LOCAL AUTHORITIES PENSION PLAN

Financial Statements

DECEMBER 31, 2005

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance and
The Local Authorities Pension Plan Board of Trustees

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Local Authorities Pension Plan (the Plan) as at December 31, 2005 and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2005 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

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

Edmonton, Alberta
March 3, 2006

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

LOCAL AUTHORITIES PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As At December 31, 2005

	2005	2004
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 12,588,648	$ 10,806,190
Contributions receivable (Note 6)	29,406	21,280
Accrued investment income and accounts receivable	4,102	3,844
	12,622,156	10,831,314
Liabilities		
Accounts payable	3,014	3,838
Net assets available for benefits	12,619,142	10,827,476
Accrued Benefits		
Actuarial value of accrued benefits	13,482,700	12,116,400
Deficiency	$ (863,558)	$ (1,288,924)

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Increase in assets		
Contributions (Note 7)	$ 733,705	$ 602,436
Net investment income (Note 8)	1,563,841	1,017,321
	2,297,546	1,619,757
Decrease in assets		
Pension benefits	398,607	373,218
Refunds to members	85,706	52,686
Transfers to other plans	4,342	4,578
Plan expenses (Note 9)	17,225	17,112
	505,880	447,594
Increase in net assets	1,791,666	1,172,163
Net assets available for benefits at beginning of year	10,827,476	9,655,313
Net assets available for benefits at end of year	$ 12,619,142	$ 10,827,476

See accompanying notes and schedules.

LOCAL AUTHORITIES PENSION PLAN

STATEMENT OF CHANGES IN ACCRUED BENEFITS

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Increase in accrued benefits		
Interest accrued on benefits	$ 880,200	$ 788,900
Benefits earned	581,700	520,800
Changes in actuarial assumptions (Note 10 (a))	368,100	(9,200)
Net experience losses (Note 10 (a))	36,500	133,300
	1,866,500	1,433,800
Decrease in accrued benefits		
Benefits paid including interest	500,200	426,200
Net increase in accrued benefits	1,366,300	1,007,600
Accrued benefits at beginning of year	12,116,400	11,108,800
Accrued benefits at end of year (Note 10)	$ 13,482,700	$ 12,116,400

STATEMENT OF CHANGES IN DEFICIENCY

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Deficiency at beginning of year	$ (1,288,924)	$ (1,453,487)
Increase in net assets available for benefits	1,791,666	1,172,163
Net increase in accrued benefits	(1,366,300)	(1,007,600)
Deficiency at end of year	$ (863,558)	$ (1,288,924)

See accompanying notes and schedules.

LOCAL AUTHORITIES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Local Authorities Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 366/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, regional health authorities, school divisions, districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0216556.

(b) Funding Policy

Current service costs and the Plan's actuarial deficiency (see Note 11) are funded by employers and employees at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The contribution rates for employers are 1.0% more than the rates for employees. The rates in effect at December 31, 2005 were 6.40% (2004 5.602%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 9.14% (2004 7.477%) of the excess for employees, and 7.40% (2004 6.602%) of pensionable earnings up to the YMPE and 10.14% (2004 8.477%) of the excess for employers.

The rates were reviewed by the Board in 2005 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. As a result of this review, the rates have increased at January 1, 2006 as follows: 6.75% of pensionable earnings up to the YMPE and 9.64% of the excess for employees, and 7.75% of pensionable earnings up to the YMPE and 10.64% of the excess for employers.

(c) Retirement Benefits

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the federal *Income Tax Act*. The maximum service allowable under the Plan is 35 years. Unreduced pensions are payable to members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of service.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least two years of membership. Reduced pensions are payable to members who become partially disabled and retire early with at least two years of membership.

LOCAL AUTHORITIES PENSION PLAN

Note 1 (continued)

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least two years of service, a surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where service is less than two years, a lump sum payment must be chosen.

(f) Termination Benefits

Members who terminate with at least two years of membership and who are not immediately entitled to a pension may transfer out the commuted value for all earned service, contributions paid in respect of optional service with interest, plus excess contributions if applicable, which is subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of membership receive a refund of their contributions and interest.

(g) Optional Service and Reciprocal Transfers

All optional service purchases are to be cost-neutral to the Plan.

Transferred-in service will be on an actuarial reserve basis and transfers out will receive the greater of the termination benefits or commuted value for all service.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year. This calculation method has been set out in the Plan regulations since 1993.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta Finance or external managers appointed by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

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Note 2 (continued)

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

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Finance.

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

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

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

LOCAL AUTHORITIES PENSION PLAN

Note 2 (continued)

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits and in the valuation of the Plan's private and alternative investments and real estate. Uncertainty arises because:

(i) the Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits, and

(ii) the estimated fair values of the Plan's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the calculation of the Plan's accrued benefits and in the valuation of the Plan's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations are disclosed as assumption changes and net experience gains or losses in the statement of changes in accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

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NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	2005		2004	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash				
Investment Trust Fund (a)	$ 226,699	1.8	$ 201,544	1.9
Canadian Long Term Government Bond Pool (b)	2,398,465	19.1	1,074,793	9.9
Canadian Dollar Public Bond Pool (b)	829,968	6.6	1,635,308	15.1
Real rate of return bonds (c)	622,491	4.9	514,088	4.8
Private Mortgage Pool (d)	286,011	2.3	279,928	2.6
External Managers Currency Alpha Pool (e)	36,616	0.3	18,684	0.2
Total fixed income securities	4,400,250	35.0	3,724,345	34.5
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (f)	1,150,817	9.1	1,609,711	14.9
Canadian Equity Enhanced Index Pool (g)	641,255	5.1	-	-
Canadian Small Cap Equity Pool (f)	557,826	4.4	452,090	4.2
Domestic Passive Equity Pooled Fund (h)	81,273	0.7	391,829	3.6
Private Equity Pool	10,215	0.1	11,007	0.1
Overlay US Equity Pool (l)	(133,596)	(1.1)	-	-
	2,307,790	18.3	2,464,637	22.8
United States Equities (Schedule C)				
US Passive Equity Pooled Fund (i)	636,426	5.1	476,606	4.4
External Managers				
US Small/Mid Cap Equity Pool (j)	506,844	4.0	407,249	3.8
US Large Cap Equity Pool	-	-	230,739	2.1
Portable Alpha US Equity Pool (k)	306,251	2.4	138,530	1.3
Overlay US Equity Pool (l)	166,889	1.3	-	-
S&P 500 Pooled Index Fund (i)	9,589	0.1	-	-
	1,625,999	12.9	1,253,124	11.6
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (m)	1,704,667	13.5	-	-
EAFE Emerging Markets Equity Pool (n)	146,642	1.2	112,398	1.0
EAFE Core and Plus Equity Pools	-	-	1,444,818	13.4
EAFE Structured Equity Pooled Fund (o)	409,690	3.3	356,311	3.3
	2,260,999	18.0	1,913,527	17.7
Alternative Investments - Equities				
External Managers				
Absolute Return Strategy Pool (p)	483,302	3.9	480,348	4.5
Private Income Pool (q)	155,241	1.2	87,870	0.8
Foreign Private Equity Pool (q)	53,280	0.4	36,610	0.3
Timberland Pool (r)	52,231	0.4	-	-
	744,054	5.9	604,828	5.6
Total equities	6,938,842	55.1	6,236,116	57.7
Real Estate (Schedule E)				
Private Real Estate Pool (s)	1,249,556	9.9	845,729	7.8
Total investments	$12,588,648	100.0	$10,806,190	100.0

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Note 3 (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool (CDPB) and the Canadian Long Term Government Bond Pool (CLGB) are managed with the objectives of providing competitive returns comparable to the total returns of the Scotia Capital Universe Bond Index and the Scotia Capital Long Term All Government Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The CDPB portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives while the CLGB portfolio invests only in high quality fixed income instruments of the federal, provincial and municipal governments of Canada. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. To limit investment risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(e) The External Managers Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(f) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to invest in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over the long term while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(g) The External Managers Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(h) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(i) The US Passive Equity Pooled Fund and the S&P 500 Pooled Index Fund are passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pools utilize a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest in futures, swaps and other structured investments.

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Note 3 (continued)

(j) The External Managers US Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. The portfolios are actively managed by external managers with expertise in the US mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index and/or the S&P 500 Total Return Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(k) The Portable Alpha US Equity Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the S&P 500 Index over the long term.

(l) The Overlay US Equity Pool is managed with the objective of providing a quick, effective and efficient way to reduce exposure to Canadian equities and increase exposure to United States equities through synthetic instruments on a largely unfunded basis. The Pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contract. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

(m) The External Managers EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Each portfolio is actively managed by an external manager and has constraints on foreign currency management, country allocation, stock selection and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

(n) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) Index over a four-year period.

(o) The EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(p) The External Managers Absolute Return Strategy Pool is managed by external managers with the objective of providing investment returns comparable to the Consumer Price Index plus 6%. The pool is intended to yield absolute positive investment returns with low volatility using various investment strategies.

(q) The Foreign Private Equity Pool (FPEP) and the Private Income Pool (PIP) are managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 8% and the Consumer Price Index plus 6% respectively. The FPEP invests in institutionally sponsored international private equity pools managed by experienced advisors with proven records. The PIP invests in infrastructure related projects that are structured to yield high current income. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

(r) The Timberland Pool's performance objective is to provide a rate of return higher than the Consumer Price Index plus 4% over the long term. The pool invests in a partnership interest in forestry land in British Columbia.

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Note 3 (continued)

(s) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through limited partnerships and intermediate companies which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long-term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Board of Trustees established a long-term benchmark policy asset mix of 35% fixed income instruments, 55% equities and 10% real estate. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to enhance returns and manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity.

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Note 5 (continued)

Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2005:

	Maturity			2005		2004	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	77	23	-	$1,354,629	$23,766	$1,169,391	$46,180
Forward foreign exchange contracts	100	-	-	1,588,770	3,540	1,002,233	22,595
Equity index futures contracts	100	-	-	498,130	5,944	37,723	3,450
Interest rate swap contracts	54	29	17	366,982	6,995	438,515	(16,936)
Cross-currency interest rate swap contracts	21	33	46	290,591	17,036	411,079	(19,260)
Credit default swap contracts	15	16	69	122,556	1,126	113,565	412
Bond index swap contracts	100	-	-	50,352	1,560	31,880	619
				$4,272,010	$59,967	$3,204,386	$37,060

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

NOTE 6 CONTRIBUTIONS RECEIVABLE

	2005	2004
	($ thousands)	
Employers	$ 15,585	$ 11,399
Employees	13,821	9,881
	$ 29,406	$ 21,280

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NOTE 7 CONTRIBUTIONS

	2005	2004
	($ thousands)	
Current and optional service		
Employers	$ 384,213	$ 316,894
Employees (a)	344,929	279,614
Transfers from other plans	4,563	5,928
	$ 733,705	$ 602,436

(a) Includes $12,881,000 (2004 $12,135,000) of optional service contributions.

NOTE 8 NET INVESTMENT INCOME

Net investment income is comprised of the following:

	2005	2004
	($ thousands)	
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 1,192,185	$ 681,553
Interest income	230,535	222,593
Dividend income	120,269	96,090
Real estate operating income	52,646	40,051
Securities lending income	2,999	2,616
Pooled funds management and associated custodial fees (Note 9)	(34,793)	(25,582)
	$ 1,563,841	$ 1,017,321

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2005	2004
	($ thousands)	
Fixed Income Securities	$ 400,017	$ 334,794
Canadian Equities	550,697	328,429
Foreign Equities		
United States	34,378	51,023
Non-North American	254,080	209,153
Alternative Investments - Equities	57,884	22,071
Real Estate	266,785	71,851
	$ 1,563,841	$ 1,017,321

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Note 8 (continued)

The following is a summary of the investment performance results attained by the Plan:

	One Year Return	Compound Annualized Return	Compound Annualized Return
Time-weighted rates of return*			
Overall Plan	14.3%	7.8%	6.9%
Policy Benchmark**	12.8%	7.3%	6.6%

* The measure involves the calculation of the net return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

NOTE 9 PLAN EXPENSES

	2005	2004
	($ thousands)	
General administration costs and process improvements costs	$ 14,462	$ 14,299
Investment management costs	2,067	1,857
LAPP Corporation costs	497	600
Actuarial fees	199	356
	$ 17,225	$ 17,112

General administration costs and process improvement costs, including Plan Board costs (see Note 12) were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Finance on a cost recovery basis to manage the Plan's investment portfolio. Pooled funds management and associated custodial fees totalling $34,793,000 (2004 $25,582,000) (see Note 8), which have been included in calculating net investment income, are excluded from plan expenses.

LAPP Corporation costs include remuneration to senior officials of Local Authorities Pension Plan Corporation as follows:

	2005	2004
	($ thousands)	
Chief Executive Officer		
Salary and bonus	$ 193.0	$ 187.0
Benefits	19.6	17.7
Director, Pension Policy		
Salary and bonus	127.1	125.5
Benefits	10.7	9.3
	$ 350.4	$ 339.5

LOCAL AUTHORITIES PENSION PLAN

Note 9 (continued)

Total Plan expenses, including pooled funds management and associated custodial fees amounted to $333 per member (2004 $284 per member).

Pooled funds management and associated custodial fees amounted to $222 per member (2004 $170 per member). These expenses, which have been deducted in arriving at net investment income of the pools, are included in the determination of investment returns for the Plan (see Note 8).

Total plan expenses including pooled funds management and associated custodial fees amounted to 0.41% (2004: 0.39%) of assets under administration.

NOTE 10 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2004 by Mercer Human Resource Consulting and was then extrapolated to December 31, 2005. The 2004 valuation was completed after the financial statements of the Plan for 2004 were released. As a result, the differences between the actuarial valuation results and extrapolation results for 2004 are accounted for as assumptions changes and net experience losses in 2005.

The following is a summary of actuarial assumption changes and net experience losses as revealed in the 2004 valuation and reported in 2005:

	2005	2004
	($ thousands)	
Changes in actuarial assumptions		
Change of termination and retirement rates assumptions, percentage of members with an eligible spouse upon retirement assumption, and age gap assumption between male and female spouses	$ 368,100	-
Other assumption changes	-	(9,200)
	$ 368,100	$ (9,200)
Net experience losses (gains)		
Combined salary, CPP's YMPE increases and interest on contributions were other than assumed	$ 68,200	$ 7,900
Retirement, termination, mortality and disability experiences were less favourable than assumed	53,700	55,300
Cost-of-living increase in pension benefit payments were (lower) higher than expected	(45,000)	67,400
Changes to prior service and data	(19,400)	-
Other	(21,000)	2,700
	$ 36,500	$ 133,300

Actuarial valuations were determined using the projected benefit method pro-rated on service. The assumptions used in the actuarial valuations and extrapolations were developed as the best estimates of expected market conditions and other future events. These estimates were, after consultation with the Plan's actuary, approved by the Board of Trustees.

LOCAL AUTHORITIES PENSION PLAN

Note 10 (continued)

The major assumptions used were:

	2004 Valuation and 2005 Extrapolation	2003 Valuation and 2004 Extrapolation
	%	
Investment rate of return	6.70	6.70
Inflation rate	2.75	2.75
Salary escalation rate*	3.50	3.50

* In addition to merit and promotion.

The Board of Trustees has authorized a policy to have an actuarial valuation of the Plan carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2005 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2006.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2005:

	Sensitivities		
	Changes in Assumptions %	Increase in Plan Deficiency ($ million)	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 900	0.8%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	554	0.9%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	2,128	2.6%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2004 valuation was 12.03%.

LOCAL AUTHORITIES PENSION PLAN

NOTE 11 FUNDING VALUATION AND EXTRAPOLATION

The Plan's deficiency is determined on the fair value basis for accounting purposes. For funding valuation and extrapolation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset value for funding valuation and extrapolation purposes amounted to $12,821 million at December 31, 2005 (2004 $10,820 million).

In accordance with the Public Sector Pension Plans Act, the actuarial deficiencies as determined by actuarial funding valuations as at December 31, 2002, 2003 and 2004 are funded by special payments totalling 3.82% of pensionable earnings shared equally between employers and employees until December 31, 2017. The special payments will decrease to 2.14% of pensionable earnings on January 1, 2018, further decrease to 0.22% of pensionable earnings on January 1, 2019 and continue until December 31, 2019. The special payments have been included in the rates in effect at January 1, 2006 (see Note 1(b)).

NOTE 12 REMUNERATION OF BOARD MEMBERS

Remuneration paid with respect to a total of 14 Board members during the year amounted to $107,000 (2004 $139,000).

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2005 presentation.

NOTE 14 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Finance, based on information provided by Alberta Pensions Administration Corporation and the Plan's actuary and after consultation with the Local Authorities Pension Plan Board of Trustees.

LOCAL AUTHORITIES PENSION PLAN

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES Schedule A

December 31, 2005

	Plan's Share	
	2005	2004
	($ thousands)	
Deposits and short-term securities	$ 274,927	$ 232,295
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	1,691,768	1,381,985
Provincial		
Alberta, direct and guaranteed	5,477	1,033
Other, direct and guaranteed	1,545,484	1,010,546
Municipal	16,667	29,843
Corporate	497,508	637,474
Private		
Corporate	339,794	414,938
	4,096,698	3,475,819
Receivable from sale of investments and accrued investment income	29,486	29,574
Liabilities for investment purchases	(861)	(13,343)
	28,625	16,231
	$ 4,400,250	$ 3,724,345

(a) Fixed income securities held as at December 31, 2005 had an average effective market yield of 4.00% per annum (2004 4.25% per annum). The following term structure of these securities as at December 31, 2005 was based on principal amount.

	2005	2004
	%	
under 1 year	1	2
1 to 5 years	9	21
6 to 10 years	19	22
11 to 20 years	20	18
over 20 years	51	37
	100	100

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

December 31, 2005

	Plan's Share	
	2005	**2004**
	($ thousands)	
Deposits and short-term securities	$ 46,033	$ 34,374
Public equities (a) (b)		
Consumer discretionary	174,470	223,567
Consumer staples	109,520	128,185
Energy	526,917	417,652
Financials	626,683	678,629
Health care	31,933	52,827
Industrials	210,413	237,971
Information technology	108,266	133,202
Materials	312,312	430,899
Telecommunication services	106,227	88,586
Utilities	25,736	6,970
	2,232,477	2,398,488
Passive index	10,842	7,228
	2,243,319	2,405,716
Private Equity Pool	10,215	11,007
Receivable from sale of investments and accrued investment income	65,732	15,872
Liabilities for investment purchases	(57,509)	(2,332)
	8,223	13,540
	$ 2,307,790	$ 2,464,637

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $189,851,000 (2004 $277,244,000), which were used as underlying securities to support the notional amount of Canadian equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

December 31, 2005

	Plan's Share	
	2005	**2004**
	($ thousands)	
Deposits and short-term securities	$ 55,868	$ 30,359
Public equities (a) (b)		
Consumer discretionary	175,884	179,336
Consumer staples	112,720	85,158
Energy	138,303	90,232
Financials	316,301	239,576
Health care	215,816	151,608
Industrials	197,119	167,265
Information technology	236,785	179,623
Materials	73,724	62,611
Telecommunication services	34,441	28,497
Utilities	55,258	37,167
	1,556,351	1,221,073
Passie index	3,163	-
	1,559,514	1,221,073
Receivable from sale of investments and accrued investment income	28,539	9,049
Liabilities for investment purchases	(17,922)	(7,357)
	10,617	1,692
	$ 1,625,999	$ 1,253,124

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $1,060,157,000 (2004 $593,485,000), which were used as underlying securities to support the notional amount of US equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

December 31, 2005

	Plan's Share 2005	2004
	($ thousands)	
Deposits and short-term securities	$ 11,065	$ 34,181
Public equities (a) (b)		
Consumer discretionary	256,028	258,357
Consumer staples	148,349	107,470
Energy	165,619	157,060
Financials	605,562	506,732
Health care	172,277	112,212
Industrials	273,890	202,971
Information technology	145,075	90,080
Materials	171,282	148,348
Telecommunication services	138,350	159,029
Utilities	91,538	73,966
	2,167,970	1,816,225
Passive index	72,840	47,258
Receivable from sale of investments and accrued investment income	29,812	23,612
Liabilities for investment purchases	(20,688)	(7,749)
	9,124	15,863
	$ 2,260,999	$ 1,913,527

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $422,869,000 (2004 $336,385,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on the geographic location of stock exchange on which stocks were purchased:

	Plan's Share 2005	2004
	($ thousands)	
Japan	$ 486,395	$ 325,625
United Kingdom	438,811	408,058
France	219,520	164,684
Switzerland	161,710	122,351
Germany	128,711	125,963
Netherlands	114,840	100,078
Australia	84,971	84,915
Italy	68,609	75,271
Spain	60,002	46,576
Korea	50,591	32,116
Other	353,810	330,588
	$ 2,167,970	$ 1,816,225

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 161	$ 89
Real estate (a)		
Office	622,778	422,704
Retail	415,364	303,552
Industrial	124,164	66,677
Residential	56,985	40,969
	1,219,291	833,902
Passive index	27,493	10,537
Receivable from sale of investments and accrued investment income	2,611	1,201
	$ 1,249,556	$ 845,729

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Ontario	$ 756,288	$ 540,590
Alberta	331,244	184,873
Quebec	108,816	93,923
British Columbia	22,943	14,516
	$ 1,219,291	$ 833,902