9. Other Information

Audited Information

ALBERTA TEACHERS' RETIREMENT FUND BOARD

TEACHERS' PENSION PLAN AND PRIVATE SCHOOL TEACHERS' PENSION PLAN

FINANCIAL STATEMENTS

AUGUST 31, 2004

Auditor's Report

To the Alberta Teachers' Retirement Fund Board

I have audited the Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Deficiency of the Alberta Teachers' Retirement Fund Board (the "Board") as at August 31, 2004 and the Statements of Changes in Net Assets Available for Benefits and Changes in Accrued Pension Benefits for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Pension Benefits and Deficiency of the Board as at August 31, 2004 and the Changes in Net Assets Available for Benefits and Changes in Accrued Pension Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

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

Edmonton, Alberta
November 30, 2004

ALBERTA TEACHERS' RETIREMENT FUND BOARD
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS AND DEFICIENCY
AS AT AUGUST 31, 2004

	(in thousands)	
	2004	2003
Assets		
Cash	$ 2,104	$ 746
Investments (Note 4)	2,856,941	2,458,451
Receivables (Note 5)	30,943	18,960
Capital assets (Note 6)	1,253	1,124
	2,891,241	2,479,281
Liabilities		
Accounts payable (Note 7)	30,538	10,751
Net assets available for benefits	2,860,703	2,468,530
Adjustment for fluctuation in fair value of net assets (Note 3c)	129,403	239,163
Actuarial Value of Net Assets Available for Benefits	2,990,106	2,707,693
Actuarial Value of Accrued Pension Benefits	9,681,624	8,703,159
Deficiency (Note 11)	$ 6,691,518	$ 5,995,466

The accompanying notes are part of these financial statements.

ALBERTA TEACHERS' RETIREMENT FUND BOARD
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED AUGUST 31, 2004

	(in thousands)	
	2004	2003
Increase in Net Assets		
Investment income (Note 8)	$ 73,616	$ 63,356
Change in fair value of investments (Note 8)	214,254	99,595
Contributions (Note 9)		
Teachers	218,659	140,157
Province of Alberta	266,786	303,384
Employers	430	387
Past service purchases	3,126	2,556
Transfers from other plans	7,215	5,455
	496,216	451,939
Total increase in net assets	784,086	614,890
Decrease in Net Assets		
Pension benefits	367,548	342,679
Termination benefits	11,331	10,490
Transfers to other plans	3,797	4,964
Administrative expenses (Note 10)	9,237	8,472
Total decrease in net assets	391,913	366,605
Change in Net Assets for the Year	392,173	248,285
Net Assets Available for Benefits at Beginning of Year	2,468,530	2,220,245
Net Assets Available for Benefits at End of Year	$ 2,860,703	$ 2,468,530

ALBERTA TEACHERS' RETIREMENT FUND BOARD
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS
FOR THE YEAR ENDED AUGUST 31, 2004

	(in thousands) 2004	2003
Accrued Pension Benefits at Beginning of Year	$ 8,703,159	$ 8,189,100
Increase in Accrued Pension Benefits		
Interest on accrued benefits	649,815	608,709
Benefits accrued	295,140	255,099
Changes in actuarial economic assumptions	319,851	-
Experience gains	85,992	-
	1,350,798	863,808
Decrease in Accrued Pension Benefits		
Benefits paid	(372,333)	(349,749)
Accrued Pension Benefits at End of Year	$ 9,681,624	$ 8,703,159

NOTE 1 AUTHORITY AND NATURE OF OPERATIONS

The Alberta Teachers' Retirement Fund Board, a Provincial corporation, is the trustee and administrator of the Teachers' Pension Plan and the Private School Teachers' Pension Plan (the "Plans"). The Alberta Teachers' Retirement Fund Board operates under the authority of the Teachers' Pension Plans Act, Chapter T-1.5.

The Plans are Registered Pension Plans as defined in the Income Tax Act and are not subject to income taxes. The income tax registration number is 0359125.

NOTE 2 DESCRIPTION OF THE PENSION PLANS

The following description of the Plans is a summary only.

a) General

The Plans are contributory defined-benefit pension plans for the teachers of Alberta.

b) Guarantee

The payment of all benefits for service prior to September 1, 1992 under the Teachers' Pension Plan is guaranteed by the Province of Alberta (the "Province").

c) Funding

The determination of the value of the benefits and the required contributions for the Plans is made on the basis of periodic actuarial valuations (Note 11).

All teachers under contract with school jurisdictions and charter schools in Alberta are required to contribute to the Teachers' Pension Plan. Current service costs and related deficiencies are funded by equal contributions from the Province and the teachers. An additional 10 percent cost-of-living adjustment for service earned after 1992, as described in Note 2(i), is funded entirely by the teachers.

NOTE 2 DESCRIPTION OF PENSION PLANS (CONTINUED)

The unfunded liability for service credited prior to September 1, 1992 is being funded by additional contributions in the proportions of 67.35 percent by the Province and 32.65 percent by the teachers over the period ending August 31, 2060. In accordance with an agreement reached on April 18, 2002 between the plan sponsors, the Province paid 100 percent of these additional contributions relating to the 2002-03 fiscal year.

Certain public colleges and other designated organizations in Alberta also participate in the Teachers' Pension Plan under the same funding arrangements, except these organizations make the employer contributions rather than the Province.

Certain private schools participate in the Private School Teachers' Pension Plan. Plan costs are funded by contributions from the employers and the teachers.

d) Retirement Pensions

Retirement pensions are based on the number of years of pensionable service and the highest consecutive five-year average salary. Pensions are payable to teachers who retire after completion of at least five years of pensionable service, with certain restrictions, and who have attained age 65. Unreduced pensions are also payable to teachers who have reached at least age 55 and the sum of their age and service equals 85. With certain restrictions, reduced early retirement pensions are payable to teachers who retire on or after age 55 with a minimum of five years of pensionable service.

e) Disability Benefits

Teachers who are disabled after August 31, 1992 are credited with pensionable service while disabled. Teachers do not contribute to the Plans while disabled.

f) Termination Benefits

Subject to lock-in provisions, refunds and commuted value transfers are available when a teacher ceases employment.

g) Death Benefits

Death benefits are available upon the death of a teacher and may be available upon the death of a pensioner. The benefit may take the form of a lump sum payment or a survivor pension.

NOTE 2 DESCRIPTION OF THE PENSION PLANS (CONTINUED)

h) Other Provisions

Purchase of past service and reinstatement of refunded service is allowed on a basis that is cost neutral to the Plans.

i) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to 60 percent of the increase in the Alberta Consumer Price Index. The portion of pension earned after 1992 is increased by an additional 10 percent of the increase in the Alberta Consumer Price Index.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) Basis of Presentation

The financial statements are prepared on a going-concern basis in accordance with Canadian generally accepted accounting principles and present the aggregate financial position of the Plans. The statements disclose the net assets available to meet future benefit payments, and are prepared to assist participants and others in reviewing the activities of the Plans for the fiscal year. They do not reflect the benefit security of individual participants.

b) Investments

Investments are recorded as of the trade date and are stated at market value, which approximates fair value. The methods used to determine year-end fair value are explained in the following paragraphs.

- Money-Market Securities are recorded at cost which approximates fair value.
- The fair value of publicly traded securities is based on market prices quoted by independent suppliers of securities related data.
- Fair value of real estate, oil and gas properties, and private placements, not publicly traded, is based on estimates as determined by management in conjunction with industry specialists.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (CONTINUED)

Premiums and discounts arising on acquisitions are amortized using the effective interest rate method and included in investment income. Changes in fair value subsequent to acquisition are included in change in fair value of investments (Note 8).

c) Actuarial Value of Net Assets Available for Benefits

To moderate the effects of market volatility on investment values, the actuarial value of net assets available for benefits is determined by averaging projected net assets available for benefits over a five-year period. A constraint limits the actuarial value of net assets available for benefits to be no less than 90% and no greater than 110% of the net assets available for benefits. This calculation results in the adjustment for fluctuation in fair value of net assets.

d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars at rates of exchange prevailing at the dates of the transactions. At year end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Gains or losses resulting from exchange differences are included in the determination of the change in fair value of investments.

e) Derivative Financial Instruments

Gains or losses on forward foreign exchange contracts are recognized with changes in market value, and are included in the determination of current year change in fair value of investments.

(f) Capital Assets

Capital assets are recorded at cost and amortized over their estimated useful lives. Amortization is calculated using the straight-line method at the following annual rates:

Furniture and equipment	10-25%
Computer hardware and software	20-33.3%

Software under development is not amortized until implemented.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (CONTINUED)

g) Measurement Uncertainty

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

NOTE 4 INVESTMENTS

	(in thousands)			
	2004		2003	
	Fair Value	Cost	Fair Value	Cost
Fixed Income and Cash				
Cash	$ 13,568	$ 13,568	$ 6,052	$ 6,052
Money-Market Securities	94,759	94,759	31,964	31,964
Bonds and debentures	543,068	520,503	455,921	429,835
Real return bonds	187,602	145,713	169,744	152,081
	838,997	774,543	663,681	619,932
Equities				
Canadian equities	795,130	634,479	707,788	585,281
International equities	538,377	509,873	475,768	498,354
US equity pooled funds	681,469	646,304	608,518	631,629
Real estate and other assets	2,968	3,551	2,696	3,591
	2,017,944	1,794,207	1,794,770	1,718,855
	$ 2,856,941	$ 2,568,750	$ 2,458,451	$ 2,338,787

a) US Equity Pooled Funds

The Plans' US equity investments are held through ownership of units in two pooled funds each managed using a passive strategy with the objective of replicating the return of the *Standard & Poor's 500 United States Equity Index*. One fund invests directly in the US equity market and as at August 31, 2004, the Plans' proportionate interest in this pool had a fair value of $176,101,000 (2003: $166,618,000). The other fund invests in stock index futures contracts and Canadian dollar short-term fixed income investments.

NOTE 4 INVESTMENTS (CONTINUED)

As at August 31, 2004, the Plans' proportionate interest in this pool had a fair value of $505,368,000 (2003: $441,900,000). A stock index futures contract is an agreement to take or make a delivery of an amount of cash equal to the difference between changes in the level of the stock index over a specified period.

b) Interest Rate Risk

Interest rate risk relates to the impact of interest rate changes on the Plans' cash flows and financial position. This risk arises from differences in the timing and amount of cash flows related to the Plans' assets and liabilities.

As at August 31, 2004, a 1% increase in nominal interest rates would result in a decline in the fair value of Fixed Income investments of 7.9% (2003: 8.6%). Excluding the impact of real return bonds, the decline in fair value would be 4.7% (2003: 5.3%).

Based on fair values at August 31, 2004, Fixed Income investments have the following average effective yields and term structures:

	(dollar amounts in thousands)						
	2004					2003	
	Terms of Maturity						
	Within 1 Year	1 to 5 Years	Over 5 Years	Total	Average Effective Yield	Total	Average Effective Yield
Money-Market Securities	$ 94,759	$ -	$ -	$ 94,759	2.03%	$ 31,964	2.87%
Bonds and debentures	10,174	265,992	266,902	543,068	4.71%	455,921	4.98%
Real return bonds	-	-	187,602	187,602	1.48%	169,744	2.49%

c) Investments with the Province of Alberta

Investments include bonds issued by the Province of Alberta of nil (2003: $5,442,430).

d) Credit Risk

Credit risk arises from the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

The Plans limit their credit risk by dealing with counter parties that are considered to be of high quality, setting and monitoring compliance with portfolio guidelines, diversification and obtaining collateral where appropriate.

NOTE 4 INVESTMENTS (CONTINUED)

The Plans record all investments at fair value. Consequently, investment values reflected in Note 4 of these financial statements represent the maximum credit risk exposure of the Plans as at August 31, 2004.

e) Currency Risk

Currency risk arises from the Plans' holding of equities that are denominated in foreign currencies. A portion of the currency exposure may be hedged by foreign currency forwards. Foreign currency forwards are contractual obligations either to buy or sell a specified amount of foreign currencies at predetermined future dates and exchange rates.

The Plans' foreign currency exposure is as follows:

	(in thousands) 2004			2003
	Foreign Currency Exposure	Foreign Currency Hedge	Net Foreign Currency Exposure	Net Foreign Currency Exposure
United States	$ 725,417	$ -	$ 725,417	$ 647,793
Euro	178,139	-	178,139	183,813
United Kingdom	123,335	28,296	95,039	90,829
Japan	82,183	-	82,183	63,061
Switzerland	48,955	-	48,955	45,588
Australia	9,587	-	9,587	12,039
Other	65,789	-	65,789	47,834
	$ 1,233,405	$ 28,296	$ 1,205,109	$ 1,090,957

Foreign currency exposure includes $13,559,000 (2003: $6,671,000) in cash.

NOTE 5 RECEIVABLES

	(in thousands) 2004	2003
Accrued income	$ 13,187	$ 11,327
Amounts due from pending trades	7,435	205
Contributions - teachers	10,186	7,288
Other	135	140
	$ 30,943	$ 18,960

NOTE 6 CAPITAL ASSETS

	(in thousands)			
	2004			2003
	Cost	Accumulated Amortization	Net	Net
Furniture and equipment	$ 372	$ 333	$ 39	$ 64
Computer hardware and software	4,478	3,264	1,214	931
Software under development	-	-	-	129
	$ 4,850	$ 3,597	$ 1,253	$ 1,124

NOTE 7 ACCOUNTS PAYABLE

	(in thousands)	
	2004	2003
Tax withholdings	$ 4,912	$ 4,563
Contributions - Province of Alberta	2,229	3,326
Amounts payable from pending trades	20,987	692
Other investment transactions	1,096	927
Miscellaneous	1,314	1,243
	$ 30,538	$ 10,751

NOTE 8 INVESTMENT INCOME

	(in thousands)	
	2004	2003
Interest income		
Cash and money-market securities	$ 2,127	$ 1,640
Bonds and debentures	27,141	24,974
Real return bonds	11,625	10,323
Mortgages	-	157
Dividend income		
Canadian equities	14,936	14,126
International equities	17,460	11,699
Real estate and other assets	327	437
	$ 73,616	$ 63,356

NOTE 8 INVESTMENT INCOME (CON'T)

Investment income includes interest of $375,000 (2003: $375,000) earned on bonds issued by the Province of Alberta.

The change in fair value of investments, of a net gain of $214,254,000, includes a realized net gain on disposal of investments of $45,727,000 (2003: net loss of $123,655,000) and an unrealized net gain of $168,527,000 (2003: net gain of $223,250,000).

NOTE 9 CONTRIBUTIONS (NOTE 2c)

	(in thousands)	
	2004	2003
Teachers		
Current service	$ 131,253	$ 129,792
Current Service Additional 10% COLA	9,619	10,365
Post-August 1992 deficiency	18,123	-
Pre-September 1992 unfunded liability	59,664	-
	$ 218,659	$ 140,157
Province of Alberta		
Current service	$ 128,883	$ 124,465
Post-August 1992 deficiency	16,637	-
Pre-September 1992 unfunded liability	121,266	178,919
	$ 266,786	$ 303,384
Employers		
Current service	$ 383	$ 328
Post-August 1992 deficiency	6	-
Pre-September 1992 unfunded liability	41	59
	$ 430	$ 387

NOTE 10 ADMINISTRATIVE EXPENSES

	2004 Budget	2004 Actual	2003 Actual
	(in thousands)		
External investment management fees	$ 3,392	$ 3,780	$ 3,177
Salaries and benefits (Note 13)	3,189	2,955	2,855
Premises and equipment	907	860	834
External professional services	592	545	533
Communication	629	502	461
Custodial and banking charges	519	461	485
Audit fees	56	66	49
Board and Investment Committee	62	44	53
Other	30	24	25
	$ 9,376	$ 9,237	$ 8,472

NOTE 11 OBLIGATIONS FOR BENEFITS

a) Valuations and Assumptions

Actuarial valuations of the Plans were done as at August 31, 2004. Extrapolations were prepared for reporting purposes as at August 31, 2003. The present value of accrued benefits was determined using the projected benefit method prorated on service. The assumptions used in the valuations and extrapolations are based on management's best estimate of future events.

The major long-term economic assumptions used in the current year actuarial valuations and the 2003 extrapolations are:

	2004	2003
Rate of return on invested assets	7.25%	7.50%
Rate of inflation	3.00%	3.00%
Real wage increases	1.00%	1.00%
Teacher population growth	0.25%	0.75%

Future experience will differ from those assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future actuarial valuations.

NOTE 11 OBLIGATIONS FOR BENEFITS (CONTINUED)

b) Sensitivity of Changes in Major Assumptions

As at August 31, 2004, a 0.25% decrease in population growth rate under the Teachers' Pension Plan, holding all other assumptions constant, would increase the amount of contributions required to fund the unfunded liability attributable to service credited prior to September 1992 by 0.51% of total teacher salaries. No change would occur to the value of accrued pension benefits. The amount of contributions required to fund the deficiency attributable to service credited after August 1992 would increase by 0.04%.

As at August 31, 2004, a 0.50% decrease in the rate of return on invested assets and in the real rate of return under the Teachers' Pension Plan, holding all other assumptions constant, would increase the amount of contributions, expressed as a percentage of total teacher salaries, required to fund:

i) current service costs by 1.46%,
ii) the unfunded liability attributable to service credited prior to September 1992 by 0.57%, and
iii) the deficiency attributable to service credited after August 1992 by 1.40%.

The accrued pension benefits would increase approximately $688 million.

c) Results Based on Valuations

The valuation for the Teachers' Pension Plan to August 31, 2004 determined an unfunded liability of $6.030 billion, attributable to service credited prior to September 1992 and a $662.0 million deficiency attributable to service after August 1992. The unfunded liability and deficiency are being funded as described in Note 2c.

The valuation for the Private School Teachers' Pension Plan to August 31, 2004 determined a surplus of $0.482 million.

NOTE 11 OBLIGATIONS FOR BENEFITS (CONTINUED)

(in thousands)

	2004				2003
	Teachers' Pension Plan		Private School		
	Pre -Sept. 1992	Post-Aug. 1992	Teachers' Pension Plan	Total	Total
Net assets at beginning of year	$ (82,125)	$ 2,527,943	$ 22,712	$ 2,468,530	$ 2,220,245
Net contributions	175,642	305,076	562	481,280	436,485
Benefits	(310,572)	(56,240)	(928)	(367,740)	(342,679)
Investment earnings	-	285,293	2,577	287,870	162,951
Administrative expenses	-	(9,155)	(82)	(9,237)	(8,472)
Net assets (liabilities)	(217,055)	3,052,917	24,841	2,860,703	2,468,530
Interest on net liabilities	(10,945)	10,945	-	-	-
Adjustment for fluctuation in asset value	-	128,138	1,265	129,403	239,163
Actuarial value of accrued benefits	(5,802,000)	(3,854,000)	(25,624)	(9,681,624)	(8,703,159)
(Deficiency)/surplus	$ (6,030,000)	$ (662,000)	$ 482	$ (6,691,518)	$ (5,995,466)

d) Post-fund Receivable from Pre-fund

The net assets available for benefits related to the Teacher's Pension Plan are segregated into pre-September 1992 and post-August 1992 funds. All disbursements and receipts since September 1992 have been charged or credited to the appropriate fund.

During the 2002-2003 year, assets available to the pre-September 1992 fund were depleted. In accordance with legislation, each month since that time, assets have been advanced from the post-August 1992 fund to the pre-September 1992 fund to enable it to meet its ongoing commitments.

A rate of interest equal to the assumed rate of return on invested assets was used to charge interest on amounts advanced.

(in thousands)

	2004	2003
Opening balance	$ 82,125	$ -
Advances during the year	135,122	80,992
Interest on advances	10,945	1,133
Receivable from Pre-fund	$ 228,192	$ 82,125

NOTE 12 INVESTMENT PERFORMANCE

The following is a summary of the investment performance results attained by the Alberta Teachers' Retirement Fund Board:

	One-Year Return	Five-Year Average Annual Compound Rate
Alberta Teachers' Retirement Fund Board	11.5%	5.4%
Benchmark [(1)]	11.3%	3.7%

(1) The benchmark return is a weighted average of certain market index returns, approved by the Board, based on the fund's policy asset mix.

The long-term real rate of return assumption is based on management's best estimate of future events. This long-term rate of return target was set at 3.5 percent over inflation for the year ended August 31, 1993, 4 percent over inflation for the four years ended August 31, 1997 and 4.5 percent over inflation since September 1, 1997. Over the twelve-year period since September 1, 1992, the Fund's average annual compound rate of return was 8.3 percent, compared to the long-term target of 6.5 percent.

NOTE 13 REMUNERATION AND COMPENSATION

a) Board Member Remuneraton

Board members who are not employed by the Province of Alberta or by an employer participating in the plans are paid fees for all Board and committee meetings attended. For the year ended August 31, 2004 the Board Chair received remuneration of nil (2003: $7,000). One other Board member received remuneration of $8,300 (2003: $8,000).

NOTE 13 REMUNERATION AND COMPENSATION (CONTINUED)

b) Senior Staff Compensation

	2004				2003
	Base Salary	Bonus [1]	Benefits & Allowances [2]	Total	Total
Executive Director	$ 168,000	$ 48,000	$ 32,000	$ 248,000	$ 230,000
Director of Investments	155,000	65,000	28,000	248,000	233,000
Portfolio Manager, Equities	147,000	107,000	21,000	275,000	225,000
Portfolio Manager, Bonds	126,000	14,000	16,000	156,000	164,000
Senior Investment Analyst	98,000	28,000	16,000	142,000	132,000

(1) Senior staff are eligible to receive bonuses based on the achievement of pre-set corporate and investment targets established by the Board. Bonuses for investment professionals are based on a combination of total fund and portfolio performance targets, measured in value added above benchmarks. Performance versus benchmark is measured over five-year and one-year performance periods.

(2) Benefits and Allowances includes the employer's share of all employee benefits and contributions or payments made on behalf of employees, including pension, health care, dental coverage, vision coverage, group life insurance, long-term disability plan, professional memberships and tuitions, and car allowances.

NOTE 14 BUDGET INFORMATION

The accrued pension benefits are based on management's best estimates of future events after consultation with the Plans' actuary. Differences between actual results and management's expectations are disclosed as net experience gains in the statement of changes in accrued pension benefits. Accordingly, a budget is not included in these financial statements, with the exception of administrative expenses (Note 10).