ALBERTA TEACHERS' RETIREMENT FUND BOARD

FINANCIAL STATEMENTS

AUGUST 31, 2001

Auditor's Report

Statement of Net Assets Available for Benefits
and Accrued Pension Benefits and Deficiency

Statement of Changes in Net Assets Available for Benefits

Statement of Changes in Accrued Pension Benefits

Notes to the Financial Statements

AUDITOR'S REPORT

To the Alberta Teachers' Retirement Fund Board

I have audited the statement of net assets available for benefits and accrued pension benefits and deficiency of the Alberta Teachers' Retirement Fund Board as at August 31, 2001 and the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended. These financial statements are the responsibility of the Board'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 Board as at August 31, 2001 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
November 7, 2001

ALBERTA TEACHERS' RETIREMENT FUND BOARD
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS AND DEFICIENCY
AS AT AUGUST 31, 2001

	(in thousands)	
	2001	**2000**
Assets		
Cash	$ 1,050	$ 92
Investments (Note 4)	2,245,140	2,306,875
Receivables (Note 5)	19,799	48,649
Capital assets (Note 6)	1,453	1,536
	2,267,442	2,357,152
Liabilities		
Accounts payable (Note 7)	10,241	36,435
Net assets available for benefits	**2,257,201**	**2,320,717**
Adjustment for fluctuation in fair value of net assets (Note 3c)	6,099	(231,517)
Actuarial Value of Net Assets Available for Benefits	**2,263,300**	**2,089,200**
Actuarial Value of Accrued Pension Benefits	**6,971,200**	**6,535,600**
Deficiency (Note 11)	**$ 4,707,900**	**$ 4,446,400**

The accompanying notes are part of these financial statements.

ALBERTA TEACHERS' RETIREMENT FUND BOARD
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED AUGUST 31, 2001

	(in thousands)	
	2001	**2000**
Increase in Net Assets		
Investment income (Note 8)	$ 72,454	$ 66,391
Change in fair value of investments (Note 8)	(207,494)	337,926
Contributions (Note 9)		
Teachers	172,154	162,800
Province of Alberta	214,884	207,652
Employers	153	182
Past service purchases	1,347	1,277
Transfers from other plans	1,776	2,144
	390,314	374,055
Total increase in net assets	**255,274**	**778,372**
Decrease in Net Assets		
Pension benefits	297,535	276,294
Termination benefits	10,917	11,972
Transfers to other plans	2,774	4,507
Administrative expenses (Note 10)	7,564	7,013
Total decrease in net assets	**318,790**	**299,786**
Change in Net Assets for the Year	(63,516)	478,586
Net Assets Available for Benefits at Beginning of Year	2,320,717	1,842,131
Net Assets Available for Benefits at End of Year	**$ 2,257,201**	**$ 2,320,717**

ALBERTA TEACHERS' RETIREMENT FUND BOARD
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS
FOR THE YEAR ENDED AUGUST 31, 2001

	(in thousands)	
	2001	**2000**
Accrued Pension Benefits at Beginning of Period	$ 6,535,600	$ 6,007,000
Increase in Accrued Pension Benefits		
Interest on accrued benefits	527,500	477,400
Benefits accrued	216,800	205,400
Changes in actuarial demographic assumptions	-	17,000
Miscellaneous net actuarial losses	-	117,400
	744,300	817,200
Decrease in Accrued Pension Benefits		
Benefits paid	(308,700)	(288,600)
Accrued Pension Benefits at End of Period	**$ 6,971,200**	**$ 6,535,600**

NOTE 1 AUTHORITY AND NATURE OF OPERATIONS

The Alberta Teachers' Retirement Fund Board is the trustee and administrator of the Teachers' Pension Plan and the Private School Teachers' Pension Plan (the "Plans"). The Alberta Teachers' Retirement Fund Board operates under the authority of the Teachers' Pension Plans Act, Chapter T-1.5.

NOTE 2 DESCRIPTION OF THE ALBERTA TEACHERS' RETIREMENT FUND BOARD PENSION PLANS

The following description of the Plans is a summary only.

a) General

The Plans are contributory defined-benefit pension plans for the teachers of Alberta.

b) Guarantee

The payment of all benefits for service prior to September 1, 1992 under the Teachers' Pension Plan is guaranteed by the Province of Alberta (the "Province").

c) Funding

All teachers under contract with school jurisdictions and charter schools in Alberta are required to contribute to the Teachers' Pension Plan. Current service costs and related actuarial losses are funded by equal contributions from the Province and the teachers. The additional 10 percent cost-of-living adjustment for service earned after 1992, as described in Note 2(i), is funded entirely by the teachers. The unfunded liability for service credited prior to September 1, 1992 is being financed by additional contributions in the proportions of 67.35 percent by the Province and 32.65 percent by the teachers over the period ending August 31, 2060. The determination of the value of the benefits and the required contributions is made on the basis of periodic actuarial valuations (Note 11).

Certain public colleges and other designated organizations in Alberta also participate in the Teachers' Pension Plan under the same funding arrangements, except these organizations make the employer contributions in lieu of the Province.

NOTE 2 DESCRIPTION OF THE ALBERTA TEACHERS' RETIREMENT FUND BOARD PENSION PLANS (CONTINUED)

Certain private schools participate in the Private School Teachers' Pension Plan. Plan costs are funded by contributions from the employers and the teachers.

d) Retirement Pensions

Retirement pensions are based on the number of years of pensionable service and the highest consecutive five-year average salary. Pensions are payable to teachers who retire after completion of at least five years of pensionable service, with certain restrictions, and who have attained age 65. Unreduced pensions are also payable to teachers who have reached at least age 55 and the sum of their age and service equals 85. With certain restrictions, reduced early retirement pensions are payable to teachers who retire on or after age 55 with a minimum of five years of pensionable service.

e) Disability Benefits

Teachers who are disabled after August 31, 1992 are credited with pensionable service while disabled. Teachers do not contribute to the Plans while disabled.

f) Termination Benefits

Subject to lock-in provisions, refunds and commuted value transfers are available when a teacher ceases employment.

g) Death Benefits

Death benefits are available upon the death of a teacher and may be available upon the death of a pensioner. The benefit may take the form of a lump sum payment or a survivor pension.

h) Other Provisions

Purchase of past service and reinstatement of refunded service is allowed on a basis that is cost neutral to the Plans.

i) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to 60 percent of the increase in the Alberta Consumer Price Index. The portion of pension earned after 1992 is increased by an additional 10 percent of the increase in the Alberta Consumer Price Index.

NOTE 2 DESCRIPTION OF THE ALBERTA TEACHERS' RETIREMENT FUND BOARD PENSION PLANS (CONTINUED)

j) Income Taxes

The Plans are Registered Pension Plans as defined in the Income Tax Act and are not subject to income taxes. The income tax registration number is 0359125.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) Basis of Presentation

The financial statements are prepared on a going-concern basis in accordance with generally accepted accounting principles and present the aggregate financial position of the Plans. The statements account for the net assets available to meet future benefit payments, and are prepared to assist participants and others in reviewing the activities of the Plans for the fiscal year. They do not reflect the benefit security of individual participants.

b) Investments

Investments are recorded as of the trade date and are stated at market value, which approximates fair value. The methods used to determine year-end fair value are explained in the following paragraphs.

- Short-term deposits are recorded at cost which approximates fair value.
- The fair value of publicly traded securities is based on market prices quoted by an independent supplier of securities related data.
- The fair value of mortgages is based on the present value of future cash flows. These cash flows are discounted using the year-end mortgage rates offered by Canadian banks.
- Fair value of real estate, oil and gas properties, and private placements, not publicly traded, is based on estimates as determined by management in conjunction with industry specialists.

Premiums and discounts arising on acquisitions are amortized using the effective interest rate method and included in investment income. Changes in fair value subsequent to acquisition are included in change in fair value of investments (Note 8).

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (CONTINUED)

c) Actuarial Value of Net Assets Available for Benefits

To moderate the effects of market volatility on investment values, the actuarial value of net assets available for benefits is determined by averaging projected net assets available for benefits over a five-year period. A constraint limits the actuarial value of net assets available for benefits to be no less than 90% and no greater than 110% of the net assets available for benefits. This calculation results in an adjustment for fluctuation in fair value of net assets that is used to adjust the net assets available for benefits.

d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars at rates of exchange prevailing at the dates of the transactions. 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. Gains or losses resulting from exchange differences are included in the determination of the change in fair value of investments.

e) Derivative Financial Instruments

Gains or losses on forward foreign exchange contracts are recognized with changes in market value, and are included in the determination of current period change in fair value of investments.

f) Capital Assets

Capital assets are recorded at cost. Amortization is calculated using the straight-line method at the following annual rates so as to expense the cost of the assets over their estimated useful lives. Software under development is not amortized until implemented.

Furniture and equipment	10-25%
Computer hardware and software	20-33.3%

g) Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

NOTE 4 INVESTMENTS

	(in thousands)			
	2001		**2000**	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Fixed Income and Cash				
Cash	$ 12,251	$ 12,251	$ 14,062	$ 14,062
Short terms	63,696	63,696	23,219	23,219
Bonds and debentures	468,565	449,824	526,624	519,441
Real return bonds	182,731	183,253	102,973	99,288
Mortgages	1,787	1,602	1,810	1,647
	729,030	710,626	668,688	657,657
Equities				
Canadian equities	775,014	680,219	864,965	669,511
International equities	361,512	401,608	350,773	336,587
US equity pooled funds	376,556	389,996	419,744	331,549
Real estate and other assets	3,028	3,694	2,705	3,740
	1,516,110	1,475,517	1,638,187	1,341,387
	$ 2,245,140	$ 2,186,143	$ 2,306,875	$ 1,999,044

a) US Equity Pooled Funds

The Plans' US equity investments are held through ownership of units in two pooled funds each managed using a passive strategy with the objective of replicating the return of the *Standard & Poor's 500 United States Equity Index*. One fund invests directly in the US equity market and as at August 31, 2001, the Plans' proportionate interest in this pool had a fair value of $181,507,000. The other fund invests in stock index futures contracts and Canadian dollar short-term fixed income investments. As at August 31, 2001, the Plans' proportionate interest in this pool had a fair value of $195,049,000. A stock index futures contract is an agreement to take or make a delivery of an amount of cash equal to the difference between changes in the level of the stock index over a specified period.

b) Interest Rate Risk

Interest rate risk relates to the impact of interest rate changes on the Plans' cash flows and financial position. This risk arises from differences in the timing and amount of cash flows related to the Plans’ assets and liabilities.

NOTE 4 INVESTMENTS (CONTINUED)

b) Interest Rate Risk (Continued)

As at August 31, 2001, a 1% increase in nominal interest rates would result in a decline in the fair value of Fixed Income investments of 8.0% (2000: 7.5%). Excluding the impact of real return bonds, the decline in fair value would be 4.5% (2000: 5.5%).

Based on fair values at August 31, 2001, Fixed Income investments have the following average effective yields and term structures:

(dollar amounts in thousands)

	2001					2000	
	Within 1 Year	Term of Maturity 1 to 5 Years	Over 5 Years	Total	Average Effective Yield	Total	Average Effective Yield
Short terms	$ 63,696	$ -	$ -	$ 63,696	4.06%	$ 23,219	5.78%
Bonds and debentures	-	213,574	254,991	468,565	5.56%	526,624	6.00%
Real return bonds	-	-	182,731	182,731	3.26%	102,973	3.39%
Mortgages	-	-	1,787	1,787	7.60%	1,810	8.25%

c) Investments with the Province of Alberta

Investments include bonds issued by the Province of Alberta of $5,465,100 (2000: $5,339,000).

d) Credit Risk

Credit risk arises from the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

The Plans limit their credit risk by dealing with counter parties that are considered to be of high quality, setting and monitoring compliance with portfolio guidelines, diversification and obtaining collateral where appropriate.

The Plans record all investments at fair value. Consequently, investment values reflected in Note 4 of these financial statements represent the maximum credit risk exposure of the Plans as at August 31, 2001.

NOTE 4 INVESTMENTS (CONTINUED)

e) Currency Risk

Currency risk arises from the Plans' holding of equities that are denominated in foreign currencies. A portion of the currency exposure is hedged by foreign currency forwards. Foreign currency forwards are contractual obligations either to buy or sell a specified amount of foreign currencies at predetermined future dates and exchange rates.

The Plans' foreign currency exposure is as follows:

	(in thousands) 2001			2000
	Foreign Currency Exposure	Foreign Currency Hedge	Net Foreign Currency Exposure	Net Foreign Currency Exposure
United States	$ 398,633	$ -	$ 398,633	$ 452,936
Euro	167,507	-	167,507	127,664
United Kingdom	75,459	-	75,459	73,514
Japan	38,075	5,170	32,905	43,163
Switzerland	18,993	-	18,993	18,475
Australia	15,124	-	15,124	19,318
Other	36,345	-	36,345	42,743
	$ 750,136	$ 5,170	$ 744,966	$ 777,813

Foreign currency exposure includes $12,068,000 (2000: $13,867,000) in cash.

NOTE 5 RECEIVABLES

	(in thousands) 2001	2000
Accrued income	$ 11,396	$ 12,808
Amounts due from pending trades	614	26,712
Contributions - teachers	7,684	7,869
Contributions - Province of Alberta	-	1,165
Other	105	95
	$ 19,799	$ 48,649

NOTE 6 CAPITAL ASSETS

	2001 Cost	2001 Accumulated Amortization	2001 Net	2000 Net
	(in thousands)			
Furniture and equipment	$ 363	$ 241	$ 122	$ 164
Computer hardware and software	3,428	2,400	1,028	1,359
Software under development	303	-	303	13
	$ 4,094	$ 2,641	$ 1,453	$ 1,536

NOTE 7 ACCOUNTS PAYABLE

	2001	2000
	(in thousands)	
Tax withholdings	$ 4,110	$ 4,115
Contributions - Province of Alberta	2,626	-
Amounts payable from pending trades	1,898	31,025
Other investment transactions	888	365
Miscellaneous	719	930
	$ 10,241	$ 36,435

NOTE 8 INVESTMENT INCOME

	2001	2000
	(in thousands)	
Interest income		
Cash and short terms	$ 1,993	$ 2,196
Bonds and debentures	29,377	41,496
Real return bonds	10,363	2,333
Non-Canadian bonds	-	2,416
Mortgages	167	171
Dividend income		
Canadian equities	14,470	11,560
International equities	14,710	5,599
Real estate and other assets	1,374	620
	$ 72,454	$ 66,391

NOTE 8 INVESTMENT INCOME (CONTINUED)

Investment income includes interest of $375,000 (2000: $805,000) earned on bonds issued by the Province of Alberta.

The change in fair value of investments, of a net loss of $207,494,000, includes a realized net gain on disposal of investments of $41,341,000 (2000: $226,601,000) and an unrealized net loss of $248,835,000 (2000: net gain of $111,325,000).

NOTE 9 CONTRIBUTIONS (NOTE 2C)

	(in thousands)	
	2001	**2000**
Teachers		
Current service	$ 109,719	$ 103,780
Unfunded liability	54,061	51,095
Additional COLA	8,374	7,925
	$ 172,154	$ 162,800
Province of Alberta		
Current service	$ 106,595	$ 103,007
Unfunded liability	108,289	104,645
	$ 214,884	$ 207,652
Employers		
Current service	$ 91	$ 125
Unfunded liability	62	57
	$ 153	$ 182

NOTE 10 ADMINISTRATIVE EXPENSES

	(in thousands) 2001 Budget	2001 Actual	2000 Actual
Investment management	$ 2,785	$ 3,028	$ 2,176
Salaries and benefits (Note 13)	2,555	2,430	2,242
Premises and equipment	730	722	810
Custodial and banking charges	533	447	457
Communications	506	421	450
Consultant fees	484	392	762
Audit fees	56	56	50
Board and Investment Committee	55	44	52
Miscellaneous	28	24	14
	$ 7,732	$ 7,564	$ 7,013

NOTE 11 OBLIGATIONS FOR BENEFITS

Actuarial valuations of the Plans were done as at August 31, 2000 by Buck Consultants Limited, a firm of consulting actuaries. Extrapolations prepared by Buck Consultants Limited were used for reporting purposes as at August 31, 2001. The present value of accrued benefits was determined using the projected benefit method prorated on service. The assumptions used in the valuations and extrapolations are based on the Board's best estimate of future events.

The major long-term economic assumptions used in the current year actuarial extrapolations and prior actuarial valuations are:

	2001	2000
Rate of return on invested assets	8.00%	8.00%
Rate of inflation	3.50%	3.50%
Real wage increases	1.00%	1.00%
Population growth	0.75%	0.75%

Future experience will differ from those assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future actuarial valuations.

NOTE 11 OBLIGATIONS FOR BENEFITS (CONTINUED)

As at August 31, 2001, a 0.25% decrease in population growth rate under the Teachers' Pension Plan, holding all other assumptions constant, would increase the amount of contributions required to finance the unfunded liability by 0.50% of total teacher salaries. No change would occur to the value of accrued pension benefits.

As at August 31, 2001, a 0.50% decrease in the rate of return on invested assets under the Teachers' Pension Plan, holding all other assumptions constant, would increase the amount of contributions required to finance current service costs by 1.26% of total teacher salaries. The change would not have a material impact on the amount of contributions required to finance the unfunded liability. The accrued pension benefits would increase approximately $480 million.

The extrapolation for the Teachers' Pension Plan to August 31, 2001 determined an unfunded liability of $4.657 billion, attributable to service credited prior to September 1992 and a $53 million deficiency attributable to service after August 1992. The unfunded liability is being financed as described in Note 2c.

The extrapolation for the Private School Teachers' Pension Plan to August 31, 2001 determined a surplus of $2.1 million.

(in thousands)

	2001				2000
	Teachers' Pension Plan		Private School		
	Pre-Sept. 1992	Post-Aug. 1992	Teachers' Pension Plan	Total	Total
Net assets at beginning of year	$ 290,500	$ 2,005,551	$ 24,666	$ 2,320,717	$ 1,842,131
Net contributions	157,441	219,145	37	376,623	357,576
Benefits	(267,779)	(29,108)	(648)	(297,535)	(276,294)
Investment earnings	(13,839)	(119,786)	(1,415)	(135,040)	404,317
Administrative expenses	(537)	(6,947)	(80)	(7,564)	(7,013)
Net assets available for benefits	165,786	2,068,855	22,560	2,257,201	2,320,717
Adjustment for fluctuation in asset value	(2,786)	9,145	(260)	6,099	(231,517)
Actuarial value of accrued benefits	(4,820,000)	(2,131,000)	(20,200)	(6,971,200)	(6,535,600)
(Deficiency)/surplus	$ (4,657,000)	$ (53,000)	$ 2,100	$(4,707,900)	$ (4,446,400)

NOTE 12 INVESTMENT PERFORMANCE

The following is a summary of the investment performance results attained by the Alberta Teachers' Retirement Fund Board:

	One-Year Return	Five-Year Average Annual Compound Rate
Alberta Teachers' Retirement Fund Board	-5.7%	9.7%
Benchmark [(1)]	-11.9%	8.8%

(1) The benchmark return is a weighted average of certain market index returns, approved by the Board, based on the fund's policy asset mix.

The Board adopts a long-term real rate of return assumption for actuarial valuations. This long-term rate of return target was set at 3.5 percent over inflation for the year ended August 31, 1993, 4 percent over inflation for the four years ended August 31, 1997 and 4.5 percent over inflation since September 1, 1997. Over the nine-year period since September 1, 1992, the Fund's average annual compound rate of return was 9.7 percent, compared to the long-term target of 6.3 percent.

NOTE 13 SALARIES AND BENEFITS

	2001			2000
	Salary [1]	Benefits & Allowances [3]	Total	Total
Board Chair	$ -	$ -	$ -	$ -
Board Members	5,000[2]	-	5,000	5,000
Executive Director	149,000	24,000	173,000	154,000
Director of Investments	188,000	23,000	211,000	154,000
Portfolio Manager, Equities	136,000	15,000	151,000	112,000
Portfolio Manager, Bonds	108,000	13,000	121,000	105,000
Coordinator Information Services	94,000	14,000	108,000	111,000

(1) Salary includes regular base pay, bonuses, honoraria for Board members and any other direct cash remuneration.

(2) Honoraria for Board members is paid to Board members who are not employed by the Province of Alberta or by an employer participating in the Plans.

(3) Benefits and Allowances includes the employer's share of all employee benefits and contributions or payments made on behalf of employees, including CPP, EI, pension, health care, dental coverage, vision coverage, group life insurance, long-term disability plan, professional memberships and tuitions, and car allowances.

NOTE 14 COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to conform to the 2001 presentation.

NOTE 15 BUDGET INFORMATION

The accrued pension benefits are based on management's best estimates of future events after consultation with the Plans' actuary. Differences between actual results and management's expectations are disclosed as net experience gains in the statement of changes in accrued pension benefits. Accordingly, a budget is not included in these financial statements, with the exception of administrative expenses (Note 10).