

# Government of Alberta

# 2004-05

## Annual Report



### Report to Albertans on Budget 2004: Consolidated Financial Statements



# Consolidated Financial Statements of the Province of Alberta

## Year ended March 31, 2005

### **INTRODUCTION**

The financial statements in this annual report of the Government of Alberta are consolidations of ministry consolidated financial statements, which themselves are consolidations of the financial statements of departments, regulated funds, Provincial agencies and Crown-controlled corporations, for which separate financial statements are presented in ministry annual reports. A listing of these organizations is provided in Schedule 16 to the financial statements.

The method of consolidation is described in the Accounting Policies note that forms part of the financial statements.

## MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Responsibility for the integrity and objectivity of the consolidated financial statements of the Province of Alberta rests with the government. The consolidated financial statements are prepared by the Controller under the general direction of the Deputy Minister of Finance, as authorized by the Minister of Finance pursuant to the *Financial Administration Act*. The consolidated financial statements are prepared in accordance with the government's stated accounting policies, and of necessity include some amounts that are based on estimates and judgements. As required by the *Government Accountability Act*, the consolidated financial statements are included in the consolidated annual report of the Government of Alberta that forms part of the Public Accounts.

To fulfill its accounting and reporting responsibilities, the government maintains systems of financial management and internal control which give consideration to costs, benefits and risks, and which are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability for public money, and
- safeguard the assets and properties of the Province of Alberta under government administration.

Under the *Financial Administration Act*, deputy heads are responsible for the collection of revenue payable to the Crown, and for making and controlling disbursements with respect to their departments. They are also responsible for prescribing the accounting systems to be used in their departments. In order to meet government accounting and reporting requirements, the Controller obtains information relating to departments, regulated funds, Provincial agencies and Crown-controlled corporations from ministries as necessary.

The consolidated financial statements are reviewed by the Audit Committee established under the *Auditor General Act*. Under the *Fiscal Responsibility Act*, the Audit Committee must report publicly to the Executive Council on the progress made in eliminating the accumulated debt. The Audit Committee advises the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of the consolidated financial statements of the Province.

The Auditor General of Alberta provides an independent opinion on the consolidated financial statements prepared by the government. The duties of the Auditor General in that respect are contained in the *Auditor General Act*.

Annually, the consolidated annual report is tabled in the Legislature as a part of the Public Accounts and is referred to the Standing Committee on Public Accounts of the Legislative Assembly.

Approved on behalf of the Finance Department:

Brian Manning  
Deputy Minister of Finance

Tim Wiles, CA  
Controller

Edmonton, Alberta  
June 21, 2005



## AUDITOR'S REPORT

To the Members of the Legislative Assembly

I have audited the consolidated statement of financial position of the Province of Alberta as at March 31, 2005 and the consolidated statements of operations, change in net financial assets and cash flows for the year then ended. These financial statements are the responsibility of the Government of Alberta and are prepared on its behalf by Finance Department 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 consolidated financial statements present fairly, in all material respects, the financial position of the Province of Alberta as at March 31, 2005 and the results of its operations, change in its net financial assets and its cash flows for the year then ended in accordance with the disclosed basis of accounting as described in Note 1 to the consolidated financial statements.

*[Original Signed]*

Fred J. Dunn, FCA  
Auditor General

Edmonton, Alberta  
June 8, 2005

# Consolidated Statement of Operations

YEAR ENDED MARCH 31, 2005

	2005		2004
	Budget (Note 4)	Actual	Actual
	<i>In millions</i>		
<b>Revenues</b> (Schedule 1)			
Income taxes	\$ 7,042	\$ 7,013	\$ 6,309
Other taxes	2,929	3,165	3,016
Non-renewable resource revenue	4,784	9,744	7,676
Transfers from Government of Canada	2,971	3,219	2,926
Net income from commercial operations	1,869	2,020	1,882
Premiums, fees and licences	1,733	1,812	1,814
Net investment income	1,226	1,809	1,838
Other	398	546	426
	22,952	29,328	25,887
<b>Expenses by function</b> (Schedules 2 and 3)			
Health	8,407	9,071	7,634
Education	6,354	6,384	5,850
Social services	2,408	2,475	2,265
Agriculture, resource management and economic development	1,516	1,937	2,049
Transportation, communications and utilities	1,003	1,269	1,020
Protection of persons and property	801	958	862
Regional planning and development	428	421	446
Recreation and culture	307	294	273
Environment	161	172	164
Housing	149	150	158
General government	752	720	759
Debt servicing costs	363	302	271
Pension provisions	119	176	132
	22,768	24,329	21,883
<b>Excess of revenues over expenses for the year</b>	184	4,999	4,004
<b>Net assets at beginning of year</b>	20,368	21,082	17,078
<b>Net assets at end of year</b>	\$ 20,552	\$ 26,081	\$ 21,082

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

# Consolidated Statement of Financial Position

**AS AT MARCH 31, 2005**

	<b>2005</b>	<b>2004</b>
<i>In millions</i>		
<b>Financial assets</b>		
Cash and temporary investments (Schedule 5)	\$ 4,408	\$ 2,973
Accounts and accrued interest receivable	3,545	2,907
Portfolio investments (Schedule 6)	18,995	16,852
Equity in commercial enterprises (Schedule 7)	1,544	1,319
Loans and advances (Schedule 8)	5,319	5,185
Inventories for resale (Schedule 9)	36	29
	33,847	29,265
<b>Liabilities</b>		
Accounts and accrued interest payable	4,741	3,638
Unmatured debt (Note 5) (Schedule 10)	3,802	5,228
Debt of Alberta Capital Finance Authority (Schedule 11)	4,267	4,070
Pension obligations (Schedule 12)	5,235	5,059
Other accrued liabilities (Schedule 13)	642	722
	18,687	18,717
<b>Net financial assets</b>	15,160	10,548
<b>Non-financial assets</b>		
Tangible capital assets (Schedule 14)	10,897	10,512
Inventories of supplies	24	22
	10,921	10,534
<b>Net assets (Note 4)</b>	\$ 26,081	\$ 21,082

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

# Consolidated Statement of Change in Net Financial Assets

YEAR ENDED MARCH 31, 2005

	2005	2004
	<i>In millions</i>	
<b>Excess of revenues over expenses for the year</b>	\$ 4,999	\$ 4,004
Acquisition of tangible capital assets and supplies inventory	(828)	(633)
Amortization of tangible capital assets and consumption of supplies inventory	412	389
Net gain on disposal and write-down of tangible capital assets	(14)	(7)
Proceeds on sale of tangible capital assets	43	26
<b>Increase in net financial assets</b>	4,612	3,779
<b>Net financial assets at beginning of year</b>	10,548	6,769
<b>Net financial assets at end of year</b>	\$ 15,160	\$ 10,548

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

# Consolidated Statement of Cash Flows

YEAR ENDED MARCH 31, 2005

	2005	2004
	<i>In millions</i>	
<b>Operating transactions</b>		
Excess of revenues over expenses for the year	\$ 4,999	\$ 4,004
Non-cash items	296	71
	<u>5,295</u>	<u>4,075</u>
(Increase) Decrease in receivables	(638)	502
Increase in payables	1,103	226
Other	(91)	(125)
Cash provided by operating transactions	<u>5,669</u>	<u>4,678</u>
<b>Capital transactions</b>		
Acquisition of tangible capital assets and supplies inventory	(828)	(633)
Proceeds on sale of tangible capital assets	43	26
Cash applied to capital transactions	<u>(785)</u>	<u>(607)</u>
<b>Investing transactions</b>		
Purchase of portfolio investments	(8,576)	(9,119)
Disposals of portfolio investments	6,619	7,655
Loans and advances made	(825)	(810)
Repayment of loans and advances	645	717
Cash applied to investing transactions	<u>(2,137)</u>	<u>(1,557)</u>
<b>Financing transactions</b>		
Debt retirement	(7,221)	(15,205)
Debt issues	5,909	13,953
Cash applied to financing transactions	<u>(1,312)</u>	<u>(1,252)</u>
<b>Increase in cash and temporary investments</b>	<u>1,435</u>	<u>1,262</u>
<b>Cash and temporary investments at beginning of year</b>	<u>2,973</u>	<u>1,711</u>
<b>Cash and temporary investments at end of year</b>	<u>\$ 4,408</u>	<u>\$ 2,973</u>

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



# Notes to the 2004-05 Consolidated Financial Statements

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## **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES**

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. These financial statements are prepared in accordance with the following accounting policies.

### **A) REPORTING ENTITY**

These financial statements include the accounts of the Offices of the Legislative Assembly and all government entities including departments, the Alberta Heritage Savings Trust Fund, and other regulated funds, Provincial agencies and Crown-controlled corporations. A listing of these organizations is provided in Schedule 16. Accountable organizations such as universities, public colleges, technical institutes, regional health authorities and school boards are not included in the consolidated financial statements.

The Public Sector Accounting Board has released new guidance that controlled entities are to be included and how they are to be included effective April 1, 2005. This may affect how the Province reports accountable organizations such as universities, public colleges, technical institutes, regional health authorities and school boards depending on the results of the current review being conducted to determine whether control exists. The government has agreed in principle to include the financial statements of these entities commencing from fiscal year beginning April 1, 2006, if it is determined that control exists.

### **B) METHOD OF CONSOLIDATION**

The accounts of the Offices of the Legislative Assembly, departments, regulated funds and Provincial agencies, except those designated as commercial enterprises, are consolidated. Revenue and expense transactions, capital, investing and financing transactions, and related asset and liability accounts between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and Provincial agencies designated as commercial enterprises are reported on the modified equity basis, the equity being computed in accordance with Canadian generally accepted accounting principles.

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

### **C) BASIS OF FINANCIAL REPORTING**

#### **Revenues**

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as unearned revenue and included in accounts payable.

Non-renewable resource revenue are reported based on estimated royalties on oil and gas produced during the year.

**NOTE 1** (continued)

Transfers from Government of Canada are recognized as revenues when authorized by federal legislation or federal/provincial agreements, eligibility criteria if any are met, and a reasonable estimate of the amounts can be made. Payments received in excess of the estimated amounts applicable to the fiscal year are included in accounts payable.

**Expenses**

Expenses represent the cost of resources consumed during the year on government operations. Expenses include provisions for amortization of acquired tangible capital assets and expenses incurred in accordance with the terms of approved grant programs, including grants for capital purposes. Grants are recognized as expenses when authorized, eligibility criteria if any are met, and a reasonable estimate of the amounts can be made.

Pension costs comprise the cost of pension benefits earned by employees during the year, interest on the Province's share of the unfunded pension liability, and the amortization over the expected average remaining service life of employees of deferred adjustments arising from experience gains and losses and changes in actuarial assumptions. Schedule 12 provides additional information on the amortization policy relating to pensions. In the Consolidated Statement of Operations, pension costs which are funded are included in expenses by function and costs which have not been funded are recorded as pension provisions.

Costs arising from obligations under guarantees and indemnities are recorded as expenses when management determines that the Province will likely be called upon to make payment. The expense represents management's estimate of future payments less recoveries.

The estimated increase or decrease for the year in accrued employee vacation entitlements is also recorded in the appropriate expense function.

**Financial Assets**

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

Temporary investments are valued at cost or fair value, whichever is lower, on an aggregate basis.

Portfolio investments, which are investments to provide income for the long term, are carried at cost. Realized gains and losses on disposals of these investments are included in the determination of excess of revenues over expenses 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.

Inventories for resale representing the Province's share of royalty oil in feeder and trunk pipelines are stated at net realizable value. Other inventories for resale are valued at the lower of cost, determined on a first-in, first-out basis, and estimated net realizable value.

**Liabilities**

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

**NOTE 1** (continued)

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

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

Liabilities also include the following:

- estimates of the present value of the Province's obligations for future pension contributions and/or benefits under defined benefit pension plans for current and former provincial and other public sector employees, and certain current and former Members of the Legislative Assembly, including deferred adjustments,
- the Province's obligation to provide future funding to school boards to enable them to repay the principal portion of their debentures to the Alberta Capital Finance Authority, and
- accrued employee vacation entitlements.

**Non-financial Assets**

Non-financial assets are limited to tangible capital assets and inventories of supplies.

Tangible capital assets of commercial enterprises are included in the Consolidated Statement of Financial Position within equity in commercial enterprises. Other tangible capital assets are included in non-financial assets on the Consolidated Statement of Financial Position.

Tangible capital assets on the Consolidated Statement of Financial Position are restricted to capital assets the Province acquired for cash or for other assets, and donated assets. Tangible capital assets acquired by right, such as Crown lands, forests, water and mineral resources, are not included.

Amortization of tangible capital assets is calculated on a straight line basis over the periods expected to benefit from their use (see Schedule 14), and the annual amortization is included in the expenses reported in the Consolidated Statement of Operations. The annual amortization of the costs of tangible capital assets is allocated to the functions of the government that employ those assets.

Inventories of supplies are valued at the lower of cost, determined on a first-in, first-out basis, and replacement cost.

**Derivative Contracts**

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

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

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

**NOTE 1** (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.

Amortization of deferred exchange gains and losses and other exchange differences on unhedged transactions are included in the determination of excess of revenues over expenses for the year.

**Measurement Uncertainty**

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of personal, corporate income taxes, Health Transfers and Canada Social Transfer entitlements, royalties derived from non-renewable resources, farm safety-net payments under the Canadian Agricultural Income Stabilization (CAIS) Program and corresponding contributions from the Government of Canada, and provisions for pensions and loans and advances. The nature of the uncertainty in these items arises from several factors such as the effect on accrued taxes of the verification of taxable income, the effect on accrued royalties of the receipt of revised production data and reassessments, the effect of CAIS being a relatively new program with little historical experience, the effect on accrued pension obligations of actual experience compared to assumptions, and the effect on loans and advances of actual collectibility and changes in economic conditions.

Personal income tax, recorded as \$4,649 million (2004 \$4,613 million) in these consolidated financial statements, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Use of this information in the past has resulted in a number that differs from final results by a geometric average of plus or minus \$200 million over the last four years.

While best estimates have been used for reporting items subject to measurement uncertainty, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

**NOTE 2 VALUATION OF FINANCIAL ASSETS AND LIABILITIES**

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Due to their short term nature, the fair values of cash and cash equivalents, accrued interest, receivables, payables and accrued liabilities are estimated to approximate their book values. Fair values of some of the 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.

**NOTE 2** (continued)

The fair value of unmatured debt and debt of Alberta Capital Finance Authority is an approximation of its fair value to the holder.

The methods used to determine the fair values of temporary investments and portfolio investments are as follows:

Public fixed-income securities and equities are valued at the year-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Mortgages and certain non-public provincial debentures are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

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

Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

The value of derivative contracts is determined by the following methods. Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and equity index futures contracts are valued based on quoted market prices.

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

**NOTE 3 RISK MANAGEMENT****A) LIABILITY MANAGEMENT**

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

**NOTE 3** (continued)**B) ASSET MANAGEMENT**

The majority of the Province's portfolio investments are in the Alberta Heritage Savings Trust Fund (Heritage Fund). The investment objective is to invest in a diversified portfolio to maximize long-term returns at an acceptable level of risk. The policy asset mix for fixed income securities is 35%. The policy mix for public equity investment is 46%. The remainder of the portfolio is invested in real estate, private equities and absolute return strategies.

The General Revenue Fund also holds substantial amounts of the Province's portfolio investments. General Revenue Fund 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, natural gas rebates and settlements with First Nations. The investment objective is to preserve the value of the investments while maintaining appropriate liquidity and earning a fair or reasonable rate of return.

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

**NOTE 4 BUDGET**

The budget amounts were derived from Budget 2004 tabled in the Legislature on March 24, 2004. The following table compares the Province's net financial position with the March 31, 2005 estimate provided in Budget 2004. The table uses the same grouping of financial assets and liabilities as the budget.

	2005		2004
	Estimate	Actual	Actual
	<i>In millions</i>		
<b>Financial assets</b>			
Heritage Fund external investments	\$ 11,273	\$ 11,274	\$ 11,267
Self-supporting lending organizations <sup>(a)</sup>	5,414	6,037	5,597
Alberta Sustainability Fund <sup>(b)</sup>	2,500	3,498	2,500
Debt Retirement Account (Note 5)	478	3,479	1,241
Endowment funds <sup>(c)</sup>	1,551	1,658	1,622
Capital Account <sup>(d)</sup>	718	674	1,180
Other financial assets	4,016	7,227	5,858
	25,950	33,847	29,265
<b>Liabilities</b>			
Pension obligations	5,166	5,235	5,059
Self-supporting lending organizations <sup>(a)</sup>	4,337	4,928	4,556
Accumulated debt (Note 5)	3,466	3,475	4,971
Liabilities for government-owned capital	151	8	-
Accounts and interest payable and other liabilities	3,150	5,041	4,131
	16,270	18,687	18,717
<b>Net financial assets for financial statement purposes</b>	9,680	15,160	10,548
Tangible capital assets and inventory of supplies	10,872	10,921	10,534
<b>Net assets for financial statement purposes</b>	20,552	26,081	21,082
Pension obligations	5,166	5,235	5,059
<b>Net assets for fiscal policy purposes</b>	\$ 25,718	\$ 31,316	\$ 26,141

**NOTE 4** (continued)

- (a) Alberta Capital Finance Authority and Agriculture Financial Services Corporation.
- (b) The Alberta Sustainability Fund was established to help protect operating and capital spending from short term declines in revenue and the costs of emergencies, disasters, natural gas rebates and settlements with First Nations.
- (c) Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Science and Engineering Research Endowment Fund and Alberta Heritage Scholarship Fund.
- (d) The Capital Account was established to provide funding for the capital plan. Under the Province's fiscal framework, funds can be deposited into the Capital Account in one year to pay for capital projects in the following years.

**NOTE 5 FISCAL RESPONSIBILITY LEGISLATION**

Since 1999, the *Fiscal Responsibility Act* (the Act) has required that the Province not incur a deficit, as defined under the Act, in any fiscal year and that accumulated debt be eliminated according to a defined schedule. During 2004-05, the Province complied with the Act.

**ACCUMULATED DEBT**

Under the Act, accumulated debt, as defined, must be no greater than \$6,245 million by the end of 2004-05 fiscal year and must be eliminated by March 31, 2025.

The table below shows the progress made in eliminating accumulated debt during 2004-2005.

	2005	2004
	<i>In millions</i>	
Unmatured debt (Schedule 10)	\$ 3,802	\$ 5,228
Funding obligation for school board debentures (Schedule 13)	451	526
Adjustments to conform to statutory definition		
Borrowings for provincial corporations	(900)	(912)
Other	122	129
Accumulated debt at end of year	<u>\$ 3,475</u>	<u>\$ 4,971</u>

In addition, Note 4 shows that funds amounting to \$3,479 million (2004 \$1,241 million), at cost, have been set aside in the Debt Retirement Account to retire accumulated debt that has not yet matured.

	2005		2004
	Estimate	Actual	Actual
	<i>In millions</i>		
Accumulated debt at end of year	\$ 3,466	\$ 3,475	\$ 4,971
Funds available for debt repayment	478	3,479	1,241
Accumulated debt less funds set aside	<u>\$ 2,988</u>	<u>\$ (4)</u>	<u>\$ 3,730</u>

Subsequent to the year end, the Act has been amended to require the financial assets in the Debt Retirement Account must be equal to or greater than the amount of the accumulated debt at the fiscal year end in 2005-06 and subsequent fiscal years.

**NOTE 6 CONTRACTUAL OBLIGATIONS**

	2005	2004
	<i>In millions</i>	
Obligations under long-term leases, contracts and programs	\$ 8,529	\$ 8,301
Loans and advances approved	46	44
	<u>\$ 8,575</u>	<u>\$ 8,345</u>

Estimated payment requirements for each of the next five years and thereafter are as follows:

	<i>In millions</i>
2005-06	\$ 3,971
2006-07	1,342
2007-08	755
2008-09	427
2009-10	287
Thereafter	1,747
	<u>\$ 8,529</u>

The government has various commitments relating to the devolution of services or disposition of assets to the private sector. Those commitments include the performance of duties and obligations if the private sector organization fails to meet them.

**NOTE 7 CONTINGENT LIABILITIES**

Set out below are details of contingent liabilities resulting from guarantees, indemnities and litigation, other than those reported as liabilities and shown in Schedule 13. Any losses arising from the settlement of contingent liabilities are treated as current year expenses.

**A) INDEMNITIES AND GUARANTEES**

Guarantees amounting to \$153 million (2004 \$190 million) are analyzed in Schedule 15.

**B) CONTINGENT LIABILITIES OF COMMERCIAL ENTERPRISES**

The Credit Union Deposit Guarantee Corporation has a potential liability under guarantees relating to deposits of credit unions. At December 31, 2004 credit unions in Alberta held deposits totalling \$9.0 billion (2003 \$8.2 billion) and had assets in excess of deposits.

At March 31, 2005, Alberta Treasury Branches had a potential liability under guarantees and letters of credit amounting to \$133 million (2004 \$108 million).

N.A. Properties (1994) Ltd. has provided guarantees of principal and interest on mortgages sold to a chartered bank. The principal and interest on these mortgages totalled \$2 million at March 31, 2005 (2004 \$2 million).

**C) LEGAL ACTIONS**

At March 31, 2005, the Province was involved in various legal actions, the outcome of which is not determinable. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued cannot be determined.

The Province has a contingent liability in respect of 34 claims (2004 39) concerning aboriginal rights, Indian title and treaty rights. In most cases, these claims have been filed jointly and severally against the Province of Alberta and the Government of Canada, and in some cases involve third parties. Of these claims, 21 (2004 24) have specified amounts totalling \$125.2 billion (2004 \$129.5 billion) plus a provision for interest and other costs that is not calculable. The other 13 claims (2004 15) have not specified any amounts.



**NOTE 7 (continued)**

Further, the Province was named as defendant in various other legal actions in addition to those noted above. The total claimed in specific legal actions amounts to approximately \$7.3 billion (2004 \$3.6 billion).

**NOTE 8 TRUST FUNDS UNDER ADMINISTRATION**

Trust funds under administration are regulated and other 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 purposes of various trusts, they are not included in the consolidated financial statements.

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

	2005	2004
	<i>In millions</i>	
Public Sector Pension Plan Funds	\$ 20,531	\$ 18,847
Teachers' Pension Plan Funds	3,161	2,876
The Workers' Compensation Board Accident Fund	2,607	2,329
Regional Health Authorities and various health institutions construction accounts	915	396
Public Trustee	482	475
Special Areas Trust Account	72	72
Various Court Offices and Fines Distribution Trust	62	46
Power Pool of Alberta Balancing Pool	33	116
Miscellaneous trust funds	184	139
	<u>\$ 28,047</u>	<u>\$ 25,296</u>

**NOTE 9 DEFINED BENEFIT PLANS****A) PENSION PLANS**

The government administers three contributory defined benefit pension plans for its current employees: the Public Service Pension Plan, Management Employees Pension Plan and Supplementary Retirement Plan for Public Service Managers. Pension costs for these plans, which were funded during 2004-05 and included in expenses by function in these financial statements, amounted to \$113 million (2004 \$99 million).

Benefits paid from these plans are based on length of service and pensionable earnings. The average age of the approximately 44,200 active employees is 44. In addition, there are approximately 10,000 former employees who are entitled to refunds of contributions with interest or pension benefits when all of the eligibility requirements are met. At present, these plans provide benefits for approximately 19,500 retirees. Benefit payments were \$243 million in 2004-05 (2004 \$227 million). Total contributions were \$287 million in 2004-05 (2004 \$241 million), of which employee contributions amounted to \$139 million (2004 \$115 million). The government guarantees payment of all benefits under the Management Employees Pension Plan arising from service before 1994.

A separate pension plan fund administered by the government is maintained for each pension 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.

**NOTE 9** (continued)

At December 31, 2004, the Supplementary Retirement Plan for Public Service Managers reported a surplus of \$9 million (2003 \$9 million) when the Management Employees and the Public Service Pension Plans reported deficiencies. The deficiencies were extrapolated to March 31, 2005 and the government's share of the employer's estimated accrued benefit liability with respect to the Management Employees and the Public Service Pension Plans is analyzed in Schedule 12.

**B) LONG TERM DISABILITY INCOME CONTINUANCE PLANS**

The government also administers two long term disability income continuance plans. At March 31, 2005, these plans taken together reported an actuarial deficiency of \$9 million (2004 \$8 million). At March 31, 2005, the government's share of the estimated accrued benefit liability for these plans amounting to \$9 million (2004 \$7 million) has been recognized in these financial statements.

**NOTE 10 COMPARATIVE FIGURES**

Certain 2004 figures have been reclassified to conform to 2005 presentation.

# Schedules to the 2004-05 Consolidated Financial Statements

## REVENUES

Schedule 1

	2005		2004
	Budget (Note 4)	Actual	Actual
<i>In millions</i>			
Income taxes			
Personal income tax	\$ 5,085	\$ 4,649	\$ 4,613
Corporate income tax	1,957	2,364	1,696
	7,042	7,013	6,309
Other taxes			
School property tax	1,233	1,247	1,178
Tobacco tax	660	698	671
Fuel tax	607	641	620
Freehold mineral rights tax	204	306	288
Insurance taxes	165	212	206
Hotel room tax	60	61	53
	2,929	3,165	3,016
Non-renewable resource revenue			
Natural gas and by-products royalty	3,373	6,439	5,450
Crude oil royalty	558	1,273	981
Bonuses and sales of Crown leases	694	1,252	967
Synthetic crude oil and bitumen royalty	100	718	197
Rentals and fees	145	153	154
Coal royalty	9	11	9
Royalty tax credit	(95)	(102)	(82)
	4,784	9,744	7,676
Transfers from Government of Canada			
Canada health and social transfer	-	-	1,767
Health transfers	1,625	1,737	277
Canada social transfer	679	605	-
Agriculture support programs	286	506	561
Other	381	371	321
	2,971	3,219	2,926
Net income from commercial operations			
Lottery operations	1,162	1,260	1,125
Liquor operations	551	567	557
Other	156	193	200
	1,869	2,020	1,882
Premiums, fees and licences			
Health care insurance premiums	928	918	940
Motor vehicle licences	270	285	266
Crop and hail insurance premiums	153	136	146
Timber rentals and fees	64	130	116
Other	318	343	346
	1,733	1,812	1,814
Net investment income	1,226	1,809	1,838
Other	398	546	426
	\$ 22,952	\$ 29,328	\$ 25,887

## EXPENSES BY MINISTRY

Schedule 2

	2005		2004
	Budget (Note 4)	Actual	Actual (Restated) <sup>(a)</sup>
	<i>In millions</i>		
Program expenses			
Offices of the Legislative Assembly	\$ 76	\$ 72	\$ 56
Ministries <sup>(a)</sup>			
Health and Wellness	7,996	8,367	7,366
Education	3,811	3,869	3,635
Infrastructure and Transportation	2,567	3,096	2,271
Advanced Education	1,456	1,449	1,342
Seniors and Community Supports	1,315	1,339	1,236
Agriculture, Food and Rural Development	908	1,291	1,500
Children's Services	742	760	699
Human Resources and Employment	742	758	748
Finance	600	577	583
Solicitor General	346	358	283
Sustainable Resource Development	205	317	324
Justice	283	283	257
Community Development	214	202	187
Gaming	165	196	144
Innovation and Science	157	194	145
Energy	191	192	199
Municipal Affairs	123	149	139
Environment	125	132	122
Government Services	81	77	74
Economic Development	58	57	58
Restructuring and Government Efficiency	60	53	53
Aboriginal Affairs and Northern Development	36	36	35
Executive Council	21	19	18
International and Intergovernmental Relations	8	8	6
	22,286	23,851	21,480
Debt servicing costs	363	302	271
Pension provisions <sup>(b)</sup>	119	176	132
	<b>\$ 22,768</b>	<b>\$ 24,329</b>	<b>\$ 21,883</b>

(a) As the result of government restructuring announced on November 24, 2004, the responsibilities of ministries changed and new ministries were formed. This schedule is prepared on the basis as if the ministries had always been assigned their current responsibilities. Comparative figures have been restated to conform to 2005 presentation.

(b) Pension provisions are related to Education and Finance.

**EXPENSES BY OBJECT**
**Schedule 3**

	2005	2004
	<i>In millions</i>	
Grants	\$ 17,774	\$ 15,738
Services	2,907	2,761
Salaries, wages, employment contracts and benefits	1,808	1,681
Interest and amortization of exchange gains and losses	553	534
Amortization of tangible capital assets	412	389
Valuation adjustments (Schedule 4)	301	213
Materials and supplies	196	209
Pension liability funding	196	189
Travel and communication	139	136
Corporate tax interest refunds	27	16
Other	16	17
	<u>\$ 24,329</u>	<u>\$ 21,883</u>

**VALUATION ADJUSTMENTS**
**Schedule 4**

	2005		2004
	Budget (Note 4)	Actual	Actual
	<i>In millions</i>		
Pension provisions	\$ 119	\$ 176	\$ 132
Provision for losses, doubtful accounts, loans, guarantees and indemnities	105	116	71
Provision for employee benefits other than pensions	8	9	10
	<u>\$ 232</u>	<u>\$ 301</u>	<u>\$ 213</u>

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

	2005		2004	
	Book Value	Fair Value	Book Value	Fair Value
	<i>In millions</i>			
Fixed-income securities <sup>(a)</sup>				
Government of Canada, direct and guaranteed	\$ 269	\$ 270	\$ 478	\$ 480
Provincial, direct and guaranteed	144	145	58	59
Municipal, direct and guaranteed	-	-	2	2
Corporate	1,471	1,471	693	695
Pooled investment funds	23	24	21	22
	<u>1,907</u>	<u>1,910</u>	<u>1,252</u>	<u>1,258</u>
Cash and cash equivalents	2,501	2,501	1,721	1,721
	<u>4,408</u>	<u>4,411</u>	<u>2,973</u>	<u>2,979</u>

(a) Fixed-income securities had an average effective market yield of 2.7% per annum (2004 2.2% per annum). All (2004 98%) of the securities had terms to maturity of less than one year.

**PORTFOLIO INVESTMENTS**

**Schedule 6**

	2005		2004	
	Book Value	Fair Value	Book Value	Fair Value
	<i>In millions</i>			
Fixed-income securities <sup>(a)(b)(c)</sup>				
Government of Canada, direct and guaranteed	\$ 558	\$ 559	\$ 987	\$ 993
Provincial, direct and guaranteed	2,218	2,227	1,000	1,007
Municipal	72	72	14	14
Corporate	3,360	3,357	2,061	2,072
Pooled investment funds	4,106	4,193	4,153	4,273
	10,314	10,408	8,215	8,359
Equities <sup>(c)</sup>				
Canadian	2,519	2,829	2,939	3,343
Foreign	4,330	4,616	4,145	4,584
Real estate	1,138	1,341	975	1,063
Absolute return strategies	694	689	578	573
	8,681	9,475	8,637	9,563
	\$ 18,995	\$ 19,883	\$ 16,852	\$ 17,922

(a) The majority of the Province's fixed-income securities are held by the General Revenue Fund to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, disasters, natural gas rebates and settlements with First Nations. As at March 31, 2005, the General Revenue Fund held \$6.19 billion (2004 \$4.04 billion) of public fixed-income securities at cost (Fair value \$6.19 billion (2004 \$4.06 billion)). The securities held have an average effective market yield of 3.4% (2004 2.3%) per annum. 65.8% (2004 77.3%) of the securities held had terms to maturity of less than two years.

(b) Fixed-income securities are also held by the Alberta Heritage Savings Trust Fund (Heritage Fund). As at March 31, 2005, the Heritage Fund held \$3.66 billion (2004 \$3.70 billion) of public fixed-income securities at cost (Fair value \$3.73 billion (2004 \$3.81 billion)). The securities held have an average effective market yield of 4.5% (2004 4.4%) per annum and the following term structure based on principal amount.

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

(c) The Heritage Fund and the endowment funds identified in Note 3 use derivative contracts to enhance return, hedge risks and manage asset mix. As at March 31, 2005, the notional amount of all derivative contracts issued by these funds amounted to \$4.61 billion (2004 \$3.31 billion). 64% (2004 68%) of these contracts mature within one year. As at March 31, 2005, all derivative contracts taken together had a net positive fair value of \$21 million (2004 negative fair value \$89 million).

## EQUITY IN COMMERCIAL ENTERPRISES

Schedule 7

	2005	2004
	<i>In millions</i>	
Accumulated surpluses		
Accumulated surpluses at beginning of year	\$ 1,245	\$ 1,062
Total revenue	3,797	3,634
Total expense	1,777	1,752
Net revenue	2,020	1,882
Net transfers to departments and other adjustments	(1,802)	(1,699)
Accumulated surpluses at end of year	\$ 1,463	\$ 1,245
Represented by		
Assets		
Loans	\$ 13,138	\$ 12,131
Investments	1,029	944
Other	1,628	1,621
	15,795	14,696
Liabilities		
Accounts payable	426	371
Deposits	13,840	13,035
Unmatured debt	66	45
	14,332	13,451
	\$ 1,463	\$ 1,245
Equity in commercial enterprises at end of year		
As reported by the entities		
Alberta Treasury Branches	\$ 1,150	\$ 962
Alberta Gaming and Liquor Commission	213	189
Credit Union Deposit Guarantee Corporation	98	93
N.A. Properties (1994) Ltd.	2	1
	1,463	1,245
Elimination of inter fund/agency balances	81	74
	\$ 1,544	\$ 1,319

**LOANS AND ADVANCES**
**Schedule 8**

	2005	2004
	<i>In millions</i>	
Loans and advances made under the authority of		
Alberta Capital Finance Authority Act <sup>(a)</sup>	\$ 4,094	\$ 3,961
Agriculture Financial Services Act <sup>(b)</sup>	995	1,005
Student Loan Act	225	196
Alberta Heritage Savings Trust Fund Act	186	182
Alberta Housing Act	30	22
Farm Credit Stability Act	14	26
Financial Administration Act	9	11
	5,553	5,403
Less allowance for doubtful accounts	234	218
	<u>\$ 5,319</u>	<u>\$ 5,185</u>

(a) The fair value of the loans as at March 31, 2005 was \$4,574 million (2004 \$4,488 million). Municipal loans on average yield 7.2% (2004 7.8%) per annum and have the following term structure as at March 31, 2005.

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

Interest rate contracts are used to manage exposure to fluctuations in interest rates in certain fixed rate loans and related debt (see Schedule 11) made after January 1, 2004.

(b) The fair value of the loans as at March 31, 2005 was \$941 million (2004 \$962 million). Agricultural loan portfolios on average yield 6.3% to 7.0% (2004 6.9% to 7.2%) per annum and have the following term structure as at March 31, 2005.

	2005	2004
	%	%
Under 1 year	14	13
1 to 5 years	36	35
6 to 10 years	26	27
Over 10 years	24	25
	<u>100</u>	<u>100</u>

**INVENTORIES FOR RESALE**
**Schedule 9**

	2005	2004
	<i>In millions</i>	
Royalty oil	\$ 26	\$ 17
Other inventories	10	12
	<u>\$ 36</u>	<u>\$ 29</u>



## UNMATURED DEBT

Schedule 10

			2005		2004	
	Effective Rate	Modified Duration	Book Value	Fair Value	Book Value	Fair Value
	(a)(b)(c)	(d)	(a)	(a)	(a)	(a)
	%	years	<i>In millions</i>			
Direct debt						
Canadian dollar debt and fully hedged foreign currency debt						
Floating rate and short-term						
fixed rate <sup>(e)</sup>	5.25	0.42	\$ 1,307	\$ 1,313	\$ 1,486	\$ 1,512
Fixed rate long-term <sup>(f)</sup>	6.92	4.22	2,285	2,601	2,933	3,429
	6.31	2.94	3,592	3,914	4,419	4,941
Unhedged U.S. dollar debt <sup>(g)</sup>						
Floating rate and short-term						
fixed rate <sup>(e)</sup>	3.75	0.32	130	123	680	694
Fixed rate long-term	-	-	-	-	48	53
	3.75	0.32	130	123	728	747
	6.22	2.86	3,722	4,037	5,147	5,688
Alberta Social Housing Corporation						
Canadian dollar fixed rate debt			80	118	81	119
			\$ 3,802	\$ 4,155	\$ 5,228	\$ 5,807

- (a) Book value represents the amount the Province owes. Fair value is an approximation of market value to the holder. The book value, fair value and weighted average effective rate include the effect of interest rate and currency rate swaps. Effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the debt to the net carrying amount. For non-marketable issues, the effective rate and fair value are determined by reference to yield curves for comparable quoted issues.
- (b) Weighted average effective rates on unhedged U.S. dollar debt are based upon debt stated in U.S. dollars.
- (c) Weighted average effective rate on total direct debt is on debt inclusive of deferred exchange gains and losses on unhedged U.S. dollar debt (see note (g)).
- (d) Modified duration is the weighted average term to maturity of a 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 \$679 million (2004 \$679 million) held by the Canada Pension Plan Investment Fund.
- (g) U.S. dollar debt includes the Province's effective exposure to U.S. dollars through cross currency swaps totalling \$108 million U.S. at March 31, 2005. Unhedged U.S. dollar debt is translated into Canadian dollars at the March 31 noon exchange rate of \$1.21 per U.S. dollar (2004 \$1.31 per U.S. dollar).

**Schedule 10** (continued)

Deferred exchange gains on unhedged U.S. dollar debt amounted to \$6 million (2004 \$5 million) at March 31, 2005. Amortization of deferred exchange gains amounted to \$1 million (2004 \$146 million) for the year ended March 31, 2005. In Budget 2004, a change in the exchange rate of one U.S. cent to the Canadian dollar was estimated to have a \$6 million effect on debt servicing costs.

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

	<i>In millions</i>	
	<b>Total</b>	<b>Includes Unhedged</b>
2005-06	\$ 1,356	US\$ 108
2006-07	151	-
2007-08	275	-
2008-09	732	-
2009-10	80	-
Thereafter	1,217	-
	<b>\$ 3,811</b>	<b>US\$ 108</b>

**Derivative financial instruments**

The Province 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 may be used to manage interest rate exposure in the short term. Associated with these instruments are credit risks that could expose the Province to potential losses. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit exposure to counterparties is insignificant in relation to the notional principal amount, as shown in the table below. The Province minimizes its credit risk associated with these contracts by dealing with only credit worthy counterparties.

Interest rate swaps involve the exchange of a series of interest payments, either at a fixed or float rate, based upon a contractual or notional principal amount. An interest rate swap agreement based upon a notional amount involves no exchange of underlying principal. The notional amount serves as the basis for determining the exchange of interest payments. At March 31, 2005, interest rate swap agreements were being used primarily to convert fixed interest rate payments to floating rates.

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

The following table summarizes the Province'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 what it would cost to replace at current market rates all contracts which have a positive fair value.

	<b>2005</b>		<b>2004</b>	
	<b>Notional Amount</b>	<b>Replacement Cost</b>	<b>Notional Amount</b>	<b>Replacement Cost</b>
	<i>In millions</i>			
Interest rate swaps	\$ 825	\$ 26	\$ 1,131	\$ 50
Cross currency interest rate swaps	174	21	498	30
	<b>\$ 999</b>	<b>\$ 47</b>	<b>\$ 1,629</b>	<b>\$ 80</b>

	2005	2004
	<i>In millions</i>	
Canadian dollar fixed rate debt <sup>(a)</sup>	\$ 4,267	\$ 4,070

(a) Canadian dollar fixed rate debt includes \$2,205 million (2004 \$2,465 million) held by the Canada Pension Plan Investment Fund and has the following characteristics as at March 31, 2005 (see Schedule 10 note (a)).

	2005	2004
Fair value (in millions)	\$ 4,699	\$ 4,544
Effective rate per annum	7.3%	8.1%

Interest rate contracts are used to manage exposure to fluctuations in interest rates in certain fixed rate loans (Schedule 8) and related debt made after January 1, 2004. As at March 31, 2005, the notional amount of all derivative contracts issued by the Alberta Capital Finance Authority relating to the loans and related debt amounted to \$1.32 billion (2004 \$nil). 27% (2004 0%) of these contracts mature within one year. As at March 31, 2005, all derivative contracts taken together had a net negative fair value of \$2 million (2004 \$nil). The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

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

	<i>In millions</i>	
2005-06	\$	424
2006-07		395
2007-08		351
2008-09		259
2009-10		471
Thereafter		2,367
	\$	4,267

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

	2005	2004
	<i>In millions</i>	
Obligations to pension plans for employees of organizations outside the government reporting entity		
Teachers' Pension Plan <sup>(a)</sup>	\$ 4,263	\$ 4,094
Universities Academic Pension Plan <sup>(b)</sup>	185	171
Special Forces Pension Plan <sup>(b)</sup>	63	68
	4,511	4,333
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Public Service Management (Closed Membership) Pension Plan <sup>(c)</sup>	656	676
Members of the Legislative Assembly Pension Plan <sup>(d)</sup>	47	50
Management Employees Pension Plan <sup>(c)</sup>	13	-
Public Service Pension Plan <sup>(c)</sup>	8	-
	724	726
	\$ 5,235	\$ 5,059

- (a) The *Teachers' Pension Plans Act* requires all teachers under contract with public and separate school jurisdictions in Alberta to contribute to the Teachers' Pension Plan. Under the Act, the unfunded liability for service credited prior to September 1, 1992 is being financed by additional contributions in the ratio of 67.35% by the Province and 32.65% by the teachers over the period ending August 31, 2060. In addition, for service after August 1992, the Province funds 50% of the post-1992 unfunded liability, any current service costs and certain cost of living benefits. The Act provides that payment of all benefits prior to September 1, 1992 is guaranteed by the Province.
- (b) Under the *Public Sector Pension Plans Act*, the Province 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 pension 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 Province, and contributions by employers and employees to fund the remaining amount, as determined by the plan valuation, over the period ending on or before December 31, 2043. Current service costs are funded by employers and employees.

For Special Forces, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions in the ratio of 45.45% by the Province 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.

**Schedule 12** (continued)

- (c) 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.

For Management Employees, the unfunded liability as determined by an actuarial valuation as at December 31, 2003 is being financed by a special payment of 6.8% of pensionable earnings shared between employees and employers as required to eliminate the unfunded liability over the period ending on or before December 31, 2018. Current services costs are funded by employers and employees. The government guarantees payment of all benefits arising from service before 1994.

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 service costs are funded by employers and employees.

- (d) The Province has a liability for payment of pension benefits under a defined benefit pension plan for certain current and former 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 that date.

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 related employee groups.

Information about the economic assumptions used in the most recent actuarial valuations is provided below for each plan for which there is an obligation. 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 %
Teachers' Pension Plan	August 31, 2004	4.25	3.0	7.25
Universities Academic Pension Plan	December 31, 2004	4.0	2.75	6.75
Special Forces Pension Plan	December 31, 2001	3.75	3.25	7.0
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
Management Employees Pension Plan	December 31, 2003	4.0	2.75	6.75
Public Service Pension Plan	December 31, 2002	3.75	3.25	7.0

**Schedule 12** (continued)

The actuarial valuation of the Teachers' Pension Plan as at August 31, 2004 indicated an actuarial deficiency of actuarial net assets over the actuarial present value of accrued benefits. The unfunded liability was extrapolated to March 31, 2005. The government's share of the unfunded liability as at March 31, 2005 is comprised of actuarial asset value of \$1,524 million (2004 \$1,409 million), actuarial liabilities of \$6,001 million (2004 \$5,447 million) and net unamortized deferred loss of \$214 million (2004 net deferred gain of \$56 million). Total loss deferred during the year was \$268 million and total amortization of net actuarial gain was \$2 million (2004 \$29 million). The actual return on assets was 11.5% for the year ended August 31, 2004.

As at December 31, 2004, the Management Employees Pension Plan reported a deficiency of \$268 million (2004 \$290 million) and the Public Service Pension Plan reported a deficiency of \$450 million (2004 \$584 million). These unfunded liabilities were extrapolated to March 31, 2005. The government's share of the unfunded liabilities as at March 31, 2005 includes net unamortized deferred losses of \$355 million (2004 \$369 million).

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 13**

	2005	2004
	<i>In millions</i>	
Future funding to school boards to enable them to repay debentures issued to Alberta Capital Finance Authority	\$ 451	\$ 526
Vacation entitlements	170	163
Guarantees, indemnities and remissions		
Guarantees (Schedule 15)	11	13
Remissions for guaranteed student loans (Schedule 15)	1	3
Remissions for non-guaranteed student loans	8	15
	20	31
Other	1	2
	\$ 642	\$ 722

## TANGIBLE CAPITAL ASSETS

Schedule 14

	Estimated Useful Life	2005			2004
		Cost	Accumulated Amortization	Net Book Value	Net Book Value
<i>In millions</i>					
<b>General capital assets</b>					
Land <sup>(a)</sup>	Indefinite	\$ 1,250	\$ -	\$ 1,250	\$ 1,229
Buildings	40 years	3,011	1,440	1,571	1,509
Computer hardware and software	5-10 years	614	347	267	255
Equipment <sup>(b)</sup>	3-10 years	432	138	294	236
Other <sup>(c)</sup>	20-50 years	216	138	78	73
		5,523	2,063	3,460	3,302
<b>Infrastructure assets</b>					
Land improvements <sup>(d)</sup>	10-40 years	196	114	82	80
Provincial highways, roads and airstrips <sup>(e)</sup>	50 years	8,182	2,384	5,798	5,625
Bridges <sup>(e)</sup>	50 years	862	232	630	600
Dams and water management structures <sup>(f)</sup>	25-80 years	1,167	240	927	905
		10,407	2,970	7,437	7,210
		\$ 15,930	\$ 5,033	\$ 10,897	\$ 10,512

(a) Land includes land acquired for parks and recreation, building sites, infrastructure and other program use. It does not include land held for resale or Crown lands acquired by right.

(b) Equipment includes SuperNet, vehicles, heavy equipment, fire protection equipment, office equipment and furniture, and other equipment.

(c) Other tangible capital assets include leasehold improvements (amortized over the life of the lease), rail cars and trailers.

(d) Land improvements include parks development and grazing reserves.

(e) Provincial highways and roads consist of original pavement, roadbed, drainage works and traffic control devices, and include secondary highways and bridges and some key arterial roadways within cities.

(f) Dams and water management structures include dams, reservoirs, weirs, canals, dikes, ditches, channels, diversions, cut-offs, pump houses and erosion protection structures.

**GUARANTEES**
**Schedule 15**

	2005	2004	Expiry Date
	<i>In millions</i>		
Feeder Associations Guarantee Act	\$ 49	\$ 52	Ongoing
Agriculture Financial Services Act	35	39	Ongoing
Alberta Housing Act	32	42	2011
Student Loan Act	30	41	Ongoing
Farm Credit Stability Act <sup>(a)</sup>	15	27	2011
Securities Act	2	2	Ongoing
Centre for Engineering Research Inc.	1	1	2005
University of Calgary	1	1	2016
Rural utilities loans	-	1	-
	165	206	
Less estimated liability (Schedule 13)			
Guarantees	11	13	
Remissions for guaranteed student loans	1	3	
	12	16	
	\$ 153	\$ 190	

Authorized loan guarantee limits are shown below where applicable. Where authorized loan guarantee limits are not noted, the authorized limits decline as guaranteed or indemnified loans are repaid.

Guarantee programs under the following Acts are ongoing:

- Student Loan Act (authorized guarantee limit set by Order in Council is \$400 million),
- Feeder Associations Guarantee Act (authorized guarantee limit set by Order in Council is \$55 million),
- Agriculture Financial Services Act, and
- Securities Act.

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

(a) The expiry date shown is the latest expiry date for guaranteed loans under the program. No new program guarantees are being issued under the Farm Credit Stability Act.



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The financial statements of the following organizations are consolidated in these financial statements:

**Offices of the Legislative Assembly**

Support to the Legislative Assembly  
Office of the Auditor General  
Office of the Ombudsman  
Office of the Chief Electoral Officer  
Office of the Ethics Commissioner  
Office of the Information and Privacy Commissioner

**Departments**

Aboriginal Affairs and Northern Development  
Agriculture, Food and Rural Development  
Advanced Education  
Children's Services  
Community Development  
Economic Development  
Education  
Energy  
Environment  
Executive Council  
Finance  
Gaming  
Government Services  
Health and Wellness  
Human Resources and Employment  
Infrastructure and Transportation  
Innovation and Science  
International and Intergovernmental Relations  
Justice  
Municipal Affairs  
Restructuring and Government Efficiency  
Seniors and Community Supports  
Solicitor General  
Sustainable Resource Development

**Regulated Funds**

Alberta Heritage Foundation for Medical Research Endowment Fund  
Alberta Heritage Savings Trust Fund  
Alberta Heritage Scholarship Fund  
Alberta Heritage Science and Engineering Research Endowment Fund  
Alberta Risk Management Fund  
Alberta School Foundation Fund  
Environmental Protection and Enhancement Fund

**Schedule 16** (continued)

**Regulated Funds** (continued)

Historic Resources Fund  
Lottery Fund  
Provincial Judges and Masters in Chambers Reserve Fund  
Supplementary Retirement Plan Reserve Fund  
Victims of Crime Fund

**Provincial Agencies**

Agriculture Financial Services Corporation  
Alberta Alcohol and Drug Abuse Commission  
Alberta Capital Finance Authority  
Alberta Energy and Utilities Board  
Alberta Foundation for the Arts  
The Alberta Historical Resources Foundation  
Alberta Informatics Circle of Research Excellence Inc.  
Alberta Pensions Administration Corporation  
Alberta Petroleum Marketing Commission  
Alberta Research Council Inc.  
Alberta Science and Research Authority  
Alberta Securities Commission  
Alberta Social Housing Corporation  
Alberta Sport, Recreation, Parks and Wildlife Foundation  
Calgary and Area Child and Family Services Authority  
Central Alberta Child and Family Services Authority  
East Central Alberta Child and Family Services Authority  
Edmonton and Area Child and Family Services Authority  
The Government House Foundation  
Human Rights, Citizenship and Multiculturalism Education Fund  
Metis Settlements Child and Family Services Authority  
Natural Resources Conservation Board  
North Central Alberta Child and Family Services Authority  
Northeast Alberta Child and Family Services Authority  
Northwest Alberta Child and Family Services Authority  
Persons with Developmental Disabilities Calgary Region Community Board  
Persons with Developmental Disabilities Central Region Community Board  
Persons with Developmental Disabilities Edmonton Region Community Board  
Persons with Developmental Disabilities Northeast Region Community Board  
Persons with Developmental Disabilities Northwest Region Community Board  
Persons with Developmental Disabilities Provincial Board  
Persons with Developmental Disabilities South Region Community Board  
Southeast Alberta Child and Family Services Authority  
Southwest Alberta Child and Family Services Authority  
The Wild Rose Foundation

**Schedule 16** (continued)

**Non-commercial Crown-controlled Corporation**

Alberta Insurance Council

The following organizations are accounted for on the modified equity basis in these financial statements:

**Commercial Enterprises**

Alberta Gaming and Liquor Commission

The Alberta Government Telephones Commission

Alberta Treasury Branches

Credit Union Deposit Guarantee Corporation

N.A. Properties (1994) Ltd.

**Commercial Crown-controlled Corporation**

Gainers Inc.