SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS
FINANCIAL STATEMENTS
DECEMBER 31, 2002

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Supplementary Retirement Plan for Public Service Managers (the Plan) as at December 31, 2002 and the Statement of Changes in Net Assets Available for Benefits 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 for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
June 13, 2003

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS AS AT DECEMBER 31, 2002
($ thousands)

	2002	2001
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 3)	$ 1,724	$ 1,091
Refundable income tax	2,319	1,231
Contributions receivable	5	17
	4,048	2,339
Liabilities		
Income tax payable	119	243
Other payables	86	77
	205	320
	3,843	2,019
Amounts owing from the SRP Reserve Fund (Note 4)	12,912	6,378
Net assets available for benefits	16,755	8,397
Accrued Benefits		
Actuarial value of accrued benefits (Note 5)	10,283	8,796
Actuarial surplus (deficiency)	$ 6,472	$ (399)

The accompanying notes are part of these financial statements.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Increase in assets		
Contributions		
Employees	$ 1,083	$ 671
Employers	1,083	671
Investment income	34	24
	2,200	1,366
Decrease in assets		
Benefits and refunds	46	9
Administration expenses (Note 6)	330	217
	376	226
	1,824	1,140
Increase in amounts owing from the SRP Reserve Fund (Note 4)	6,534	3,392
Increase in net assets	8,358	4,532
Net assets available for benefits at beginning of year	8,397	3,865
Net assets available for benefits at end of year	$ 16,755	$ 8,397

The accompanying notes are part of these financial statements.

SUPPLEMENTARY RETIREMENT PLAN

FOR PUBLIC SERVICE MANAGERS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act,* Chapter F-12, Revised Statutes of Alberta 2000 and the *Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/99 and 04/99), as amended.

(a) General

The Plan was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds $86,111, the yearly maximum pensionable earnings limit allowed by the federal *Income Tax Act* for 2002 and 2003. The Plan is supplementary to the MEPP. Services under MEPP are used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who have attained 35 years of combined pensionable service are not eligible to participate in the Plan.

(b) Funding Policy

Current service costs are funded by employee and employer contributions which together with investment earnings, income tax refunds and transfers from the SRP Reserve Fund (see Note 4), are expected to provide for all benefits payable under the Plan. The contribution rates for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect in 2002 were unchanged at 7.75% of pensionable salary in excess of $86,111 for eligible employees. Designated employers made matching contributions. The rates were reviewed in 2002 and are to be reviewed at least once every three years by the Minister of Finance based on recommendations of the Plan's actuary. As a result of this review, effective April 1, 2003, the rates will increase to 9.5% of pensionable salary above the yearly maximum pensionable earnings limit for eligible employees. The matching contribution from designated employers will also increase to 9.5% of pensionable salary above the limit.

(c) Benefits

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the yearly maximum pensionable earnings limit for each year of pensionable service after July 1, 1999, based on the average salary of the highest five consecutive years.

Members are entitled to an unreduced pension on service if they retire with at least five years of combined pensionable service and have either attained age 60, or age 55 and the sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

Disability, death, termination benefits and cost-of-living adjustments under this Plan follow those of MEPP.

(d) Guarantee

Designated employers guarantee payment of all benefits arising under the Plan. If assets held in the Plan are insufficient to pay for benefits as they become due, the amount due is payable by designated employers.

(e) Plan Surplus

The Government has the right to amend or discontinue the Plan in whole or in part at any time. Any assets remaining in the Plan after provision for benefits payable to or in respect of members on the complete wind-up of the Plan accrue to the Government.

(f) Income Taxes

The Plan is a Retirement Compensation Arrangement (RCA) as defined in the *Income Tax Act.* Refundable income tax is remitted on any cash contributions from eligible employees and designated employers at the rate of 50%. Refundable income tax is returned to the Plan at the same rate when pension benefits payments are made to retired plan members, or when administration expenses exceed investment income.

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.

(b) Valuation of Assets and Liabilities

Short-term securities included in cash and cash equivalents 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.

Due to uncertainties about the timing of benefits and refunds payments, it is not practicable to estimate the fair value of refundable income tax. Refundable income tax is carried at cost.

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

(c) Income Recognition

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objectives of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at December 31, 2002, securities held by the Fund have an average effective market yield of 2.90% (2001 2.24%) per annum and an average duration of 80 days (2001 80 days).

NOTE 4 SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND (SRP RESERVE FUND)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1 (d)). To provide for their future obligations to the Plan, designated employers contribute to a Reserve Fund at rates established by the Minister of Finance based upon recommendations of the Plan's actuary. The rate in effect in 2002 was unchanged from 2001 at 42.5% of pensionable salary of eligible employees that was in excess of $86,111. The Plan's actuary has recommended that the rate decreases, effective July 1, 2003, to 6.8% of pensionable salary in excess of the yearly maximum pensionable earnings limit. The actuary has also advised that any impairment of the surplus will result in an increase in the 6.8% employer contribution rate to the Reserve Fund.

The Reserve Fund is a regulated fund established and administered by the Minister of Finance to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan.

As at December 31, 2002, the Reserve Fund had assets with fair value totalling $12,912,000 (2001 $6,378,000), comprising $12,402,000 (2001 $5,613,000) in cash and cash equivalents (see Note 3) and $510,000 (2001 $765,000) in contributions receivable. Increase during the year totalling $6,534,000 (2001 $3,392,000) is attributed to contributions from employers $6,284,000 (2001 $3,212,000) and investment income $250,000 (2001 $180,000).

NOTE 5 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2002 by Aon Consulting Inc. The valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation were developed as the best estimate of expected short-term and long-term market conditions and other future events, taking into account the increase in the yearly maximum pension accruals limit for defined benefit pension plans announced in the February 18, 2003 Federal Budget. After consultation with the Plan's actuary, the Plan's management approved this best estimate.

The major assumptions used were:

	2002 Valuation %	2001 Extrapolation %
Discount rate *	4.50	3.625
Inflation rate	3.00	3.00
Investment rate of return	6.00	7.25
Salary escalation rate **	3.50	4.25
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0

* Discount rate is on an after-tax basis.

** The 2002 rate is in addition to merit and promotion which averages 1.5%. The 2001 rate includes merit and promotion.

The following shows the principal components of the change in the value of accrued benefits:

	2002	2001
	($ thousands)	
Actuarial value of accrued pension benefits at beginning of year	$ 8,796	$ 3,685
Interest accrued on benefits	444	428
Benefits earned *	3,153	4,506
Benefits and refunds	(46)	(9)
Changes in actuarial assumptions and experience gains and losses, net	1,744	186
Impact of changes to the *yearly maximum pension accruals limit* on accrued pension benefits at beginning of year	(3,808)	-
Actuarial value of accrued pension benefits at end of year	$ 10,283	$ 8,796

* Benefits earned were reduced in 2002 due to changes in actuarial assumptions, experiences and the *yearly maximum pension accruals limit.*

(b) Sensitivity of Changes in Major Assumptions

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

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

		Sensitivities	
	Changes in Assumptions %	Decrease in Actuarial Surplus ($ millions)	Increase in Benefits Earned ($ millions)
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ (0.8)	$ 0.2
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	(0.5)	0.2
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant*	(1.0%)	(2.6)	0.8

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 4).

NOTE 6 ADMINISTRATION EXPENSES

Administration expenses, which were paid to the Alberta Pensions Administration Corporation on a cost-recovery basis, amounted to $362 (2001 $389) per member.

NOTE 7 BUDGET INFORMATION

The accrued benefits are based on management's best estimates of future events. Differences, if any, between actual results and management's expectations are disclosed as net experience gains and losses in Note 5(a). Accordingly, a budget is not included in these financial statements.

NOTE 8 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Finance.