

Government of Alberta

2004-05

Annual Report



Report to Albertans on Budget 2004:

Accountability Statement, Minister's
Message, Table of Contents, Preface
and Executive Summary

The logo for the Government of Alberta, featuring the word "Alberta" in a stylized, bold, sans-serif font.

ACCOUNTABILITY STATEMENT

The government's Annual Report for the year ended March 31, 2005 was prepared under my direction on behalf of the government in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at June 21, 2005 with material economic or fiscal implications have been considered in the preparation of the Annual Report.

[Original Signed]

Shirley McClellan
Minister of Finance

BUDGET 2004

ON ROUTE ON COURSE *Heading Toward Alberta's Second Century*

A MESSAGE FROM THE MINISTER OF FINANCE

Alberta achieved this year what we have all worked long and hard to accomplish: the elimination of nearly \$23 billion in accumulated debt. At its peak, debt servicing consumed \$1.7 billion in a year. Money that once paid interest is now returned to Albertans through programs and services and tax relief. This is an ultimate legacy to future generations: a province free of accumulated debt, and new opportunities ahead of us.

In 2004-05, the Government of Alberta made substantial investments in education, with increased funding to implement recommendations of Alberta's Commission on Learning; in infrastructure, as support for capital projects increased by over 70 per cent, reaching \$2.8 billion; and health, which accounted for over \$9 billion or 38 per cent of the province's program expense.

Alberta also used its financial resources – \$981 million from the Sustainability Fund – to offer BSE assistance, fight forest fires, aid flood victims, and provide natural gas rebates.

The past eleven years of balanced budgets have helped maintain Alberta's position as a fiscal leader in Canada; a position to be sustained and strengthened by not overextending commitments beyond what is prudent and sustainable.

The province's fiscal position is also enhanced by a positive business climate that contributes to a robust, expanding economy. An increasingly diverse economy – in manufacturing, agriculture, and services – contribute to strong employment growth. Albertans benefited from 40,000 new jobs this year and the lowest unemployment rate in the country.

We also continued to enjoy the highest disposable incomes per capita, and the lowest overall tax burdens in Canada. Continued indexation of the personal tax system prevented inflation from eroding past tax cuts. On April 1, 2004, the general corporate tax rate was reduced to 11.5 per cent from 12.5 per cent and the small business rate fell to three per cent from four per cent.

Alberta enters its centennial year without accumulated debt and on route to a second century even more prosperous and promising than the last. Alberta's horizons remain broad, open, and promising for our next 100 years. With an ongoing commitment to the people, prosperity and preservation of our province, we can together make Alberta's second century even better.

[Original Signed]

Shirley McClellan
Minister of Finance

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Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 24 ministries.

This annual report of the Government of Alberta contains the Minister of Finance's accountability statement, the consolidated financial statements of the Province and the Measuring Up report, which compares actual performance results to desired results set out in the government's business plan.

The annual reports of ministries, released in the fall of each year, contain Ministers' accountability statements, the audited consolidated financial statements of the ministries and a comparison of actual performance results to desired results set out in the ministries' business plans. Each ministry annual report also includes:

- financial statements of entities making up the ministry including departments (all departments combined form the General Revenue Fund), regulated funds, provincial agencies and Crown-controlled corporations,
- other financial information as required by the *Financial Administration Act* and *Government Accountability Act*, either as separate reports or as a part of financial statements, to the extent that the ministry has anything to report, and
- financial information relating to accountable organizations and trust funds.

BUDGET 2004

ON ROUTE ON COURSE *Heading Toward Alberta's Second Century*

BUDGET 2004 COMMITMENTS

Budget 2004 included a vision for Alberta's second century and a twenty-year strategic plan to achieve that vision. The plan identified four key opportunities – unleashing innovation, leading in learning, competing in the global marketplace, and making Alberta the best place to live, work and visit.

As part of the government's overall strategic plan, the 2004-07 Fiscal Plan focused on:

- increasing support for health and education,
- addressing infrastructure requirements,
- enhancing the Alberta Advantage by reducing corporate income tax rates, encouraging innovation, improving the quality of life of Albertans and strengthening communities,
- continuing the province's commitment to fiscal responsibility through balancing the budget and eliminating debt, and
- protecting spending plans from revenue volatility and costs of emergencies and disasters through the Alberta Sustainability Fund.

These commitments were met:

- The budget was balanced for the eleventh consecutive year. Accumulated debt was eliminated.
- Increased funding was provided to implement recommendations of Alberta's Commission on Learning and support Alberta's health system.
- Support for capital projects increased by over 70%, reaching \$2.8 billion.
- The Alberta Sustainability Fund provided nearly \$1 billion to offset the cost of disasters, emergencies and natural gas rebates.
- Alberta's tax advantage was strengthened. Business tax rates were cut. Personal income tax continued to be indexed for inflation.

FISCAL HIGHLIGHTS

- **Revenue** was \$29.3 billion. This was \$6.4 billion higher than budgeted and \$3.4 billion, or 13.3%, higher than in 2003-04. The increases from budget and the previous year were primarily due to higher non-renewable resource revenue.
- **Expense** was \$24.3 billion. This was \$1.6 billion higher than budgeted and \$2.4 billion, or 11.2%, higher than in 2003-04. The increase from the previous year was primarily due to higher health and education spending. The increase from budget primarily reflected in-year funding for BSE, fire-fighting, natural gas rebates, and health capital.
- **Revenue exceeded expense** by \$5 billion. This was \$4.8 billion higher than budgeted and \$1 billion higher than in 2003-04.
- **Fourth quarter results.** The year-end surplus was \$851 million higher than forecast in the *Third Quarter Fiscal Update* due to higher revenue and lower than forecast expense.
- **Allocation of the surplus.** The 2004-05 surplus was primarily allocated to repaying the province's remaining accumulated debt and to help pay for capital projects. \$696 million of the surplus was deposited into the Sustainability Fund after March 31, 2005. A decision regarding the potential reallocation of these funds will be made in 2005-06.
- **Accumulated debt.** The province's accumulated debt was eliminated in 2004-05. Since 1994, nearly \$23 billion has been allocated to repaying debt, resulting in savings of approximately \$1.5 billion in annual debt servicing costs.
- **Net assets.** At March 31, 2005 the province had net assets of \$26.1 billion. This included \$10.9 billion in capital assets.

FISCAL FRAMEWORK

- In 2003-04, a new fiscal framework was established based on the recommendations of the Financial Management Commission. This framework:
 - ◆ continued to forbid deficits,
 - ◆ established a Sustainability Fund to protect spending from volatile revenue and costs of emergencies and disasters,
 - ◆ placed limitations on the amount of non-renewable resource revenue that can be used for budget purposes,
 - ◆ required a contingency allowance of at least 1% of budgeted revenue,
 - ◆ established a Capital Account that allows surpluses to be carried forward from one year to the next to pay for capital projects, and
 - ◆ allowed borrowing for capital purposes.
- Changes were made to the fiscal framework effective for the 2004-05 fiscal year.
 - ◆ Reflecting the continued strong energy outlook, the *Fiscal Responsibility Act (FRA)* was amended to increase the amount of non-renewable resource revenue that can be used for budget purposes from \$3.5 billion to \$4 billion. (Note: This limit was subsequently increased from \$4 billion to \$4.75 billion for the 2005-06 fiscal year.)
 - ◆ The *FRA* was also amended to allow the cost of settlements with First Nations to be paid from the Sustainability Fund. This is in addition to the previously allowed uses of offsetting the cost of emergencies and disasters, natural gas rebates and, under certain conditions, revenue shortfalls.

Fiscal Summary

(millions of dollars)

	2004-05			2003-04
	Budget	3rd Quarter	Actual	Actual
1 Revenue	22,952	28,753	29,328	25,887
2 Expense				
3 Program	22,286	24,116	23,851	21,480
4 Debt servicing costs	363	325	302	271
5 Pension provisions	119	164	176	132
6 Total Expense	22,768	24,605	24,329	21,883
7 Revenue in Excess of Expense	184	4,148	4,999	4,004
8 Adjustment for pension provisions ^a	119	164	176	132
9 Net Revenue (Fiscal Responsibility Act)^a	303	4,312	5,175	4,136
10 Transfer from Capital Account	741	1,209	1,209	416
11 Retained income/capital cash requirements ^b	-	(254)	(279)	(276)
12 Net transfer from (to) Sustainability Fund	(784)	(5,259)	(6,105)	(4,276)
13 Contingency Allowance	260	8	-	-

^a For the purposes of the *Fiscal Responsibility Act*, the annual change in pension obligations is excluded from expense and balanced budget requirements. These obligations are scheduled to be eliminated under a separate legislated plan.

^b The *Fiscal Responsibility Act* required the net of retained income of funds and agencies and capital cash requirements to be set aside as part of the economic cushion in the budget. This amount was not available for transfer to the Sustainability Fund.

ECONOMIC AND TAX HIGHLIGHTS

Economic Highlights

- In 2004, the Alberta economy grew by an estimated 3.7% in real terms. Alberta enjoyed both the highest personal income growth and the lowest unemployment rate in Canada.
- In 2005, Alberta's strong economic growth is expected to continue, with real growth forecast at 3.7%. Continued strong growth in personal incomes and investment are expected to sustain robust economic growth.
- Alberta's employment grew by 2.3% in 2004, as 40,000 jobs were created. Alberta recorded the lowest unemployment rate among the provinces, at 4.6%.
- Alberta had the highest personal disposable income per capita among the provinces at \$26,884. This was more than \$3,600, or 15.9%, above the national average.
- Alberta's strong economy continued to attract large numbers of migrants from other provinces. For the eighth consecutive year, Alberta had the highest net inter-provincial migration in Canada, with a net increase of 10,902 persons (measured from July 1, 2003 to June 30, 2004).
- Following a dramatic upswing in 2003, conventional energy sector activity strengthened further in 2004, with the average number of rigs drilling rising 4.9% to a record high. Private sector investment in the oil sands increased by about \$1 billion, to an estimated \$6 billion.
- Alberta's manufacturing sector showed impressive gains in 2004. Manufacturing shipments rose by 15.4% – well above the national growth rate of 8.5%. Industries experiencing strong growth in shipments included machinery (22.8%), chemicals (16.4%), fabricated metals (21.3%) and wood products (28.2%).
- New housing construction continued at high levels. Housing starts rose to 36,270 in 2004, 16% above the average number of starts over the preceding five years.

- Alberta led all provinces in retail sales growth, with sales up 10.3% in 2004. On a per capita basis, Alberta's retail sales remained by far the highest in Canada, 24.8% above the national average.
- The agricultural sector continued to face significant challenges, with Bovine Spongiform Encephalopathy (BSE) having substantial negative economic impacts. Nevertheless, farm cash receipts were up 13.8% in 2004, supported primarily by higher crop receipts.
- Despite rapid economic growth and very low unemployment, Alberta's CPI inflation was only 1.4% in 2004.

Tax Highlights

- Albertans and Alberta businesses continued to pay the lowest taxes in Canada. Indexation of the personal income tax system protected taxpayers by preventing inflation from eroding past tax cuts.
- On April 1, 2004, the general corporate tax rate was reduced to 11.5% from 12.5% and the small business rate fell to 3.0% from 4.0%.
- School property tax rates dropped by about 2.3% for 2004. Senior homeowners who remain in their homes will now receive a rebate to protect them from increases in school property taxes.
- Effective October 1, 2004, all seniors were exempted from paying health care insurance premiums.

Performance Measures

- Albertans had the highest personal disposable income per capita among the provinces.
- Alberta had the lowest total provincial and municipal tax load among the provinces.
- Alberta had the highest labour force participation rate and the lowest unemployment rate among the provinces.
- Alberta's real labour productivity was the highest among the provinces.

OVERVIEW OF PROGRAM AND CAPITAL SPENDING

Expense

- Total expense was \$24.3 billion in 2004-05. This was 11.2%, or \$2.4 billion, higher than in 2003-04. This included a 7.3% increase in base operating expense and 96.3% increase in capital grants to local authorities and other infrastructure support.
- Health and education accounted for about 80% of the increase in expense from the previous year and represented 63.5% of total expense. Health spending increased by 18.8% and education spending by 9.1%.

- The increase in total expense from the budget estimate was \$1.6 billion. This reflected:
 - ♦ \$705 million for emergency and disaster assistance for BSE, wildfires and floods,
 - ♦ \$276 million for natural gas rebates,
 - ♦ \$510 million increase in capital grants, primarily related to health, and
 - ♦ \$70 million net increase in other expense, including increases for health, education and seniors programs.

Expense^a

(millions of dollars)

	2004-05		2003-04	Change from	
	Budget	Actual	Actual	Budget	2003-04 Actual
Base operating expense	20,316	20,444	19,054	128	1,390
Capital grants and other infrastructure support	1,504	2,014	1,026	510	988
Amortization	466	412	389	(54)	23
Emergencies and disasters	-	705	797	705	(92)
Natural gas rebates	-	276	214	276	62
Debt servicing costs	363	302	271	(61)	31
Pension provisions	119	176	132	57	44
Total Expense	22,768	24,329	21,883	1,561	2,446

^a Expense does not include capital investment on government-owned projects:

Capital Investment	889	828	633	(61)	195
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Expense by Function

(millions of dollars)

	2004-05		2003-04	Change from	
	Budget	Actual	Actual	Budget	2003-04 Actual
Health	8,407	9,071	7,634	664	1,437
Education	6,354	6,384	5,850	30	534
Social services	2,408	2,475	2,265	67	210
Agriculture, resource management and economic development	1,516	1,937	2,049	421	(112)
Transportation, communications and utilities	1,003	1,269	1,020	266	249
Protection of persons and property	801	958	862	157	96
Regional planning and development	428	421	446	(7)	(25)
Recreation and culture	307	294	273	(13)	21
Environment	161	172	164	11	8
Housing	149	150	158	1	(8)
General government	752	720	759	(32)	(39)
Debt servicing costs	363	302	271	(61)	31
Pension provisions	119	176	132	57	44
Total Expense	22,768	24,329	21,883	1,561	2,446

Capital Plan

- Capital Plan supported \$2.8 billion of capital projects in 2004-05. This included:
 - ♦ \$1.9 billion in capital grants to health authorities, schools, post-secondary institutions, municipalities and other local authorities.
 - ♦ \$957 million of government-owned capital projects, including highways, water infrastructure and other government facilities.
- The value of capital projects supported by the Capital Plan increased in 2004-05 by \$1.2 billion, or 71.3% from 2003-04. Health facilities and equipment accounted for nearly half of this increase.
- Over 11% of Alberta's total spending was for capital purposes. This was more than double the average rate of capital spending in other provinces.

Capital Plan^a

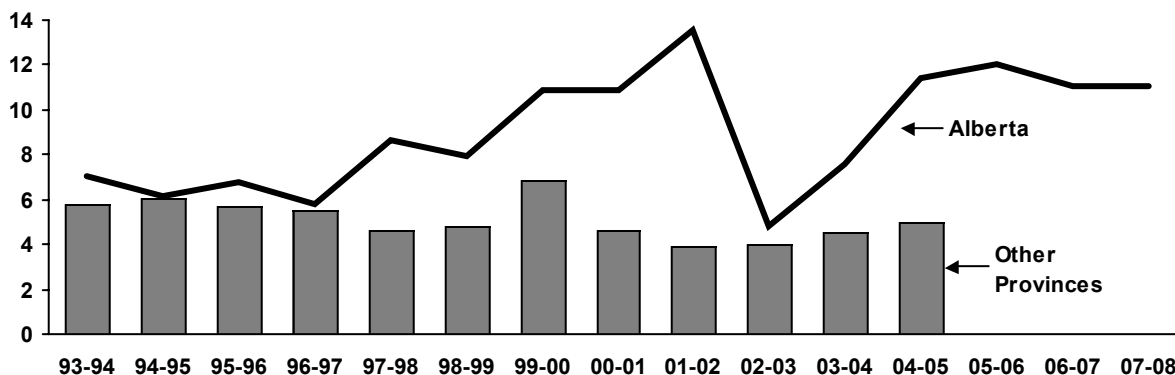
(millions of dollars)

	2004-05		2003-04	Change from 2003-04	
	Budget	Actual	Actual	Budget	Actual
Health facilities and equipment	433	863	283	430	580
Provincial highway network	587	570	455	(17)	115
Municipal infrastructure support	385	393	258	8	135
Post-secondary facilities	228	231	137	3	94
Schools	221	222	130	1	92
Community facilities and centennial projects	108	163	70	55	93
Government facilities, housing and equipment	374	331	273	(43)	58
Water and wastewater management	57	69	53	12	16
Total Capital Plan	2,393	2,842	1,659	449	1,183

^a Capital Plan includes capital investment on government-owned capital (\$633 million in 2003-04 and \$828 million in 2004-05) which is not reported in expense. The Capital Plan also includes capital grants to local authorities (\$920 million in 2003-04 and \$1,885 million in 2004-05) and planning and rehabilitation work on provincial highways (\$106 million in 2003-04 and \$129 million in 2004-05) which are reported as expense. Amortization of government-owned capital is included in expense but is not part of the Capital Plan. Capital Plan presentation has been reclassified to conform to *Budget 2005* presentation.

Interprovincial Comparison of Capital Expenditure

(% of total spending)



Source: Dominion Bond Rating Service Limited, The Canadian Federal and Provincial Governments - 2004 Overview, September 2004. Alberta data for 2003-04 to 2007-08 has been updated by Alberta Finance to reflect the latest Capital Plan information.

Note: The decline in 2002-03 capital expenditure in Alberta partly reflected 2001-02 capital expenditures including support for local authority capital projects to be constructed in 2002-03.

SPENDING HIGHLIGHTS (BY FUNCTIONAL AREA)

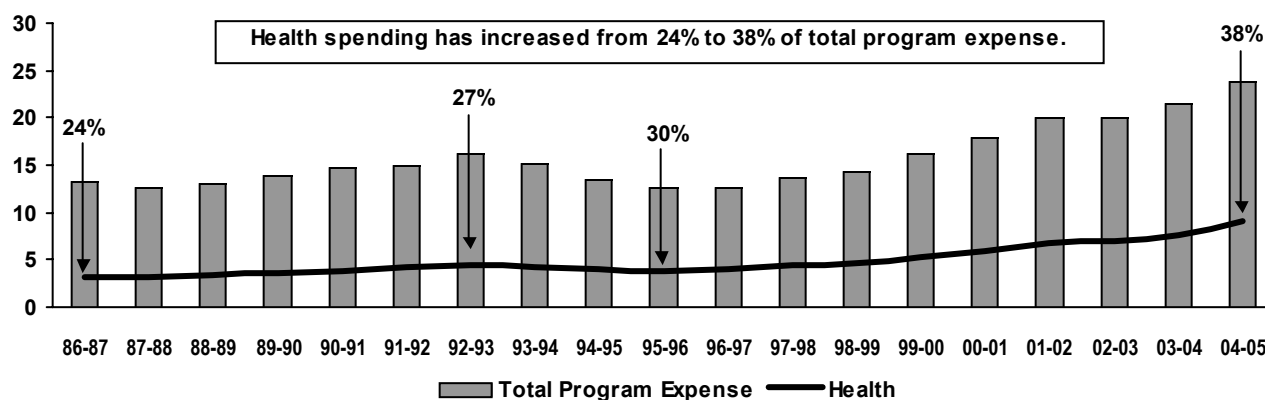
Health

- Health expense was \$9.1 billion in 2004-05. This was an increase of 18.8%, or \$1.4 billion, from 2003-04 and \$664 million higher than budgeted.
- \$6 billion was provided to health authorities for health services and health capital facilities and equipment. This was an increase of nearly \$1.2 billion or 24% from 2003-04. This included:
 - ♦ \$512 million increase for health services,
 - ♦ \$93 million in one-time funding to address accumulated deficits,
 - ♦ \$580 million increase in capital grants for health facilities, diagnostic and other equipment.
- Other areas of health spending increased by about 9% or \$252 million to nearly \$3.1 billion. This included increases for drug costs, provincial health programs, physician services and information technology.
- The increase from budget primarily reflected the Alberta Health Renewal Plan announced on June 30, 2004.
- **Major initiatives** included:
 - ♦ The \$700 million Alberta Health Renewal Plan, which provided increased operating and capital funding for health authorities. This investment improved access to health services and reduced wait times.
 - ♦ Continued implementation of the Alberta Electronic Health Record, allowing health care providers to gain immediate access to a patient's records, resulting in faster, more accurate and safer patient care. Components of the Electronic Health Record have been deployed to all health authorities and about 950 physicians and 715 pharmacists.
 - ♦ Increased funding for health promotion programs including initiatives: to reduce barriers for diabetics in making healthy choices; to provide new treatment standards for osteoporosis; and to improve patient safety during childbirth.
- ♦ Introduction of a new bursary program for rural practice and an expanded rural family medicine residence program. This will help attract more medical students and residents to rural practice.
- ♦ Enhanced AADAC programs for problem gambling and alcohol abuse.
- **Capital Plan** included \$863 million for health facilities and equipment, an increase of \$580 million from 2003-04. This included \$847 million in capital grants to health authorities and \$16 million of capital investment in government-owned capital. Capital funding included support for:
 - ♦ Alberta Children's Hospital in Calgary and the Mazankowski Alberta Heart Institute in Edmonton.
 - ♦ Redeveloping and renovating capital facilities, including the Foothills, Rockyview and Peter Lougheed Hospitals in Calgary; the Royal Alexandra Hospital and four other hospitals in the Edmonton area; the Red Deer Regional Hospital; the Tom Baker Cancer Centre in Calgary and the Cross Cancer Institute in Edmonton.
 - ♦ Rural health infrastructure initiatives, including projects in Rimbey, Edson, Barrhead, Lethbridge, Medicine Hat and Red Deer.
 - ♦ 19 redevelopment projects, (through the Health Sustainability Initiative Fund) primarily in rural areas, focusing on facility conversions (e.g. from acute to long-term care), consolidating services, integrating mental health clinics and introducing new service delivery models.
- Performance Measures
 - ♦ 86% of Albertans surveyed rated the quality of health care they received as excellent or good.
 - ♦ 86% of Albertans surveyed rated their access to physician services as easy or very easy.

- ♦ 72% of Albertans surveyed rated their access to hospital services as easy or very easy.
- ♦ 96% of health facilities were rated as being in acceptable (“fair” or “good”) physical condition.
- ♦ 89% of Albertans ages 18 to 64 surveyed rated their own personal health as either excellent, very good, or good.
- ♦ 78% of Albertans ages 65 years and older surveyed rated their own health as excellent, very good or good.

Comparison of Health and Total Program Expense

(billions of dollars)



Education

- Education expense was \$6.4 billion in 2004-05. This was an increase of 9.1%, or \$534 million, from 2003-04 and \$30 million higher than budgeted.
- The increase from 2003-04 reflects higher basic and post-secondary operating grants, increased teacher pension costs and increased funding for capital projects.
- **Major initiatives** included:
 - ♦ Implementation of the accepted recommendations from Alberta’s Commission on Learning, including:
 - \$52 million in new funding to school boards to support the hiring of 1,250 teachers under the Class Size Initiative.
 - \$27 million to fully implement a new funding framework for school boards. Under this framework, school boards have increased flexibility to address local priorities.
 - \$6 million for video-conferencing for the basic education system.
 - ♦ A one-time injection of \$13 million for the purchase of additional textbooks and other classroom resources.
 - ♦ An agreement with Microsoft Canada to provide students, educators and staff in Alberta’s learning system with access to software programs.
 - ♦ Establishment of the Campus Alberta Quality Council to review proposals for all new degree programs to ensure the quality of Alberta’s degree programs is maintained.
 - ♦ Introduction of legislation to establish an advanced education endowment, as part of the Heritage Savings Trust Fund.
 - ♦ Addition of 5,275 apprenticeship training spaces.
 - ♦ \$40 million distributed in scholarships to about 26,000 students. The amount of money available for the Alexander Rutherford Scholarships was increased to address an increase in eligible applicants.

- ◆ \$89 million in student loans disbursed. Debt relief for first-year students was funded by the Student Loan Relief Benefit and for final-year students through the Loan Relief Completion Payment. These programs provided \$38 million in student debt reduction in 2004-05.
- **Capital Plan** supported \$453 million in education capital projects, an increase of 70% or \$186 million from 2003-04. This included capital grants of \$222 million for school projects and \$231 million for post-secondary institutions. Initiatives included:
 - ◆ Schools – Seven new schools and five replacement schools were opened during 2004-05. This included the Trillium Centre in Sherwood Park. This multi-use facility accommodates both public and Catholic school students.
 - ◆ Post-secondary Institutions – Continued construction of the Health Research Innovation centres at the Universities of Alberta and Calgary; completion of the University of Alberta’s Natural Resources Engineering Facility; and construction of the National Institute for Nanotechnology.
- Performance Measures
 - ◆ 78% of Alberta’s grade 9 students met acceptable standards on provincial achievement tests in language arts.
 - ◆ 66% of Alberta’s grade 9 students met acceptable standards on provincial achievement tests in mathematics.
 - ◆ 90% of Albertans ages 25-34 surveyed completed high school.
 - ◆ 57% of Albertans ages 25-34 surveyed completed post-secondary education.
 - ◆ 69% of adult Albertans surveyed were satisfied that they have access to lifelong learning.
 - ◆ 97% of schools and 88% of post-secondary institutions were estimated to be in acceptable (“fair” or “good”) physical condition.

Social Services

- Social Services expense was \$2.5 billion in 2004-05. This was an increase of 9.3%, or \$210 million, from 2003-04 and \$67 million higher than budgeted.
- The increase from the previous year reflected higher spending on children’s services, persons with developmental disabilities, income supports and the Alberta Seniors Benefit.
- **Major initiatives** included:
 - ◆ Implementation of a long-term action plan to reduce family violence and bullying by establishing community incentive grants for coordinated strategies at the local level.
 - ◆ Proclamation of the *Child, Youth and Family Enhancement Act*, which supports the development and well-being of Alberta’s children, youth and families, while keeping them safe and protected.
 - ◆ Proclamation of the *Family Support for Children with Disabilities Act*, which improves the support and services for families caring for children with disabilities. This is the first separate and distinct legislation in Canada specifically aimed at meeting the needs of children with disabilities and their families.
 - ◆ Establishment of twenty Parent Link Centres across the province. These centres provide parents and families with the supports they need to help their children develop and fulfill their potential.
 - ◆ Establishment of the Office for Disability Issues to provide stronger coordination of programs and policies for Albertans with disabilities.
 - ◆ Review of the Assured Income for the Severely Handicapped program (AISH). The review resulted in increased benefits in 2005-06.
 - ◆ Introduction of the Alberta Works program to harmonize benefits provided through the Supports for Independence program, Skills Development program living allowances and Widows' Pension.

- ◆ Enhancements to the Alberta Seniors Benefit program including increased maximum monthly cash benefits, addition of approximately 17,000 eligible seniors to the program, and increased average cash benefits.
- Performance Measures
 - ◆ Survey results indicate that 85.9% of Alberta children ages 3 and under demonstrated healthy social development.
 - ◆ Survey results indicate that 85% of Alberta children ages 2-5 demonstrated healthy emotional development.
 - ◆ 85.8% of families/guardians of persons with developmental disabilities surveyed were satisfied with funded services.
- ◆ The Alberta Science and Research Investments Program, which funded research initiatives across the province including:
 - An agriculture genomics centre at the University of Alberta to study genes and proteins that impact animals.
 - An innovative medical robot system at the University of Calgary to improve human-guided robot microsurgery techniques and test new surgical procedures.

Agriculture, Resource Management and Economic Development

- Agriculture, Resource Management and Economic Development expense was \$1.9 billion in 2004-05. This was a decrease of 5.5% from 2003-04 and was primarily due to lower disaster assistance for BSE.
- Expense was \$421 million higher than budgeted primarily due to BSE assistance provided in-year because of the extended U.S. border closure to live cattle.
- **Major initiatives** included:
 - ◆ \$559 million in BSE disaster assistance to the agriculture sector for producer assistance, market development and research funding. This included \$38 million for the establishment of the Alberta Prion Science Initiative to coordinate provincial prion research with national and international efforts. The disaster assistance was cost-shared with the federal government.
 - ◆ Launching the Energy Innovation Network (EnergyINet) to bring government researchers and industry leaders together to advance energy innovation.

• Performance Measures

- ◆ 215,700 new jobs were created in Alberta over the past five years.
- ◆ 30.5% of Alberta's Gross Domestic Product (GDP) was contributed by the province's manufacturing and knowledge intensive service industries (preliminary).
- ◆ International value-added exports measured in current dollars increased by 17.8%.
- ◆ Alberta had the highest business use of the Internet among the provinces.
- ◆ Sponsored research at Alberta universities increased by 34.4%.
- ◆ Oil sands production (crude bitumen) increased by 13%.

Transportation, Communications and Utilities

- Transportation, Communications and Utilities expense was \$1.3 billion in 2004-05. This was an increase of 24.4%, or \$249 million, from 2003-04 and \$266 million higher than budgeted.
- The increase from 2003-04 primarily reflects increased rural and municipal capital transportation grants, and higher natural gas rebates. The increase from budget reflected the in-year funding for natural gas rebates.

- **Major initiatives** included:
 - ◆ Continued implementation of the new capital framework to provide more predictable funding on transportation and other infrastructure projects.
 - ◆ Increased funding provided to municipalities under the Alberta Cities Transportation Partnerships due to a rise in population and fuel deliveries.
 - ◆ A P3 Design, Build, Finance, Operate agreement was signed with Access Roads Edmonton Ltd. for the Edmonton Southeast Anthony Henday Drive. The road is to open in the fall of 2007.
 - ◆ Payment of \$276 million in rebates to Albertans under the Natural Gas Rebate Program to help offset the increase in natural gas costs.
 - ◆ Implementation of the "Sign Up Alberta" program, to promote the Alberta Advantage and tourism, in co-operation with industry and government stakeholders.
 - ◆ Introduction of the new *Highway Development Protection Act*, which will replace the *Public Highway Development Act* and the *City Transportation Act* to modernize and consolidate the legislation.
- **Capital Plan** supported \$950 million in transportation related capital projects. This included \$509 million in capital grants and other infrastructure support reported in expense and \$441 million in capital investment on the provincial highway network.
- *Performance Measures*
 - ◆ 88.8% of provincial highways were in acceptable ("fair" or "good") physical condition.
 - ◆ 99.5% of water management infrastructure was in acceptable ("fair", "good" or "excellent") physical condition.

Protection of Persons and Property

- Protection of Persons and Property expense was \$958 million in 2004-05. This was an increase of 11.1%, or \$96 million, from 2003-04 and \$157 million more than budgeted.
- The increase from 2003-04 reflects increased support for policing, and assistance for flooding. This was partly offset by lower fire-fighting costs.
- **Major initiatives** included:
 - ◆ Enhancement of regulations under the new *Traffic Safety Act* to provide a framework for addressing safety issues and new initiatives aimed at improving driver behaviour and vehicle safety.
 - ◆ Continued refinement of programs and initiatives such as the Graduated Driver Licensing Program, Alberta Children and Youth Initiative, and the Child Traffic Safety Program, to increase safety for young drivers and future road users.
 - ◆ A new funding model for policing. The population threshold for municipalities that are no longer required to pay for policing was increased from 2,500 to 5,000. For municipalities required to pay for policing, a new \$16 per capita policing grant was introduced.
 - ◆ Approval for a new courts facility in Calgary.
- *Performance Measures*
 - ◆ Violent and property crime rates remained the lowest among the four western provinces.
 - ◆ 87.6% of Albertans surveyed felt human rights in Alberta were very well or fairly well protected.
 - ◆ 77% of Albertans surveyed felt very safe or reasonably safe walking alone in their neighbourhoods at night.
 - ◆ Lowest workplace lost-time claim rate since 1991.

Other Program Expense

- Other program expense was \$1.8 billion in 2004-05. This was a decrease of 2.4%, or \$43 million, from 2003-04 and a decrease of \$40 million from budget. The decreases reflected lower interest costs of the Alberta Capital Finance Authority and lower spending in other areas.
- **Major initiatives** included:
 - ♦ The conclusion of the Seniors' Lodge Upgrading Program which modernized and upgraded 120 lodges throughout the province to current standards.
 - ♦ \$26 million in Alberta Centennial Legacy Grants provided for community-based projects, such as recreational and cultural facilities, heritage sites and museums.
 - ♦ Implementation of the *Albertans and Climate Change: Taking Action* initiative. This included the *ME first!* interest-free loan program to encourage energy efficiency and conservation in Alberta municipalities.
 - ♦ Construction of the Alberta SuperNet. When final quality testing is completed in 2005-06, SuperNet will directly connect approximately 4,200 hospitals, schools, libraries and government offices in 429 communities throughout the province.
 - ♦ Opening of an office in Washington, D.C., to advance the province's economic and policy interests.
- Performance Measures
 - ♦ 83.4% of adult Albertans surveyed participated in sport and recreational activities.
 - ♦ 87.2% of adult Albertans surveyed participated in arts and cultural activities.
 - ♦ River water and air quality remained high.
 - ♦ Greenhouse gas emissions intensity remained at 85% of 1990 levels.
 - ♦ 173 rural communities and 27 urban communities were able to access Alberta SuperNet.

Debt Servicing Costs

- Debt servicing costs were \$302 million in 2004-05. This was \$31 million higher than in 2003-04 but \$61 million lower than estimated in the budget.
- The increase in debt servicing costs from the previous year was due to the significant appreciation of the Canadian dollar relative to the U.S. dollar in 2003-04. This reduced the value of debt held in U.S. dollars and resulted in a foreign exchange gain which partly offset interest expense in 2003-04. By March 31, 2004 most of the U.S. dollar debt was retired, minimizing foreign exchange gains in 2004-05.

Pension Provisions

- Pension obligations in respect of public sector pension plans increased by \$176 million to \$5.2 billion.
- Most of the increase was related to the Teachers' Pension Plan. The province's obligations for this plan increased by \$169 million to \$4,263 million.
- For the purposes of the *Fiscal Responsibility Act*, the annual change in pension obligations is excluded from expense and balanced budget requirements. These obligations are scheduled to be eliminated under a separate legislated plan.

REVENUE HIGHLIGHTS

Total Revenue

- Total revenue was \$29.3 billion. This was \$3.4 billion, or 13.3%, higher than in 2003-04, and \$6.4 billion higher than budgeted.
- Higher non-renewable resource revenue and tax revenue were the main reasons for the increase from 2003-04. The increase from budget was largely due to higher non-renewable resource revenue and investment income.

Non-renewable Resource Revenue

- Non-renewable resource revenue reached \$9.7 billion in 2004-05, the second highest level in Alberta's history. This was \$2.1 billion higher than in 2003-04 and almost \$5 billion higher than budgeted.
- Energy prices were significantly higher than estimated in the budget or expected by most energy forecasters.
- Natural gas prices averaged Cdn\$6.38 per thousand cubic feet. This was 63 cents higher than in 2003-04 and \$2.18 higher than budgeted.
- Oil prices averaged US\$45.03 per barrel (WTI). This was \$13.65 higher than in 2003-04 and \$19.03 higher than the budget estimate.

- Energy prices reflected continuing high world oil demand, delays in the return of Iraqi production, strong economic growth in the United States and continuing concerns over North American natural gas supply. Partly offsetting the impact of higher energy prices was the strengthening Canadian dollar relative to the United States dollar.

Energy Prices

	2004-05		2003-04
	Budget	Actual	Actual
Oil Price (WTI US\$/bbl)	26.00	45.03	31.38
Natural Gas Price (Cdn\$/mcf)	4.20	6.38	5.75

Tax Revenue

- Tax revenue was \$10.2 billion. This was an increase of \$853 million, or 9.1%, from 2003-04 and \$207 million higher than budgeted.
- Personal income tax revenue was \$4.6 billion essentially unchanged from 2003-04 and a decrease of \$436 million from the budget estimate. This reflected a negative adjustment to 2004-05 revenue due to the over-estimation of the previous years' tax revenue. The base increase in personal income tax revenue in 2004-05, before taking into account the negative adjustment, was about 5.4%.

Revenue

(millions of dollars)

	2004-05		2003-04	Change from	
	Budget	Actual	Actual	Budget	2003-04 Actual
Personal income tax	5,085	4,649	4,613	(436)	36
Corporate income tax	1,957	2,364	1,696	407	668
Other taxes	2,929	3,165	3,016	236	149
Non-renewable resource revenue	4,784	9,744	7,676	4,960	2,068
Transfers from Government of Canada	2,971	3,219	2,926	248	293
Net income from commercial operations	1,869	2,020	1,882	151	138
Premiums, fees and licences	1,733	1,812	1,814	79	(2)
Net investment income	1,226	1,809	1,838	583	(29)
Other	398	546	426	148	120
Total Revenue	22,952	29,328	25,887	6,376	3,441

- Corporate income tax revenue was \$2.4 billion. This was \$668 million higher than in 2003-04 and \$407 million higher than the budget estimate. The increases were due primarily to high energy prices and strong corporate profits.
- Other tax revenues were \$3.2 billion. This was \$149 million higher than in 2003-04 and \$236 million higher than the budget estimate. The increases were mostly attributable to freehold mineral rights tax, insurance taxes, tobacco tax and fuel tax.

Transfers from Government of Canada

- Transfers from Government of Canada were \$3.2 billion. This was \$293 million higher than in 2003-04 and \$248 million higher than the budget estimate. The increase from 2003-04 was primarily due to higher health transfers. The increase from budget primarily reflected higher transfers for BSE assistance.

Investment Income

- Investment income was \$1.8 billion. This was essentially unchanged from 2003-04 but \$583 million higher than budgeted. The increase from budget was primarily due to continued strong equity markets and larger fund balances in investment accounts.

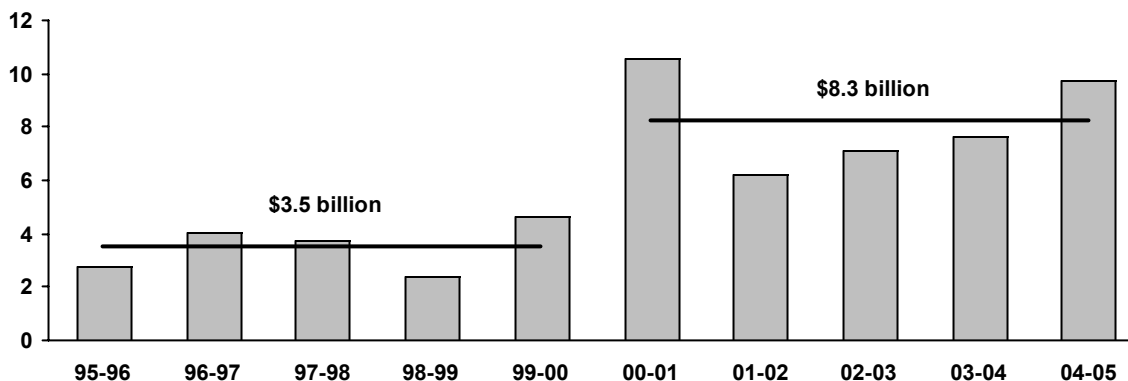
Other Revenue

- Revenue from all other sources was \$4.4 billion. This was \$256 million, or 6.2%, higher than 2003-04 and \$378 million higher than estimated in the budget.
- The increases were primarily due to increased gaming and lottery revenue, land sales and refunds of expense.

Non-renewable Resource Revenue

1995-96 to 2004-05

(billions of dollars)



Energy Prices and Exchange Rates

1995-96 to 2004-05

	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05
Oil Price (WTI US\$/bbl)	18.66	22.84	18.93	13.70	23.16	30.20	24.13	29.04	31.38	45.03
Natural Gas Price (Cdn\$/mcf)	1.39	1.77	1.86	1.98	2.66	6.08	3.94	4.98	5.75	6.38
Exchange Rate (US¢/Cdn\$)	73.5	73.1	71.3	66.6	68.0	66.5	63.9	64.6	74.0	78.4

ALBERTA SUSTAINABILITY FUND

- The Sustainability Fund was established to protect spending from volatile revenue and the cost of emergencies and disasters.
- The Fund receives non-renewable resource revenue above the level available for budget purposes as set out in the *FRA* (\$4 billion in 2004-05) and any additional year-end surpluses.
- Withdrawals are allowed to offset the costs of emergencies and disasters, natural gas rebates, First Nations settlements and revenue shortfalls. In 2004-05, \$981 million was withdrawn to pay for the cost of BSE assistance, wildfires, flood assistance and natural gas rebates.
- Assets can be reallocated from the Fund, when they exceed \$2.5 billion. In 2004-05, reallocations included:
 - ♦ \$3.7 billion to the Debt Retirement Account. This was sufficient to repay the province's remaining accumulated debt as it matures.
 - ♦ \$1.1 billion to the Capital Account to help pay for the cost of capital projects.
- After these withdrawals and reallocations, the Fund had assets of \$3.5 billion at March 31, 2005. This does not include the \$696 million transferred to the Fund after March 31 from the better than forecast fourth quarter results.
- In *Budget 2005*, the government reallocated \$1 billion of the \$3.5 billion Sustainability Fund assets available at March 31, 2005, to the Capital Account to help pay for capital projects in the *2005-08 Capital Plan*.
- A decision regarding the potential use of the \$696 million from 2004-05 fourth quarter results will be made in 2005-06.
- Note: The amount to be transferred to the Sustainability Fund, based on fourth quarter results, is not determined until after March 31. As a result, the transfer is made in the following fiscal year. The amount transferred can be different from the fourth quarter improvement due to changes in net retained income of funds/agencies and other cash adjustments.

Alberta Sustainability Fund

At March 31, 2005

(millions of dollars)

	2004-05			2003-04
	Budget	3rd Quarter	Actual	Actual
Assets at start of year	2,500	2,500	2,500	-
Transfers to Sustainability Fund				
Non-renewable resource revenue	784	5,628	5,744	4,176
Other net transfers ^a	-	773	1,342	1,111
Total transfers to the Fund	784	6,401	7,086	5,287
Withdrawals from Sustainability Fund				
Disaster and emergency assistance	-	(820)	(705)	(797)
Natural Gas Rebate program	-	(314)	(276)	(214)
Withdrawals	-	(1,134)	(981)	(1,011)
Adjustments				
Cash from 2003-04 fourth quarter results ^b	-	510	510	-
2004-05 cash adjustments	568	85	(55)	520
Total adjustments	568	595	455	520
Assets prior to reallocation	3,852	8,362	9,060	4,796
Reallocation to:				
Debt Retirement Account	(726)	(3,730)	(3,730)	(893)
Capital Account	(626)	(1,136)	(1,136)	(893)
Sustainability Fund assets at March 31, 2005	2,500	3,496	3,498	2,500
Cash transferred after March 31 to Sustainability Fund ^b	-	-	696	510

a Includes higher than budgeted revenue (excluding non-renewable resource revenue) and savings from lower debt servicing costs.

b \$510 million transferred to the Sustainability Fund in 2004-05 from the better-than-forecast 2003-04 fourth quarter results. \$696 million transferred to the Sustainability Fund in 2005-06 from the better-than-forecast 2004-05 fourth quarter results.

ACCUMULATED DEBT

- In 2004-05, the government set aside sufficient financial assets to repay the province's remaining accumulated debt as it matures. These funds are locked-in by an amendment to the *FRA* so that they can only be used to repay accumulated debt.
- At March 31, 2005, the Debt Retirement Account had assets of \$3.5 billion that will be used to repay the remaining \$3.5 billion of unmatured accumulated debt. Nearly all of this accumulated debt will mature and be repaid from the Debt Retirement Account by 2013.
- Over the last decade, the government has allocated nearly \$23 billion for repaying accumulated debt, thereby reducing its annual debt servicing costs by approximately \$1.5 billion.

- Accumulated debt excludes the self-supported debt of the Alberta Capital Finance Authority and the Agriculture Financial Services Corporation, liabilities for government-owned capital incurred after April 1, 2003, and pension liabilities.

Accumulated Debt

(millions of dollars)

	2003-04	2004-05
Debt at start of year	6,746	4,971
Repayment of debt maturities	(1,775)	(1,496)
Debt at end of year	4,971	3,475
Less: Debt Retirement Account	(1,241)	(3,479)

Accumulated Debt

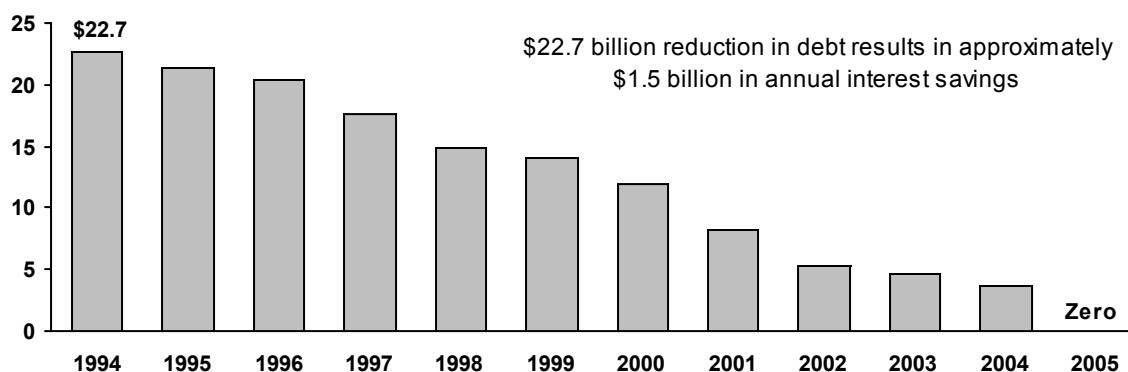
3,730 **(4)^a**

^a Based on actual year-end results at March 31, 2005, the assets in the Debt Retirement Account exceeded unmatured accumulated debt by \$4 million.

Accumulated Debt^a

at March 31

(billions of dollars)



^a Accumulated debt less cash set aside for future debt repayment.

CAPITAL ACCOUNT

- The Capital Account was established to allow revenue to be carried forward, from one year to the next, to pay for capital projects. This allows for more predictable capital planning.
- In 2004-05, \$1.6 billion was withdrawn from the Capital Account to help pay for the \$2.8 billion in capital projects undertaken.
- \$1.2 billion was used to help pay for capital projects of local authorities such as health authorities, schools, post-secondary institutions and municipalities, and \$433 million was used for provincial government-owned capital.
- Offsetting this withdrawal was a \$1.1 billion reallocation from the Sustainability Fund to the Capital Account in 2004-05. As a result, the net withdrawal from the Capital Account was \$506 million in 2004-05.

Capital Account

(millions of dollars)

	2004-05		2003-04
	Budget	Actual	Actual
Assets start of year	1,180	1,180	910
Allocation to Capital Account	626	1,136	893
Withdrawals			
Local authorities capital	(741)	(1,209)	(416)
Government-owned capital	(347)	(433)	(207)
Assets end of year	718	674	1,180

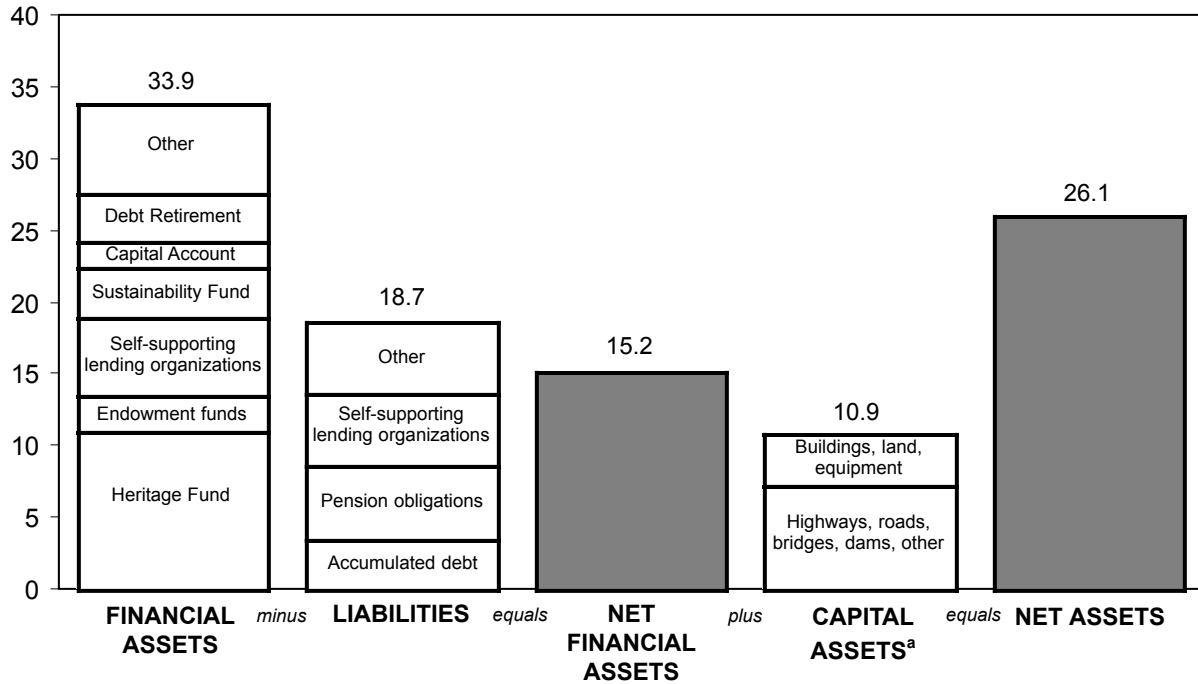
NET FINANCIAL AND CAPITAL ASSETS

- At March 31, 2005, the financial assets of the Government of Alberta exceeded its liabilities by \$15.2 billion. In addition, the government had \$10.9 billion in capital assets.
- There were nearly \$33.9 billion in financial assets. This included financial assets of the Heritage Fund and endowment funds, self-supporting lending organizations (Alberta Capital Finance Authority and Agriculture Financial Services Corporation), Capital Account, Sustainability Fund, Debt Retirement Account, net financial assets of Alberta Treasury Branches, and accounts receivable and other assets.
- Partly offsetting these assets was \$18.7 billion in liabilities. This included liabilities of self-supporting lending organizations, pension obligations, unmatured accumulated debt, and accounts payable and other liabilities.
- Liabilities of self-supporting lending organizations were fully offset by their financial assets. The unmatured accumulated debt was fully offset by assets in the Debt Retirement Account. Pension obligations are scheduled to be eliminated under a separate legislated plan.

Assets, Liabilities and Net Assets

At March 31, 2005

(billions of dollars)



a Government-owned capital assets do not include the capital assets of health authorities, schools, post-secondary institutions or other local authorities.

Historical Fiscal Summary, 1986-87 to 2004-05^a

(millions of dollars)

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S
	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
INCOME STATEMENT																			
Revenue																			
1	1,768	2,236	2,039	2,536	2,796	3,057	2,794	2,877	3,063	3,177	3,445	3,877	4,601	5,100	3,943	4,183	4,834	4,613	4,649
2	396	595	697	700	803	731	637	854	1,073	1,332	1,407	1,849	1,659	1,255	2,023	2,229	2,019	1,696	2,364
3	686	729	769	824	915	1,027	1,115	1,168	1,196	1,205	1,169	1,212	1,118	1,128	1,151	1,094	1,113	1,178	1,247
4	262	553	679	683	878	1,029	1,055	1,053	1,126	1,112	1,157	1,218	1,178	1,241	1,386	1,469	1,633	1,838	1,918
5	1,892	2,626	2,085	2,240	2,688	2,022	2,183	2,817	3,378	2,786	4,034	3,778	2,368	4,650	10,586	6,227	7,130	7,676	9,744
6	1,965	1,847	1,834	1,891	2,125	2,155	1,711	1,837	1,567	1,724	1,616	1,747	1,610	1,906	1,353	788	(462)	1,838	1,809
7	959	1,407	1,662	2,022	1,615	1,566	2,319	2,710	2,832	2,431	2,473	2,890	2,950	3,183	3,272	3,672	4,321	4,122	4,378
8	7,928	9,993	9,765	10,896	11,820	11,587	11,814	13,316	14,235	13,767	15,301	16,571	15,484	18,463	23,714	19,662	20,588	22,961	26,109
9	1,689	1,912	2,135	1,943	2,365	2,150	2,457	2,090	1,929	1,748	1,351	1,183	1,335	1,640	1,813	2,264	2,074	2,926	3,219
10	9,617	11,905	11,900	12,839	14,185	13,737	14,271	15,406	16,164	15,515	16,652	17,754	16,819	20,103	25,527	21,926	22,662	25,887	29,328
Expense by Function^b																			
11	3,244	3,114	3,372	3,631	3,895	4,129	4,352	4,194	3,928	3,773	4,006	4,401	4,660	5,341	5,946	6,846	6,917	7,634	9,071
12	3,114	3,118	3,227	3,379	3,532	3,676	3,904	4,036	3,756	3,713	3,738	4,081	4,241	4,735	5,040	6,099	5,461	5,850	6,384
13	1,270	1,329	1,434	1,502	1,567	1,746	1,889	1,721	1,495	1,456	1,511	1,564	1,560	1,668	1,790	1,942	2,108	2,265	2,475
14	5,725	5,137	5,077	5,328	5,741	5,501	6,031	5,172	4,301	3,739	3,446	3,727	3,885	4,612	5,200	5,184	5,567	5,731	5,921
15	13,353	12,698	13,110	13,840	14,735	15,052	16,176	15,123	13,480	12,681	12,701	13,773	14,346	16,356	17,976	20,071	20,053	21,480	23,851
16	297	572	797	1,115	1,282	1,314	1,419	1,654	1,746	1,683	1,462	1,322	1,379	956	980	774	476	271	302
17	13,650	13,270	13,907	14,955	16,017	16,366	17,595	16,777	15,226	14,364	14,163	15,095	15,725	17,312	18,956	20,845	20,529	21,751	24,153
18	(4,033)	(1,365)	(2,007)	(2,116)	(1,832)	(2,629)	(3,324)	(1,371)	938	1,151	2,489	2,659	1,094	2,791	6,571	1,081	2,133	4,136	5,175
BALANCE SHEET																			
19	7,784	6,419	4,412	2,296	464	(2,165)	(7,054)	(8,313)	(7,355)	(6,255)	(3,728)	(1,089)	(63)	2,654	9,042	9,814	11,696	15,607	20,395
20	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8,220	7,669	7,411	7,292	7,215	7,218	7,259	8,002	10,141	10,309	10,534	10,921
21	(6,625)	(7,946)	(8,004)	(8,243)	(6,156)	(5,774)	(4,770)	(5,066)	(5,352)	(5,352)	(4,981)	(4,890)	(4,813)	(4,728)	(4,742)	(4,771)	(4,927)	(5,059)	(5,235)
22	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(5,159)	(5,038)	(4,196)	(1,417)	1,236	2,342	5,185	12,302	15,184	17,078	21,082	26,081
23	10,091	11,105	13,069	15,527	16,647	17,406	20,305	22,701	21,451	20,531	17,733	14,976	14,106	12,020	8,195	5,261	4,736	3,730	—

^a Numbers have been restated on 2004-05 basis where possible. Numbers for 2001-02 forward are fully comparable. For the period 1992-93 to 2000-01 numbers are essentially comparable to the 2004-05 presentation with exception of the treatment of disposal of capital assets (in most years variance of less than \$100 million). Prior to 1992-93, spending is on an expenditure basis, using actual capital investment rather than capital amortization costs.

^b Expense does not include the change in pension obligations. Beginning in 1996-97, valuation adjustments have been allocated by function. In prior years, all valuation adjustments were included in other program expense.

^c Does not include pension obligations. Net debt was increased by \$1,474 million in 1992-93 primarily for a provision for school construction debt, reduced by \$125 million in 1993-94 to record personal income tax and established programs financing entitlements on an accrual basis, and increased by \$32 million in 1995-96 to report some other revenues on accrual basis.

^d Includes tangible capital assets and inventories of supply. Information not available prior to 1992-93. In 1994-95, includes the disposal of \$449 million in capital assets, (primarily transfer of secondary highways to municipalities). In 2001-02, includes \$1.8 billion transfer of provincial secondary highway system from municipalities to the Province.

^e Net of cash set aside for future debt repayments. In 2001-02, the amount of \$5,261 million includes commitment of \$414 million to debt retirement based on a higher-than-expected year end cushion. This amount was transferred in 2002-03 from other assets.