



**Alberta Pensions
Administration (APA) Corporation**

2005 Annual Report

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Message from the Chair of the Corporate Board

On behalf of the Board of Directors, I am pleased to present the 10th annual report of Alberta Pensions Administration (APA) Corporation for the year ended December 31, 2005.

Strategic direction

A major focus for the Board in 2005 has been to consider the future direction of the Corporation. Over the years, the Board has been challenged to find ways of improving the scope and types of services provided by APA Corporation. Alternatives are being considered that could improve services without increasing costs to the members, pensioners, employers and plan governors, creating any undue risks, or conducting business outside the mandate of the Corporation.

The Board engaged a consultant to provide assistance and independent advice as management gathered data and provided analysis on strategic direction.

The key objectives of the analysis have been to:

- maximize benefits to the shareholder;
- mitigate current risks to clients;
- improve services to existing clients; and
- realize the benefits of investments in systems.

Deliverables included an assessment of the internal and external environment in which the Corporation operates, alternative administration models and implications for the Corporation.

In 2006, the Board will consider alternatives proposed by management for a future strategic direction. Following this, communication with plan boards, employers and members will take place.

Alberta Finance governance review

In 2005, Alberta Finance began a two-year initiative to review the governance arrangements of the public sector pension plan boards. The first phase is to clarify roles and responsibilities, and is expected to affect how the Corporation does business with the plan boards and Alberta Finance. Prior to the end of December, such arrangements were concluded with the Local Authorities Pension Plan. Discussions are ongoing between the Corporation, Alberta Finance and the remaining plan boards to create an operating framework among all parties.

In 2006, the Board expects to revise the existing Memorandum of Understanding with the Minister and enter into new service agreements with the plan boards that reflect the clarified roles and responsibilities.

Corporate governance

In 2005, the Board continued to refine its governance model. We redefined the management limitation and governance process policies to achieve a better balance and alignment with corporate processes. Refinement of the policies under our governance model will allow the Board to continue to monitor the mandate of the Corporation to provide quality services to plan beneficiaries, plan governors and employers at a reasonable cost.

This year, two new members joined our Board: Dennis Gartner, as a representative of Alberta Finance, and Colin Catonio, as a nominee from the Special Forces Pension Board. Thanks to all members of the Board for their support in achieving our mission and for their valuable insight and contributions.

In conclusion, I want to acknowledge the people who have worked with the Corporation throughout the past year. Thanks to all employees for your support of the Board and hard work and dedication to meeting the needs of our clients. Thanks also to the plan boards for their support and cooperation.

David Smith, our CEO since February 2002, left the Corporation on February 28, 2006. This was David's decision, and his departure will be a significant loss to APA Corporation. I wish to express our gratitude to him and acknowledge the very significant contributions he made during his time with us.

Respectfully submitted,

[Original signed by Jack H. McMahon]

Jack H. McMahon FCA
Board Chair

Message from the Chief Executive Officer

Moving forward

In 2005, APA Corporation celebrated 10 years of excellent service delivery to beneficiaries (members and pensioners), employers, governing pension plan boards and the shareholder, the Minister of Finance. APA Corporation has an excellent reputation built on its record of service delivery, innovation and its dedication to providing quality services and products at a reasonable cost. We have a well-trained and dedicated team who ensure benefits are properly calculated within established time limits, and who provide strong support to our clients. We continue to meet or exceed performance standards even with ever-increasing demands.

As predicted, the pension industry has started to feel the full effects of the coming of age of “baby-boomers”. Part of our preparation for the future is driven by our need to accommodate an escalating number of plan members entering retirement. As demands on our services continue to increase we will continue to meet or exceed our performance standards. This is the positive outcome of our efforts in staff training and development as well as the development and use of the pension administration system.

We will explore ways to enhance service delivery to members, pensioners and employers while maintaining service at a reasonable cost. Through a strategic planning effort to refine our future service delivery model we will create the capacity to deliver operational enhancements to support our future direction. This planning effort is founded in principles of service excellence that will link to both current needs and future growth and successes.

Major successes

In 2005, we launched an online member service, *mypensionplan*, which provides members with access to their pension account information and pension estimators through a secure internet connection. By the end of the year, over 7,800 members had registered for this service.

A review of the project that implemented the pension administration system in 2003 confirmed that the expected benefits to the Corporation were achieved. The implementation of the new system was significant for the Corporation as it replaced our outdated administration system with one that could meet our current and future needs.

After significant planning and preparation, employers were provided with an online resource tool, *Pension e-guide*. Once complete, this will become the single reference source for administrative processes and policies. This resource will continue to grow and evolve to become a key training aid and authoritative source of pension plan information for employers.

A significant initiative carrying into 2006 involves the conversion of member and employer records into electronic format. This will provide our Client Service Centre staff with desktop access for many previously paper-based records.

Building on professionalism

Internal control assessment

We have initiated an internal control assessment program to document and test the internal controls related to a number of our key operational processes and reporting indicators. The program is designed to provide reasonable assurance that the internal controls related to these key processes are operating effectively. This program will continue to support the integrity of our processes. The internal control assessment program has the support of the Office of the Auditor General and is considered to be at the leading edge of similar programs in the Alberta public sector.

Leadership development

Developing future leaders is an integral part of our succession planning efforts. APA Corporation initiated a leadership development program to annually identify and develop key leadership candidates in the organization. In 2005, 12 candidates were assessed on their leadership styles and development opportunities. This has been followed by personal development and ongoing mentoring. The program will continue in 2006 with a new group of candidates and assessments.

Project management

In recent years, the Corporation implemented a project office with standardized project management practices and controls to help ensure project success. These practices delivered significant results in 2005, most notably the implementation of an enterprise resource tool. This tool enables easier tracking of all corporate initiatives and processes. The Corporation also continued to grow our expertise in planning, development of business requirements, and cost/benefit analysis.

Board related business

We continue to work with our Corporate Board and the Minister to solidify any change in the strategic direction for the Corporation. Under the direction of our Board, we are investigating opportunities to increase value to the shareholder and benefits to client pension plans. Work is progressing on a strategic assessment of services, internal and external environmental factors, and identification of potential alternatives.

The Board established principles to guide the Corporation's input into the development of a new governance framework for Alberta public sector pension plans. Alberta Finance and the plan boards are developing proposals for a new and more effective governance structure. We anticipate this may require new service agreements with the plan boards once the Alberta Finance governance review is completed in 2006.

Focus

Looking ahead, we have laid plans to ensure we continue to provide beneficiaries, employers, governing pension plan boards and the shareholder, the Minister of Finance, with the excellent services they have come to expect from APA Corporation. This ensures, regardless of other activities or projects, performance standards will be met.

In 2006, we will establish a program to guide us in ensuring resources allocated to projects and future planning will be prepared for the challenges of building the plans, implementing them and then measuring their success.

Of note

This annual report summarizes the success of APA Corporation in 2005 under the leadership of David Smith, who retired early in 2006. On behalf of the entire organization, I sincerely thank him for his significant contributions and passion and wish him well in his retirement.

Respectfully,

[Original signed by Brad Sonnenberg]

Brad Sonnenberg, P. Eng.
Interim Chief Executive Officer



Management's Discussion and Analysis

Overview

This section contains management's discussion and analysis of the Corporation's operational and financial results and should be read in conjunction with the audited financial statements for the year ending December 31, 2005.

Section One: Mission, Core Business and Priorities

Corporate mission

On behalf of the Government of Alberta, Alberta Pensions Administration (APA) Corporation exists so that plan beneficiaries, plan governors of plan beneficiaries' funds and employers in government-designated plans realize the benefits of sound pension administration.

Core business

Our core business is to provide comprehensive, reliable, timely and cost-effective pension benefit administration to clients and to support sponsors and trustees with a variety of services to meet the following ends policies defined by the Corporate Board:

1. Plan beneficiaries receive excellent pension services at a reasonable cost.
2. Plan governors receive services supporting their fiduciary obligations to plan beneficiaries at a reasonable cost.
3. Employers are supported in the delivery of pension administration services as part of their relationship with employees at a reasonable cost.

At year-end, APA Corporation:

- administered seven public sector pension plans and two supplementary retirement plans;
- provided administrative services to 472 participating employers across Alberta;
- provided pension-related services to approximately 187,000 active and deferred members and 58,000 pensioners; and
- was one of the 10 largest pension administrators in Canada based on fund size (\$21.1 billion in combined assets).

Section Two: Key Performance Measures

Key performance measures are those activities and competencies where outstanding performance and favourable results are essential for the Corporation to achieve success. The key measures for APA Corporation are:

- client satisfaction; and
- cost management.

The Report of the Auditor General on the Results of Applying Specified Auditing Procedures to Key Performance Measures is included in Appendix 1.

Client satisfaction

The Corporation uses surveys to assess client satisfaction with its products and services. Results assist in the development of client service strategies.

The Corporation asks members, pensioners, employers and plan governors to rate their overall satisfaction with services and information provided by the Corporation.

Client satisfaction survey results*	2005 Actual	2005 Target	2004 Actual
Plan beneficiaries			
Members	96%	85%	85%
Pensioners	95%	98%	95%
Employers	88%	85%	83%
Plan governors	100%	88%	75%

* see Appendix 2 for additional information on the methodology for survey results

In 2006, the Corporation will move from percentage scoring to index scoring. Index scoring assigns a weight to each satisfaction category and will better reflect the changes in satisfaction levels.

Cost management

A major driver for the Corporation's strategy is to deliver effective administration services at a reasonable cost. A key measure at the corporate level is "cost per member".

The Corporation participates in the Quantitative Service Measurement (QSM) survey to evaluate service delivery costs relative to a Canadian peer group.

Reasonable cost	2005	2005 Target	2004
QSM cost per member (industry peer cost)	\$117	n/a	\$117*
QSM-APA Corporation annual cost per member	\$104	\$106	\$106*

* see Appendix 2 for additional information on the methodology for per member costs; 2004 costs were re-stated

Section Three: Capability to Achieve Results

APA Corporation's capability to execute its business plan and achieve its stated ends policies rests with its people, processes, technology and financial resources.

People

APA Corporation achieves success when employees achieve personal excellence. In 2005, the Corporation launched two programs to assist in achieving excellence: a corporate competency model program and a leadership development program. The competency model is designed to align growth and development of all employees with the values of the Corporation. The aim of the leadership development program is to develop future leaders of the Corporation through assessment, evaluation and guidance in developing a customized personal development plan.

We continue to offer market-based compensation and benefits and are committed to work-life balance through flexible work hours and ongoing wellness programs. All employees participate in an incentive program where above average performance is recognized through monetary incentives. In addition, all employees complete personal development action plans, which resulted in the Corporation providing over 9,000 hours of training and development to its 200 staff in 2005.

The Corporation surveyed employees in June and December of 2005 giving all employees the opportunity to convey their thoughts on a variety of areas such as corporate leadership, internal communication, projects and alignment of corporate objectives. The results allow us to assess progress and provide an opportunity to address leadership, training and other employee issues.

In 2005, the Corporation implemented a program recognizing innovation. We encourage staff to use their knowledge of the business to submit ideas to improve how the Corporation works.

Process

The Corporation implemented project management software to improve management of resources, tracking, analysis and status reporting of corporate initiatives. In conjunction, management has established a quality review and approval process to maximize the use of funds and resources and improve project success.

For the 2005 business planning cycle, the Corporation introduced a new planning process engaging all business unit leaders in the development of corporate and business unit plans, scorecards and budgets. This collaborative approach provides a shared understanding of the alignment of business unit operations, corporate initiatives and results.

Under the Corporate Board's governance model, the CEO evaluates and reports the Corporation's compliance with the ends and limitations policies set by the Board. In 2005, management worked with the Board to redefine the limitation policies to achieve a better balance and alignment with corporate processes.

The Corporation's annual business resumption planning exercise focused on a pandemic influenza scenario and the challenges presented by potential significant loss of staff. The Corporation also participated in a cross-governmental disaster exercise.

Technology

The information management initiative brings an electronic records management system to the Corporation providing a structured method for organizing, tracking, searching, securing, storing, and disposing of electronic and paper information. The project will also convert microfiche records to digital images. To accelerate benefits to the Corporation, the decision was made to focus this initiative on member and employer records in 2005.

The Corporation has a five-year capacity plan for computing infrastructure that focuses on continuing enhancements to the network and maintaining a stable, secure and reliable infrastructure. The plan ensures future capacity is available while maintaining a secure and efficient computing environment.

The Corporation continues to monitor and identify security and vulnerability risks to the network. This includes examining information security safeguards and an information security risk assessment. In addition, several information security awareness activities were initiated during the year.

Financial

In 2005, the Corporation enhanced its support to business unit leaders for financial planning. We implemented a new budget process and upgraded our accounting software. These enhancements assisted with the preparation of the three-year financial plan.

In consultation with Alberta Finance and the plan boards, the Corporation undertook a review of the plan cost allocation formula. The objective of the review was to ensure the formula continues to strike an acceptable balance between a fair allocation of costs and the actual allocation of costs to pension plans. A recommendation was submitted to the trustee of the plans, the Minister of Finance, and is currently under consideration.

The Corporation initiated an internal control assessment program. This program evaluates the Corporation's ability to provide on going "reasonable assurance" that proper controls are established and maintained to protect plan funds and the Corporation's assets. Assurances obtained included, but were not limited to:

- completeness and accuracy of payments and contributions;
- integrity of member records;
- proper authorization of financial transactions;
- accuracy of employee records and payroll; and
- security of data and applications in the systems environment.

To follow best practices, APA Corporation adopted the COSO¹ Internal Control Integrated Framework as the basis for its evaluation and modified the program methodology to fit our review. The majority of companies reporting under the Sarbanes-Oxley Act, or similar Canadian regulations, use this framework. The areas selected for examination accurately represent those aspects of the Corporation's operations of interest to key stakeholders. No significant deficiencies were identified.

¹ Committee of Sponsoring Organizations of the Treadway Commission

Section Four: Results

The results for the Corporation and its core business include:

- financial results;
- pension plan statistics;
- service indicators;
- member annual statement delivery; and
- strategic and operating initiatives.

Financial results

The Corporation's budget is adopted by the Corporate Board and is consolidated into the Alberta Finance budget. Actual expenditures are recovered from plan funds according to a cost allocation formula decided by the Minister of Finance.

Operating costs (\$ million)	Actual	Budget	Variance
Business operations	\$ 17.8	\$ 18.8	\$ (1.0)
Strategic and operating initiatives	1.1	1.5	(0.4)
Amortization	3.2	3.4	(0.2)
Plan board and plan-specific expenditures	2.5	3.3	(0.8)
Total	\$ 24.6	\$ 27.0	\$ (2.4)

The variance results primarily from hiring delays, increased emphasis on cost-containment and timing of consulting fees and contracts for plan boards.

Capital spending (\$ millions)	Actual	Budget	Variance
Strategic initiatives	\$ 0.6	\$ 0.7	\$ (0.1)
Operating initiatives	0.7	0.8	(0.1)
Infrastructure	0.2	0.8	(0.6)
Total	\$ 1.5	\$ 2.3	\$ (0.8)

The variance in capital spending is attributed to deferred project starts due to the increased focus on the documentation of business requirements and cost/benefit analysis.

Cost per member	Actual	Budget	Variance
Average total membership	240,047	240,531	(484)
Total cost (\$ thousands)	\$ 22,890	\$ 25,930	\$ (3,040)
Average cost per member	\$ 95	\$ 108	\$ (13)

The average APA Corporation cost per member is based on total operating costs minus amortization plus capital expenditures divided by the average total plan membership.

Pension plan statistics

As part of the annual budgeting process, the Corporation conducts trend analysis to estimate future service demands. The Corporation anticipates growth for the majority of service offerings.

Changes in pension plan statistics are primarily driven by:

- an increasing demand for pension information by a plan population that moves closer to retirement (as shown by an increase in pension estimates and retirement options); and
- an increased reliance on electronic communications (as shown by the increase in email vs. letters and member interviews).

The Corporation has taken these trends into account when setting its staffing levels to meet service demands in the future. With the launch of member online services (*mypensionplan*) in 2005, the Corporation has taken steps to provide personalized pension information via the Web.

Category	2005	2004	% Change
Active members	158,473	153,238	3.4%
Deferred members	28,551	25,868	10.4%
Pensioners	58,132	55,829	4.1%
Benefit-related phone inquiries	70,640	74,225	(4.8%)
Pension estimates*	32,105	31,348	2.4%
Termination payouts (refunds to members or transfers to locked-in retirement accounts)	6,265	5,909	6.0%
Service purchase requests (for past employment or leave periods)	3,041	3,207	(5.2%)
Retirement options	3,828	3,470	10.3%
Personal member interviews	2,431	3,230	(24.7%)
Correspondence	1,797	1,350	33.1%
email inquiries	4,504	1,752	157.1%
Member seminars	207	204	1.5%
Employer workshops	51	40	27.5%

* includes: pension estimates, benefit estimates, benefit option packages and optional service cost estimates

Service indicators

Demand for services in benefit administration increased throughout the year. As illustrated in the following chart, the Corporation exceeded all targeted standards in 2005.

The Corporation has positioned itself to continue to meet these service levels with the establishment of a Client Service Centre. With employees dedicated to pension inquiries and member interviews, the Client Service Centre has a focus on enhanced training and process improvement. The Corporation has developed a staffing model which identifies the impact of changing volumes on operations to ensure staffing is at the appropriate level to meet client demands.

The focus of 2006 is to continue providing consistent levels of client service within established service indicators while reviewing ways of reducing the overall time of end-to-end service.

Service indicator	Service level	Target	Actual
Pension estimates	7 days from receipt of completed application	90%	98%
Pension option packages*	7 days from receipt of completed application	90%	97%
Pension payments finalized	30 days from receipt of required documents	90%	94%
Termination payouts (refunds to members or transfers to locked-in retirement accounts)	21 days from receipt of completed application	90%	96%
Service purchase requests (past employment service or leave periods)	21 days from receipt of completed application	90%	98%
Transfers (with public sector plans in Alberta)	90 days from receipt of completed application	90%	95%
Transfers (with public sector plans outside Alberta)	180 days from receipt of completed application	90%	100%
Written correspondence	resolved within 14 days of receipt	90%	95%
email correspondence	respond within 14 days of receipt	90%	98%

* includes disability pension adjudication and death benefits

Member annual statement delivery

The process used by the Corporation for preparation of member annual statements is dependent on submission of accurate and timely information by employers.

The timeline for delivery was extended to April 30 from March 31 in 2005 to coordinate with the launch of *mypensionplan*, a new online service for members.

Mailing of 2004 Member Annual Statements	Target	2005 Results
Mailed by April 30	74%	52.5%
Mailed by December 31	100%	92.5%

Strategic and operating initiatives

A number of strategic and operating initiatives were successfully completed in 2005:

- An online pension information service for members, *mypensionplan*, was launched in March 2005. Over 7,800 members had registered by the end of December 2005.
- The rules for pension division on marital breakdown were integrated into the Corporation's processes, communications and pension administration system.
- An online administrative information source for employers, *Pension e-guide*, was launched. Employers are now able to access information regarding remittance, reporting and reconciliation, information transfer, forms completion and error messages.
- A post-implementation review of the pension administration system was completed by an independent consulting firm. The review determined that the project to develop the system delivered on expectations.
- A review of the cost allocation formula for member pension plans was undertaken and a recommendation submitted to the trustee.
- Management's internal control assessment program and review of core operations was completed. Assurances were provided to the Corporate Board that proper controls have been established and maintained to protect the Corporation's assets and plan funds under the administration of the Corporation. No significant deficiencies were identified.
- The competency model was developed and launched. The model will provide focus for the Corporation's employees to develop the skills and knowledge necessary for individual success.
- A leadership development program was implemented and 12 employees entered the program in 2005.

Outlook to the future

Key priorities:

Improve client services

The Corporation is proceeding with initiatives to assess and enhance the client services strategy. This will include reviewing our current strategy, assessing delivery channels and selecting and implementing a service delivery model that meets the needs of plan beneficiaries, employers and plan governors.

To assist employers in the performance of their role(s) in the administration of the pension plans, the Corporation will continue to develop training and communication avenues and align the way it does business to treat employers as clients.

On completion of the government's review of public sector pension plan governance, the Corporation will work to establish new administrative services agreements which, together with ongoing activities, will enhance relationships with the plan boards and key stakeholders.

Build the organization — training and development

Skills assessments, evaluations and customized development plans will be completed to guide key staff in their development. The Corporation will also maintain its emphasis on training and development of critical skill sets and assess human resource strategies and related processes to ensure the sustainability of a competent workforce.

Leverage technology

The Corporation will continue reviewing the functionality of the pension administration system to ensure alignment with any emerging business demands. The Corporation will also continue to develop sustainable information technology solutions in alignment with our business needs.

Implementation of the document imaging and electronic records management initiative is underway. Plan beneficiary and employer record conversion will be completed by the end of 2006.

Transform internal processes

As the Corporation participates in comparative industry and peer benchmarking studies, results from these studies will be analyzed to identify high-cost services (activities) within the operating environment. In addition, the Corporation will research best practices to identify activities that have the potential to reduce cost or increase service.

Through the internal control assessment program, the Corporation will continue to assess, monitor and recommend improvements to manage and mitigate financial and operational risks.

Protect corporate image

The Corporation continues to enhance its security and risk management strategies that protect the organization from incidents or risks that could damage the image or reputation of the Corporation.

Section Five: Risk Management

Together with the key priorities identified in the *APA Corporation 2006 – 2008 Business Plan*, the Corporation remains focused on risk mitigation around the following issues.

Knowledgeable workforce

Recruitment, training and development and retention and succession planning will be significant challenges. Service delivery in a changing technological environment will be dependent on a highly skilled and competent workforce.

Changing role and responsibility of employers

The Corporation recognizes the need to clarify roles and responsibilities of both the Corporation and participating employers in a formal, enforceable agreement that enables them to accomplish their statutory obligations. Employer preferences of how administrative duties are carried out will be considered. A preliminary consultation and assessment was completed in 2005. A decision on the actual employer service delivery framework and agreement will be made in 2006.

Increasing cost of technology and services

The costs and frequency of technological change are increasing. The challenge for the Corporation is to continue to seek ways to manage and stabilize costs while maintaining excellent services in a secure infrastructure and application environment. In addition, the Corporation will monitor and enhance the security of data, data applications and the network.

Dependency on external decision-makers

The Corporation is dependent on key stakeholders to make changes to pension plan legislation in a timely manner. The timing of decisions can enhance or impair the Corporation's ability to effectively prepare itself and its stakeholders for changes in the pension plan environment.

Dependency on key vendor

The Corporation has a key relationship with the vendor of the pension administration software. The vendor's ownership, development of functionality and schedule for software upgrades may have implications for the Corporation, including availability of specialized technical assistance. To date, there have been no issues related to this vendor which have impacted the Corporation's ability to deliver timely service to its clients.

Management's Responsibility for Financial Reporting

The financial statements and information in the 2005 Annual Report are the responsibility of Alberta Pensions Administration (APA) Corporation and have been approved by management and APA Corporation's Board of Directors (the Board).

The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments.

To discharge its responsibility for the integrity and objectivity of financial reporting, APA Corporation maintains a system of internal accounting controls comprised of written policies, standards and procedures, and a formal authorization structure. These systems are designed to provide management with reasonable assurance that transactions are properly authorized, that reliable financial records are maintained and that assets are adequately accounted for and safeguarded.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee (the Committee). As part of this responsibility, the Committee reviews the financial statements and annual report and, once satisfied, recommends them to the Board for approval. The Committee also meets with management and external auditors to discuss internal controls, auditing matters and financial reporting issues.

The Auditor General of Alberta, APA Corporation's external auditor, provides an independent audit opinion on the financial statements.

[Original signed by Brad Sonnenberg]

[Original signed by Norm Ferguson]

Brad Sonnenberg, P. Eng.
Interim Chief Executive Officer

Norm Ferguson, CMA
Chief Administrative Officer

March 29, 2006



Financial Statements

Auditor's Report

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

To the Shareholder of Alberta Pensions Administration Corporation

I have audited the balance sheet of the Alberta Pensions Administration Corporation as at December 31, 2005 and the statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Fred Dunn]

Fred Dunn, FCA
Auditor General

Edmonton, Alberta
March 29, 2006

Alberta Pensions Administration Corporation
Balance sheet
December 31, 2005

	(\$ thousands)	
	2005	2004
ASSETS		
Cash	\$ 70	\$ 54
Accounts receivable	8	106
Prepaid expenses	169	103
Due from pension plans	2,680	4,509
Property and equipment (Note 4)	6,956	8,664
	\$ 9,883	\$ 13,436
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Accounts payable and accrued liabilities	\$ 1,031	\$ 1,984
Accrued salaries and benefits	1,015	797
Accrued vacation pay	406	606
Deferred lease inducement	35	52
Capital lease obligation (Note 5)	440	1,333
Deferred capital contributions (Note 3(b))	6,956	8,664
	9,883	13,436
Shareholder's equity		
Share capital (Note 6)	-	-
	\$ 9,883	\$ 13,436

The accompanying notes are part of these financial statements.

Approved by the Board:

[original signed Jack H. McMahon]

Jack H. McMahon
Chairman of the Board

[original signed R. C. (Rick) Milner]

R. C. (Rick) Milner
Audit Committee Chairman

Alberta Pensions Administration Corporation
Statement of income
Year ended December 31, 2005

	(\$ thousands)		
	Budget	Actual	Actual
	2005	2005	2004
	(Note 16)		
Revenue			
Service revenue (Note 8)	\$ 26,944	\$ 24,547	\$ 24,381
Miscellaneous revenue	18	51	52
	<u>26,962</u>	<u>24,598</u>	<u>24,433</u>
Total revenue			
Operating costs			
Salaries and benefits	15,588	14,714	13,481
Amortization	3,357	3,175	2,612
Contract services	1,385	1,219	2,255
Materials and supplies	2,027	1,961	2,242
Rent	913	659	706
Data processing	358	392	414
	<u>23,628</u>	<u>22,120</u>	<u>21,710</u>
Operating costs before plan-specific costs			
Plan-specific costs (Note 9)	3,334	2,478	2,723
	<u>26,962</u>	<u>24,598</u>	<u>24,433</u>
Total operating costs			
Net income	\$ -	\$ -	\$ -

The accompanying notes are part of these financial statements.

Alberta Pensions Administration Corporation
Statement of cash flows
Year ended December 31, 2005

	(\$ thousands)	
	2005	2004
Operating activities		
Net income	\$ -	\$ -
Items not affecting cash		
Amortization	3,175	2,612
Capital contributions recognized	<u>(3,175)</u>	<u>(2,612)</u>
	-	-
Changes in non-cash working capital (Note 10)	<u>926</u>	<u>(572)</u>
	<u>926</u>	<u>(572)</u>
Investing activities		
Acquisition of property and equipment	<u>(1,467)</u>	<u>(3,237)</u>
Financing activities		
Decrease in deferred lease inducement	(17)	(18)
Increase (decrease) in capital lease obligation	(893)	546
Capital contributions received	<u>1,467</u>	<u>3,237</u>
	<u>557</u>	<u>3,765</u>
Increase (decrease) in cash for the year	16	(44)
Cash at beginning of year	<u>54</u>	<u>98</u>
Cash at end of year	<u><u>\$ 70</u></u>	<u><u>\$ 54</u></u>

The accompanying notes are part of these financial statements.

Alberta Pensions Administration Corporation
Notes to the financial statements
December 31, 2005

1. Authority

The Alberta Pensions Administration Corporation (the Corporation) was incorporated under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000. The issued share of the Corporation is owned by the Government of Alberta, and accordingly the Corporation is exempt from income and other taxes.

2. Nature of operations

The Minister of Finance of Alberta, operating under the authority of the Public Sector Pension Plans Act, Chapter P-41, Revised Statutes of Alberta 2000 and the Financial Administration Act, Chapter F-12, RSA 2000, is responsible for administering the following pension plans:

- Local Authorities Pension Plan
- Public Service Pension Plan
- Management Employees Pension Plan
- Special Forces Pension Plan
- Public Service Management (Closed Membership) Pension Plan
- Members of the Legislative Assembly Pension Plan
- Provincial Judges and Masters in Chambers (Registered) Pension Plan
- Supplementary Retirement Plan for Public Service Managers
- Provincial Judges and Masters in Chambers (Unregistered) Pension Plan

All administrative services required by the pension plans are provided by the Corporation pursuant to the Administrative Services Agreement with the Minister through to December 31, 2006. These services include the collection of contributions, payment of benefits and refunds, communication to stakeholders, pension plan board support services and other services specifically requested by individual pension boards.

3. Summary of significant accounting policies

(a) Property and equipment

Property and equipment are recorded at historical cost. The threshold for capitalization is \$5,000 per item or \$30,000 for like items, where the individual items have a useful life in excess of two years. Amortization is calculated as follows:

APEX business system	3 to 5 years
Computer equipment	2 to 3 years
Computer software	2 to 3 years
Leasehold improvements	Lease period
Furniture and equipment	5 years
Telephone system	3 years

Property and equipment under construction, including software development projects, is not amortized until completion and implementation.

Note 3 - Summary of significant accounting policies (continued)

(a) Property and equipment (continued)

Effective January 1, 2006 the Corporation has amended its accounting policy for capitalizing assets. The threshold for capitalizing new system development is \$100,000, and \$5,000 for all other items, where these items have a useful life in excess of one year. This new policy is being applied on a prospective basis.

(b) Recognition of deferred capital contributions

Financing obtained from the public sector pension plan funds to acquire property and equipment is recorded as deferred capital contributions. These amounts are recognized as revenue on the same basis as the acquired property and equipment is amortized.

4. Property and equipment

(\$ thousands)

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
APEX business system	\$ 7,383	\$ 4,437	\$ 2,946	\$ 6,030
Computer equipment	4,225	3,119	1,106	633
Computer software	2,059	839	1,220	199
Leasehold improvements	1,596	439	1,157	1,284
Furniture and equipment	1,095	568	527	518
Telephone system	43	43	-	-
	<u>\$ 16,401</u>	<u>\$ 9,445</u>	<u>\$ 6,956</u>	<u>\$ 8,664</u>

5. Capital lease obligation

The Corporation is committed under capital leases for computer equipment for periods extending to 2006. The minimum lease payments for 2006 total \$440,000 and do not include interest.

6. Share capital

	2005	2004
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share (Note 1)	<u>\$ 1</u>	<u>\$ 1</u>

7. Financial instruments

Financial instruments of the Corporation consist of cash, accounts receivable, due from pension plans, accounts payable and accrued liabilities, accrued salaries and benefits, accrued vacation pay and capital lease obligation. Due to their short-term nature, the carrying value of these instruments approximates their fair value.

8. Service revenue

The Corporation charged each plan with its respective share of the Corporation's operating and plan-specific costs based on the allocation formula decided by the Minister of Finance.

	(\$ thousands)	
	2005	2004
Public sector pension plans		
Local Authorities Pension Plan	\$ 14,686	\$ 14,655
Public Service Pension Plan	6,350	6,283
Management Employees Pension Plan	1,416	1,427
Special Forces Pension Plan	1,136	1,106
Public Service Management (Closed Membership) Pension Plan	339	344
Provincial Judges and Masters in Chambers (Registered) Pension Plan	57	63
Members of the Legislative Assembly Pension Plan	58	57
Supplementary retirement pension plans		
Supplementary Retirement Plan for Public Service Managers	442	378
Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	63	68
	<u>\$ 24,547</u>	<u>\$ 24,381</u>

9. Plan-specific costs

The Corporation makes certain payments on behalf of the pension plan boards. These costs, which are incurred directly by the pension plan boards, and which the Corporation does not control, are as follows:

	(\$ thousands)	
	2005	2004
Contract services	\$ 1,351	\$ 1,508
Salaries and benefits	605	636
Materials and supplies	373	389
Remuneration for pension board members	142	184
Rent	7	-
Data processing	-	6
	<u>\$ 2,478</u>	<u>\$ 2,723</u>

10. Changes in non-cash working capital

	(\$ thousands)	
	2005	2004
Changes in non-cash working capital consist of the following:		
Decrease (increase) in accounts receivable	\$ 98	\$ (94)
Decrease (increase) in prepaid expenses	(66)	17
Decrease (increase) in due from pension plans	1,829	(1,285)
Increase (decrease) in accounts payable and accrued liabilities	(953)	608
Increase (decrease) in accrued salaries and benefits	218	295
Increase (decrease) in accrued vacation pay	(200)	(113)
	<u>\$ 926</u>	<u>\$ (572)</u>

11. Related party transactions

	(\$ thousands)	
	2005	2004
The Corporation received the following services at amounts which approximate market from:		
Alberta Corporate Service Centre		
Data processing and postage	\$ 637	\$ 524
Alberta Finance		
Accounting and administrative	22	28
Alberta Infrastructure		
Parking rental	10	10

The Corporation also provided services to the public sector pension plans and supplementary retirement pension plans as disclosed in Notes 8 and 9.

12. Salaries and benefits disclosure

(\$ thousands)

		2005				2004
		Base Salary (a)	Other Cash Benefits (b)	Other Non-cash Benefits (c)	Total	Total
Corporation Board Chair	(d)	\$ -	\$ 20	\$ -	\$ 20	\$ 33
Corporation Board Members	(d)	-	68	6	74	103
President and Chief Executive Officer	(e)	150	39	33	222	206
Corporate Officers:						
Chief Strategist and Corporate Secretary		136	26	30	192	186
Chief Operating Officer		123	16	27	166	153
Chief Information Officer	(f)	100	42	32	174	161
Chief Administrative Officer	(g)	119	21	29	169	233

(a) Base salary includes regular base pay.

(b) Other cash benefits include incentive pay, lump sum payments, vacation payouts and honoraria.

(c) Other non-cash benefits include the Corporation's share of all employee and Board member benefits and contributions or payments made on their behalf including pension, health care, dental coverage, group life insurance, long-term disability, WCB premiums, professional memberships and tuition fees.

(d) Remuneration paid for the services of the Chair and five board members (2004: five board members) is classified as contract services and is paid in accordance with the fee structure approved by the Minister of Finance.

(e) Automobile provided, no dollar amount included in other non-cash benefits.

(f) The Chief Information Officer (CIO) position was occupied for eleven months during the year, 8 months by the successor and 3 months by the predecessor. The former CIO was paid all holiday pay owing (\$20,648) upon retiring.

(g) The Chief Administrative Officer position was held by two individuals during 2004, with an overlap of one month for transition purposes.

13. Defined benefit plans
(\$ thousands)

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of \$1,076 for the year ended December 31, 2005 (2004: \$892).

At December 31, 2004, the Management Employees Pension Plan reported a deficiency of \$268,101 (2003: \$290,014) and the Public Service Pension Plan reported a deficiency of \$450,068 (2003: \$584,213). At December 31, 2004 the Supplementary Retirement Plan for Public Service Managers had a surplus of \$9,404 (2003: \$9,312).

14. Commitments

The Corporation has entered into agreements with minimum annual commitments for office space and automobile as follows:

	(\$ thousands)
2006	727
2007	721
2008	810
2009	539

15. Comparative figures

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

16. Approval of 2005 budget

The 2005 budget was approved by the Corporate Board on December 16, 2004.

Appendix 1

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

Report of the Auditor General on the Results of Applying Specified Auditing Procedures to Key Performance Measures

To the Shareholder of Alberta Pensions Administration Corporation

I have performed procedures 1 to 4 noted below in connection with the following key performance measures of Alberta Pensions Administration Corporation included in the *2005 Annual Report of the Corporation*.

Client Satisfaction

- Members
- Pensioners
- Employers
- Plan Governors

Cost Management

- Reasonable Cost

1. Agreed information from reports that originated within the Corporation to source reports. In addition, I tested the procedures used to compile the underlying data into the source reports.
2. Checked that the presentation of results is consistent with the stated methodology and that results are presented for each of the key performance measures.
3. Checked that the results presented are comparable to stated targets, and information presented in prior years.
4. Checked that the key performance measures and targets agree to the measures presented in *Alberta Pensions Administration Corporation Business Plan 2005-2007*.

As a result of applying the above procedures, I found no exceptions. These procedures, however, do not constitute an audit and therefore I express no opinion on the key performance measures identified above and included in the *2005 Annual Report of the Alberta Pensions Administration Corporation*.

[Original signed by Fred Dunn]

FCA
Auditor General

Edmonton, Alberta
March 10, 2006

Appendix 2

Member satisfaction survey

Methodology

In 2005, APA Corporation changed the administration of this survey. The Communications Unit undertook this with the assistance of SurveyMonkey.com, a web-based subscription tool.

The survey was mailed to the respondents by APA Corporation using addresses taken randomly from the four major plans (MEPP, SFPP, PSPP, and LAPP) from the Corporation's pension administration system.

In 2005, a sample of 2,510 members who received member annual statements in 2005 were surveyed in a paper-based survey which was also accessible online. Thirty-one surveys were returned as undeliverable, providing us a total sample of 2,479 members. 405 of these responded, giving us a response rate of 16.3%. This survey sample provided a confidence rating of +/- 0.05. Data entry was conducted by an administrative support temporary employee.

On the annual satisfaction survey we asked members the following question:

Please indicate your overall satisfaction with the services and information provided to you by APA Corporation.

Very Satisfied/Satisfied/Dissatisfied/Very Dissatisfied

In addition, APA Corporation began undertaking on-event surveys linked to the receipt of the member welcome packages by which pension plan members receive information regarding their pension plan when they join the plan. APA Corporation provided 4,398 pension plan members with welcome packages and received 572 completed surveys. This is a return rate of 13%.

On the member welcome package survey we asked members to:

Please indicate your overall satisfaction with the information about your pension plan provided to you by Alberta Pensions Administration Corporation.

Very Satisfied/Satisfied/Dissatisfied/Very Dissatisfied

Results from both surveys were combined to provide an overall satisfaction score for 2005.

Description of results

Overall satisfaction with experience results are determined based on the combined response categories of "Very Satisfied" and "Satisfied" in relation to members rating their overall experience with APA Corporation.

Analysis of results	<p>2005 – Very Satisfied and Satisfied = 96%</p> <p>2004 – Extremely Satisfied and Satisfied = 85%</p> <p>In 2005, to align with best practices, the “Extremely Satisfied” rating was changed to “Very Satisfied”.</p> <p>In 2005, we experienced a significant increase in member satisfaction. This can be attributed to a change to surveying members at the point of contact through on-event surveys which enabled them to respond immediately to their experience with APA Corporation increasing overall satisfaction ratings.</p> <p>This has increased members’ recall of their experience and has enhanced the satisfaction rankings of the Corporation in 2005.</p>
Data source(s)	APA Corporation 2005 Member Satisfaction Survey

Pensioner satisfaction survey

Methodology	<p>In 2005, APA Corporation changed the administration of this survey. The Communications Unit undertook this with the assistance of SurveyMonkey.com, a web-based subscription tool.</p> <p>The survey was mailed to the respondents by APA Corporation using addresses taken from the four major plans (MEPP, SFPP, PSPP, and LAPP) from the Corporation’s pension administration system.</p> <p>In 2005, all 1,704 pensioners who retired between January 1, 2005 and September 30, 2005 were surveyed in a paper-based survey which was also accessible online. Ten surveys were returned as undeliverable, giving us a total sample of 1,694. 656 of these responded, giving us a response rate of 38.7%. Data entry was conducted by an administrative support temporary employee.</p> <p>In the prior year we surveyed three groups of pensioners: those who retired in 2004, those who had been retired within two and ten years and those who had chosen coordination and were 65 years old.</p> <p>In 2005, we chose to survey only pensioners who retired in 2005 as this provided us with the most relevant information for service improvements in 2004.</p> <p>On the annual satisfaction survey we asked pensioners the following question:</p> <p style="padding-left: 40px;"><i>Please indicate your overall satisfaction with the services and information provided to you by APA Corporation.</i></p> <p style="padding-left: 40px;"><i>Very Satisfied/Satisfied/Dissatisfied/Very Dissatisfied</i></p>
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In addition, APA Corporation began undertaking on-event surveys linked to the receipt of the pension options package by which pension plan members make the pension choices. APA Corporation provided 938 pension plan members with pension option packages (these were members who submitted their application for retirement between October 1, 2005 and December 31, 2005) and received 127 completed surveys. This is a response rate of 13.5%.

In the pension options package survey we asked pensioners the following question:

Overall please rank your satisfaction with the services provided to you in understanding the options for your pension.

Very Satisfied/Satisfied/Dissatisfied

Results from both surveys were combined to provide an overall satisfaction score for 2005.

Description of results	Overall satisfaction results are determined based on the combined response categories of "Very Satisfied" and "Satisfied" in relation to new pensioners rating their overall experience with APA Corporation. Any questions that had a response of "not applicable" were not considered in the calculation of satisfaction percentages.
Analysis of results	2005 – Very Satisfied and Satisfied = 95% 2004 – Extremely Satisfied and Satisfied = 95% In 2005, to align with best practices, the "Extremely Satisfied" rating was changed to "Very Satisfied".
Data source(s)	APA Corporation 2005 Pensioner Satisfaction Survey

Employer satisfaction survey

Methodology	<p>Content for the employer satisfaction survey was developed by reviewing the 2004 results and surveys, correlating questions, and developing a set of objectives for the surveys. The Chief Operating Officer reviewed the objectives and content overview. The Corporate Communications Specialist, Manager of Training and Director of Benefit Administration developed, reviewed and approved questions in conjunction with SurveyMonkey. The Corporation uses SurveyMonkey.com, a web-based subscription tool, to conduct a web-based satisfaction survey of the 472 employers the Corporation serves.</p> <p>The survey was delivered via two methods: a link in <i>Pension e-news</i> and a direct email out to the <i>Pension e-news</i> address list. In total, the survey link was sent to 1,040 employer representatives covering a range of classifications who have interactions with APA Corporation.</p>
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There were 169 returned or undeliverable messages, so 871 employer representatives were reached.

The Corporation has several points of contact with all employers ranging from human resources and administrative staff for day-to-day operations and executive, management, technology and finance staff for other components of the administration of the pension plans. To achieve comprehensive overall satisfaction ratings, all contact points with all employers were surveyed.

The survey received 274 responses, which is a response rate of 31.45%. This is a significant response rate and provides us with the ability to leverage the results as a more accurate representation of the complete audience. SurveyMonkey provides analysis and anonymous reporting.

Description of results	The survey asked employers to rank their satisfaction with services and information provided by APA Corporation. These results are used in the APA Corporation 2005 Annual Report.
Analysis of results	2005 – Very Satisfied and Satisfied = 88% 2004 – Extremely Satisfied and Satisfied = 83% In 2005, to align with best practices, the “Extremely Satisfied” rating was changed to “Very Satisfied”. More employers are satisfied with APA Corporation services because we have worked to engage them more this year.
Data source(s)	APA Corporation 2005 Employer Satisfaction Survey

Plan board satisfaction survey

Methodology	<p>The Communications Unit develops plan board satisfaction surveys with the Chief Operating Officer and Director, Policy, Board and Legal Services. Satisfaction surveys are issued to the plan boards in paper copy. Rather than having board members responding individually, each of four plan boards:</p> <ul style="list-style-type: none">Local Authorities Pension Plan (LAPP) Board of TrusteesPublic Service Pension (PSP) BoardManagement Employee Pension (MEP) BoardSpecial Forces Pension (SFP) Board <p>provided us with one compiled response. The Director, Communications compiles all four responses to provide averages. Results are not anonymous, as we require extensive commentary from all boards to provide us with information on specific concerns with services.</p>
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Description of results	Overall satisfaction with information and services from APA Corporation results are determined on the combined results of “Very Satisfied” and “Satisfied” in relation to plan governors rating their overall satisfaction with APA Corporation.
Analysis of results	<p>2005 – Very Satisfied and Satisfied = 100%</p> <p>2004 – Extremely Satisfied and Satisfied = 75%</p> <p>Plan board satisfaction increased due to added attention to specific products. Satisfaction by the PSP Board with the Corporation’s services increased from “Dissatisfied” to “Very Satisfied” in 2005.</p> <p>In 2005, to align with best practices, “Extremely Satisfied” was changed to “Very Satisfied”.</p>
Data source(s)	APA Corporation 2005 Plan Governor Satisfaction Survey

Annual cost per member

Methodology	<p>APA Corporation participates in the Quantitative Service Measurement (QSM) survey each year to evaluate service delivery costs relative to a Canadian peer group.</p> <p>The calculation for cost per member is: $\frac{\text{Operations budget}}{\text{Total membership}}$</p> <p>To be comparable, QSM methodology requires certain adjustments to be made to participants’ statements of operations. These include the following:</p> <ul style="list-style-type: none"> • amortization for QSM is straight line over three years for all major computer development costs; • QSM pension delivery costs include specific audit and actuarial fees, banking and plan accounting costs, and exclude all board support costs; and • QSM uses active members and pensioners and excludes deferred members. <p>Using QSM’s methodology, the Corporation’s operations budget for 2005 was \$22.868M and the total membership was approximately 219,000.</p>
Description of results	<p>Per member cost for 2005 was \$104 as reported in the QSM survey. This is below target and below the QSM (peer group) average of \$117 per member.</p> <p>For 2004, APA Corporation’s actual per member cost per QSM methodology was \$106 (re-stated from \$107 originally reported, based on 2004 budget), and the QSM (peer group) average was \$117 per member (re-stated from \$110 originally reported to reflect the inclusion of a new participant in QSM, as well as changes from budget to actual results).</p>

Analysis of results	As discussed above, QSM reporting is based on annual budgets. Actual expenditures for APA Corporation are below budget due mainly to delays in recruitment and delays in the execution of initiatives.
Frequency of data collection	Data is collected annually; budget data is used for the initial completion of the QSM survey. If actual results are more than +/- 5% of budget, then QSM is provided with updated data subsequent to year-end.
Data source(s)	AGRESSO Business World accounting software (cost data), pension administration system (transaction volume and number of active members) and the pension payroll system (number of pensioners). For QSM reporting, other business units also provide certain statistics on activity volume.

2006 Corporate Directory

Corporate Board Members

Jack H. McMahon, FCA, Chair
Don Cummings, MBA, FCMC
R.C. (Rick) Milner, CA
Leonard C. Pederson
Les Young
Rod McDermand
Colin Catonio
Dennis Gartner

Business Consultant
Business Consultant
Business Consultant
PSP Board Nominee
LAPP Board of Trustees Nominee
MEP Board Nominee
SFP Board Nominee
Shareholder's Representative

Officers of the Corporation

Brad Sonnenberg, P. Eng.
Jill Wlosek
Kevin Olineck, CEBS
Norm Ferguson, CMA
Brad Sonnenberg, P. Eng.

Interim Chief Executive Officer
Chief Strategist and Corporate Secretary
Chief Operating Officer
Chief Administrative/Financial Officer
Chief Information Officer