LOCAL AUTHORITIES PENSION PLAN
FINANCIAL STATEMENTS
DECEMBER 31, 2002

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Local Authorities Pension Plan Board of Trustees

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Local Authorities Pension Plan (the Plan) as at December 31, 2002 and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2002 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
February 28, 2003

LOCAL AUTHORITIES PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS AS AT DECEMBER 31, 2002

($ thousands)

	2002	2001
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 8,419,003	$ 8,938,625
Contributions receivable (Note 6)	14,419	13,455
Accrued investment income	1,811	1,425
	8,435,233	8,953,505
Liabilities		
Accounts payable (Note 7)	3,913	2,345
Net assets available for benefits	8,431,320	8,951,160
Actuarial adjustment for fluctuation in fair value of net assets (Note 2 (c))	1,160,600	791,700
Actuarial value of net assets available for benefits	9,591,920	9,742,860
Accrued Benefits		
Actuarial value of accrued benefits	10,036,900	9,107,900
Actuarial (deficiency) surplus	$ (444,980)	$ 634,960

See accompanying notes and schedules.

LOCAL AUTHORITIES PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED DECEMBER 31, 2002

($ thousands)

	2002	2001
Increase in assets		
Contributions (Note 8)	$ 388,717	$ 349,807
Decrease in assets		
Net investment loss (Note 9)	522,566	383,453
Pension benefits	325,761	308,330
Refunds to members	44,095	43,981
Transfers to other plans	1,515	4,291
Transfer to ENMAX Corporation	-	1,629
Plan expenses (Note 10)	14,620	10,486
	908,557	752,170
Decrease in net assets	(519,840)	(402,363)
Net assets available for benefits at beginning of year	8,951,160	9,353,523
Net assets available for benefits at end of year	$ 8,431,320	$ 8,951,160

See accompanying notes and schedules.

LOCAL AUTHORITIES PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Increase in accrued benefits		
Interest accrued on benefits	$ 691,900	$ 628,700
Benefits earned	426,200	367,800
Net experience losses (Note 11 (a))	193,700	55,900
	1,311,800	1,052,400
Decrease in accrued benefits		
Benefits paid including interest	382,800	355,400
Net increase in accrued benefits	929,000	697,000
Accrued benefits at beginning of year	9,107,900	8,410,900
Accrued benefits at end of year (Note 11)	$ 10,036,900	$ 9,107,900

See accompanying notes and schedules.

LOCAL AUTHORITIES PENSION PLAN
STATEMENT OF CHANGE IN ACTUARIAL DEFICIENCY
FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Actuarial surplus at beginning of year	$ 634,960	$ 883,823
Decrease in net assets available for benefits	(519,840)	(402,363)
Net change in actuarial adjustment for fluctuation in fair value of net assets	368,900	850,500
Net increase in accrued benefits	(929,000)	(697,000)
Actuarial (deficiency) surplus at end of year (Note 12)	$ (444,980)	$ 634,960

See accompanying notes and schedules

LOCAL AUTHORITIES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

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

(a) General

The Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, regional health authorities, school divisions, districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies.

(b) Funding Policy

Current and optional service costs are funded by employers and employees at rates which are expected to provide for all benefits payable under the Plan. The contribution rates for employers are 1.0% more than the rates for employees. There were no changes in rates in 2002. The rates in effect at December 31, 2002 were 4.025% of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 5.90% of the excess for employees, and 5.025% of pensionable earnings up to the YMPE and 6.90% of the excess for employers. The rates are to be reviewed at least once every three years by the board based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess. The maximum service allowable under the Plan is 35 years. Unreduced pensions are payable to members who retire with at least two years of membership and have either attained age 65, or age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members retiring early.

(d) Disability Benefits

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

(e) Death Benefits

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

(f) Termination Benefits

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

(g) Optional Service and Reciprocal Transfers

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

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

(h) Cost-of-Living Adjustments

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

(i) Income Taxes

The Plan is a registered pension plan as defined in the Income Tax Act. The Plan's registration number is 0216556.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

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

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

The Plan's percentage ownership in pooled investment funds at December 31 was as follows:

	% Ownership	
	2002	2001
Internally Managed Pooled Investment Funds		
Canadian Dollar Public Bond Pool	24.9	25.5
Canadian Pooled Equities Fund	14.9	18.7
Domestic Passive Equity Pooled Fund	22.7	22.7
EAFE Structured Equity Pooled Fund	44.2	49.2
Private Equity Pool	53.5	53.5
Private Mortgage Pool	29.4	30.6
Private Real Estate Pool	27.4	33.0
US Passive Equity Pooled Fund	42.9	49.5
United States Pooled Equities Fund	40.8	40.8
Externally Managed Pooled Investment Funds		
Canadian Large Cap Equity Pool	46.8	60.8
Canadian Small Cap Equity Pool	51.0	48.0
EAFE Core Equity Pool	28.7	30.1
EAFE Passive Equity Pool	19.5	21.6
EAFE Plus Equity Pool	30.4	29.7
US Large Cap Equity Pool	28.8	30.7
US Mid/Small Cap Equity Pool	42.4	33.8
US Passive Equity Pool	3.7	13.4

(b) Valuation of Assets and Liabilities

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

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

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

The fair value of private equities is estimated by Alberta Revenue.

Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

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

(c) Actuarial Value of Net Assets Available for Benefits

To reduce the impact of market volatility on the Plan's funded status, asset values are adjusted for fluctuations in fair value. Assets for the previous two years are projected to increase at the rate of return assumed in the actuarial valuation. The actuarial value of assets is determined by averaging three years' values, consisting of current market value and asset values projected from the year-end market values for the two previous years.

(d) Income Recognition

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

(e) Foreign Exchange

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

(f) Valuation of Derivative Contracts

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

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

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

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

The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

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

NOTE 3 INVESTMENTS (SCHEDULES A TO D)

	2002		2001	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash				
Investment Trust Fund [(a)]	$ 65,449	0.8	$ 109,955	1.2
Canadian Dollar Public Bond Pool [(b)]	2,094,921	24.9	2,153,806	24.1
Real rate of return bonds [(c)]	425,674	5.1	414,636	4.6
Private Mortgage Pool [(d)]	281,934	3.3	281,819	3.2
Total fixed income securities	2,867,978	34.1	2,960,216	33.1
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool [(e)]	1,149,571	13.6	1,060,406	11.9
Canadian Small Cap Equity Pool [(e)]	231,773	2.7	203,207	2.3
Domestic Passive Equity Pooled Fund [(f)]	517,839	6.2	612,328	6.8
Canadian Pooled Equities Fund [(g)]	199,693	2.4	407,134	4.6
Private Equity Pool [(h)]	18,603	0.2	32,733	0.4
Public equities, direct	-	-	18	-
	2,117,479	25.1	2,315,826	26.0
United States Equities (Schedule C)				
External Managers				
US Large Cap Equity Pool [(i)]	552,055	6.6	686,197	7.7
US Mid/Small Cap Equity Pool [(i)]	183,515	2.2	109,020	1.2
US Passive Equity Pool [(j)]	44,940	0.5	188,626	2.1
US Passive Equity Pooled Fund [(j)]	624,541	7.4	596,218	6.7
United States Pooled Equities Fund	303	-	1,363	-
	1,405,354	16.7	1,581,424	17.7
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool [(k)]	742,193	8.8	771,002	8.6
EAFE Plus Equity Pool [(k)]	408,117	4.9	388,073	4.3
EAFE Passive Equity Pool [(l)]	128,212	1.5	189,222	2.1
Emerging Markets Equity Pool	-	-	3	-
EAFE Structured Equity Pooled Fund [(l)]	212,157	2.5	192,946	2.2
	1,490,679	17.7	1,541,246	17.2
Real Estate				
Private Real Estate Pool [(m)]	537,513	6.4	539,913	6.0
Total equities and real estate	5,551,025	65.9	5,978,409	66.9
Total investments	$ 8,419,003	100.0	$ 8,938,625	100.0

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

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

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

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

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

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

(g) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(h) The Private Equity Pool is in the process of orderly liquidation.

(i) The External Managers US Large Cap Equity Pool consists of multiple portfolios and the External Managers US Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Standard & Poor's S&P 500 Index for the US Large Cap Pool and the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(j) The External Managers US Passive Equity Pool and the US Passive Equity Pooled Fund consist of a single portfolio of publicly traded United States equities similar in weights to the S&P 500 Index. The External Managers US Passive Equity Pool is managed passively by an external manager with expertise in the US equity market and the US Passive Equity Pooled Fund is managed internally. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. To enhance investment returns with no substantial increase in risks, the US Passive Equity Pooled Fund also invests in futures, swaps and other structured investments.

(k) The External Managers EAFE (Europe, Australia and Far East) Core and Plus Equity Pools consist of multiple portfolios of publicly traded Non-North American equities. Each Core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) EAFE Index asset mix by country. The Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

(l) The External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

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

NOTE 4 INVESTMENT RISK MANAGEMENT

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

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the Board of Trustees established a policy asset mix of 35% fixed income instruments, 60% equities and 5% real estate. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

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

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

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

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

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

	2002					2001	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value [a]	Notional Amount	Fair Value [a]
	%			($ thousands)			
Equity index swap contracts	69	31	-	$ 1,090,633	$ 9,836	$ 1,007,777	$ 36,051
Bond index swap contracts	100	-	-	38,109	329	59,931	29
Interest rate swap contracts	41	49	10	401,195	(23,206)	272,469	(11,752)
Forward foreign exchange contracts	100	-	-	276,015	1,291	288,645	548
Equity index futures contracts	-	-	-	-	-	35,853	1,262
				1,805,952	$ (11,750)	1,664,675	$ 26,138
Cross-currency interest rate swap contracts [b]	38	29	33	515,102		677,136	
				$ 2,321,054		$ 2,341,811	

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

(b) Cross-currency interest rate swap contracts are valued as a package, which includes underlying securities. As at December 31, 2002, the combined values of cross-currency interest rate swap contracts and underlying securities amounted to $518,675,000 (2001 $680,665,000).

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

NOTE 6 CONTRIBUTIONS RECEIVABLE

	2002	2001
	($ thousands)	
Employers	$ 7,854	$ 7,278
Employees	6,565	6,177
	$ 14,419	$ 13,455

NOTE 7 ACCOUNTS PAYABLE

	2002	2001
	($ thousands)	
Benefits	$ 43	$ 65
Refunds and transfers	5,880	3,395
Plan expenses	(2,010)	(1,115)
	$ 3,913	$ 2,345

NOTE 8 CONTRIBUTIONS

	2002	2001
	($ thousands)	
Current and optional service		
Employers	$ 208,662	$ 187,601
Employees [(a)]	178,090	159,437
Transfers from other plans	1,965	2,769
	$ 388,717	$ 349,807

(a) Includes $8,375,000 (2001 $7,052,000) of optional service contributions.

NOTE 9 NET INVESTMENT LOSS

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

	2002	2001
	($ thousands)	
Deposits and Fixed Income Securities	$ 282,875	$ 201,543
Canadian Equities	(243,921)	(224,757)
Foreign Equities		
United States	(357,004)	(113,009)
Non-North American	(236,900)	(288,591)
Real Estate	32,384	41,361
	$ (522,566)	$ (383,453)

Net investment loss is comprised of the following:

	2002	2001
	($ thousands)	
Net realized and unrealized losses on investments, including those arising from derivative transactions	$ (823,250)	$ (724,204)
Interest income	208,095	226,783
Dividend income	74,545	93,888
Real estate income	28,257	28,989
Securities lending income	1,855	1,844
Pooled funds management and associated custodial fees (Note 10)	(12,068)	(10,753)
	$ (522,566)	$ (383,453)

NOTE 10 PLAN EXPENSES

	2002	2001
	($ thousands)	
General administration costs	$ 9,026	$ 7,237
APEX project costs	3,502	1,485
Investment management costs	1,329	907
LAPP Corporation costs	512	693
Actuarial fees	251	164
	$ 14,620	$ 10,486

General administration costs and business process reengineering costs (APEX project), including Plan board costs (see Note 13) were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Revenue on a cost recovery basis to manage the Plan's investment portfolio. Pooled funds management and associated custodial fees totalling $12,068,000 (2001 $10,753,000) (see Note 9), which have been included in calculating net investment loss, are excluded from plan expenses.

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

	2002	2001
	($ thousands)	
Chief Executive Officer		
Salary and bonus	$ 174.5	$ 166.3
Benefits	7.9	7.8
Director, Pension Policy		
Salary and bonus	100.3	90.5
Benefits	6.5	5.9
	$ 289.2	$ 270.5

Total Plan expenses, including pooled funds management and associated custodial fees amounted to $192 per member (2001 $164 per member).

The $28 per member cost increase is attributed to the following factors: increase in APEX project cost $13, increase in operating cost $9, increase in investment and pooled funds management cost $7, and decrease in LAPP corporation cost $1.

Pooled funds management and associated custodial fees amounted to $87 per member (2001 $83 per member). These expenses, which have been deducted in arriving at net investment loss of the pools, are included in the determination of investment returns for the Plan (see Note 9).

Total plan expenses including pooled funds management and associated custodial fees amounted to 0.32% (2001: 0.24%) of assets under administration.

NOTE 11 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2001 by William M. Mercer Limited and was then extrapolated to December 31, 2002. The 2001 valuation was completed after the financial statements of the Plan for 2001 were released. As a result, the differences between the actuarial valuation results and extrapolation results for 2001 are accounted for as net experience losses in 2002.

The net experience losses as revealed in the December 31, 2001 actuarial valuation and reported in 2002 were mainly attributed to the following factors:

- Salary and Yearly Maximum Pensionable Earnings increases were other than assumed,
- Current service contributions were less than normal actuarial cost, and
- Retirement and mortality experiences were less favourable than assumed.

The experience gains due to lower than expected cost-of-living adjustments and more favourable termination experience have been completely offset by the losses.

The 2001 valuation was determined using the projected benefit method based on service. The assumptions used in the actuarial valuation and extrapolation were developed as the best estimate of expected market conditions and other future events. These estimates were, after consultation with the Plan's actuary, adopted by the Local Authorities Pension Plan Board of Trustees.

The major assumptions used were:

	December 31	
	2002 Extrapolation	2001 Valuation
	%	%
Investment return	7.25	7.25
Inflation rate	3.5	3.5
Salary escalation rate*	4.25	4.25

* In addition to merit and promotion.

The Board of Trustees has authorized a policy to have an actuarial valuation of the Plan to be carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2002 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2003.

(b) Sensitivity of Changes in Major Assumptions

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

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2002:

	Sensitivities		
	Changes in Assumptions %	Increase in Plan Deficiency ($ million)	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 667	0.7%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	429	0.7%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	1,604	2.3%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2001 valuation was 11.0 %.

NOTE 12 ACTUARIAL DEFICIENCY

The Plan's actuarial deficiency is determined on the going concern basis, taking into account the actuarial adjustment for fluctuations in fair value of net assets (see Note 2 (c)), which has the effect of increasing the fair value of net assets available for benefits by $1,160,600,000 (2001 $791,700,000) at December 31, 2002. The actuarial deficiency reported on this basis provides information about future funding levels required by the Plan. It is not indicative of the true solvency position of the Plan.

NOTE 13 REMUNERATION OF BOARD MEMBERS

Remuneration paid with respect to a total of 14 board members during the year amounted to $106,000 (2001 $92,000).

NOTE 14 BUDGET INFORMATION

The accrued benefits are based on the Local Authorities Pension Plan Board of Trustees' best estimates of future events after consultation with the Plan's actuary. Differences between actual results and the board's expectations are disclosed as experience gains and losses in the statement of changes in accrued benefits. Accordingly, a budget is not included in these financial statements.

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2002 presentation

Schedule A

LOCAL AUTHORITIES PENSION PLAN
SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 76,312	$ 129,937
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	936,157	970,602
Provincial		
Alberta, direct and guaranteed	4,937	7,532
Other, direct and guaranteed	418,202	499,902
Municipal	40,858	37,155
Corporate	883,759	744,386
Private		
Corporate	484,176	546,832
	2,768,089	2,806,409
Receivable from sale of investments and accrued investment income	24,406	26,015
Liabilities for investment purchases	(829)	(2,145)
	23,577	23,870
	$ 2,867,978	$ 2,960,216

(a) Fixed income securities held as at December 31, 2002 had an average effective market yield of 4.82% per annum (2001: 5.22% per annum). The following term structure of these securities as at December 31, 2002 was based on principal amount.

	2002	2001
	%	
under 1 year	2	5
1 to 5 years	29	28
6 to 10 years	28	25
11 to 20 years	16	17
over 20 years	25	25
	100	100

Schedule B

LOCAL AUTHORITIES PENSION PLAN
SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 27,111	$ 43,424
Public Equities (a) (b)		
Consumer discretionary	182,064	202,395
Consumer staples	90,706	79,537
Energy	312,418	261,120
Financials	595,176	606,235
Health care	73,711	108,652
Industrials	198,297	249,947
Information technology	106,028	255,472
Materials	337,552	296,831
Telecommunication services	98,165	104,167
Utilities	53,942	56,175
	2,048,059	2,220,531
Passive index	11,652	16,099
	2,059,711	2,236,630
Private Equities	16,338	22,887
Receivable from sale of investments and accrued investment income	19,720	22,450
Liabilities for investment purchases	(5,401)	(9,565)
	14,319	12,885
	$ 2,117,479	$ 2,315,826

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $254,579,000 (2001 $270,594,000), which were used as underlying securities to support the notional amount of Canadian equity index swap contracts.

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

Schedule C

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

DECEMBER 31, 2002

($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 11,225	$ 7,416
Public Equities (a) (b)		
Consumer discretionary	191,034	207,733
Consumer staples	120,071	113,252
Energy	84,048	98,125
Financials	293,573	285,912
Health care	209,620	225,282
Industrials	174,048	190,404
Information technology	198,553	272,176
Materials	43,169	44,883
Telecommunication services	48,179	73,821
Utilities	38,820	46,279
	1,401,115	1,557,867
Receivable from sale of investments and accrued investment income	8,056	19,492
Liabilities for investment purchases	(15,042)	(3,351)
	(6,986)	16,141
	$ 1,405,354	$ 1,581,424

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $626,945,000 (2001 $577,707,000), which were used as underlying securities to support the notional amount of US equity index swaps and futures contracts.

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

Schedule D

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

DECEMBER 31, 2002

($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 37,355	$ 39,378
Public Equities (a)		
Country		
United Kingdom	396,070	376,351
Japan	225,157	249,008
Switzerland	132,591	107,898
France	127,191	169,902
Netherlands	95,034	110,779
Germany	83,684	103,617
Australia	68,556	57,141
Italy	58,838	52,924
Hong Kong	41,365	55,918
Spain	30,739	45,906
Finland	28,874	27,429
Sweden	26,077	28,573
Other	144,958	106,539
	1,459,134	1,491,985
Receivable from sale of investments and accrued investment income	8,767	22,175
Liabilities for investment purchases	(14,577)	(12,292)
	(5,810)	9,883
	$ 1,490,679	$1,541,246

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $209,109,000 (2001 $184,590,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps and futures contracts.