

ALBERTA MUNICIPAL FINANCING CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2001

Auditor's Report

Balance Sheet

Statement of Loss and Retained Earnings

Statement of Cash Flow

Notes to the Financial Statements

Schedule of Debt



AUDITOR'S REPORT

To the Shareholders of the
Alberta Municipal Financing Corporation

I have audited the balance sheet of the Alberta Municipal Financing Corporation as at December 31, 2001 and the statements of loss and retained earnings and of cash flow 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, 2001 and the results of its operations and its cash flow for the year then ended in accordance with generally accepted accounting principles.

[original signed] James Hug, CA
Acting Auditor General

Edmonton, Alberta
January 25, 2002 (except for Note 10, which is as of March 20, 2002)

ALBERTA MUNICIPAL FINANCING CORPORATION
BALANCE SHEET
AS AT DECEMBER 31, 2001
(thousands of dollars)

	2001		2000
	Budget	Actual	Actual
ASSETS			
Cash (Note 3)	\$ 6,521	\$ 30,917	\$ 22,273
Accrued interest receivable	135,342	128,422	138,838
Loans to local authorities (Note 4)	3,454,733	3,454,950	3,527,801
	<u>\$3,596,596</u>	<u>\$3,614,289</u>	<u>\$3,688,912</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Accrued interest payable	\$ 62,211	\$ 62,922	\$ 73,784
Debt (Note 5 and Schedule 1)	3,396,128	3,418,565	3,465,151
	<u>3,458,339</u>	<u>3,481,487</u>	<u>3,538,935</u>
Shareholders' equity:			
Share capital (Note 6):			
Authorized: 7,500 common shares, par value \$10 per share			
Issued and fully paid:			
6,372 shares (2000 - 6,370)	64	64	64
Retained earnings	138,193	132,738	149,913
	<u>138,257</u>	<u>132,802</u>	<u>149,977</u>
	<u>\$3,596,596</u>	<u>\$3,614,289</u>	<u>\$3,688,912</u>

The accompanying notes are part of these financial statements.

J. M. Drinkwater
President and Chairman of the Board

G.H. Sherwin, CA
Vice-President

ALBERTA MUNICIPAL FINANCING CORPORATION
STATEMENT OF LOSS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2001
(thousands of dollars)

	2001		2000
	Budget	Actual	Actual
Interest Income:			
Loans	\$ 336,754	\$ 328,622	\$ 351,172
Amortization of loan discounts	19,872	19,872	24,699
Deposits and short-term investments	600	1,671	2,945
	<u>357,226</u>	<u>350,165</u>	<u>378,816</u>
Interest Expense:			
Debt	361,147	359,532	452,569
Amortization of debt discounts	8,327	7,633	4,836
	<u>369,474</u>	<u>367,165</u>	<u>457,405</u>
Net interest expense	(12,248)	(17,000)	(78,589)
Other Income:			
Investment income on sinking fund	-	-	27,254
Loan prepayment fees	1,000	141	964
	<u>1,000</u>	<u>141</u>	<u>28,218</u>
Net interest expense and other income	(11,248)	(16,859)	(50,371)
Non-Interest Expense:			
Administration and office expenses (Note 7)	385	228	295
Debt issue and service expenses	60	65	53
Directors' and officers' fees and expenses (Note 7)	27	23	24
	<u>472</u>	<u>316</u>	<u>372</u>
Net loss	(11,720)	(17,175)	(50,743)
Retained earnings, beginning of year	149,913	149,913	275,656
Distribution to shareholders	-	-	(75,000)
Retained earnings, end of year	<u>\$ 138,193</u>	<u>\$ 132,738</u>	<u>\$ 149,913</u>

ALBERTA MUNICIPAL FINANCING CORPORATION
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2001
(thousands of dollars)

	2001		2000
	Budget	Actual	Actual
Operating Activities:			
Interest received on loans	\$ 340,250	\$ 339,038	\$ 359,474
Interest received on investments/sinking fund	600	1,671	5,514
Loan prepayment fees	1,000	141	964
Administration and office expenses	(472)	(316)	(372)
Interest paid on debt	(372,720)	(370,394)	(457,109)
Cash flows used in operating activities	(31,342)	(29,860)	(91,529)
Investing Activities:			
Loan repayments	439,940	456,062	427,095
New loans issued	(347,000)	(363,339)	(369,435)
Sinking fund investments	-	-	474,838
Cash flows from investing activities	92,940	92,723	532,498
Financing Activities:			
Debt issues	574,389	722,520	582,030
Debt redemptions	(651,739)	(776,739)	(1,002,367)
Distribution to shareholders	-	-	(75,000)
Cash flows used in financing activities	(77,350)	(54,219)	(495,337)
Net increase (decrease) in cash	(15,752)	8,644	(54,368)
Cash, beginning of year	22,273	22,273	76,641
Cash, end of year	\$ 6,521	\$ 30,917	\$ 22,273

ALBERTA MUNICIPAL FINANCING CORPORATION**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2001

1. AUTHORITY

The Alberta Municipal Financing Corporation operates under the authority of the Alberta Municipal Financing Corporation Act, Chapter A-27, Revised Statutes of Alberta 2000, as amended.

2. SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles and include the following significant accounting policies:

(a) Sinking Fund Investments

Sinking fund investments are recorded at cost. The cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Realized gains and losses on disposals of sinking fund investments are included in the determination of investment income. The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

Investment income on sinking fund investments accrues to the sinking fund.

(b) Debt

Debt discounts, including underwriting commission, arising on the issue of debt are deferred and amortized over the term of the debt.

Debt is recorded net of unamortized discounts.

Public debt issue expenses are charged against income as they are incurred.

(c) Discounts on Loans to Local Authorities

Discounts are recorded for reductions of interest rates given on loans to local authorities with interest rates above a certain level and are amortized to income over the term of these loans. Annual amortization is the change in the present value of the remaining interest rate reduction.

3. CASH

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. CCITF 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 five years. Interest is earned on the Fund's daily cash balance at the average rate of interest earned by CCITF, which varies depending on prevailing market interest rates.

4. LOANS TO LOCAL AUTHORITIES

	2001	2000
	(thousands of dollars)	
Loans to local authorities	\$3,506,497	\$3,599,220
Less: Unamortized discounts	51,547	71,419
	<u>\$3,454,950</u>	<u>\$3,527,801</u>

5. DEBT

- (a) The debt of the Corporation is fully guaranteed by the Province of Alberta.
- (b) Debt amounting to \$2,880,816,000 (2000 - \$3,097,555,000) held by the Canada Pension Plan Investment Fund (CPPIF) is redeemable at the option of the Minister of Finance of Canada by giving six months notice in writing and observing the other redemption provisions of the debt agreement.

The Corporation may prepay debt held by the CPPIF by providing 30 days notice prior to the proposed redemption date. The debt can be prepaid at market with the debt issued prior to January 1, 1998 discounted at the Government of Canada rate and debt issued after January 1, 1998 valued at the Province's borrowing rate.

- (c) Debt redemption requirements during each of the next five years are as follows:

	Debt Redemption (thousands of dollars)
2002	\$ 454,735
2003	601,023
2004	338,491
2005	283,604
2006	395,396
	<u>\$ 2,073,249</u>

6. SHARE CAPITAL

Particulars of share capital are summarized hereunder:

Class	Restricted to	Number of Shares		Total Dollar Amount
		Authorized	Issued and Fully Paid	
A	Province of Alberta	4,500	4,500	\$45,000
B	Municipalities, airport authorities and hospitals	1,000	852	8,520
C	Cities	750	582	5,820
D	Towns and villages	750	302	3,020
E	Schools, universities and colleges	500	136	1,360
		<u>7,500</u>	<u>6,372</u>	<u>\$63,720</u>

During the year, three Class B and two Class E shares were issued and three Class D shares were cancelled at \$10.00 each.

7. DIRECTORS' FEES AND RELATED PARTY TRANSACTIONS

Directors' fees paid by the Corporation are as follows:

	2001		2000	
	Number of Individuals	Total	Number of Individuals	Total
Chairman of the Board	1	\$ 2,100	1	\$ 2,100
Board members	6	\$ 11,100	6	\$ 11,000

There are two additional Board members who are employees of the Province of Alberta and do not receive compensation from the Corporation.

The Corporation has no employees. Included in administration and office expenses of \$228,090 (2000 - \$294,909) is the amount of \$184,617 (2000 - \$249,530) that was paid to the controlling shareholder, Province of Alberta, at prices which approximate market.

8. INTEREST RATE RISK

Interest rate risk refers to the potential impact of changes in interest rates on the Corporation's earnings and the fair value of the financial instruments when maturities of its financial assets are not matched with the maturities of its financial debt. The following table shows the maturities and effective rates of the Corporation's financial assets and liabilities:

Maturities	As at December 31, 2001 (thousands of dollars)					2001 Total	2000 Total
	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years		
Assets							
Cash	\$ 30,917	\$ -	\$ -	\$ -	\$ -	\$ 30,917	\$ 22,273
Accrued Interest							
Receivable	128,422	-	-	-	-	128,422	138,838
Loans	46,963	130,425	541,622	1,359,637	1,427,850	3,506,497 (i)	3,599,220 (i)
Effective Rate	9.7%	9.1%	10.5%	10.0%	7.5%	9.0%	9.4%
Total	206,302	130,425	541,622	1,359,637	1,427,850	3,665,836	3,760,331
Liabilities							
Accrued Interest							
Payable	62,922	-	-	-	-	62,922	73,784
Debt	453,308	601,023	1,017,491	1,124,376	222,367	3,418,565	3,465,151
Effective Rate	11.3%	10.6%	11.5%	9.2%	6.3%	10.2%	11.1%
Total	516,230	601,023	1,017,491	1,124,376	222,367	3,481,487	3,538,935
Net Gap	\$(309,928)	\$(470,598)	\$(475,869)	\$ 235,261	\$ 1,205,483	\$ 184,349	\$ 221,396

(i) This total is not reduced by unamortized discount of \$51,547 (2000 - \$71,419).

The Corporation manages on a continuous basis its interest rate risk by matching its debt maturity profile to the forecast cash flows and their effect on the Corporation's surplus position.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the table represent the fair value of the Corporation's financial instruments based on the following assumptions and valuation methods.

Fair value represents the Corporation's estimate of amounts for loans and debt that could be exchanged with unrelated parties who are interested in acquiring these instruments. For loans which lack an available trading market, fair value is based on estimates using net present value techniques which reflect the Corporation's lending rates.

Interest rate sensitivity is the main cause of changes in the fair value of the Corporation's financial instruments.

The fair value of cash, accrued interest receivable and payable, approximate their carrying value.

The following table presents the financial instruments with a carrying value different from the recorded value at December 31:

	2001		2000	
	Fair Value	Book Value	Fair Value	Book Value
	(thousands of dollars)			
Loans	\$3,971,721	\$3,454,950	\$4,122,122	\$3,527,801
Debt	\$4,027,972	\$3,418,565	\$4,081,161	\$3,465,151

10 . PAYMENT OF RETAINED EARNINGS TO THE MINISTER OF FINANCE

On March 19, 2002, the Government of Alberta announced in Budget 2002 the transfer of \$100 million of the Corporation's retained earnings to the Province prior to March 31, 2003. Under Section 33 of the Financial Administration Act, the Corporation shall, on demand, remit the amount specified by the Minister of Finance.

11. BUDGET

The 2001 budget was approved by the Board of Directors on February 16, 2001.

Schedule 1

ALBERTA MUNICIPAL FINANCING CORPORATION
 SCHEDULE OF DEBT
 AS AT DECEMBER 31, 2001
 (thousands of dollars)

Date of Issue	Maturity Date	Interest Rate	Principal Outstanding
Canada Pension Plan Investment Fund (Note 5(b))			
Jun 01, 1982	Jun 01, 2002	15.75	\$274,735
Apr 05, 1983	Apr 05, 2003	13.82	209,284
Dec 01, 1983	Dec 01, 2003	11.50	231,739
Dec 03, 1984	Dec 03, 2004	13.25	338,491
Nov 01, 1985	Nov 01, 2005	11.66	283,604
Nov 03, 1986	Nov 03, 2006	9.85	395,396
Nov 02, 1987	Nov 02, 2007	9.66	335,383
Oct 03, 1988	Oct 03, 2008	10.04	259,294
Oct 02, 1989	Oct 02, 2009	9.99	291,414
Nov 01, 1989	Nov 01, 2009	9.62	32,457
Dec 01, 1989	Dec 01, 2009	9.26	6,652
Oct 01, 2000	Oct 01, 2020	6.28	222,367
Total			<u>2,880,816</u>
Public			
Nov 01, 2000	Jun 03, 2002	5.92	15,000
Nov 01, 2000	Jun 03, 2002	5.78	5,000
Nov 01, 2000	Jun 03, 2002	5.76	10,000
Dec 01, 2000	Jun 03, 2002	5.84	30,000
Dec 15, 2000	Sep 03, 2002	5.60	60,000
Dec 15, 2000	Sep 03, 2002	5.60	60,000
Aug 01, 2001	Aug 01, 2003	4.91	160,000
Sep 11, 2001	Sep 01, 2011	5.70	200,000
Total			<u>540,000</u>
			<u>3,420,816</u>
Less: Unamortized debt discount			2,251
Total debt 2001			<u>\$3,418,565</u>
Total debt 2000			<u>\$3,465,151</u>