

TABLE OF CONTENTS

PREFACE	3
MINISTER'S ACCOUNTABILITY STATEMENT	4
MESSAGE FROM THE MINISTER	5
MANAGEMENT'S RESPONSIBILITY FOR REPORTING	7
OVERVIEW	9
MINISTRY VISION, MISSION, CORE BUSINESSES AND GOALS	10
RELATIONSHIP OF FINANCE DEPARTMENT AND REPORTING ENTITIES	
TO CORE BUSINESSES	11
OPERATIONAL OVERVIEW	12
Office of Budget and Management	12
Tax and Revenue Administration	12
Investment, Treasury and Risk Management	13
Pensions, Insurance and Financial Institutions	15
Policy and Strategic Planning Division	15
Regulatory Agencies	16
SUMMARY OF KEY ACTIVITIES IN THE PAST YEAR	19
REPORT OF THE AUDITOR GENERAL ON THE RESULTS OF APPLYING	
SPECIFIED AUDITING PROCEDURES TO PERFORMANCE MEASURES	22
RESULTS ANALYSIS	23
MINISTRY FINANCIAL HIGHLIGHTS	24
PERFORMANCE MEASURES, TARGETS AND RESULTS	27
CORE BUSINESS: FISCAL PLANNING AND FINANCIAL MANAGEMENT	27
Goal 1 A Financially Strong, Sustainable and Accountable Government	28
Goal 2 A Fair and Competitive Provincial Tax System	30
Goal 3 Revenue Programs are Administered Fairly, Efficiently and Effectively ...	33
CORE BUSINESS: INVESTMENT, TREASURY AND RISK MANAGEMENT	34
Goal 4 Investment Policies that will Provide the Greatest Financial Returns	
with an Acceptable Level of Risk, for Current and Future Generations	
of Albertans	35
Goal 5 Superior Investment Returns Subject to Client-defined Objectives	
and Policies	36
Goal 6 Effective Management of Financial Assets, Liabilities and Risk	37
Goal 7 Proactively Managed Risk	38

CORE BUSINESS: FINANCIAL SECTOR AND PENSIONS	40
Goal 8 Reliable and Competitive Financial and Insurance Products and Services	41
Goal 9 Quality and Competitive Financial Services Accessible to Albertans and Local Authorities	42
Goal 10 An Effective, Efficient and Streamlined Securities Regulatory System	43
Goal 11 Pensions that Deliver on Promises	44
FINANCIAL INFORMATION	
TABLE OF CONTENTS	47
FINANCIAL STATEMENTS OF THE MINISTRY AND ITS ENTITIES	49
SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION OR BY DIRECTION OF THE MINISTER OF FINANCE	399
ALPHABETICAL LIST OF GOVERNMENT ENTITIES' FINANCIAL STATEMENTS IN MINISTRY 2005-06 ANNUAL REPORTS	541

PREFACE

Public Accounts 2005-06

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.

The Annual Report of the Government of Alberta released June 26, 2006 contains the Minister of Finance's accountability statement, the consolidated financial statements of the Province and a comparison of the actual performance results to desired results set out in the government's business plan, including the *Measuring Up* report.

This annual report of the Ministry of Finance contains the Minister's accountability statement, the audited consolidated financial statements of the Ministry and a comparison of actual performance results to desired results set out in the ministry business plan. This Ministry annual report also includes:

- the financial statements of entities making up the Ministry including the Department of Finance, regulated funds, provincial agencies and Crown-controlled corporations for which the Minister is responsible,
- other financial information as required by the *Financial Administration Act* and *Government Accountability Act*, either as separate reports or as a part of the financial statements, to the extent that the Ministry has anything to report, and
- financial information relating to trust funds.

MINISTER'S ACCOUNTABILITY STATEMENT

The Ministry's Annual Report for the year ended March 31, 2006, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at September 22, 2006 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[Original Signed]

Honourable Shirley McClellan
Minister of Finance
September 22, 2006

MESSAGE FROM THE MINISTER

Alberta observed a number of significant milestones in the 2005-06 fiscal year. We celebrated our Province's 100th anniversary and it was the first time in 12 years in which resources were not required for debt reduction.

With our debt-free status and record resource revenue, we have been able to dedicate the 2005-06 surplus to addressing Alberta's infrastructure needs and increasing the Province's savings. Albertans have themselves to thank - they kept us focused on getting the Province's fiscal house in order.

Regular inflation proofing of the Alberta Heritage Savings Trust Fund commenced in 2005-06, with the Fund retaining \$382 million to protect its value. As well, the government deposited \$1.75 billion in the Heritage Fund, including \$750 million for the new advanced education endowment.

Alberta's exceptional financial performance in 2005-06 also permitted increases in other savings: \$200 million in the Alberta Heritage Foundation for Medical Research Endowment Fund, \$100 million in the Alberta Heritage Science and Engineering Research Endowment Fund, and \$250 million in the Alberta Heritage Scholarship Fund.

The government's fiscal framework was amended in 2005-06 to reflect the current energy marketplace and the elimination of the accumulated debt. The limit on resource revenue that can be used for budget purposes was increased to \$4.75 billion.

The Sustainability Fund, created to protect spending from volatile revenue and the cost of emergencies and disasters, provided \$1 billion to help pay for the costs of disasters such as floods, forest fires and mountain pine beetles, and to provide natural gas rebates triggered by high natural gas prices.

Our Province's strong fiscal position continues to be recognized by international bond rating services. For the fifth consecutive year, Dominion Bond Rating Service, Moody's Investor Service, and Standard and Poors rated Alberta as triple A. We are the only province in Canada with such status.

A competitive tax regime is important to attract investment and encourage entrepreneurship. Albertans and Alberta businesses continued to enjoy the lowest overall tax regime in Canada in 2005-06, as several measures were taken to maintain Alberta's tax competitiveness.

The Alberta Family Employment Tax Credit was enhanced by increasing payment amounts and expanding it to include more children. Senior homeowners began to receive assistance to protect them from increases to school property taxes.

A review of Alberta's tax system in 2005-06 resulted in changes introduced with *Budget 2006*: the general corporate income tax rate was reduced to 10 per cent from 11.5 per cent, health care insurance premium thresholds were increased, Alberta's personal income tax system continued to be adjusted to prevent inflation from increasing taxes, and the basic personal and spousal credit amounts were increased by an additional \$100.

Alberta's resource wealth belongs to all Albertans. With record resource revenue in 2005-06, the government gave \$1.3 billion back to Albertans in the form of the *Alberta 2005 Resource Rebate*.

Working or retired, Albertans want to know their pensions are secure. In 2005-06, we consulted with stakeholders on proposed regulatory amendments to improve the oversight of private sector pensions. The changes proposed in 2005-06 followed legislative amendments approved in the previous fiscal year to increase the transparency and accountability of pension plans.

Alberta is taking a lead role in reforming securities regulation. The first phase of the passport system was implemented across most of Canada in 2005-06, allowing participants to access multiple markets by meeting certain filing requirements in only one jurisdiction. We continue to work with our provincial and territorial partners to enhance investor protection and improve the competitiveness of Canada's capital markets.

The newly created Automobile Insurance Rate Board held public hearings and reviewed compulsory premiums in 2005-06. Premiums were reduced in November 2005, bringing total reductions to 15 per cent since reforms were implemented in the previous year to make automobile insurance fair and affordable for Albertans.

Thanks to the hard work and dedication of Albertans, we were able to make decisions to shape the next Alberta - with a well-educated workforce, strong fiscal position and a lead role in Canada - while at the same time looking back at 100 years of the province's history. It is the spirit and determination of Albertans that will see this province prosper as it heads into its next 100 years.

[Original Signed]

Shirley McClellan
Minister of Finance
September 22, 2006

MANAGEMENT'S RESPONSIBILITY FOR REPORTING

The executives of the individual entities within the Ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the Ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and business plans, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Finance. Under the direction of the Minister I oversee the preparation of the Ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with the government's stated accounting policies.

As Deputy Minister, in addition to program responsibilities, I establish and maintain the Ministry's financial administration and reporting functions. The Ministry maintains systems of financial management and internal control which give consideration to costs, benefits, and risks that 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 of public money,
- provide information to manage and report on performance,
- safeguard the assets and properties of the Province under Ministry administration,
- provide Executive Council, Treasury Board and the Minister of Finance any information needed to fulfill their responsibilities, and
- facilitate preparation of Ministry business plans and annual reports required under the *Government Accountability Act*.

In fulfilling my responsibilities for the Ministry, I have relied, as necessary, on the executive of the individual entities within the Ministry.

[Original Signed]

Brian Manning
Deputy Minister of Finance
September 22, 2006

O V E R V I E W



- **MINISTRY VISION, MISSION,
CORE BUSINESSES AND GOALS**
- **RELATIONSHIP OF FINANCE
DEPARTMENT AND REPORTING
ENTITIES TO CORE BUSINESSES**
- **OPERATIONAL OVERVIEW**
- **SUMMARY OF KEY ACTIVITIES IN
THE PAST YEAR**

ALBERTA FINANCE
ANNUAL REPORT

2005-06

MINISTRY VISION, MISSION, CORE BUSINESSES AND GOALS

Vision

A province that is innovative and globally competitive with a fiscally sustainable and accountable government.

Mission

Implement the government's fiscal framework and financial policies and provide innovative revenue, investment and risk management.

Core Businesses and Goals

Core Business: Fiscal Planning and Financial Management

- Goal 1 A Financially Strong, Sustainable and Accountable Government
- Goal 2 A Fair and Competitive Provincial Tax System
- Goal 3 Revenue Programs are Administered Fairly, Efficiently and Effectively

Core Business: Investment, Treasury and Risk Management

- Goal 4 Investment Policies that will Provide the Greatest Financial Returns, with an Acceptable Level of Risk, for Current and Future Generations of Albertans
- Goal 5 Superior Investment Returns Subject to Client-defined Objectives and Policies
- Goal 6 Effective Management of Financial Assets, Liabilities and Risk
- Goal 7 Proactively Managed Risk

Core Business: Financial Sector and Pensions

- Goal 8 Reliable and Competitive Financial and Insurance Products and Services
- Goal 9 Quality and Competitive Financial Services Accessible to Albertans and Local Authorities
- Goal 10 An Effective, Efficient and Streamlined Securities Regulatory System
- Goal 11 Pensions that Deliver on Promises

RELATIONSHIP OF FINANCE DEPARTMENT AND REPORTING ENTITIES TO CORE BUSINESSES

Core Businesses	Fiscal Planning and Financial Management	Investment, Treasury and Risk Management	Financial Sector and Pensions
Department and Reporting Entities	<ul style="list-style-type: none"> • Office of Budget and Management • Treasury Management • Tax and Revenue Administration 	<ul style="list-style-type: none"> • Alberta Investment Management 	<ul style="list-style-type: none"> • Pensions, Insurance Financial Institutions • Policy and Strategic Planning
		<p>Funds</p> <ul style="list-style-type: none"> • <i>Alberta Risk Management Fund</i> <p><i>Endowment Funds</i></p> <ul style="list-style-type: none"> • <i>Alberta Heritage Savings Trust Fund</i> • <i>Alberta Heritage Foundation for Medical Research</i> • <i>Alberta Heritage Scholarship Fund</i> • <i>Alberta Heritage Science and Engineering Research Endowment Fund</i> 	<p>Agencies, Boards and Commissions</p> <ul style="list-style-type: none"> • <i>Alberta Capital Finance Authority</i> • <i>Alberta Pension Administration Corporation</i> • <i>Alberta Local Authorities Pension Plan Corporation</i> • <i>ATB Financial</i> • <i>Alberta Automobile Insurance Rate Board</i> • <i>Alberta Insurance Council</i> • <i>Alberta Securities Commission</i> • <i>Credit Union Deposit Guarantee Corporation (CUDGC)</i>

OPERATIONAL OVERVIEW

MINISTRY OF FINANCE

www.finance.gov.ab.ca

Terrace Building, 9515 - 107 Street
Edmonton, Alberta
T5K 2C3

Haultain Building, 9811 - 109 Street
Edmonton, Alberta
T5K 2L5

1100, 715-5th Avenue S.W.
Calgary, Alberta
T2P 2X6

Office of Budget and Management (OBM)

OBM manages the provincial budget and business plan review and approval process, prepares economic and fiscal forecasts, and provides research, analysis and recommendations on the Province's fiscal, economic and taxation policies. OBM is responsible for intergovernmental fiscal relations and for providing statistical information about the Province. It also proposes and prepares accounting and financial control policies, budget documents, quarterly budget updates, annual financial statements and performance measurement reports.

OBM is divided into the following six areas: Budget Planning and Integration, Business Planning, Economics and Public Finance, Financial Accounting and Standards, Performance Measurement, and Tax Policy.

Tax and Revenue Administration (TRA)

TRA administers Alberta Finance's tax and related programs, and contributes to the development of tax policy within the Province. The focus is a fair, competitive, simple and efficient provincial tax and revenue system.

Corporations, individuals and trusts are registered under the *Corporate Income, Tourism Levy, Fuel Tax* and *Tobacco Tax Acts* for the various programs TRA administers. The division maintains client accounts, processes tax payments, provides refunds, validates and processes tax returns and rebate claims, and initiates filing and collection activities for all TRA clients.

Desk and field audits of corporate and commodity taxpayers' books and records are performed to ensure compliance with provincial tax legislation. If tax or tax credit errors are noted, the necessary remedial action, including reassessment, is taken. TRA also partners with Government of Alberta ministries and other provincial/federal tax administrations on initiatives to develop policies, improve compliance and implement educational strategies for the efficient administration of tax and revenue programs.

TRA provides information and responses to general enquiries, technical opinion and ruling services to clients and staff, and administers dispute resolution mechanisms for TRA actions. TRA works with the Tax Policy group in Finance to develop tax policies and legislation and provides central services for the federal GST to other Alberta ministries and agencies. As part of its client relations function, TRA coordinates client group meetings to discuss common issues. To support and promote compliance, TRA produces and maintains a variety of hardcopy and online publications. These are

designed to assist internal and external clients to understand tax legislation and requirements in Alberta. TRA has four branches: Revenue Operations, Audit, Tax Services, and Business Technology Management.

Investment, Treasury and Risk Management

Alberta Investment Management (AIM) is comprised of three operating groups: the Investment Management Division (IMD), the Investment Administration Division (IAD), and the Internal Audit and Compliance Office (IACO).

IMD is the fifth largest public sector asset manager in Canada with \$61.3 billion in assets under management as of March 31, 2006. IMD was established to act as the investment manager for pools of capital assigned by statute to the Minister of Finance and for the assets of other provincial public sector bodies, where specific agreements have been made.

IMD is organized into nine functional areas: Portfolio Analysis and Research, Active Canadian Equities, Fixed Income Operations, Structured Investments, Fund Management, External Fund Management, Real Estate, Mortgages and Private Placements.

IMD provides a comprehensive set of products, including such asset coverage as fixed income, public and private equities, infrastructure, timberlands, real estate, commercial mortgages and absolute return strategies. In some cases, specialized private sector investment managers are used to manage specific investment mandates.

IMD manages the assets of a broad range of client funds including six public sector pension funds, a number of endowment funds, and other special purpose funds. As of March 31, 2006, assets under management include:

- Pension Investments (totaling \$24.2 billion) comprising of the Local Authorities Pension Plan, the Public Service Pension Plan, the Management Employees Pension Plan, the Universities Academic Pension Plan, the Special Forces Pension Plan, the Special Forces Indexing Plan, the Provincial Judges and Masters in Chambers Pension Fund, the Provincial Judges Supplementary Retirement Pension Plan, and the Supplementary Retirement Plan for Public Service Managers.
- Government Investments (totaling \$33.6 billion) comprising of the General Revenue Fund, the Sustainability Fund, the Debt Retirement Account, the Capital Account, the Alberta Heritage Savings Trust Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund, the Ultimate Heir Trust "B" Endowment Fund, Alberta Innovation and Science Prion Research Initiative Fund and other government portfolios.
- Other Investments (totaling \$3.5 billion) comprising of funds managed on behalf of the Workers' Compensation Board, the Long Term Disability Fund Bargaining Unit, the Long Term Disability Fund Management, Opted Out and Excluded Employees, and other funds.

IAD has three internal groups: Securities Administration, Investment and Debt Information Systems, and Valuation and Fund Accounting. IAD provides support for investment operations including trade transaction monitoring and processing; fund and portfolio valuation and performance measurement; custodial bank interface and oversight; investment systems oversight and systems support; development and maintenance.

Securities Administration works with the Investment Management Division (IMD) to ensure investment data is captured appropriately in the systems and that the financial transactions are settled with the corresponding brokers and financial institutions. Investment and Debt Information Systems is responsible for all of the software development, systems development and support required within IAD, IMD, and the Treasury Management Division. Valuation and Fund Accounting prepares the weekly valuation of investment portfolios, measures investment performance, and processes pooled fund unit transactions.

IACO is responsible for a risk-based compliance and internal audit program for the investment operation. This group is headed by the Lead Internal Audit and Compliance Officer and is independent of any investment unit. IACO reviews the reliability and integrity of financial, administrative and operational information. This is accomplished by reviewing operations and programs to ascertain whether they are being carried out as planned, and whether the results of operations are consistent with the established goals and objectives.

Treasury Management (TM) is responsible for cash management of short-term borrowing and investments, banking and cash forecasting, and arranging financing for the government and provincial corporations. TM is also responsible for managing the investment of the assets of the General Revenue Fund set aside for specific purposes such as debt retirement, sustainability and capital projects and monitoring and managing loans and guarantees. The division provides financial and banking advice to other government departments including active involvement in the Province's P3 projects. TM is divided into the following three areas: Capital Markets, Loans and Guarantees, Banking and Cash Forecasting.

Risk Management and Insurance (RMI) collaborates with ministries and agencies throughout government to assist them with identifying, measuring, controlling and financing the risk of accidental loss. The program is responsible for all "participants" subject to the *Financial Administration Act*.

RMI is divided into two areas: Risk Management Operations and Claims Management. Risk Management Operations assists participants to identify, minimize and, where appropriate, finance adverse effects of accidental loss. Claims Management administers all claims covered under the Province's Risk Management Fund and makes recommendations aimed at reducing risk.

Pensions, Insurance and Financial Institutions

The Pensions, Insurance and Financial Institutions (PIFI) division is responsible for the regulation and oversight of credit unions, loan and trust corporations, financial institutions, insurance companies and private sector pension plans. It also provides policy support and analysis to the Minister of Finance in these areas, as well as for ATB Financial, public sector pension plans and the Canada Pension Plan. The Division is the government contact for the following entities that report to the Minister of Finance: Automobile Insurance Rate Board; Alberta Insurance Council; Credit Union Deposit Guarantee Corporation; Alberta Pensions Administration Corporation; Alberta Local Authorities Pension Plan Corp.; ATB Financial and Alberta Capital Finance Authority. PIFI is divided into the following five areas: Pensions, Insurance, Financial Institutions, Public Sector Pension Policy, and Divisional Support.

Policy and Strategic Planning

Policy and Strategic Planning (PSP) is responsible for short and long-term revenue analysis, and for policy development to support the Ministry's core businesses and goals. Policy and Strategic Planning works closely with Tax and Revenue Administration and the Office of Budget and Management. PSP provides oversight of securities regulation in Alberta and support to the Endowment Fund Policy Committee, which provides advice on appropriate investment policies for Alberta's endowment funds.

REGULATORY AGENCIES

Automobile Insurance Rate Board (AIRB)

www.airb.gov.ab.ca

#200 Terrace Building, 9515 - 107 Street
Edmonton, Alberta
T5K 2C3

AIRB is responsible for setting premiums annually for compulsory automobile coverage and monitoring optional coverages.

A copy of the AIRB's annual report can be obtained from its internet site or by contacting the Edmonton office.

Alberta Insurance Council (AIC)

www.abccouncil.ab.ca

#901 TD Tower, 10088 - 102 Avenue
Edmonton, Alberta
T5J 2Z1

AIC is responsible for examining, licensing and disciplining insurance agents, brokers and adjusters in Alberta and for investigating consumer complaints against the industry.

The Annual Report for AIC is available on its internet site.

Credit Union Deposit Guarantee Corporation (CUDGC)

www.cudgc.ab.ca

18th Floor, 10130 - 103 Street
Edmonton, Alberta
T5J 3N9

CUDGC regulates and supervises the business practices of Alberta credit unions and guarantees deposits according to legislation. While CUDGC strives to maintain the Deposit Guarantee Fund at a level that will enable the Corporation to independently provide the 100% deposit guarantee, the Government of Alberta will ensure that CUDGC can fulfill its guarantee obligation. The Corporation provides advice to Alberta credit union boards and management to help improve their skills and help them avoid unsound business practices or other problems.

The Annual Report for CUDGC is available on its internet site.

Alberta Pensions Administration Corporation (APA)www.apaco.ab.ca

3rd Floor, 10611 - 98 Avenue
Edmonton, Alberta
T5K 2P7

APA provides pension administration services to boards, employers, members and pensioners of Alberta public sector pension plans. Those pension services consist of the collection of pension contributions, maintenance of member accounts, payments of pension benefits and provision of information.

Services are provided to 472 employers, approximately 187,000 active and deferred members, and 58,000 pensioners.

APA's Annual Report is available on its internet site.

Alberta Local Authorities Pension Plan Corp.www.lapp.ab.ca

P.O. Box 1315
Edmonton, Alberta
T5J 2M8

Alberta Local Authorities Pension Plan Corp. (LAPP Corp.) was created in December of 2005 for the purpose of providing support to the Local Authorities Pension Plan Board of Trustees (LAPP Board) in the execution of their legislated objects set out in the *Public Service Pension Plans Act*.

LAPP Corp. provides analysis and recommendations on matters related to the legislative obligations of the LAPP Board as well as high-level strategic guidance on broader issues that may impact the plan. In fulfilling these roles, LAPP Corp. works closely with the LAPP Board, APA, and other LAPP stakeholders.

ATB Financialwww.atb.com

9888 Jasper Avenue
Edmonton, Alberta
T5J 1P1

ATB Financial (ATB) is a \$17.6 billion, full-service financial institution based in Edmonton, Alberta. As a leading financial services provider to individuals, small business and the agri-industry in Alberta, it serves 600,000 Albertans in 242 communities through various branches and agencies, as well as through a Customer Contact Centre and the Internet. The repayment of all deposits held by ATB is guaranteed by the Province.

ATB Financial's Annual Report is available on its internet site.

Alberta Capital Finance Authority (ACFA)

www.acfa.gov.ab.ca

2450 Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta
T5J 3N6

ACFA is a non-profit authority established under the authority of the *Alberta Capital Finance Authority Act*. Its mission is to provide local authorities within the Province with flexible funding for capital projects at the lowest possible cost while still maintaining the viability of the ACFA.

In order to deliver the lowest possible funding cost, ACFA debt obligations are guaranteed by the Province.

ACFA's Annual Report is available on its internet site.

SUMMARY OF KEY ACTIVITIES IN THE PAST YEAR

- Alberta marked its centennial year with the beginning of a new fiscal era for the province. *Budget 2005* was the first budget in 12 years in which resources were not required for debt reduction after Alberta eliminated its accumulated debt in 2004-05.
- Alberta recorded a surplus for the twelfth consecutive year. As reported in the *2005-06 Government of Alberta Annual Report*, revenue exceeded expense by \$8.7 billion, about \$7 billion higher than budgeted. The increase was primarily due to record resource revenue of \$14.3 billion.
- Alberta's economy out-performed every other province for the second-straight year, growing by 4.5 per cent in 2005. Employment grew by almost 27,000, or 1.5 per cent, as Alberta recorded the lowest unemployment rate among provinces at 3.9 per cent. Albertans had the highest personal disposable income per capita in Canada, 19 per cent above the national average. High energy prices encouraged strong exploration and development activity in Alberta's energy sector, while retail sales increased by 12 per cent, almost double the Canadian average. Housing starts reached a 27-year high, manufacturing shipments increased by 12 per cent and the agriculture sector experienced some improvement with the opening of the U.S. border to live cattle under the age of 30 months. For the ninth consecutive year, Alberta attracted the highest net interprovincial migration in Canada.
- Of the \$8.7 billion surplus allocated to the Sustainability Fund, \$3.6 billion was transferred to the Capital Account to help pay for capital projects in future years. Another \$2.7 billion was deposited in the Heritage Fund and other endowments. The remaining surplus was left in the Sustainability Fund. Including the cash to be transferred from better than forecast fourth quarter results, assets in the Sustainability Fund will be \$5.2 billion, \$2.7 billion higher than the minimum target of \$2.5 billion.
- Over \$1.3 billion was provided to Albertans through the *Alberta 2005 Resource Rebate*.
- In 2005-06, over \$1 billion was withdrawn from the Alberta Sustainability Fund to pay for emergencies/disasters such as flooding in southern Alberta, forest fires, mountain pine beetle infestations, and BSE as well as natural gas rebates.
- During the 2005-06 fiscal period, all endowment funds exceeded target performance measures, including the Heritage Savings Trust Fund which posted an overall rate of return of 15.2 per cent. The positive performance reflects strong economic growth in domestic and international markets, prudent investment management and careful asset mix selection.
- Alberta maintained its triple A credit rating, the highest among all the provinces. Rating agencies cite Alberta's strong financial position, the government's commitment to debt repayment and its record of balancing budgets as the key reasons for the top rating.

- The government conducted a review of the tax system in 2005-06, examining a wide range of issues including competitiveness with other jurisdictions, ongoing revenue needs and priorities for future tax cuts. The review concluded Alberta's tax system serves the province well for the most part, with Albertans continuing to enjoy the lowest overall tax load in Canada. Two priorities identified for future tax cuts were further reductions to the general corporate income tax rate and personal tax relief for lower and middle income Albertans. The government acted on these priorities in *Budget 2006*, reducing the corporate income tax rate from 11.5 per cent to 10 per cent, increasing health care insurance premium thresholds, adjusting the personal income tax system to prevent inflation from increasing taxes, and raising basic and spousal credit amounts by an additional \$100 above the indexation adjustment.
- The Alberta Family Employment Tax Credit was enhanced by increasing payment amounts, expanding it to include more children, and indexing benefits. Families are now able to receive up to \$550 for the first child, \$500 for the second, \$300 for the third and \$100 for the fourth. The government also began to provide assistance to senior homeowners to protect them from increases to school property taxes.
- The provincial uniform school property tax rates were reduced by 5 per cent in 2005, marking the twelfth straight year rates have been either reduced or frozen.
- The hotel room tax was reduced from 5 per cent to 4 per cent and converted into a tourism levy. Annual tourism funding is now based on the revenue received under the program.
- Through the revision of returns and claims, the Tax and Revenue Administration (TRA) Division of Finance collects overdue accounts to recover tax revenues that otherwise may be lost. TRA's efforts, which had associated costs of \$24.9 million, obtained an additional \$296.5 million of net revenue, essentially recovering \$12 for every \$1 spent. Approximately 93.7 per cent of tax revenue was obtained through voluntary compliance. This year's positive result was influenced by large voluntary revenue increases related to strong economic activity and expanded audit coverage resulting in better self-compliance.
- A new *Fuel Tax Act* was introduced and passed. The new act now awaits proclamation pending the development of the new Fuel Tax Regulations.
- A new act, the *Unclaimed Personal Property and Vested Property Act*, was introduced but not passed yet. The new act will establish a repository for unclaimed property and clear rights, obligations and procedures for managing vested property in Alberta.
- Premiums on mandatory auto insurance were reduced by 10 per cent in 2005. A 6 per cent reduction was introduced on July 1. An additional 4 per cent reduction came into effect November 1, following four days of public meetings with stakeholder groups and Alberta residents in June. The total premium reduction since reforms were introduced is 15 per cent.
- Changes to the *Fiscal Responsibility Act* established the Debt Retirement Account (DRA) within the General Revenue Fund. The amount of financial assets in the DRA at fiscal year-end must be equal or greater than the amount of accumulated debt and can only be used for debt repayment. As of March 31, 2006, Alberta's accumulated debt, less the cash set aside in the DRA, was zero.

- Alberta Finance has committed to review and rewrite the statutory provisions of the *Insurance Act* related to contracts by 2006-07. Stakeholders were consulted and the Government of Alberta is working in conjunction with the Government of British Columbia. The Pension, Insurance and Financial Institutions division will proceed with amendments to the *Insurance Act* based on these submissions and other relevant factors.
- The Alberta Government continued to work with other provinces and territories on the commitment to develop highly harmonized securities legislation. In September 2005, amendments to Canada's securities regulatory system came into effect, making it easier for businesses to access capital markets in most provinces and territories. The amendments formed the first step in implementing a passport system agreed to under a provincial/territorial Memorandum of Understanding signed in September 2004.
- Legislation was introduced to enhance protection of investors against false and misleading information issued by companies operating in Alberta's capital markets. Bill 25, an amendment to the *Securities Act*, grants secondary market investors the statutory right to sue public companies in Alberta that provide misleading disclosure or fail to make timely disclosure.
- ATB Financial had a net income of \$199 million for the year. Total assets grew to \$17.6 billion, up 14 per cent from the previous year. Retained earnings at March 31, 2006 were in excess of \$1.3 billion.
- Expenses of the Ministry of Finance were \$12 million, or 1.4 per cent under budget for 2005-06 due to such factors as lower manpower expenses, lower contracted services costs and lower interest costs.



REPORT OF THE AUDITOR GENERAL ON THE RESULTS OF APPLYING SPECIFIED AUDITING PROCEDURES TO PERFORMANCE MEASURES

TO THE MEMBERS OF THE LEGISLATIVE ASSEMBLY

Management is responsible for the integrity and objectivity of the performance results included in the *Ministry of Finance's 2005-06 Annual Report*. My responsibility is to carry out the following specified auditing procedures on performance measures in the annual report. I verified:

Completeness

1. Performance measures and targets matched those included in Budget 2005. Actual results are presented for all performance measures.

Reliability

2. Information in reports from external organizations, such as Statistics Canada, matched information that the Ministry used to calculate the actual results.
3. Information in reports that originated in the Ministry matched information that the Ministry used to calculate the actual results. In addition, I tested the processes the Ministry used to compile the results.

Comparability and Understandability

4. Actual results are presented clearly and consistently with the stated methodology and are presented on the same basis as targets and prior years' information.

I found no exceptions when I performed these procedures.

As my examination was limited to these procedures, I do not express an opinion on whether the set of measures is relevant and sufficient to assess the performance of the Ministry in achieving its goals.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
August 9, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

R E S U L T S A N A L Y S I S



- **MINISTRY FINANCIAL HIGHLIGHTS**
- **PERFORMANCE MEASURES,
TARGETS AND RESULTS**

ALBERTA FINANCE
ANNUAL REPORT

2005-06

MINISTRY FINANCIAL HIGHLIGHTS

REVENUE

(thousands of dollars)

	2005-06		2004-05
	Budget	Actual	Actual
Revenue	\$10,807,268	\$12,150,270	\$10,852,483

Revenue for the Ministry was \$1.3 billion, or 12% higher than last year.

(Actual – Actual)

- Strong personal income growth for Albertans resulted in higher personal income tax revenue for the province of \$1.35 billion on a gross basis. From this \$1.32 billion was paid out to all Alberta residents in the form of resource rebates.
- Corporate income taxes were higher than last year by \$552 million due to strong economic growth and higher energy prices.
- Higher cash and investment balances in the Sustainability Fund and the Capital Account along with higher realized gains in the endowment funds resulted in an increase of \$519 million in investment income.
- Higher lottery revenues resulted in an increase in transfers from the Lottery Fund of \$136 million as compared to the previous year.

Revenue for the Ministry was \$1.3 billion, or 12.4%, over budget.

(Budget – Actual)

- Investment returns were higher than budgeted in the endowment funds and balances increased in the Sustainability Fund and Capital Account resulting in an increase of \$953 million in investment income. Investment income in the Alberta Heritage Savings Trust Fund was \$716 million higher than budget; the Alberta Heritage Foundation for Medical Research Endowment Fund was \$71 million higher; the Alberta Science and Engineering Research Endowment Fund was \$38 million higher and the Alberta Heritage Scholarship Fund was \$31 million higher than budget. Investment income of the Department was \$100 million over budget. The Department's investment income comes from investments in the Sustainability Fund, the Capital Account and from the General Revenue Fund.
- Higher than expected lottery revenues resulted in increased transfers from the Lottery Fund to the General Revenue Fund of \$191 million over budget.
- Growth in loan and retail deposits and lower loan loss provisions at ATB Financial resulted in earnings of \$258 million over budget.

EXPENSE

(thousands of dollars)

	2005-06		2004-05
	Budget	Actual	Actual
Expense	\$889,971	\$877,669	\$907,608

Ministry expenses were \$30 million, or 3.2% lower than in 2005.

(Actual – Actual)

- The government continued to pay down its outstanding debt, resulting in lower debt servicing costs of \$54 million for the Department and \$33 million in Alberta Capital Finance Authority (ACFA).
- The Fiscal Planning and Financial Management program expenses were lower than last year by \$11.7 million due to lower interest payments on corporate income tax refunds, lower manpower costs as a result of vacancies and lower contract services costs.
- These savings were offset by increased investment management fees and higher pension provisions.

Expenses for the Ministry were \$12 million, or 1.4%, under budget.

(Budget – Actual)

- The Fiscal Planning and Financial Management program was \$8.9 million under budget mainly due to lower than the budgeted statutory interest payments on corporate tax refunds.
- The Financial Sector and Pensions program was \$9.1 million under budget due to the lower interest costs on the debt of the Alberta Capital Finance Authority.
- While the Investment, Treasury and Risk Management program was only \$3.6 million under budget, their activity included an \$11.25 million unbudgeted transfer to the Access to the Future Fund; a \$5 million reduction in transfers from the Medical Research Endowment Fund to the Medical Research Foundation due to reduced discretionary spending by the Foundation and a \$5.1 million reduction in transfers from the Science and Engineering Research Endowment Fund to the Science and Engineering Research Foundation due to delays in implementing new programs.
- Debt Servicing costs for the department were also \$43.1 million under budget due to the continued pay-down of the overall debt balances; \$2.5 billion in 2006, down from \$3.7 billion in 2005.
- This was offset by higher Valuation Adjustments of \$51.5 million. This variance was caused mainly by a \$40 million increase in the pension obligations on the pension funds administered by the Department of Finance. It was expected that these obligations would be reduced in the 2005-06 year. The increase in the obligations is mainly due to a change in the discount rate used in the actuarial calculation of the future cash flows of the pension plans.

EXPENSE BY CORE BUSINESS

MINISTRY EXPENSE BY 2005-06 CORE BUSINESS

(thousands of dollars)

	2005-06 Budget	2005-06 Actual	2004-05 Actual
Fiscal Planning and Financial Management	62,354	52,860	64,706
Investment, Treasury and Risk Management	494,101	447,337	480,629
Financial Sector and Pensions	346,516	337,396	355,732
1	902,971	837,593	901,067

EXPENSE BY FUNCTION

MINISTRY EXPENSE BY FUNCTION

(thousands of dollars)

	2005-06 Budget	2005-06 Actual	2004-05 Actual
Health	55,312	50,211	50,185
Education	23,842	34,254	23,104
Agriculture, Resource Management and Economic Development	23,488	18,261	13,854
Protection of Persons and Property	25,942	23,043	20,441
Regional Planning and Development	287,009	282,446	304,692
General Government	204,131	189,244	194,293
Debt Servicing Costs	283,247	240,134	294,498
1	902,971	837,593	901,067

1 Excludes pension provisions of \$13,000 for 2005-06 Budget and \$40,076 for 2005-06 Actual.
Excludes pension provisions of \$6,541 for 2004-05 Actual.

PERFORMANCE MEASURES, TARGETS AND RESULTS

CORE BUSINESS: FISCAL PLANNING AND FINANCIAL MANAGEMENT

Alberta's strategy for maintaining a balanced budget includes legislating a fiscal framework governing budgeting and fiscal management. In addition to making balanced budgets the law, the fiscal framework operates to protect fiscal plans from revenue volatility and the costs of emergencies and disasters. Responsibility for the framework - enshrined in the *Fiscal Responsibility Act (FRA)* - rests mainly with Alberta Finance.

In 2005-06, the framework was amended to establish the Debt Retirement Account (DRA) as an account within the General Revenue Fund. The amendment stipulated that DRA funds can only be used to repay accumulated debt as it matures and required the amount of financial assets in the DRA at fiscal year-end be equal to or greater than the amount of accumulated debt. Lastly, the amendment increased the amount of non-renewable resource revenue that can be used for budget purposes from \$4 billion to \$4.75 billion.

Finance has continued to provide assistance with respect to the Capital Plan, including advice on evaluation of Public Private Partnerships (P3s) and other alternative financing proposals. Finance also continued work on the implications and implementation of expanding the government's reporting entity. As a result, the *Government of Alberta 2005-06 Annual Report* (including the audited consolidated financial statements) included the net equity of Crown-controlled organizations in the SUCH sector (schools, universities, colleges and health authorities).

FINANCIAL INFORMATION (thousands of dollars)	2005-06 Budget	2005-06 Actual	Variance
Expenses for Core Business:			
Fiscal Planning and Financial Management	\$62,354	\$52,860	\$9,494

The Fiscal Planning and Financial Management program was \$9.5 million under budget mainly due to lower than budgeted statutory interest payments on corporate tax refunds of \$7.1 million. Higher staff vacancies caused lower manpower expenses with contracted services costs also being lower than expected.

Goal 1 A Financially Strong, Sustainable and Accountable Government

A financially strong, sustainable and accountable provincial government is important, not only to Albertans, but also to potential investors, businesses and workers. A legislated fiscal framework that sets parameters around budgeting confirms the government's commitment to fiscal responsibility. In addition, Alberta continues to be conservative in economic and revenue forecasting. This risk management approach produces prudent decision-making.

The financial results for 2005-06 reflect this prudent risk management approach. The budget was balanced for the twelfth consecutive year in 2005-06, with a surplus of \$8.7 billion. After taking into account required adjustments, the 2005-06 surplus was deposited in the Alberta Sustainability Fund. As assets in the Sustainability Fund were already above the \$2.5 billion target level, the cash from the surplus was available for allocation to other balance sheet accounts: \$3.6 billion was allocated to the Capital Account to help pay for capital projects in future years, \$2.7 billion was saved in the Alberta Heritage Savings Trust Fund and other endowments, and \$2.7 billion was retained in the Sustainability Fund.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Alberta's credit rating	AAA	AAA (2005-06)	AAA (2004-05)	AAA (2003-04)	AAA (2002-03)

Source: three rating agencies: Dominion Bond Rating Service, Moody's Investor Services and Standard and Poor's

A province's credit rating, in part, is an indication of the financial strength of the government. The Province of Alberta provides financial and economic data to three rating agencies: Dominion Bond Rating Service, Moody's Investor Services and Standard and Poor's. These firms evaluate this and other relevant information and then publish a credit rating based on their opinion of the credit worthiness of the Province.

Compared to British Columbia and Ontario, Alberta has the highest rating. In addition Alberta has the highest possible rating from all three major credit rating agencies. The rating agencies cite Alberta's strong financial position, the government's commitment to debt repayment, and its record of balancing budgets and meeting forecasts as the key reason for the top rating. This has resulted in Alberta's borrowing costs being the lowest of any Canadian province.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Percentage of Albertans who think they get enough information on the government's financial performance	70%	59% (2005-06)	55% (2004-05)	57% (2003-04)	63% (2002-03)

Source: Environics Research Group Limited: Focus Alberta report, and Finance.

The provincial government reports quarterly to Albertans on progress made in achieving the current year's fiscal plan. The *Government Accountability Act* sets out the reporting requirements. In 2006, Albertans were surveyed and asked the following question: "How satisfied are you with the information you receive from the Alberta government on the government's financial performance?" The 2005-06 survey results show that 59% of Albertans were satisfied with the information they received from the province on the government's financial performance. This is up from 55% in 2004-05 and below the target of 70%.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)	
Accumulated debt* (less cash set aside for debt repayment)	Zero	Zero (2005-06)	Zero (2004-05)	\$3.7 billion (2003-04) \$4.7 billion (2002-03)

* As defined by the *Fiscal Responsibility Act (FRA)*, Section 1(a)

Source: Government of Alberta, Consolidated Financial Statements for the year just ended

The level of accumulated debt is an indicator of the financial strength and long-term stability of the province. Debt burdens future generations with debt servicing costs and debt repayment obligations. Alberta's prudent fiscal management is reflected in the government's accelerated repayment of the Province's accumulated debt. As of March 31, 2006, Alberta's accumulated debt less cash set aside in the Debt Retirement Account is zero. Accumulated debt includes the outstanding consolidated debt of the General Revenue Fund, the debt of the Alberta Social Housing Corporation (net of borrowings from the General Revenue Fund) and the government's liability for school construction. The funds currently set aside in the Debt Retirement Account are locked in and will be used only to pay off the accumulated debt as it matures. This measure has been removed from the Ministry 2006-09 business plan.

Goal 2 A Fair and Competitive Provincial Tax System

Overall, Albertans pay the lowest taxes in Canada, with low taxes on income and fuel and no general sales tax. Our low tax regime leaves more money in the hands of Albertans and helps attract skilled workers to the province.

The government conducted a thorough review of the tax system in 2005-06. The review examined a wide range of issues, including our competitiveness with other jurisdictions, ongoing revenue needs, priorities for future tax cuts and whether certain taxes should be eliminated entirely. The review concluded that, for the most part, Alberta's tax system serves the province well.

The review highlighted two priorities for future tax cuts - further reductions to the general corporate income tax rate and personal tax relief that is directed primarily towards lower-and middle-income Albertans. The government acted on these priorities in *Budget 2006*. The general corporate income tax rate was reduced to 10 per cent from 11.5 per cent. On the personal side, health care insurance premium thresholds were increased and basic personal and spousal credit amounts were increased by \$100 above indexation.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Provincial tax load for a family of four	Lowest in Canada	Lowest in Canada (2005-06)	Lowest in Canada (2004-05)	Lowest in Canada (2003-04)	Lowest in Canada (2002-03)

Source: Alberta Finance, Office of Budget and Management, and Tax and Revenue Administration.

Alberta has the lowest provincial tax load for the representative two-income families who have annual incomes of \$60,000 and \$100,000 and the second-lowest tax load for the representative single-income family earning \$30,000.

In 2005-06, Alberta enacted several measures that helped taxpayers. Over \$1.3 billion was provided to Albertans through the *Alberta 2005 Resource Rebate*. The Alberta Family Employment Tax Credit was enhanced by increasing payment amounts and by including more children in the program. Payment for July 2006 and January 2007 will rise to \$560 for the first child, \$510 for the second, \$306 for the third and \$102 for the fourth child. Lastly, the government began to provide assistance to senior homeowners in order to protect them from increases to school property taxes.

PROVINCIAL TAX LOAD FOR A FAMILY OF FOUR*

	One-income family with two children earning \$30,000	Two-income family with two children earning \$60,000	Two-income family with two children earning \$100,000
Alberta	\$160	\$3,862	\$7,150
British Columbia	\$2,642	\$5,204	\$8,524
Saskatchewan	\$2,305	\$5,251	\$9,579
Manitoba	\$2,819	\$6,164	\$11,517
Ontario	\$2,069	\$4,895	\$9,476
Quebec	-\$1,115	\$5,381	\$13,939
New Brunswick	\$3,153	\$6,031	\$11,045
Nova Scotia	\$3,355	\$6,206	\$11,473
Prince Edward Island	\$3,894	\$6,974	\$12,097
Newfoundland and Labrador	\$4,233	\$7,424	\$13,450

* Includes provincial income, sales, payroll, tobacco and fuel taxes and health care insurance premiums.

Source: Alberta Finance, Interprovincial Tax and Health Care Insurance Premium Comparison, 2006; p. 142 of *Budget 2006*.

Calculations are based on the following assumptions:

- Business is assumed to bear between 25% and 60% of the provincial sales tax, depending upon the provincial tax regime.
- Health care insurance premiums are net of premium subsidies.
- In provinces that impose payroll taxes, 75% is assumed to be borne by employees and 25% by employers. The same 75/25 split is assumed for the net health care insurance premiums.
- Fuel tax is based on estimated consumption of 3,000 litres per year for one-income families and 4,500 litres for two-income families.
- Tobacco tax is based on estimated consumption of 100 packs per adult per year.
- Registered Retirement Savings Plan/Registered Pension Plan (RRSP/RPP) contributions of \$1,000, \$7,800 and \$13,500 are included in the calculation of personal income tax for the \$30,000, \$60,000 and \$100,000 families, respectively.
- For two-income families, income and RRSP/RPP contributions are split 60/40 between the two spouses.
- The children in each family are assumed to be 6 and 12 years old.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Provincial tax load on businesses	Lowest in Canada	Lowest in Canada (2005-06)	Second- lowest in Canada (2004-05)	Third- lowest in Canada (2003-04)	Third lowest in Canada (2002-03)
			Lowest in Canada (historical data was revised by Federal Department of Finance, resulting in Alberta being the lowest)	Lowest in Canada (historical data was revised by Federal Department of Finance, resulting in Alberta being the lowest)	Second- Lowest in Canada (historical data was revised by Federal Department of Finance, resulting in Alberta being the lowest)

Source: Federal Department of Finance

In 2005-06, Alberta's tax load on business was the lowest in Canada. Our closest competitor was New Brunswick, with a tax load that was 7.5 percentage points higher than Alberta's. Alberta's corporate tax regime has low corporate income tax rates and no capital taxes, payroll taxes or retail sales taxes on business purchases. Low overall taxes encourage entrepreneurs to start new businesses in Alberta or expand existing operations.

TAX LOAD ON BUSINESS*

	2005-06	2004-05
Alberta	71.8	61.3
New Brunswick	79.3	91.3
British Columbia	93.6	99.4
Ontario	98.7	108.5
Prince Edward Island	101.3	82.8
Nova Scotia	108.4	110.6
Quebec	110.3	102.1
Manitoba	113.9	120.3
Newfoundland and Labrador	145.6	91.9
Saskatchewan	241.9	205.9

Tax load relative to provincial average = 100

Note: Historical data revised by Federal Department of Finance.

* Includes business income, capital tax and insurance corporation tax revenues.

Source: Federal Department of Finance, February 2006 Third Estimate for 2005-06, Fifth Estimate for 2004-05.

Provincial tax load, or tax effort, compares actual tax revenues generated within a province to the revenue the province would generate if it taxed at national-average tax rates. Business taxes examined include business income taxes, capital taxes and insurance corporation taxes.

Each year, the provinces report their tax revenues by these categories to the federal government as part of the reporting requirements for the Equalization Program. The steps to calculate provincial tax loads are:

1. National-average tax rates are calculated by dividing total national tax revenues by the national tax base. The tax base for corporate income taxes, for example, is corporate profits.
2. The revenue the Province would generate if it taxed at national rates is equal to the national average tax rate multiplied by the provincial tax base for each of the tax categories.
3. The provincial tax load is equal to the ratio of actual provincial revenues divided by the results of the previous calculation multiplied by 100.

Goal 3 Revenue Programs are Administered Fairly, Efficiently and Effectively

Collecting taxes fairly, efficiently and effectively means that all taxpayers and claimants are treated with respect, receive excellent value for money spent on tax programs, and tax-evasion-related revenue losses are minimized.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Ratio of amounts added to net revenue to costs of administration	12:1	11.9:1 (2005-06)	9.6:1 (2004-05)	14:1 (2003-04)	12.3:1 (2002-03)

Source: Alberta Finance, Tax and Revenue Administration - CIT Browsers.

Through the revisions of returns and claims, the collection of overdue accounts, and audit activities, Tax and Revenue Administration (TRA) Division of Finance recovers tax revenues that otherwise may be lost. The calculation is based on the total additional revenue obtained through TRA's efforts, shown as a ratio of the total costs of TRA's operating budget.

The total amount added to net revenue for 2005-06 was \$296.5 million and the associated costs were \$24.9 million, resulting in a value added ratio of 11.9 to 1; that is, essentially, recoveries of \$12.00 for every \$1 spent. Reassessments resulting from two significant audits contributed to meeting this year's target.

PERFORMANCE MEASURE	2005-06 Target	Current Results
Percentage of revenue obtained through self-compliance	92%	93.7% (2005-06)

Source: TRA Monthly Status Report (IMAGIS, PILOT and Health Cost Recovery)

A new measure for 2005-08 was developed to measure the percentage of revenue obtained through self-compliance. The target for each three year period is 92%. Voluntary compliance is measured by dividing the tax revenue obtained from all sources (except revenue generated by TRA efforts, as identified above) by total revenue. This year's positive result was influenced by large voluntary revenue increases related to strong economic activity. Expanded audit coverage has also resulted in better self-compliance.

CORE BUSINESS: INVESTMENT, TREASURY AND RISK MANAGEMENT

An important objective of Alberta Investment Management (AIM) is to create portfolios that match the risk profiles and financial goals of clients' funds. Emphasis is placed on diversification and long-term investment horizon while considering the current financial needs of clients' funds. To meet these objectives, AIM has developed a wide range of investment products that can be combined to meet specific financial goals and risk tolerances. This multi-product approach is implemented on a pooled basis. Clients buy into the pools by purchasing units based on the current market value of the pools' investments. This approach is important to managing the funds efficiently and to ensuring that each client is treated fairly.

Considering the volatility of the financial markets, it is expected that the majority of the funds' returns will come from the long-term asset allocation decision. Incremental return is added through tactical asset allocation and security selection decisions. These decisions reflect the shorter-term market expectations, with consideration of both the risk and return. Both AIM and third party external manager expertise are used, ensuring the necessary specialized investment knowledge and skills are utilized in the most cost-effective manner. External managers are used primarily for investing in foreign equity markets, certain domestic equity markets, private equity, infrastructure, timberlands and absolute return strategies. Managers are chosen through a rigorous selection process and their performance is reviewed on a quarterly basis.

FINANCIAL INFORMATION (thousands of dollars)	2005-06 Budget	2005-06 Actual	Variance
Expenses for Core Business:			
Investment, Treasury and Risk Management	\$494,101	\$447,337	\$46,763

As the Government's outstanding debt balances continue to decline, the cost of servicing the debt decreases. The outstanding debt balance managed by the department was \$2.5 billion in 2006, down from \$3.7 billion in 2005. As a result in 2005-06, the debt servicing costs of the department were \$43 million lower than budgeted.

Other activity in the Investment, Treasury and Risk Management business included:

- An \$11.25 million unbudgeted transfer to the Access to the Future Fund;
- A \$5 million reduction in transfers from the Medical Research Endowment Fund to the Medical Research Foundation due to reduced discretionary spending by the Foundation; and
- A \$5.1 million reduction in transfers from the Science and Engineering Research Endowment Fund to the Science and Engineering Research Foundation caused by delays in implementing new programs.

Goal 4 Investment Policies that Will Provide the Greatest Financial Returns, with an Acceptable Level of Risk, for Current and Future Generations of Albertans

The mission of the Alberta Heritage Savings Trust Fund ("the Heritage Fund") is to provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans¹.

The Heritage Fund was created in 1976 to save a portion of non-renewable resource revenue. In 1997, the Alberta government adopted a new investment strategy for the Heritage Fund. This new strategy focuses on earning the greatest long-term returns for Albertans, within an acceptable level of risk.

During the fiscal year, the government of Alberta transferred \$1.75 billion into the Heritage Fund and began an inflation-proofing program that will preserve the real value of the Fund in the future.

PERFORMANCE MEASURE	2005-06 Target	Current Results*
Five-year market value rate of return of the Alberta Heritage Savings Trust Fund investment policy benchmark compared against Consumer Price Index (CPI)	Equal to or better than the Consumer Price Index plus 4.5% (target return was 6.7%)	10% (3.3% above the target) (2005-06)

* Two-year annualized market value rate of return of the Heritage Fund is 11.4% as of March 31, 2006. Refer to the *2005-06 Alberta Heritage Saving Trust Fund Annual Report* for further details.

Source: Alberta Investment Management, Finance.

As this performance measure was implemented in the fiscal year 2004-05 the two-year annualized market value rate of return of the Heritage Fund investment policy benchmark is compared to the two-year CPI plus 4.5% in the fiscal year 2005-06. In the future, the performance measure and target will be changed, based on how many years the new measure is in use until it builds up over time to five years. After five years, the performance measure and target stays fixed and will be calculated as an annualized five-year market value rate of return of the Heritage Fund investment policy benchmark compared against an annualized five-year CPI plus 4.5%.

¹ Preamble to the *Alberta Heritage Savings Trust Fund Act*.

Goal 5 Superior Investment Returns Subject to Client-defined Objectives and Policies

The primary objective of AIM is to maximize long-term financial returns while controlling risk at prudent levels. Meeting this objective underscores the important balance between risk and return. The strategies outlined in the Ministry's Business Plan support this objective by applying a prudent mix of internal investment resources and external investment management firms, and by developing and implementing new products and strategies to meet client needs.

PERFORMANCE MEASURE	2005-06 Target	Current Results
Five-year weighted average market value rate of return for endowment funds compared against the weighted average policy asset mix rate of return (benchmark) for endowment funds.	Benchmark plus 0.5%	All funds exceeded target benchmark (2005-06)

As this performance measure was implemented in the fiscal year 2004-05, two-year annualized market value rate of return of each endowment fund is compared against the two-year policy asset mix rate of return for that endowment fund in the fiscal year 2005-06. In the future, the performance measure and target will be changed based on how many years the new measure is in use until it builds up over time to five years. After five years the performance measure stays fixed and will be calculated as an annualized five-year weighted average market value rate of return for each endowment fund compared against the annualized five-year weighted average policy asset mix rate of return plus 0.5% for that fund.

ENDOWMENT FUND	2005-06 Target	Current Results
Alberta Heritage Savings Trust Fund	10.5%	11.4%
Alberta Heritage Foundation for Medical Research Endowment Fund	10.8%	11.5%
Alberta Heritage Scholarship Fund	11.4%	12.2%
Alberta Heritage Science and Engineering Research Endowment Fund	9.9%	10.5%
Ultimate Heir Trust "B" Endowment	10.9%	11.4%

Source: Alberta Investment Management., Alberta Finance

Goal 6 Effective Management of Financial Assets, Liabilities and Risk

The Government of Alberta's annual cash flow must be managed to optimize returns and to ensure cash is available to meet Alberta's obligations. The Minister of Finance is also responsible for managing several billion dollars in certain assets and the remaining liabilities. Through prudent management of assets and liabilities, the Ministry works at minimizing financing costs and maximizing investment returns.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)
Return on Sustainability Fund	Greater than approved benchmark	Return on the Fund exceeded the benchmark by 15 basis points (2005-06)	Return on the Fund exceeded the approved benchmark (2004-05) — (2003-04) — (2002-03)

Source: Alberta Finance Treasury Management

The Sustainability Fund was established to protect program and capital spending from revenue volatility and the costs of emergencies, disasters and natural gas rebates under the Natural Gas Price Protection Act. The Fund receives non-renewable resource revenue above the level available for budget purposes (\$4.75 billion in 2005-06) and any additional year-end surpluses, less required adjustments. When the assets of the Fund exceed \$2.5 billion, they can be allocated to other balance sheet improvements such as the Heritage Savings Trust Fund, endowment funds and the Capital Account.

Withdrawals from the Sustainability Fund are allowed to offset the costs of emergencies and disasters, natural gas rebates and settlements with First Nations. Withdrawals are also permitted if resource revenue drops below \$4.75 billion or if other revenue is below budget and to the extent resource revenue is over \$4.75 billion.

The Sustainability Fund changed its investment strategy in the last quarter. Consequently, performance for the first ten months of the year was compared to the combined returns of the Scotia Capital 91-day Treasury Bill Index and the Scotia 365-day Treasury Bill Index. In the final portion of the year performance was compared to the Scotia Short Term All Government Bond Index. For fiscal 2005-06 the performance of the fund was greater than the return on the indices. For the period of April 1, 2005 - March 31, 2006 the total return of the Sustainability Fund was 2.64% and the return for the benchmark was 2.49%. This measure has been removed from the Ministry 2006-09 business plan.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Return on Consolidated Cash Investment Trust Fund compared to the Scotia Capital 91-day Treasury Bill Index	Benchmark plus 5 basis points*	Under-performed the target by 1 basis point (2005-06)	Greater by 9 basis points** (or under-performed by 1 basis point) (2004-05)	Greater by 15 basis points*** (2003-04)	– (2002-03)

* Basis point is 1/100th of a per cent.

** The target for 2004-05 was "exceeds the benchmark by 10 basis points"

*** Benchmark was established in 2003-04

Source: Alberta Finance Treasury Management

The Consolidated Cash Investment Trust Fund (CCITF) is a money market fund used to manage the cash balances of the Province and depositors in the fund. A benchmark for the return on the fund has been established as the Scotia Capital 91-day Treasury Bill Index. The performance target is the index plus 5 basis points. The benchmark return plus 5 basis points for 2005-06 was 2.89%. The one-year return on the CCITF was 2.88% which was 1 basis point lower than the benchmark. The slight underperformance was due to the fact that as interest rates rise there is often a time lag before the fund can buy higher rate investments.

Goal 7 Proactively Managed Risk

Alberta Finance administers a program to protect, secure and preserve public assets against risk of significant accidental loss. Through the development of a strong risk management team, the Risk Management and Insurance Division (RMI) reviewed external and internal challenges and identified the need to proactively manage risk. RMI developed and implemented a strategy to improve the awareness of risk management within government. Core activities such as loss control, risk identification, claims management and risk financing were also assessed. In addition, a review was made on the need to enhance fund coverage. The sustainability of the funding was improved through modifications to the cost allocation system and is now responsive to the loss control efforts of participants.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Cost of risk (Includes claims and insurance premiums paid and the change in claims liability from the previous year)	\$6.9 million	\$7.9 million (2005-06)	\$6.6 million (2004-05)	\$15.8 million (2003-04)	\$10.3 million (2002-03)

Source: Alberta Finance, Risk Management Fund financial statements.

The scope of the assignment to our actuaries was expanded to include all financial aspects of the fund; as a result they identified previously unrecorded accrued liabilities of \$2.6 million. Although the actual numbers and types of claims received were as expected in 2005-06 this caused our self-insured losses to increase by \$2.6 million. This was offset by the premium costs being \$1.6 million less than budgeted. The resulting cost of \$7.9 million is \$1 million above budget. This measure has been removed in the Ministry 2006-09 business plan.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Value of the net assets of the Risk Management Fund	Net liability \$3.0 million	Net liability \$6.0 million (2005-06)	Net liability \$5.8 million (2004-05)	Net liability \$6.2 million (2003-04)	– (2002-03)

Source: Alberta Finance, Risk Management Fund financial statements

The Alberta Risk Management Fund operates under the authority of the *Financial Administration Act*. The fund facilitates the provision of risk management services to participants by assuming general and automobile liability and the risk of property and other losses.

The previously unrecorded accrued liabilities of \$2.6 million also affect the value of the net assets of the Risk Management Fund. As a result the Risk Management Fund did not achieve the reduction in the Net Liabilities which was budgeted. The Risk Management Fund's Net Liability is \$6.0 million, up \$150,000 from the prior year, which is \$3.0 million above budget.

CORE BUSINESS: FINANCIAL SECTOR AND PENSIONS

Alberta Finance regulates the industries of pensions, insurance and financial institutions through a legislative and regulatory framework that designates the duty of regulation and oversight to Alberta Finance as well as delegated crown organizations. By balancing the interests of stakeholders, including depositors, policyholders, investors and the companies themselves, the department helps to promote an efficient, fair and competitive financial sector in Alberta.

The Department regulates the Credit Union Central Alberta Ltd. (CUCA) and provides oversight to the Credit Union Deposit Guarantee Corporation (CUDGC), a crown organization that regulates credit unions in Alberta. Through CUDGC, the repayment of all deposits held within credit unions is guaranteed and Alberta Finance ensures CUDGC is able to fulfill its guarantee to credit union depositors.

In order to protect Albertans from a loss as a result of an automobile collision, all Albertans are required to carry a minimum level of automobile insurance. Consequently, Alberta Finance regulates the insurance industry for availability and affordability of insurance to all Albertans. In addition, all insurance companies and their counterparts are regulated by the Department of Finance in terms of their ability to pay claims and fairness of insurance to all Albertans.

Alberta Finance is responsible for administration of the *Employment Pension Plans Act*. The purpose of the Act is to safeguard benefits promised to members of registered pension plans by setting minimum standards for plan funding, investments, and qualifications for benefits. In addition, Alberta Finance is responsible for providing policy advice to government for several Alberta public sector pension plans and the Canada Pension Plan. The Alberta Pensions Administration Corporation (APA) provides administrative services.

FINANCIAL INFORMATION (thousands of dollars)	2005-06 Budget	2005-06 Actual	Variance
Expenses for Core Business:			
Financial Sector and Pensions	\$346,516	\$337,396	\$9,120

The Financial Sector and Pensions program was \$9.1 million under budget due to lower interest costs on the debt of the Alberta Capital Finance Authority (\$8.1 million). In addition, lower operating costs at the Alberta Securities Commission and Alberta Pension Administration Corporation also contributed to the positive variance, but were partially offset by higher costs experienced by the Automobile Insurance Rate Board for actuarial services and legal costs associated to defend the reform of automobile insurance. Most of the Board's spending increases are recoverable from the insurance industry.

Goal 8 Reliable and Competitive Financial and Insurance Products and Services

Albertans need to know that the financial services and products they receive are secure. Alberta Finance minimizes the risk related to financial products by regulating and providing oversight to credit unions, insurance, and loan and trust industries in Alberta.

There are currently 52 credit unions operating in Alberta through over 200 branches with assets exceeding \$11 billion, 58 loan and trust corporations registered to conduct business in Alberta and 297 insurance companies licensed to conduct business in Alberta.

All provincially incorporated credit unions, loan and trust corporations, insurance companies and CUDGC met minimum solvency requirements. No financial failures were recorded in 2005-06.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Revision of <i>Insurance Act</i> respecting contracts	<i>Insurance Act</i> review completed	Review completed (2005-06)	Ongoing (2004-05)	– (2003-04)	– (2002-03)

Source: Alberta Finance, Pensions, Insurance and Financial Institutions

Alberta Finance has committed to review and rewrite the statutory provisions of the *Insurance Act* respecting insurance contracts in 2006-07. In 2005, a work plan was finalized, outlining all the work to be completed, scheduled completion dates and details of the consultation process with stakeholders. The work plan required the department to complete consultation with stakeholders by 2005-06 before proceeding with amendments to the *Act*. All stakeholders were consulted via a written submission process requesting comments and recommendations for changes to Part 5 of the *Act*. As of March 31, 2006 Alberta Finance solicited, received and analyzed stakeholder submissions, and held initial consultation meetings with industry representatives.

Based on stakeholder submissions and other relevant factors, amendments to Part 5 of the *Insurance Act* will be drafted for introduction in 2007. The target for this measure has been met. This measure has been removed in the Ministry 2006-09 business plan.

Goal 9 Quality and Competitive Financial Services Accessible to Albertans and Local Authorities

The mandate for ATB Financial is to provide financial services predominantly to Alberta residents and corporations headquartered in all areas of the province. In doing so, ATB Financial must operate using sound financial institution and business principles with the objective of earning a fair return and in a manner that is operationally independent from government. In addition to the *Alberta Treasury Branches Act* and regulations, ATB Financial must comply with statutory provisions that apply to Alberta Crown agents in general, with government policies specified by the Minister, and with management principles adopted by government.

ATB Financial is a full service financial institution serving over 600,000 Albertans through 151 branches and 135 agencies in Alberta. About 60% of its assets are in residential mortgages and consumer loans, with the balance divided between commercial, agricultural and independent business loans. ATB Financial is the largest lender to primary producers and independent business in Alberta with about \$3 billion in loans outstanding to these sectors at March 31, 2006.

ATB Financial had a successful year with net income for the year ended March 31, 2006 of \$199 million (compared to \$187 million the previous year) and total assets growing to \$17.6 billion at March 31, 2006 (up 14% from \$15.4 billion in the previous year). Equity at March 31, 2006 was in excess of \$1.3 billion.

The Alberta Capital Finance Authority's (ACFA) mission is to provide local authorities within the Province with flexible funding for capital projects at the lowest possible cost, while maintaining the viability of the ACFA.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Cost to Alberta local authorities of borrowing from ACFA compared to other municipality/aggregating agencies for a comparable loan.	Lowest	Met (in both cases compared) (2005-06)	Met (for 3 of 4 cases compared) (2004-05)	Partially met (2003-04)	Partially met (2002-03)

Source: ACFA Annual Report 2005

Note: Previous results are not comparable to the current results due to a change in methodology. The methodology has changed in the current year. The comparison is now to the OSIFA rates (5-year and 25-year) because they are the only municipality that published their rates. In the previous year MFABC and City of Toronto rates were used as comparison.

The ACFA aims to offer the lowest cost of borrowing to local authorities in Canada. The ACFA compares Alberta local authorities' indicative loan rates to the cost of borrowing by Ontario municipalities from the Ontario Strategic Infrastructure Financing Authority (OSIFA). The target was met in both cases compared.

The results reported for 2005 are based on a direct comparison of what ACFA's indicative rate would be when compared to the rate posted by OSIFA. ACFA's indicative loan rates are estimates of what the Authority would achieve under similar terms and circumstances to the actual rate used by OSIFA.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
ATB Financial return on average assets (before tax)	1.02%	1.20% (2005-06)	1.27% (2004-05)	1.24% (2003-04)	– (2002-03)

Source: ATB Financial (for further information, refer to ATB Financial Annual Report dated March 31, 2006)

Note: Return on average assets is net income for the year divided by average total assets for the year.

Return on average assets for the 2005-06 fiscal year was 1.20%, well ahead of the targeted return of 1.02%, but down from 1.27% in 2004-05. This was primarily due to a larger increase in average assets compared to the growth in net income. Overall, the financial results for ATB compare favorably to that of major Canadian banks.

Goal 10 An Effective, Efficient and Streamlined Securities Regulatory System

An effective, efficient and streamlined securities regulatory framework is key to a strong and vibrant economy. It assists in the development of strong national and local capital markets and promotes the interests of both issuers seeking capital and investors providing that capital through their investment dollars.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Inter-provincial/territorial system of securities regulation	Established	Phase 1 Provincial/ implemented Territorial (passport Memorandum system) of (2005-06) Understanding (MOU) signed (2004-05)	– (2003-04)	– (2002-03)	

Source: Alberta Finance, Policy and Strategic Planning

On April 20, 2005, Alberta passed Bill 19 amending the *Securities Act* to facilitate the creation and development of a passport system. The regulators implemented Phase 1 of the passport system through a rule (Multilateral Instrument 11-101: *Principal Regulator System*) and related rule and policy changes effective September 19, 2005. Phase 1 of the passport system gives market participants access to capital markets in multiple jurisdictions by dealing with the regulator and the law of its principal jurisdiction. Phase 1 of the passport system is limited to the areas of prospectuses, prospectus discretionary relief, continuous disclosure requirements and registration. The Provincial/Territorial Memorandum of Understanding (MOU) signed in 2004, contemplates a further expanded and stronger passport system that will include mutual recognition (operation of law) and legal delegation from another participating MOU jurisdiction (Phase 2). On March 23, 2006, Alberta introduced Bill 25, which will amend the *Securities Act* to enable Phase 2 of the passport system. Alberta, as Chair of the Council of Ministers of Securities Regulation, will continue to provide a leadership role in ensuring that the commitments in the MOU are met in a timely way. For additional information, visit the website at www.securitiescanada.org.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)
Highly harmonized securities legislation	Proposal developed	Continuation of development and enactment of highly harmonized securities laws (2005-06)	Provincial/Territorial Memorandum of Understanding (MOU) signed (2004-05) — (2003-04) — (2002-03)

Source: Alberta Finance, Policy and Strategic Planning

On April 20, 2005, Alberta passed Bill 19 amending the *Securities Act* to harmonize Alberta's securities regulation with other provinces and territories. On March 23, 2006, Alberta introduced Bill 25, which will further harmonize Alberta's securities regulation. These amendments were developed in consultation with other provinces and territories as part of our commitment under the *Provincial/Territorial Memorandum of Understanding Regarding Securities Regulation* (MOU). The Alberta government is continuing to lead the development of highly harmonized securities legislation. For additional information, visit the website at www.securitiescanada.org.

Goal 11 Pensions that Deliver on Promises

Pension plan members need to be assured that their benefits are secure. Finance assesses private sector pension plan compliance with legislative standards.

Finance currently monitors 1,438 private pension plans. Of these 1,234 are active, 129 are in the process of being registered, and 75 are in the process of winding up. These plans have 187,690 active members. Total contributions were approximately \$1.6 billion for the year ended March 31, 2006. The market values of total assets and going concern liabilities were \$18.5 billion and \$15.9 billion respectively, at the same reporting date.

Changes to the *Employment Pension Plans Act* and Regulation that are expected to be proclaimed in the fall of 2006 will eliminate filing and reporting requirements for certain pension plans (those that exist exclusively for connected persons - Plans for Connected Individuals or PCIs). Therefore, the performance measure results shown below have been calculated with PCIs already excluded. We have recalculated the previous year's results on the same basis, and due to rounding, the previous result of 99% remains unchanged.

Finance provides advice to the Minister on the funding and governance of the public sector pension plans. These plans include: the Local Authorities Pension Plan; the Special Forces Pension Plan; the Public Service Pension Plan; and the Management Employees Pension Plan.

PERFORMANCE MEASURE	2005-06 Target	Current Results	Previous Years' Result(s)		
Percentage of private sector plans that meet minimum funding requirements	98%	99% (2005-06)	99% (2004-05)	99% (2003-04)	— (2002-03)

Source: Alberta Finance

Private sector pension plan sponsors must demonstrate they have adequate funding to pay out all promised benefits by filing annual information returns and having triennial actuarial valuations completed for defined benefit plans. Over the last few years, investment returns, including those for registered private sector pension plans, have experienced significant declines that have reduced the market value of assets and increased the funding requirements of plan sponsors.

The *Employment Pension Act* requires pension plan sponsors to meet minimum funding requirements by making current service contributions, to eliminate any unfunded liabilities by making special payments over a fifteen-year period and to eliminate any solvency deficits by making special payments over a five-year period. The Department's performance benchmark is that at least 98% of pension plans registered in Alberta meet these minimum-funding requirements.

This result was achieved as 99% of pension plans registered in Alberta met the minimum funding requirements outlined above. The benchmark is increasing to 99% beginning in 2006-07.

