\$ 24,491</u>	<u>\$ 3,563,000</u>	<u>\$ 28,818</u>

**DEBT AND EQUITY OF ALBERTA MUNICIPAL FINANCING CORPORATION**

**Schedule 14**

	<i>In thousands</i>	
	2003	2002
Alberta Municipal Financing Corporation		
Canadian dollar fixed rate debt (a)	<u>\$ 3,671,081</u>	<u>\$ 3,430,816</u>
Equity (b)	<u>\$ 27,641</u>	<u>\$ 127,958</u>

- a) Canadian dollar fixed rate debt includes \$2,706,081 (2002 \$2,880,816) held by the Canada Pension Plan Investment Fund and has the following characteristics as at March 31, 2003 (see Schedule 13 note (a)).

	2003	2002
Fair value	\$4,245,000	\$4,038,000
Effective rate per annum	8.9 %	10.2%

Debt principal repayment requirements in each of the next five years, including short-term debt maturing in 2003-04 and thereafter are as follows:

	<i>In thousands</i>	
2003-04	\$	566,023
2004-05		338,491
2005-06		423,604
2006-07		395,396
2007-08		335,383
Thereafter		1,612,184
	<u>\$</u>	<u>3,671,081</u>

- b) Alberta Municipal Financing Corporation equity has been included in liabilities of the Ministry because it represents profits which the Corporation has the power to pay to municipal and other shareholders that have borrowed from the Corporation.

## PENSION OBLIGATIONS

Schedule 15

Because the pension plans referred to in Note 9 are multi-employer, the Ministry has no obligations in respect of pension plans for its employees.

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

	<i>In thousands</i>	
	2003	2002
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Public Service Management (Closed Membership) Pension Plan (a)	\$ 695,785	\$ 630,281
Members of the Legislative Assembly Pension Plan (b)	49,323	47,437
	745,108	677,718
Obligations to pension plans for employees of organizations outside the government reporting entity		
Universities Academic Pension Plan (c)	157,134	151,203
Special Forces Pension Plan (c)	60,005	51,977
	217,139	203,180
	\$ 962,247	\$ 880,898

- 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 Ministry.
- 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.
- 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 such percentages by employers and employees as will fund equally 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.



**Schedule 15** (continued)

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
Members of the Legislative Assembly Pension Plan	March 31, 2003	3.0	3.0	6.0
Universities Academic Pension Plan	December 31, 2000	4.0	3.5	7.5
Special Forces Pension Plan	December 31, 2001	3.75	3.25	7.0

These actuarial valuations indicated a deficiency of net assets over actuarial present value of accrued benefits. Including deferred adjustments, unfunded liabilities were extrapolated to March 31, 2003.

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

**OTHER ACCRUED LIABILITIES****Schedule 16**

	<i>In thousands</i>	
	<b>2003</b>	<b>2002</b>
Future funding to school boards to enable them to repay debentures issued to the Alberta Municipal Financing Corporation	\$ 608,135	\$ 697,763
Guarantees and indemnities (Schedule 17)	3,601	3,721
Vacation entitlements	2,522	2,234
Future funding to settle obligations under the credit union deficit financing agreement	-	78,000
Other	419	450
	<b>\$ 614,677</b>	<b>\$ 782,168</b>

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

	<i>In thousands</i>		<b>Expiry Date</b>
	<b>2003</b>	<b>2002</b>	
Farm Credit Stability Act (b)	\$ 43,061	\$ 72,602	2011
Centre for Engineering Research Inc.	1,553	1,950	2005
University of Calgary	1,134	1,194	2016
Rural utilities loans	973	1,450	2015
Small Business Term Assistance Act	30	43	(c)
	<b>46,751</b>	<b>77,239</b>	
Less estimated liability (Schedule 16)	<b>3,601</b>	<b>3,721</b>	
	<b>\$ 43,150</b>	<b>\$ 73,518</b>	

- 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, Rural Utilities Act and the Small Business Term Assistance Act.

- b) The expiry date shown is the latest expiry date for guaranteed loans under the program.
- c) Loans have expired or are in the process of realization of security.

## 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.

	<i>In thousands</i>	
	2003	2002
<b>Revenues</b>		
Transfers	\$ 280,243	\$ 153,376
Interest	69,642	67,462
Charges for services	175	256
	<u>\$ 350,060</u>	<u>\$ 221,094</u>
<b>Expenses</b>		
Interest	\$ -	\$ 1,800
Cost of services	3,157	3,125
	<u>\$ 3,157</u>	<u>\$ 4,925</u>
<b>Assets</b>		
Accounts receivable	\$ 72,247	\$ 28,376
Accrued interest receivable	14,351	13,757
Loans and advances	1,345,812	1,249,294
	<u>\$ 1,432,410</u>	<u>\$ 1,291,427</u>
<b>Liabilities</b>		
Accounts and accrued interest payable	\$ 175	\$ -

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.

	<i>In thousands</i>	
	2003	2002
<b>Expenses - incurred by others</b>		
Accommodation	\$ 1,173	\$ 921
Legal services	408	1,005
	<u>\$ 1,581</u>	<u>\$ 1,926</u>

