Alberta Municipal Financing Corporation

2001 ANNUAL REPORT

Contents

Directors

BOARD OF DIRECTORS

Appointed
J.M. Drinkwater
P.A. Kruselnicki
A.J. McPherson
C.D. Radke
R.A. Splane

Elected
H.N. Johnsrude
- Representing Class B shareholders

G.H. Sherwin
- Representing Class C shareholders

R.T. Feddema
- Representing Class D shareholders

D.O. Lussier
- Representing Class E shareholders

OFFICERS

J.M. Drinkwater
- President & Chairman of the Board

G.H. Sherwin
- Vice-President & Vice-Chairman

T.S. Stroich
- General Manager & Treasurer

M.B. Neuman
- Assistant General Manager

J. Hui
- Secretary & Assistant Treasurer

For more information, visit our website or contact the Alberta Municipal Financing Corporation Office

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Organization

Mission

To provide local authorities within the Province with flexible funding for capital projects at the lowest possible cost, consistent with the viability of the Alberta Municipal Financing Corporation.

Authority

The Alberta Municipal Financing Corporation is a non-profit Corporation established in 1956 under the authority of the *Alberta Municipal Financing Corporation Act*, Chapter A-27, Revised Statutes of Alberta 2000, as amended.

Shareholders

The authorized stock of the Corporation consists of the following shares with a par value of $10 each:

- 4,500 Class A, available only to the Crown
- 1,000 Class B, available only to municipalities (defined as including municipal districts, counties, improvement districts and special areas) and to regional airport authorities, approved hospitals, hospital districts and regional health authorities
- 750 Class C, available only to cities
- 750 Class D, available only to towns and villages
- 500 Class E, available only to school districts and divisions, universities and colleges.

The business of the Corporation is administered by a Board of Directors. The Lieutenant Governor in Council appoints up to five directors to represent the Class A common shareholder. Each of the other four classes of shareholders elects one director to the Board.

Loans

Maximum terms of loans for various projects are prescribed in the Corporation's by-laws relating to the terms and conditions for lending money to shareholders.

Financing

The Corporation issues various debt obligations to obtain the funds necessary to finance loan requirements. These obligations of the Corporation carry the unconditional guarantee of the Province of Alberta.

Chairman's Report

March 20, 2002

I am honoured to have been elected Chairman of the Board on September 21, 2001 when Allister McPherson, Chairman since 1997, stepped down from that role. On behalf of the shareholders and Board members, I would like to recognize and thank him for his leadership and service as Chairman over the past five years and am delighted with his agreement to continue as a member of the Board.

The past year has been a busy one for the Corporation. The Alberta Municipal Financing Corporation Act was amended in November 2001 to allow Regional Airport Authorities established under the Alberta Regional Airport Authority Act to become shareholders of the Corporation. The importance of airport infrastructure in today's economy, and the growth being experienced by airport authorities, suggest that they may be significant borrowers in the future.

In 2000, the Board of Directors agreed to consider different repayment structures on loans on a case-by-case basis and a number were reviewed and approved in 2001. The interest rates on these loans are adjusted to reflect this increased flexibility and associated increase in administration costs. I would like to remind shareholders that each has the opportunity to request different repayment structures.

At an operational level, an interactive loan repayment calculator, and debt limit and debt service limit worksheets, were introduced on our website in June of 2001, providing useful tools to our shareholders.

In October of 2001, the Corporation conducted its bi-annual "Consultation Survey" to gauge the level of satisfaction with the current business practices. I would like to thank everyone who participated in the survey, as your comments are a key input in the development of the Corporation's three year Business Plan. I would note the high levels of satisfaction, over 80%, that our shareholders have with the Corporation's assistance in providing loans, and the timeliness of processing loan applications. Both services were considered by you to be of the highest priority. Our prepayment policy still has the lowest satisfaction level. The Corporation will continue to review its options in this regard, but paramount in our deliberations must be the financial health of the Corporation.

The Annual Report provides details of the financial highlights and activities for 2001. The Corporation recorded a net loss of $17.2 million for the year ended December 31, 2001. As in the past few years, this loss was anticipated and was attributable to the difference between interest earned on loans and interest paid on debt. Further small losses had been expected over the next few years as high rate debt is repaid and replaced. At the end of 2001 the Corporation's equity totalled $132.8 million and total assets stood at $3,614.3 million.

On March 19, 2002, the Minister of Finance announced in Budget 2002, the transfer to the Province, prior to March 31, 2003, of $100 million of the Corporation's retained earnings. The Board has not had an opportunity to assess the impact of this transfer on the financial outlook and operations of the

Corporation, but will be doing so in the near future as the transfer represents a significant portion of the current equity of the Corporation.

The Board has established, over a period of years, a number of complementary and inter-related policies designed to maintain the financial strength of the Corporation and its ability to provide financing to shareholders on flexible terms and at favourable rates. The favourable lending rates are of course available not only through maintenance of these policies, but also as a result of the Province's guarantee of the Corporation's borrowing, which allows it to raise funds at very favourable rates. This guarantee is provided without cost to the Corporation.

The Corporation's policies include an equity policy establishing a minimum equity position of 3-1/2% of total assets; the loan prepayment policy, which allows a certain level of prepayments at face value, but requires prepayments beyond that level to include an amount that keeps the Corporation whole in a financial sense; and interest rate policies for loans that allow shareholders to benefit from low borrowing costs on flexible terms. In combination, these policies also minimize the risk to the Province that its guarantee will ever need to be called upon to support the repayment of the Corporation's debt.

Since the transfer of retained earnings will reduce the Corporation's equity below the policy, the Board will assess the impact of the transfer on its policies and practices. The Corporation's continuing objective will be to provide financing to our shareholders on the best possible terms while maintaining the financial health of the Corporation.

Our accomplishments this year are a result of the efforts of both Board members and staff. I wish to thank the Board members for their dedication and support of AMFC objectives, and their skill in addressing the issues coming before the Board. In particular, I wish to thank retiring Board member Rob Feddema, representing Class D shareholders since 1996 and Mr. Dan Bader, former Deputy Minister of Municipal Affairs who served on the Board for two years. The Board is consistently impressed with the competence, diligence and enthusiasm of the Corporation staff and know that our shareholders have been as well.

It has been a privilege to act as your Chairman and I look forward to being able to continue our tradition of providing low cost flexible financing for our shareholders.

[original signed]

James M. Drinkwater
President and Chairman of the Board

The following provides management's analysis of the financial position and results of operations of the Alberta Municipal Financing Corporation for the year ended December 31, 2001.

Loans

During 2001, the AMFC loan portfolio decreased from $3,599 million to $3,506 million, a decrease of $93 million. New loans issued during the year totalled $363 million, a decrease of $6 million from new loans issued in 2000 and loan repayments totalled $456 million. The Corporation is forecasting an increase in our loan portfolio over the next few years as growth in financing of new infrastructure and the addition of a new shareholder group are likely to cause loan demand to exceed loan repayment. Included in this review is a Schedule of Loans Outstanding at December 31, 2001, Analysis of New loans Issued in 2001 by Jurisdiction and Purpose, and the Ten-Year Loan Review 1992-2001.

Annually, the Corporation requests the estimated borrowing requirements from each shareholder in order to help manage the Corporation's own financing requirements. The 2002 Shareholders' Forecast of Loan Requirements and actual borrowings are included for information.

Schedule of Loans Outstanding

as at December 31, 2001
(thousands of dollars)

	Principal Outstanding 31-Dec-00	2-Jan-01 to 31-Dec-01 New Loans Issued	2-Jan-01 to 31-Dec-01 Principal Repaid	Principal Outstanding 31-Dec-01
By Jurisdiction				
Cities:				
Airdrie	$ 8,989	$ 406	$ 1,260	$ 8,135
Calgary	1,165,944	115,074	123,923	1,157,095
Camrose	13,518	160	1,813	11,865
Cold Lake	8,950	-	859	8,091
Edmonton	754,319	147,300	121,631	779,988
Fort Saskatchewan	5,469	1,052	793	5,728
Grande Prairie	16,135	5,127	4,156	17,106
Leduc	10,664	-	1,689	8,975
Lethbridge	38,488	8,856	6,107	41,237
Lloydminster	2,477	-	1,321	1,156
Medicine Hat	165,103	7,831	36,985	135,949
Red Deer	21,553	-	5,797	15,756
Spruce Grove	4,693	5,500	438	9,755
St. Albert	27,174	4,698	3,160	28,712
Wetaskiwin	7,614	1,000	1,481	7,133
Total Cities	2,251,090	297,004	311,413	2,236,681
Specialized Municipalities:				
Municipal District of Mackenzie	679	618	94	1,203
Municipality of Jasper	640	-	176	464
Regional Municipality of Wood Buffalo	38,238	4,825	3,134	39,929
Strathcona County	66,481	7,690	6,225	67,946
Total Specialized Municipalities	106,038	13,133	9,629	109,542
Towns	199,053	24,321	23,355	200,019
Villages	13,360	1,336	2,174	12,522
Counties	21,516	6,290	1,539	26,267
Municipal Districts	11,871	2,299	1,038	13,132
Irrigation & Water Service Commissions	52,683	860	3,860	49,683
Hospitals & Regional Health Authorities	9,781	-	341	9,440
Universities/Colleges/Technical Institutes	102,383	17,825	3,199	117,009
School Districts & Divisions	831,445	271	99,514	732,202
Total	**$ 3,599,220**	**$ 363,339**	**$ 456,062**	**$ 3,506,497**
By Purpose				
Municipal - General	2,004,787	345,243	249,086	2,100,944
- Utility	645,813	-	102,957	542,856
Hospital - Ancillary Operations	14,320	-	1,290	13,030
University/College/Technical Institute - Ancillary Operations	102,383	17,825	3,199	117,009
School	831,917	271	99,530	732,658
Total	**$3,599,220**	**$ 363,339**	**$ 456,062**	**$ 3,506,497**

Analysis of New Loans Issued

By jurisdiction and purpose for the year ended December 31, 2001
(thousands of dollars)

	Cities	Towns	Villages	Other	Total
Sewer and water	$ 100,556	$ 9,145	$ 903	$ 8,264	$ 118,868
Landfill development	97,250	-	-	925	98,175
Parks and recreation	24,808	6,433	-	4,711	35,952
Equipment and machinery	29,438	663	30	1,599	31,730
Roads and sidewalks	17,140	3,983	28	2,238	23,389
Transit	18,100	-	-	-	18,100
Student residences and parkades	-	-	-	17,825	17,825
Municipal buildings	9,712	1,000	-	3,645	14,357
Land	-	3,097	375	-	3,472
Senior Citizen lodges	-	-	-	1,200	1,200
Schools	-	-	-	271	271
Total	$ 297,004	$ 24,321	$ 1,336	$ 40,678	$ 363,339

Shareholders' Forecast of Loan Requirements
(thousands of dollars)

	2002 Estimated	2001 Estimated	2001 Actual Loans
By Jurisdiction			
Cities	$ 204,100	$ 239,100	$ 297,004
Specialized Municipalities:	20,600	27,300	13,133
Towns	29,800	26,800	24,321
Villages	1,700	2,200	1,336
Counties, municipal and other districts	20,600	18,800	9,449
Regional airport authorities	300,000	-	-
Hospitals and regional health authorities	-	-	-
Universities and colleges	104,400	64,000	17,825
School divisions and districts	-	3,800	271
Total	**$ 681,200**	**$ 382,000**	**$ 363,339**
By Purpose			
Municipal - General	$ 273,800	$ 275,200	$ 345,243
- Utility	3,000	39,000	-
Airport Infrastructure	300,000	-	-
Hospitals - Ancillary Operations	-	-	-
University/College/Technical Institutes - Ancillary Operations	104,400	64,000	17,825
School	-	3,800	271
Total	**$ 681,200**	**$ 382,000**	**$ 363,339**

Ten-Year Loan Review 1992-2001
(thousands of dollars)

	2001	2000	1999
New loans issued during the year:			
By jurisdiction:			
Cities	$ 297,004	$ 226,820	$ 157,516
Specialized municipalities	13,133	38,741	20,226
Towns and villages	25,657	29,726	24,044
Counties, municipal and other districts	9,449	2,815	14,431
Hospitals and regional health authorities	-	-	-
Universities and colleges	17,825	66,300	17,975
School divisions and districts	271	5,033	2,294
Total	**$ 363,339**	**$ 369,435**	**$ 236,486**
Shareholders' Forecast of Loan Requirements	$ 382,000	$ 343,000	$ 280,000
By purpose:			
Municipal	$ 345,243	$ 298,102	$ 215,967
Hospital	-	-	-
University/College/Technical Institute	17,825	66,300	17,975
School	271	5,033	2,544
Total	**$ 363,339**	**$ 369,435**	**$ 236,486**
Loans repaid during year	456,062	427,095	422,002
New debt issues sold during year	725,000	592,367	-
Outstanding long-term debt at December 31	3,420,816	3,472,555	3,882,555
Sinking fund investments at December 31	-	-	450,153
Retained earnings at December 31	132,738	149,913	275,656
Lending rate at December 31 *(based on 20-year term)*	6%	6-1/8%	6-1/2%

1998	1997	1996	1995	1994	1993	1992
$ 115,738	$ 137,631	$ 104,949	$ 49,156	$ 131,566	$ 248,746	$ 167,513
10,233	5,906	1,376	1,596	-	-	-
16,268	15,025	11,486	12,169	12,844	15,117	14,407
2,785	3,816	898	4,027	24,071	75,603	56,536
10,000	-	-	-	258	-	-
-	-	-	-	-	8,300	9,540
5,080	2,246	1,400	45,192	117,604	161,218	165,931
$ 160,104	**$ 164,624**	**$ 120,109**	**$ 112,140**	**$ 286,343**	**$ 508,984**	**$ 413,927**
$ 215,000	$ 185,000	$ 152,000	$ 190,000	$ 475,000	$ 600,000	$ 550,000
$ 144,774	$ 162,378	$ 118,709	$ 66,948	$ 147,066	$ 300,480	$ 196,942
10,000	-	-	-	258	2,330	2,926
-	-	-	-	-	500	9,540
5,330	2,246	1,400	45,192	139,019	205,674	204,519
$ 160,104	**$ 164,624**	**$ 120,109**	**$ 112,140**	**$ 286,343**	**$ 508,984**	**$ 413,927**
562,723	495,961	447,310	413,596	413,614	553,782	367,538
-	-	-	-	20,000	113,000	200,000
4,176,761	4,403,406	4,578,863	4,785,548	5,023,242	5,201,560	5,225,993
417,639	385,304	345,764	312,091	277,421	242,328	262,755
318,602	333,505	312,211	343,125	280,340	510,721	566,805
5-5/8%	6%	6-7/8%	8%	9-3/4%	8%	9-3/8%

Results of Operations

The Corporation's interest expense on debt exceeded interest income on loans, including amortization and income from investments, by $17.0 million as the yield on the loan portfolio of 9.0% was lower than the cost of 10.2% on the debt. This net interest expense of $17.0 million was reduced by $.1 million in loan prepayment fees, and with other expenses of $.3 million, resulted in a loss of $17.2 million for 2001.

The Corporation's goals are to provide local authorities with flexible funding at the lowest possible cost and to maintain the lowest administrative and new loan costs compared to other municipal borrowing corporations. Included is a comparison of the Corporation's 2001 costs with the latest audited financial data of other provincial municipal borrowing corporations.

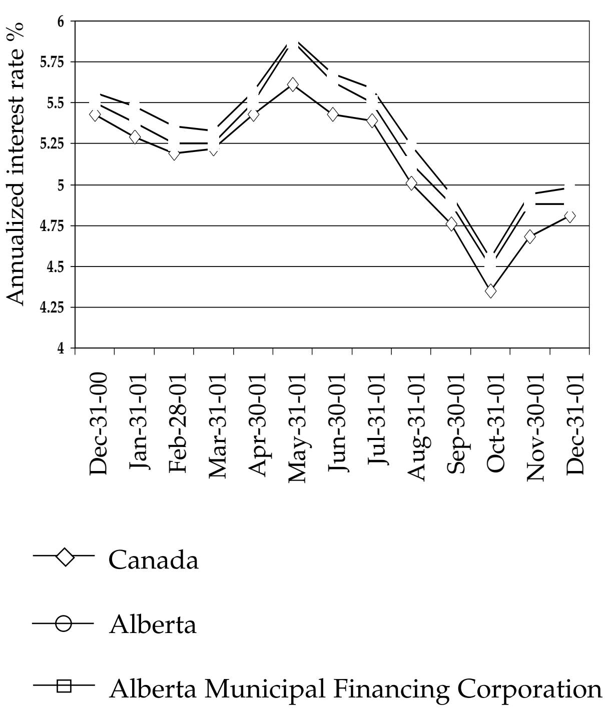
Municipal Financing Corporation Statistics - 2001

	Alberta	**British Columbia**	**Nova Scotia**	**Newfoundland and Labrador**
New loans to shareholders				
($ millions)	363.3	242.5	52.4	28.4
Total loans outstanding				
($ millions)	3,506	2,715	500	283
Administrative expense				
($ thousands)	316	696	227	210
($ per $ thousand of new loans)	0.87	2.87	4.33	7.39
($ per $ million of loans)	.09	.26	.45	.74

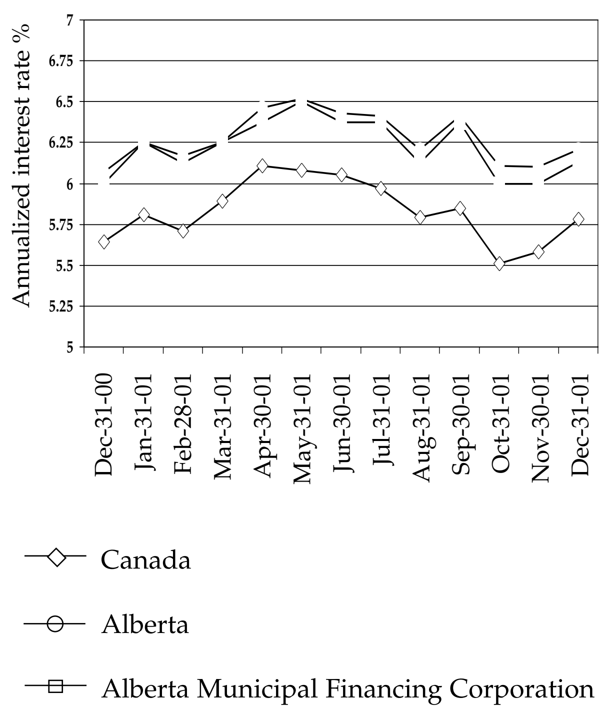
Interest Rates The Corporation's lending and interest rate policies provide shareholders with funds on a semi-monthly basis with interest rates set at the Province of Alberta's annualized average borrowing rate rounded down to the nearest 1/8%. During 2001, long-term rates remained fairly stable throughout the year but the 3 and 5-year rates declined to historical low levels.

Comparison of Rates

Canada, Alberta and AMFC rates in 2001
5-year term



Canada, Alberta and AMFC rates in 2001
25-year term



Debt

The gross debt of the Corporation decreased by $51.7 million to $3,420.8 million. During the year, the Corporation received $456.1 million in loan repayments while issuing $363.3 million in new loans. The Corporation repaid $216.7 million to the Canada Pension Plan Investment Fund, $115 million in public debt, $445 million under the Public Promissory Note Program and completing a $160 million - 2-year, and $200 million - 10-year borrowing together with borrowing $365 million for short-term requirements.

Sources of Capital
(thousands of dollars)

	Gross Outstanding December 31, 2001	Outstanding as a Percentage of Total
Canada Pension Plan Investment Fund	$ 2,880,816	84.2%
Public	540,000	15.8%
Total	$ 3,420,816	100.0%

Risk Management

Effective risk management is central to the ability to ensure a financially sound organization and includes identifying, assessing, managing and monitoring all forms of risk. The Corporation is primarily exposed to:

- Liquidity risk
- Market risk
- Operational risk and
- Credit risk

The General Manager of the Corporation is responsible for identifying risks and recommending the appropriate policies and framework. The Board of Directors reviews and approves the risk management policies and implements specific reporting procedures to enable them to monitor the adherence to these policies.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not have sufficient cash to meet its obligations as they become due and also meet the loan requirements of our local authorities.

The Corporation manages its liquidity risk by monitoring its cash flows on a daily basis and providing updated cash flow reports to the Board as required. Surplus funds are invested in short-term investments or the Consolidated Cash Investment Trust Fund. When required, the Corporation raises funds under a five-year Promissory Note Program, by direct borrowing in the Canadian or European markets or by renewing borrowing from the Canada Pension Plan Investment Fund.

Market Risk

Market risk is the impact on the Corporation's income from changes in market factors such as interest rates and foreign exchange. The Corporation requires that all borrowing be done in Canadian dollars or that all borrowing in foreign currency be swapped into Canadian dollars. The primary source of interest rate risk is repricing risk which arises when there is a mismatch between the maturity and repricing of interest bearing assets and liabilities. This repricing risk also results from the Corporation's willingness to allow for some prepayments on existing loans.

The prepayment policy is structured to protect the Corporation from the significant losses that would occur in accepting additional prepayments of high interest rate loans and relending these funds at lower rates. The Corporation, on three separate occasions, has reduced the rates on higher interest rate loans to 12%. The Corporation does not have the ability to prepay or refinance its public debt and can only repay the Canada Pension Plan Investment Fund value at current market rates. The Corporation's prepayment policy is an integral part of its long-term financial planning.

The Corporation identifies and monitors interest rate risk by analyzing cash flows which are then reported to and reviewed by the Board of Directors.

Operational Risk

Operational risk is the risk associated with a breakdown in internal controls, systems or procedural failures, human errors or malfeasance. These risks can never be fully eliminated but are minimized by establishing appropriate policies and sound internal controls through an appropriate segregation of duties, accountability and reporting practices.

These controls and policies are established by management and reviewed by the Board in addition to the review done by the Auditor General during the year end audit.

Credit Risk

Credit risk is the risk of loss due to borrowers failing to meet their obligations to AMFC. Historically, the Corporation has not been required to record any provisions or allowances regarding credit losses nor has it suffered any such losses. The Corporation has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability.

Financial Reporting Responsibility of Management

Management of AMFC prepared these financial statements and is responsible for their reliability, completeness and integrity. They conform in all material respects to Canadian generally accepted accounting principles and the requirements of the *Alberta Municipal Financing Corporation Act*.

Management maintains the necessary accounting and internal control systems designed to ensure the timely production of reliable and accurate financial information, the protection of assets (to a reasonable extent) against loss or unauthorized use and the promotion of operational efficiency. The Board of Directors oversees management's responsibilities for financial reporting and internal control systems.

The Auditor General of Alberta is designated as the external auditor in the *Alberta Municipal Financing Corporation Act*. The Board of Directors reviewed these financial statements with the external auditor in detail before their approval.

[original signed]

FCA
General Manager/Treasurer

Edmonton, Alberta
January 25, 2002

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 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 Canadian generally accepted accounting principles.

[original signed]

CA
Acting Auditor General

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

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
	$ 3,596,596	$ 3,614,289	$ 3,688,912
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
	3,458,339	3,481,487	3,538,935
Shareholders' Equity:			
Share capital (Note 6):			
Authorized: 7,500 common shares, par value $10 per share			
Issued and fully paid:			
6,372 share (2000 - 6,370)	64	64	64
Retained earnings	138,193	132,738	149,913
	138,257	132,802	149,977
	$ 3,596,596	$ 3,614,289	$ 3,688,912

The accompanying notes are part of these financial statements.

[original signed]

James M. Drinkwater
President and Chairman of the Board

[original signed]

Garth H. Sherwin, CA
Vice-President and Vice-Chairman

Statement of Loss and Retained Earnings

for the year ended December 31, 2001
(thousands of dollars)

	2001 Budget	2001 Actual	2000 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
	357,226	350,165	378,816
Interest Expense:			
Debt	361,147	359,532	452,569
Amortization of debt discounts	8,327	7,633	4,836
	369,474	367,165	457,405
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
	1,000	141	28,218
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
	472	316	372
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	$ 138,193	$ 132,738	$ 149,913

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

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
	$ 3,454,950	$ 3,527,801

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
	$ 2,073,249

6. Share Capital

Particulars of share capital are summarized hereunder:

		Number of Shares		
Class	**Restricted to**	**Authorized**	**Issued and Fully Paid**	**Total Dollar Amount**
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
		7,500	6,372	$ 63,720

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:

As at December 31, 2001
(thousands of dollars)

Maturities	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	2001 Total	2000 Total
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 of Debt

As at December 31, 2001 Schedule 1
(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			2,880,816
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			540,000
			3,420,816
Less: Unamortized debt discount			2,251
Total debt 2001			$ 3,418,565
Total debt 2000			$ 3,465,151

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