Building Communities

2016 Annual Report

ALBERTA CAPITAL FINANCE AUTHORITY

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SAIT
Underground Parking Garage

The parking structure at SAIT was the first step of an important expansion of the SAIT campus. With financing from ACFA, SAIT was able to create a unique structure that enhances both our campus and the community. SAIT is grateful to ACFA for its support of this project. The ACFA financing model, with good rates and generous terms, allowed SAIT to create this distinctive facility.

Laurie L. Sutherland
Interim Vice President, Finance and Corporate Services, SAIT


Parking Garage

Directors And Representatives

Board members and representatives listed are in service as of December 31, 2016.

Board of Directors:

Appointed
All representing Class A shareholders

Frank Hawkins
Acting Chair of the Board, Public Member

Lorna Rosen
Deputy Minister, Alberta Treasury Board and Finance

Brad Pickering
Deputy Minister, Alberta Municipal Affairs

Board of Directors:

Elected

Tracy Anderson
Representing Class B shareholders

Ed Gibbons
Representing Class C shareholders

Kim Craig
Representing Class D shareholders

Ronald Ritter
Representing Class E shareholders

President:

Troy Holinski
President

Representatives:

Audit Committee

Ronald Ritter
Chair of the Audit Committee

Tracy Anderson
Member

Frank Hawkins
Member

Asset Liability Committee

Troy Holinski
Chair of the Asset Liability Committee

Lowell Epp
Member

Bernadiene Hsie
Member

Stephen Thompson
Member

Sheldon Wagner
Member

Officers

Troy Holinski
President

Bernadiene Hsie
Vice President, Senior Financial Officer

Amanda Morrison
Corporate Secretary

Sherri Bullock
Loans Officer

Clement Benoit
Accounting Officer

Organization

Mission

To provide shareholders within the Province of Alberta with flexible funding for capital projects on a prudent basis consistent with the viability of the Alberta Capital Finance Authority (ACFA).

Authority

ACFA is a provincial corporation established in 1956 under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended.

Shareholders

The authorized stock of ACFA 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 municipal authorities (includes improvement districts, Metis settlements, municipal districts, counties, special areas and specialized municipalities), regional authorities (includes drainage districts, irrigation districts, regional airport authorities and regional services commissions) and health authorities (includes non-profit corporations who own an approved hospital, a regional health authority and a provincial health board);
- 750 Class C – available only to cities;
- 750 Class D – available only to towns and villages; and
- 500 Class E – available only to educational authorities (includes school districts and divisions, colleges, technical institutes, universities and Northland School Division)

The business of ACFA is governed 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.

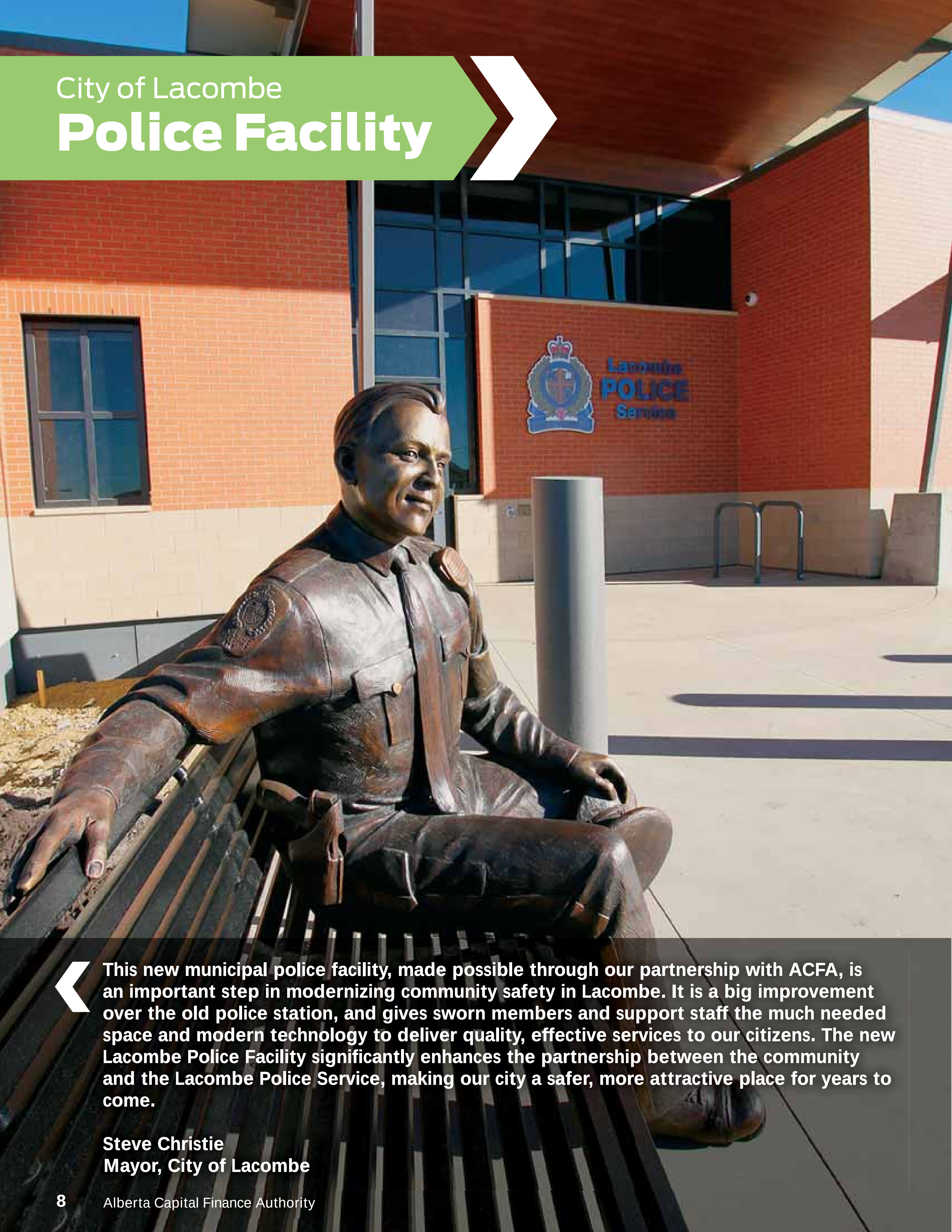
Loans

Various loan options are provided to ACFA shareholders. Terms and conditions are prescribed by lending policy.

Financing

The Province of Alberta issues various debt obligations, which it on-lends to ACFA to obtain the funds necessary to finance loan requirements. All these obligations carry the unconditional guarantee of the Province of Alberta.

City of Lacombe
Police Facility



This new municipal police facility, made possible through our partnership with ACFA, is an important step in modernizing community safety in Lacombe. It is a big improvement over the old police station, and gives sworn members and support staff the much needed space and modern technology to deliver quality, effective services to our citizens. The new Lacombe Police Facility significantly enhances the partnership between the community and the Lacombe Police Service, making our city a safer, more attractive place for years to come.

Steve Christie
Mayor, City of Lacombe

Governance

Board of Directors

The ACFA Board of Directors (Board) is responsible for the governance of ACFA and overseeing the management of ACFA's business and affairs. The Board guides ACFA's strategic direction, evaluates the performance of ACFA, approves and monitors ACFA's business plan, operational plan and financial results and is ultimately accountable to the Minister and shareholders. Board members must act honestly and in good faith.

The Board is comprised of five members appointed by the Lieutenant Governor in Council and four members each elected by different classes of shareholders (other than the class A shareholder, being the Province), all in accordance with the provisions of the *Alberta Capital Finance Authority Act* and the bylaws of the Corporation. Directors are appointed or elected for a fixed term of up to three (3) years, with the potential for reappointment.

The Board has established the Audit Committee and Asset Liability Committee to assist the Board in discharging its oversight responsibilities.

Audit Committee

The Audit Committee is appointed by the Board to assist the Chair and Board of Directors of ACFA in monitoring the financial reporting, corporate governance, accountability processes and control systems in ACFA and is fully accountable to the Board. It does so by offering observation and objective advice on issues concerning ACFA's risk, controls, quality of information, quality of management oversight and management assertions.

Asset Liability Committee

The Asset Liability Committee is a management committee with the purpose of managing ACFA's key interest rate and market risks to minimize the risk that ACFA's equity decreases due to a significant unexpected loss. These risks include (but are not limited to):

- risks due to unexpected changes in interest rates ;
- the risk of higher floating rate borrowing margins;
- the risk arising from mismatches in the floating rate reset dates of assets and liabilities;
- financing and re-financing risks;
- loan prepayment risk; and
- loan pricing risk.

The Asset Liability Committee will formulate and evaluate strategies within Board policy limits to manage ACFA's interest rate and market risks. The Asset Liability Committee will also review the Board policies regarding interest rate risk management, funding, loan prepayment and loan pricing on an annual basis and, where appropriate, recommend changes in these policies to the Board.

City of Camrose

Jeanne & Peter Lougheed Performing Arts Centre

The Jeanne & Peter Lougheed Performing Arts Centre is a unique venue located on the beautiful, historic University of Alberta's Augustana Campus in Camrose. This modern facility was made possible through our collaborative efforts with ACFA and the University of Alberta. The overall design for the building included a great deal of attention not only to what the community was envisioning for the space but also towards sustainability. The Centre will be used and enjoyed by Camrose and area residents for many years to come.

Norm Mayer
Mayor, City of Camrose
(Photo courtesy of University of Alberta, Augustana Campus)

Chair's Report

There is no doubt that 2016 presented a very challenging year for Albertans. Although the price of oil advanced cautiously over the year, unemployment continued its advance as well starting the year at 7.4% and finishing 2016 up 1% at 8.5%. This level of unemployment is significant. We know that it has been having an impact on our communities, however, Alberta Capital Finance Authority looks forward to continue providing cost effective solutions to municipalities and local authorities in order to find our path beyond these tough economic times. With challenges come opportunities.

Loan growth in 2016 was up slightly by $118 million from 2015 with new loans issued of $1,577 million. Of the new loans issued, financing was most significantly focused on projects related to airport infrastructure, parks and recreation projects, sewer and water infrastructure and roads and sidewalk construction.

Work was completed on unifying ACFA policy into one policy manual document that is now available on the ACFA website. This document is a valuable tool to better understand ACFA's business and policies for new directors and existing shareholders and stakeholders alike.

At ACFA's 2016 Annual General Meeting, Councillor Ed Gibbons was elected as a Class "C" shareholder representative. Ed replaced Malcolm Parker by way of a shareholder vote held at the meeting. I would like to thank Malcolm for his 3 years on the ACFA Board. His experience in a large municipality brought balance and perspective to the board table. I would also like to welcome back Ed Gibbons to the Board. Ed's common sense approach to big issues will no doubt be highly valued by the ACFA board.

Gary Smith left the Board in October 2016. I thank Gary for his service on the Board; he brought a wealth of experience in investment management and board governance to ACFA and was an integral part of ACFA's success during his tenure.

The Board and management of ACFA realize that 2017 may very well be another challenging year. ACFA remains committed to maintaining the highest quality products and services to meet the diverse needs of our shareholder partners. ACFA will be there every step of the way to help our shareholders continue to build and maintain the communities that make up the fabric of a strong Alberta.

[Original signed by Frank Hawkins, Acting Chair of the Board]

Frank Hawkins
Acting Chair of the Board
March 23, 2017

Town of Beaumont

Operations Facility

Beaumont was able to successfully undertake the construction of a new Operations Facility building in 2009 with the support from ACFA. As a growing community whose population has nearly doubled since the time that the construction was completed we are grateful to have had the foresight and the means to provide this valuable facility for the benefit of our community and its residents.

Camille Bérubé,
Mayor, Town of Beaumont

Management Discussion And Analysis

The following provides management's analysis of the financial position and results of operations of the Alberta Capital Finance Authority (ACFA) for the year ended December 31, 2016.

Loans

During 2016, ACFA's loan portfolio increased from $15,100 million to $15,567 million, an increase of $467 million. New loans issued during the year totaled $1,577 million, an increase of $118 million from new loans issued in 2015. Loan repayments totaled $954 million and loan prepayments totaled $156 million. In 2016, loan rates trended lower during the first half of the year and then trended higher towards the end of the year. Included in this review is an Analysis of New Loans Issued in 2016 by jurisdiction and purpose, and a Ten Year Loan Review 2007 - 2016.

Analysis of New Loans Issued

By jurisdiction and purpose for the year ended December 31, 2016 (in thousands of dollars)

	Cities	Towns	Village	Other	Total
Airport infrastructure	$ -	$ -	$ -	$ 230,000	$ 230,000
Electric, gas and telephone	45,810	330	-	-	46,140
Equipment and machinery	40,066	1,770	224	1,684	43,744
Health	-	954	-	35,818	36,772
Land	19,892	1,000	840	2,100	23,832
Landfill development	19,916	1,690	-	710	22,316
Municipal buildings	35,486	3,005	-	15,168	53,659
Parks and recreation	173,529	13,040	-	23,850	210,419
Public Housing	3,900	6,670	-	-	10,570
Roads and sidewalks	131,025	12,365	1,527	10,110	155,027
Sewer and water	371,220	23,187	930	43,968	439,305
Student residences, parkades and ancillary operations	-	-	-	264,749	264,749
Transit	22,903	-	-	-	22,903
Other	10,788	-	-	7,245	18,033
Total	**$ 874,535**	**$ 64,011**	**$ 3,521**	**$ 635,402**	**$ 1,577,469**

Ten Year Loan Review 2007 – 2016

(in thousands of dollars)

	2016	2015	2014
New Loans Issued During the Year			
By Jurisdiction			
Cities	$ 874,535	$ 856,455	$ 1,268,006
Colleges, technical institutes and universities	264,749	35,500	197,500
Counties, municipal and irrigation districts, regional services commissions and Metis settlements	66,856	70,328	47,979
Health authorities	33,772	55,389	5,000
Regional airport authorities	230,000	375,000	573,000
School districts and divisions	-	3,815	-
Specialized municipalities	40,026	4,600	4,411
Towns and villages	67,531	58,178	60,885
Total	**$ 1,577,469**	**$ 1,459,265**	**$ 2,156,781**
Loans repaid during year	1,110,323	1,119,826	896,295
Loans outstanding at December 31	15,566,824	15,099,678	14,760,239
Debt issued during year	12,578,684	9,498,090	6,975,269
Debt repaid during year	12,332,455	9,284,730	5,879,467
Debt outstanding at December 31 (1)	15,459,681	15,219,546	14,772,276
Accumulated operating surplus at December 31 (2)	405,406	351,727	294,096
Lending rate at December 31 *(based on 20 year term)*	3.185%	2.831%	2.957%

(1) Debt outstanding is the contractual principal amount and excludes unamortized premiums, discounts and commission fees.

(2) Effective January 1, 2013, remeasurement gains and losses were prepared in accordance with PS 3450 and the accumulated operating surplus has been restated for the years 2007 to 2012.

Ten Year Loan Review 2007 – 2016 (continued)

(in thousands of dollars)

2013	2012	2011	2010	2009	2008	2007
New Loans Issued During the Year						
By Jurisdiction						
$ 965,741	$ 1,038,483	$ 934,531	$ 1,252,567	$ 1,600,849	$ 993,947	$ 878,623
185,575	48,591	34,416	102,600	65,000	131,200	66,750
74,314	127,642	70,331	104,018	80,657	43,698	54,408
-	32,300	176,000	15,000	55,000	-	11,308
427,901	930,000	603,000	390,000	40,000	120,000	100,000
10,000	5,000	-	2,553	-	-	-
22,408	21,695	6,480	206,332	46,201	16,538	70,009
42,435	91,518	50,833	74,737	81,164	79,424	59,207
$1,728,374	**$2,295,229**	**$1,875,591**	**$ 2,147,807**	**$ 1,968,871**	**$ 1,384,807**	**$ 1,240,305**
616,856	748,646	558,690	541,729	640,379	432,514	505,056
13,499,753	12,388,235	10,841,652	9,524,751	7,918,673	6,590,181	5,637,888
9,817,168	10,194,626	6,342,634	6,126,386	6,895,208	2,624,881	1,551,905
8,624,025	8,750,958	5,041,780	4,526,162	5,596,477	1,701,278	835,987
13,550,326	12,234,586	10,798,646	9,497,846	7,899,846	6,610,928	5,678,476
236,849	184,979	134,293	100,076	65,357	42,072	25,120
3.623%	2.942%	3.145%	4.124%	4.395%	5.150%	4.726%

City of Lethbridge
Recycling Depot

The City of Lethbridge built a new South Recycling Depot that provides a better, safer and more accessible location for recycling drop-off. Funding from Alberta Capital Finance Authority for this project helped the City of Lethbridge to build the community by improving the recycling depot infrastructure for residents. In 2016, Lethbridge residents helped to divert from the landfill more than 2,700 tonnes of household recyclables at the three centralized recycling stations.

Garth Sherwin
City Manager, City of Lethbridge

Results of Operations

ACFA's interest income on loans, including income from investments and loan prepayment fees, exceeded interest expense on debt by $55 million. The annual operating surplus before unrealized changes in fair value of derivatives and foreign exchange was $54 million. When added to the opening accumulated operating surplus, the ending operating surplus was $405 million. After the recognition of the change in unrealized losses in fair value of derivatives and foreign exchange of $38 million, the annual surplus was $16 million. As a result, ACFA moved from an accumulated deficit of $466 million as at December 31, 2015 to an accumulated deficit of $450 million as at December 31, 2016.

Interest Rates

ACFA provides fixed rate loans to its borrowers. Loan rates are based on an estimate of the interest rate at which the Province of Alberta could borrow for a bond with the same characteristics of the loan. If it is possible to fund the loan with a matching debt instrument, the actual rate of the debt instrument will be used as the loan rate.

Debt

The contractual principal amount of ACFA's debt increased from $15,220 million to $15,460 million, an increase of $240 million. During the year, ACFA borrowed a total of $12,579 million consisting of $11,125 million in short-term notes (period of 90 days or less) and $1,454 million in mid-term to long-term debt (period of 1 year or more). ACFA repaid a total of $12,350 million consisting of $10,850 million in short-term notes and $1,500 million in long-term fixed and floating rate debt.

The outstanding contractual principal owed by ACFA at December 31, 2016, includes $1,200 million (2015 – $600 million) in US dollar denominated fixed rate debt, €175 million (2015 – nil) in European Euro denominated fixed rate debt, and $125 million (2015 – nil) in Australian dollar denominated fixed rate debt. The foreign currency denominated debt translates to $1,981 million CAD (2015 – $830 million CAD). All foreign currency cash flows are simultaneously swapped to floating rate Canadian dollar denominated cash flows, thus offsetting foreign currency risk.

Edmonton International Airport

The Living Wall

By assisting Edmonton International Airport (EIA) with financing the construction of the Living Wall at EIA, the ACFA has helped to create a stunning first and last impression of Edmonton and a work of art that gives residents of the Edmonton Metro Region a sense of place and pride. As one of the first airport terminal projects in the world to target Leadership in Energy and Environmental Design (LEED) certification, the Living Wall demonstrates EIA's commitment to sustainable design, cleaning the air in the terminal better than any machines could. In addition, it is a spectacular centrepiece to the terminal and has been integrated into the architecture.

Pauline Grafos
Director, Financial Accounting, Edmonton Regional Airports Authority

Risk Management

Effective risk management is essential to ensure a financially sound organization and includes identifying, assessing, managing and monitoring all forms of risk. ACFA is primarily exposed to:

Market risk, Interest rate risk, Liquidity risk, Operational risk, and Credit risk.

The President of ACFA, in conjunction with the Asset Liability Committee (ALCO), is responsible for identifying risks and recommending the appropriate policies and framework to mitigate risks. The Board of Directors reviews and approves the risk management policies and implements specific reporting procedures to enable them to monitor adherence to these policies.

ACFA's Asset Liability Committee assesses the market and key interest rate risks, develops benchmarks and policies to measure and mitigate these risks, and provides recommendations to the Board. A risk registry has been developed by the ALCO to highlight potential risks, assess the probability and impact of those risks, and identify risk mitigation currently utilized. The Board and Management use this risk registry to develop and enhance ACFA's risk policies.

Market Risk

Market risk is the impact on ACFA's operating results from changes in market factors such as interest rates and foreign exchange. ACFA requires all borrowing be denominated in Canadian dollars or borrowing in foreign currencies be swapped to Canadian dollars. Financial statement items impacted by changes in interest rates include interest income, interest expense and the changes in fair value of interest rate swaps. A significant market 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 ACFA's willingness to allow for some prepayments on existing loans.

The Stop-Loss Settlement Policy is structured to protect ACFA from significant losses that would occur in accepting additional prepayments of high interest rate loans and relending these funds at lower rates. ACFA does not have the ability to prepay any of its public debt and can only prepay the Canada Pension Plan Investment Fund if it incurs a penalty based on current market rates, which would not make it economically advantageous. ACFA's Stop-Loss Settlement Policy is an integral part of its long-term financial planning.

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on ACFA's net interest income when maturities of its interest rate sensitive assets are not matched with maturities of its interest rate sensitive debt. ACFA uses interest rate swaps for the purpose of managing its asset and liability position. ACFA's policy is to match the interest rate exposure on all new loans to the interest rate exposure of the debt used to fund these loans. In most cases, fixed interest rates on new loans and debt are swapped to floating rates so that the floating rates paid and received incorporate changes in the market rate at approximately the same time. ACFA utilizes long-term debt issuances as a means of financing its loan and cash flow demands. However, with rates for short-term borrowing remaining very low, ACFA continued to utilize short-term notes as a funding source for some of its financing requirements.

The Board recognizes the unique risks associated with the use of derivative financial instruments and has established policies and procedures to monitor and minimize exposure to ACFA. These policies and procedures limit the type of derivative financial instruments and circumstances where they can be used, prescribe the authorities required to approve the transaction and establish the appropriate segregation of duties to reduce operational risk.

Risk Management

Liquidity Risk

Liquidity risk is the risk that ACFA will not have sufficient cash to meet its obligations as they become due while meeting the loan requirements of local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. Surplus funds are invested short-term in the Province of Alberta's Consolidated Cash Investment Trust Fund. When required, ACFA works with the Province of Alberta to obtain funding in the Canadian and international capital markets. As of April 2011, the debt is borrowed directly by the Province of Alberta, who in turn on-lends to ACFA. All ACFA borrowing is guaranteed by the Province of Alberta.

Operational Risk

Operational risk is the risk associated with internal control breakdowns, 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, accountabilities and reporting practices.

The audit of the financial statements was conducted in accordance with Canadian generally accepted auditing standards and in completion of the audit, the auditor considers internal controls relevant to ACFA's preparation and presentation of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The objective of a financial statement audit is to obtain reasonable assurance whether the financial statements are free of material misstatement. Accordingly, an audit would not usually identify all matters that may be of interest to management and the Audit Committee, however, any significant weaknesses identified in internal controls over financial reporting, or other non-trivial matters, are communicated to management and the Audit Committee.

Credit Risk

Credit risk is the risk of loss due to a borrower or counterparty failing to meet their obligations to ACFA. Historically, ACFA has not been required to record any provisions or allowances regarding credit losses nor has it suffered any such losses. The Board 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.

Credit risk on counterparty default arises with the use of derivatives. To control this risk, ACFA has adopted the counterparty risk policy established by the Province of Alberta that sets out counterparty limits and allowable counterparties. ACFA is not exposed to credit risk for the full face value (notional amount) of the derivative contracts, but only to the potential replacement cost if the counterparties fail. Under Credit Support Annexes entered into under the Province of Alberta's derivative master agreements, counterparties or ACFA are obligated to post collateral based on established thresholds which further enhances ACFA's credit position. This exposure is represented by the current replacement cost of all outstanding contracts in a favourable position. For additional information, see Note 6 – Derivative Financial Instruments in the financial statements.

Fort McMurray International Airport

Arrivals Hall

Airports are often the first impression people get of any community. The Fort McMurray International Airport is a bright, open space welcoming visitors and residents to the Wood Buffalo area. With the help of ACFA, this International Airport was built and will play a key role for the growth of the community. This is even more important now as they rebuild from the wildfire of 2016 that saw 90,000 people evacuated.

RJ Steenstra
President and CEO, Fort McMurray Airport Authority


WELCOME TO
FORT McMURRAY
INTERNATIONAL AIRPORT
PATTISON
1

Town of Sylvan Lake
Fire Hall

After several years with population growth averaging four per cent, a large influx of summer visitors, and the recent annexation of 1675 acres, Sylvan Lake's Fire Department needed to expand to meet the community's current and future demands. The construction of a new fire hall was essential to provide adequate and suitable space for new equipment and the training needs of an ever expanding volunteer firefighting force.

Betty Osmond
Chief Administrative Officer, Town of Sylvan Lake

Financial Statements
December 31, 2016

Financial Reporting Responsibility of Management

Management of the Alberta Capital Finance Authority prepared these financial statements and is responsible for their reliability, completeness and integrity. They conform in all material respects to Canadian public sector accounting standards and the requirements of the *Alberta Capital Finance Authority 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 Audit Committee oversees management's responsibilities for financial reporting, and internal control systems over financial reporting, and recommends approval of the financial statements and annual report to the Board of Directors.

The Auditor General of Alberta is designated as the external auditor in the *Alberta Capital Finance Authority Act*. The Audit Committee reviewed these financial statements with the external auditor in detail before recommending their approval to the Board of Directors. The Board of Directors then approves the financial statements.

Edmonton, Alberta
March 23, 2017

[Original signed by Troy Holinski, President]

Troy Holinski
President

[Original signed by Bernadiene Hsie,
Senior Financial Officer]

Bernadiene Hsie
Vice President, Senior Financial Officer

Independent Auditor's Report

To the Shareholders of the Alberta Capital Finance Authority

Report on the Financial Statements
I have audited the accompanying financial statements of Alberta Capital Finance Authority, which comprise the statement of financial position as at December 31, 2016, and the statements of operations and accumulated operating surplus, remeasurement gains and losses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Capital Finance Authority as at December 31, 2016, and the results of its operations, its remeasurement gains and losses, changes in its net financial debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General
March 23, 2017
Edmonton, Alberta

Statement Of Financial Position

As at December 31, 2016 *(in thousands of dollars)*	2016	2015
Assets		
Cash (Note 3)	$ 13,349	$ 170,815
Restricted cash (Note 3)	497	497
Accounts receivable	88	35
Accrued interest receivable on loans to local authorities	102,603	105,511
Loans to local authorities (Note 4)	15,566,824	15,099,678
Derivatives in favourable position (Note 6)	969,539	1,025,365
	16,652,900	**16,401,901**
Liabilities		
Accounts payable	560	585
Accrued interest payable on debt	35,896	30,035
Debt (Note 5, Schedule 1)	15,406,108	15,165,145
Derivatives in unfavourable position (Note 6)	1,660,746	1,672,246
	17,103,310	16,868,011
Net financial debt	**(450,410)**	**(466,110)**
Non-financial assets		
Prepaid expenses	-	3
Tangible capital assets (Net of accumulated amortization $12; 2015 - $8)	18	22
	18	25
Accumulated deficit	**$ (450,392)**	**$ (466,085)**
Accumulated deficit is comprised of:		
Share capital, issued and fully paid (Note 7)	63	63
Accumulated operating surplus (Note 8)	405,406	351,727
Accumulated remeasurement losses	(855,861)	(817,875)
Share Capital and Accumulated Deficit	**$ (450,392)**	**$ (466,085)**

Contractual obligations and commitments are found in Note 12.
The accompanying notes and schedule are an integral part of these financial statements.

These financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

[Original signed by Frank Hawkins,
Acting Chair of the Board]

Frank Hawkins
Acting Chair of the Board

[Original signed by Ronald Ritter,
Chair of Audit Committee]

Ronald Ritter
Chair of Audit Committee

Statement Of Operations And Accumulated Operating Surplus

For the year ended December 31, 2016 *(in thousands of dollars)*	Budget (Note 13)	2016	2015
Interest Income			
Loans	$ 591,002	$ 579,025	$ 583,821
Loan swaps (pay fixed, receive floating)	(371,316)	(343,218)	(332,793)
Investments	294	2,066	694
	219,980	237,873	251,722
Interest Expense			
Debt	373,150	342,517	358,505
Debt swaps (receive fixed, pay floating)	(224,546)	(183,838)	(185,137)
Amortization of net discounts on debt	14,041	20,704	15,875
Amortization of commission fees	4,392	4,101	4,079
	167,037	183,484	193,322
Net interest income	**52,943**	**54,389**	**58,400**
Other Income			
Realized gain on derivatives (Note 11 (g))	-	-	179,680
Loan prepayment fees (Note 6)	-	339	310
	-	339	179,990
Net interest income and other income	**52,943**	**54,728**	**238,390**
Non-Interest Expense			
Realized loss on foreign exchange (Note 11 (g))	-	-	179,680
Administration and office expenses (Note 9, 10)	1,103	1,045	1,075
Amortization of tangible capital assets	4	4	4
Non-interest and other expenses	1,107	1,049	180,759
Operating surplus	51,836	53,679	57,631
Accumulated operating surplus, beginning of year	360,494	351,727	294,096
Accumulated operating surplus, end of year	**$ 412,330**	**$ 405,406**	**$ 351,727**

The accompanying notes and schedule are an integral part of these financial statements.

Statement Of Remeasurement Gains And Losses

For the year ended December 31, 2016 *(in thousands of dollars)*	2016	2015
Derivatives		
Accumulated remeasurement losses on derivatives, beginning of year	$ (603,141)	$ (463,077)
Remeasurement (losses) gains – fair value of derivatives	(49,163)	39,616
Realized gains – reclassified to statement of operations (Note 11(g))	-	(179,680)
Net remeasurement losses on derivatives for the year	(49,163)	(140,064)
Accumulated remeasurement losses on derivatives, end of year	**(652,304)**	**(603,141)**
Foreign Exchange		
Accumulated remeasurement losses on foreign exchange, beginning of year	(214,734)	(169,454)
Remeasurement gains (losses) – foreign currency translation	11,177	(224,960)
Realized losses – reclassified to statement of operations (Note 11(g))	-	179,680
Net remeasurement gains (losses) on foreign exchange for the year	11,177	(45,280)
Accumulated remeasurement losses on foreign exchange, end of year	**(203,557)**	**(214,734)**
Accumulated remeasurement losses, end of year	**$ (855,861)**	**$ (817,875)**

The accompanying notes and schedule are an integral part of these financial statements.

Statement Of Cash Flows

For the year ended December 31, 2016 *(in thousands of dollars)*	2016	2015
Operating Activities		
Interest received		
Loans	$ 581,933	$ 585,169
Investments	2,014	660
Debt swaps (receive fixed, pay floating)	184,075	182,292
Loan prepayment fees	339	310
Interest paid		
Debt	(336,655)	(359,515)
Discounts paid at debt maturity	(17,545)	(12,960)
Premiums received at debt issue	-	1,859
Commission fees	(1,350)	(4,056)
Loan swaps (pay fixed, receive floating)	(348,291)	(322,110)
Administration and office expenses	(1,069)	(1,085)
Cash flows from operating activities	**63,451**	**70,564**
Investing Activities		
Loan principal repayments	1,110,323	1,119,826
Loans issued	(1,577,469)	(1,459,265)
Cash flows used in investing activities	**(467,146)**	**(339,439)**
Financing Activities		
Debt issued	12,578,684	9,498,090
Debt redemption	(12,332,455)	(9,284,730)
Proceeds on maturity of cross currency swap	-	179,680
Cash flows from financing activities	**246,229**	**393,040**
Net (decrease) increase in cash	(157,466)	124,165
Cash, beginning of year	170,815	46,650
Cash, end of year	**$ 13,349**	**$ 170,815**

The accompanying notes and schedule are an integral part of these financial statements.

Notes To The Financial Statements

December 31, 2016 *(in thousands of dollars, except share amounts)*

NOTE 1 – AUTHORITY

The Alberta Capital Finance Authority ("ACFA") operates under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended. Under the Act, ACFA is restricted to making loans only to its shareholders for capital purposes.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The financial statements have been prepared in accordance with Canadian public sector accounting standards ("PSAS") as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant accounting policies are as follows:

(a) Measurement Uncertainty

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Measurement uncertainty exists in the collectability of the loans to local authorities and the estimate of fair value of derivative contracts.

While best estimates have been used for reporting items subject to measurement uncertainty, ACFA considers it possible, based on existing knowledge, that change in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

(b) Valuation of Financial Instruments

Financial instruments are any contracts that give rise to financial assets of one entity and financial liabilities or equity instruments of another entity. Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial liabilities are any liabilities that are contractual obligations: to deliver cash or another financial asset to another entity; or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

(b) Valuation of Financial Instruments (Continued)

ACFA's financial assets and financial liabilities are generally measured as follows and as further described in this note:

Financial Statement Component	Measurement
Cash and restricted cash	Cost
Accounts receivable (payable)	Cost
Accrued interest receivable on loans to local authorities	Cost
Loans to local authorities	Amortized cost
Derivatives in favourable (unfavourable) position	Fair value
Accrued interest payable on debt	Cost
Debt	Amortized cost
Embedded derivatives	Fair value

(c) Cash

Cash includes cash on hand, cash on demand deposit in the Province of Alberta's Consolidated Cash Investment Trust Fund ("CCITF") including any allocated interest not yet transferred to CCITF participants, and foreign currency bank accounts denominated in Australian dollar, European Euro, and US dollar. ACFA's cash balances in CCITF are used for operations or are restricted for unredeemed coupons. CCITF holds investments in primarily short-term and mid-term interest bearing securities which have a maximum term to maturity of less than three years.

(d) Loans to Local Authorities

The carrying value of loans is recorded at amortized cost. Accrued interest receivable on loans is reported separately from the carrying value on the statement of financial position. Loan discounts are amortized to income over the term of the loan using the effective interest method, and are included in the carrying value of the loan.

Impairment losses are recognized in the statement of operations. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest on a loan, a specific provision for credit loss is made and the carrying value of the loan is reduced to its estimated net recoverable value.

Interest revenue on loans is recognized on an accrual basis and is measured using the effective interest method. Interest revenue ceases to be accrued on loans when the collectability of either principal or interest is not reasonably assured.

(e) Debt

The carrying value of debt, including transaction costs, is recorded at amortized cost. Accrued interest payable on debt is reported separately from the carrying value on the statement of financial position. Debt premiums and discounts and underwriting commissions arising from the issuance of debt are amortized over the term of the debt using the effective interest method, and are included in the carrying value of the debt.

Interest expense on debt is recognized on an accrual basis and is measured using the effective interest method.

(f) Derivative Financial Instruments

Derivative contracts for interest rate swaps and cross-currency interest rate swaps are recorded at fair value on the statement of financial position and changes in fair value are recorded as unrealized gains and losses in the statement of remeasurement gains and losses. When a financial instrument is derecognized, remeasurement gains or losses are reclassified to the statement of operations. Any transaction costs are expensed.

Fair value is the only relevant basis of measurement for derivative contracts because the historical cost is at most nominal. The fair value depicts the market's assessment of the present value of the net future cash flows directly or indirectly embodied in a derivative contract discounted to reflect both current interest rates and the market's assessment of the risk the cash flows will not occur. Fair values are determined using third party valuation software that generates a discount curve based on observable market rates and swap spreads.

Fair values have been segregated between those contracts which are in favourable positions (positive fair value) and those contracts which are in unfavourable positions (negative fair value) and are recorded as derivative assets and derivative liabilities respectively on the statement of financial position.

Net interest paid or received on the pay fixed, receive floating interest rate swaps related to loans is presented separately as part of interest income, and the net interest paid or received on the receive fixed, pay floating interest rate swaps related to debt is presented separately as part of interest expense. Loan swap interest revenue and debt swap interest expense includes accrued interest.

Only contractual obligations entered into or modified on or after January 1, 2013 are evaluated for the existence of embedded derivatives. An embedded derivative is separated from the host contract and accounted for as a derivative when all of the following conditions are met:

i. The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

ii. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

iii. The hybrid, combined instrument is not measured at fair value.

(g) Non-Financial Assets

Prepaid expenses and tangible capital assets are non-financial assets, and are accounted for by ACFA as they can be used to provide services in future periods. These assets do not normally provide resources to discharge the liabilities of ACFA unless they are sold. Tangible capital assets are recorded at historical cost and amortized on a straight line basis over the estimated useful lives of the assets. Tangible capital assets are written down when conditions indicate they no longer contribute to ACFA's ability to provide services, or when the value of future economic benefits associated with them are less than their net book values. Write downs are expensed in the statement of operations.

(h) Transaction Costs

Transaction costs include fees and commissions paid to agents, advisors and brokers. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs paid, discounts paid at debt redemption, premiums received at debt issuance and interest paid are presented in the statement of cash flows as operating activities.

(i) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year end rate of exchange. Operating revenues and expenses related to foreign currency transactions are translated into Canadian dollars using the rate of exchange for the day. Unrealized foreign exchange gains and losses on long term monetary items are accumulated in the statement of remeasurement gains and losses until settlement, at which point, the cumulative amount is reversed and recognized in the statement of operations.

(j) Net Financial Debt Model of Presentation

A statement of changes in net financial debt has not been provided since the information that would be presented in that statement is readily apparent from the other financial statements and related notes. Net financial debt is reported in the statement of financial position. Net financial debt is the difference between financial liabilities and financial assets. It provides an indicator of future revenue requirements and on an entity's ability to finance its activities and meet its liabilities and commitments.

NOTE 3 – CASH

	2016	2015
Cash in CCITF	**$ 13,349**	**$170,815**
Restricted cash in CCITF	**$ 497**	**$ 497**

For the year ended December 31, 2016, deposits in CCITF had a time-weighted return of 0.89% per annum (2015 – 0.93% per annum). Restricted cash in CCITF is set aside for outstanding debt obligations on unredeemed coupons and bonds.

NOTE 4 – LOANS TO LOCAL AUTHORITIES

	2016		2015	
Municipal authorities, regional services commissions, and Metis settlements	$ 10,333,808	67%	$10,148,528	67%
Regional airport authorities	3,765,793	24%	3,555,288	24%
Educational and health authorities	1,467,223	9%	1,395,862	9%
Amortized cost	**$15,566,824**	**100%**	**$15,099,678**	**100%**

Credit risk is the risk of loss due to borrowers failing to meet their obligations to ACFA. Historically, ACFA has not needed to record any provisions or allowances regarding credit losses nor has it suffered any such losses. ACFA 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. For loan applications by applicants who:

i. have exceeded the borrowing limits established under their governing legislation;

ii. are considered to be in financial difficulty;

iii. have not met the terms of the ACFA's lending policies; or

iv. are referred to the Board of Directors for any reason;

the loan must be approved by the Board of Directors, who may consider the loan application on the recommendation of the President. ACFA maintains a loan portfolio consisting of several different borrower categories, each with their own source of security to ensure repayment. The major categories of borrowers are as follows:

a. Cities, towns, villages, specialized municipalities, counties, municipal districts, irrigation districts, regional services commissions and Metis settlements account for a majority of loan assets held by ACFA. This borrower category, excluding Metis settlements, is regulated by the *Municipal Government Act*, which stipulates specific debt limits and debt servicing limits. The aforementioned group of borrowers is required to agree to raise and levy taxes and or fees in an amount sufficient to pay their indebtedness to ACFA as per the signed master loan agreement.

b. Regional airport authorities utilize airport improvement fees to ensure repayment of existing loans. Security is also taken in the form of adequate land registration.

c. Educational and health authorities have terms, conditions, and security specific to their respective loan agreements.

As at and for the year ended December 31, 2016, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. ACFA's maximum exposure to credit risk is represented by the carrying amount of its loans at the reporting date. Additional detail on the contractual pricing and effective interest rates of outstanding loans is provided in Note 11 (d).

NOTE 5 – DEBT

	2016	2015
Contractual principal	$ 15,459,681	$ 15,219,546
Unamortized net discounts	(37,871)	(35,947)
Unamortized commission fees	(15,702)	(18,454)
	$ 15,406,108	**$ 15,165,145**

The debt of ACFA is fully guaranteed by the Province of Alberta. Since April, 2011 all ACFA debt is borrowed by the Province of Alberta. The Province of Alberta then on-lends the money to ACFA for loan disbursement and cash management (Schedule 1).

For the next five years, contractual debt redemption requirements by debt type, with the assumption all debt is redeemed at the maturity date, are as follows:

	Short-term	Floating	Fixed	Total
2017	$ 2,300,000	$ -	$ 2,755,620	(a) $ 5,055,620
2018	-	1,000,000	600,000	1,600,000
2019	-	-	275,000	275,000
2020	-	480,000	1,322,367	1,802,367
2021	-	-	-	-
	2,300,000	1,480,000	4,952,987	8,732,987
Thereafter	-	-	6,726,694	(b) 6,726,694
	$ 2,300,000	**$ 1,480,000**	**$11,679,681**	**$ 15,459,681**

NOTES

a. Includes $600,000 USD ($805,620 CAD) fixed term debt maturing June 21, 2017 translated at the foreign exchange rate at the reporting date.

b. Includes $600,000 USD ($805,620 CAD) fixed term debt maturing August 17, 2026, $125,000 AUD ($121,338 CAD) fixed term debt maturing December 14, 2026, and €175,000 EUR ($247,957 CAD) fixed term debt maturing December 1, 2043 translated at the foreign exchange rates at the reporting date.

Additional detail on the contractual pricing and effective interest rates of outstanding debt is provided in Note 11 (d).

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial contract with the following characteristics: its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or other variable; it requires no initial net investment or the initial investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and it is settled in the future.

To minimize ACFA's interest rate risk on loans and debt issued after January 1, 2004, interest rate swaps may be used to swap fixed rate interest on loans and debt to floating rate so that floating rates paid and received incorporate changes in the market rates at approximately the same time. Interest received on loans to local authorities at fixed rates is swapped so that interest is received at floating rates instead. Loan swaps involve the receipt of floating rate cash flows from the counterparty in exchange for the payment of fixed rate cash flows to the counterparty. Interest paid on debt at fixed rates is swapped so that interest is paid at floating rates instead. Debt swaps involve the payment of floating rate cash flows to the counterparty in exchange for the receipt of fixed rate cash flows from the counterparty.

The notional amounts of interest rate swaps represent the amount to which the fixed and floating rates are applied in order to calculate the exchange of cash flows. The outstanding notional amounts are not recorded in the statement of financial position. They represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. It is not ACFA's normal practice to terminate swaps before maturity and realize gains or losses, unless there is a valid business reason to do so. Swaps are intended to be held to maturity to reduce interest rate risk, but may be unwound with prepayment fee if a large loan prepayment occurs. Penalties imposed by the counterparty are in turn recovered from the local authority according to the Stop-Loss Settlement Policy so there is no financial loss to ACFA. During the year, a prepayment on loan resulted in a swap with a notional value of $150,000 to be unwound. A prepayment fee of $1,425 was recovered from the local authority and remitted to the
swap counterparty.

Interest rate swaps include the following outstanding cross currency swaps: Receive fixed on an original notional value of $1,200,000 USD (2015 – $600,000 USD) and pay floating on an original notional value of $1,404,600 CAD (2015 – $617,400 CAD). Receive fixed on an original notional value of $125,000 AUD (2015 – nil) and pay floating on an original notional value of $118,437 CAD (2015 – nil). Receive fixed on an original notional value of €175,000 EUR (2015 – nil) and pay floating on an original notional value of $255,675 CAD (2015 – nil). To minimize its foreign currency risk on debt, cross currency interest rate swaps are used as described in Note 11 (g).

The outstanding notional amounts of loan and debt interest rate swaps by maturity date are summarized as follows:

Maturities	2017	2018 to 2020	2021 and after	Total
Interest rate swaps, December 31, 2016	**$ 2,839,740**	**$ 2,615,731**	**$ 20,178,181**	**$ 25,633,652**
	2016	**2017 to 2019**	**2020 and after**	**Total**
Interest rate swaps, December 31, 2015	**$ 837,529**	**$ 4,196,270**	**$ 19,093,656**	**$ 24,127,455**

At December 31, 2016, derivatives in favourable and unfavourable positions, as reported on the statement of financial position, include contractual amounts of accrued interest receivable and payable, respectively, as follows:

	2016	2015
Accrued interest receivable on debt swaps	**$ 16,189**	**$ 16,426**
Accrued interest payable on loan swaps	**$ 55,092**	**$ 60,166**

ACFA classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. When measurement of an item requires the use of inputs from more than one level, the measurement level attributable is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy used has the following levels:

Level	Fair Value Hierarchy
Level 1	Fair value is based on unadjusted, quoted prices in active markets, such as a public exchange, for identical assets or liabilities;
Level 2	Fair value is based on model-based valuation methods that make use of inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
Level 3	Fair value is based on valuation methods where inputs for the asset or liability are not based on observable market data (unobservable inputs) and the inputs have a significant impact on the valuation.

Derivative financial instruments recorded at fair value on the statement of financial position are classified as level 2. During the year, no transfers occurred between any of the levels on the fair value hierarchy.

The fair value of interest rate swaps has been calculated using valuation techniques that employ reputable and reliable application software to value derivatives. Observable short and long term rates in the money market and Canadian bond market, as well as swap spreads obtained from financial institutions, are used to develop an interest rate curve to discount derivative cash flows. For cross currency swaps, foreign exchange rates at the valuation date are used. As at the reporting date, the estimated sensitivity of the net fair value of derivatives to a 25 basis point increase and a 25 basis point decrease in interest rates is an increase in fair value of $158,028 (2015 – $164,201) and a decrease in fair value of $163,706 (2015 – $170,388), respectively.

Current credit exposure is limited to the amount of loss ACFA would suffer if every counterparty to which ACFA were exposed were to default at once, and is represented by the current replacement cost of all outstanding contracts in a favourable position. ACFA is part of the exposure limit established for the Province of Alberta and actively monitors its exposure and minimizes credit risk by only dealing with counterparties believed to have a good credit standing. Current and potential exposure is regularly reviewed against established limits on a counterparty basis.

Under the Province of Alberta's master agreement with counterparties, ACFA can, in the event of a counterparty default, net its favourable and unfavourable positions with the counterparty. In addition, under the agreement, several Credit Support Annexes have been signed with counterparties which may require ACFA or the counterparty to provide collateral based on established thresholds, which further enhances ACFA's credit position. As at December 31, 2016, $10,126 (2015 – nil) in non-cash collateral on net unfavorable positions has been posted to one counterparty on ACFA's behalf, and a total of $108,256 (2015 - $93,272) in non-cash collateral on net favorable positions from two counterparties has been posted on ACFA's behalf.

Derivative assets and liabilities are presented at gross fair value on the statement of financial position. Although the amounts do not qualify for offset since default has not occurred, derivatives in favourable position of $821,731 at December 31, 2016 (2015 – $884,710) are subject to master netting arrangements against unfavourable positions of $1,617,025 (2015 – $1,617,025), which reduces ACFA's credit exposure by $821,731 (2015 – $884,710).

NOTE 7 – SHARE CAPITAL

Share capital is valued at $10 per share. Voting rights for classes B to E, as established in legislation, relate only to the election of a director representing the shareholder's class. Further particulars of share capital are as follows:

			2016		2015	
Class	Restricted to	Number of Shares Authorized	Issued and Fully Paid	Total Dollar Amount	Issued and Fully Paid	Total Dollar Amount
A	Province of Alberta	4,500	4,500	$ 45,000	4,500	$ 45,000
B	Municipal, airport and health authorities	1,000	885	8,850	885	8,850
C	Cities	750	589	5,890	589	5,890
D	Town and villages	750	277	2,770	280	2,800
E	Educational authorities	500	76	760	75	750
Total		**7,500**	**6,327**	**$ 63,270**	**6,329**	**$ 63,290**

During the year, one Class E share was issued (2015 – two Class B shares were issued and one Class C share was issued), and three Class D shares were cancelled (2015 – one Class D share was cancelled).

NOTE 8 – CAPITAL MANAGEMENT

ACFA is an agent of the Crown in right of Alberta and a provincial corporation whose debt is fully guaranteed by the Province of Alberta. This allows ACFA access to capital markets to obtain debt financing at a cost commensurate with the Province of Alberta's credit rating.

The business of ACFA is to provide its shareholders with flexible financing for capital projects and to manage its assets and liabilities and business affairs in such a manner so as to enhance its ability to effectively carry out its activities in an economical and effective manner.

ACFA's objective when managing capital is to safeguard its ability to continue as a going concern, to continue to benefit its shareholders by providing loans on a prudent basis. Net assets for capital management purposes are defined as accumulated operating surplus. ACFA has operated effectively in accordance with its capital objective as net assets for capital management purposes as at December 31, 2016 were $405,406 (2015 – $351,727). Capital management objectives, policies and procedures are unchanged since the preceding year.

NOTE 9 – DIRECTOR AND AUDIT COMMITTEE FEES, AND RELATED PARTY TRANSACTIONS

Director and Audit Committee fees paid by ACFA are as follows:

	2016		2015	
	Number of Positions	Total	Number of Positions	Total
Board and Audit Committee Chairs	2	$ 7	2	$ 9
Board and Audit Committee	11	22	11	25
	13	**$ 29**	**13**	**$ 34**

There are two board members who are employees of the Province of Alberta and do not receive compensation from ACFA. The Audit Committee Chair and Audit Committee members are also members of the Board of Directors.

ACFA has no employees. Its operations are managed by staff of Alberta Treasury Board and Finance, which is considered a related party. Other related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements, including local authorities that ACFA has issued loans to, such as educational and health authorities consolidated by Alberta Education, Alberta Advanced Education or Alberta Health, as well as the Province of Alberta on-lending debt to ACFA. Loans to local authorities and debt on the statement of financial position, as well as the associated income and expense on the statement of operations and accumulated operating surplus, include amounts with related parties incurred in the normal course of business and are recorded at amounts of consideration agreed upon between the related parties.

Included in administration and office expenses is the amount of $797 (2015 – $799) for salaries, services or goods paid to related parties within the Province of Alberta at the amount of consideration agreed upon between the related parties. Included in accounts payable is the amount of $55 (2015 – $80) due to related parties at December 31, 2016.

NOTE 10 – EXPENSE BY OBJECT

	Budget	2016	2015
Salaries and benefits	$ 692	$ 660	$ 666
Services	253	214	224
Contract services with related parties	135	135	135
Goods	5	11	31
Financial transactions and other	18	25	19
Amortization of tangible capital assets	4	4	4
	$ 1,107	**$ 1,049**	**$ 1,079**

NOTE 11 – FINANCIAL RISK MANAGEMENT

(a) Framework

ACFA's management is accountable and responsible for monitoring performance and reporting to the Board of Directors and recommending changes to existing policies, including the Derivative Policy. The Audit Committee assists in monitoring the corporate governance, accountability processes and control systems in ACFA and reports to the Board of Directors. The Asset Liability Committee ("ALCO") also reviews the Derivative Policy, and other policies regarding interest rate risk management, funding, loan prepayments and loan pricing, and recommends changes to the Board of Directors. The Board of Directors is responsible for governance and strategic direction through its annual review and approval of all policies.

Management is primarily responsible for overseeing operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is managed through use of appropriate policies, procedures and controls designed to create an effective internal control environment within the organization. ACFA's accountability framework also includes: preparation of a 5 year business plan and annual budget that is approved by the Board of Directors, quarterly financial forecasting and reporting to monitor financial results, codes of conduct and ethics for the Board of Directors and staff, and a whistleblower policy.

The Audit Committee fulfills its responsibilities by offering observation and objective advice on issues concerning ACFA's risk, controls, quality of information, quality of management oversight and management assertions. It monitors the adequacy and effectiveness of internal controls, including internal controls over financial reporting.

The ALCO is a management committee that oversees and manages ACFA's financial risks such as: market risk, including interest rate risk and currency risk; the risk of higher floating rate borrowing margins; the risk arising from mismatches in the floating rate reset dates of assets and liabilities; financing and refinancing risk; loan prepayment risk; and loan pricing risk. The ALCO manages financial risks to ensure ACFA's operating surplus does not decrease due to a significant, unexpected loss. It achieves this by setting risk benchmarks and monitoring performance against the benchmarks. It also assesses financial risks and formulates/evaluates acceptable risk mitigation strategies, within Board policy limits, to manage them.

Together, the aforementioned develop ACFA's strategic direction, oversee financial risk management and review and approve policies and procedures to maintain an acceptable level of financial risk.

(b) Asset and Liability Management

ACFA's assets are legislatively limited to an aggregate principal sum of all outstanding loans and securities not to exceed $18 billion. As debt and earnings are used to fund these loans, ACFA raises debt that can be obtained by the Province of Alberta in the capital markets given the amounts and terms requested by local authorities and the deals available. ACFA also manages its assets and liabilities by monitoring the duration and term to maturity of its existing loan and debt portfolios, obtaining estimated capital requirements for the local authorities to anticipate loan demand, utilizes the Province of Alberta's credit rating and operates under an approved financing plan that provides for a mixture of short-term, floating and fixed debt.

(b) Asset and Liability Management (Continued)

ACFA's viability is further managed by swapping its fixed term interest income on loans and fixed term interest expense on debt to floating rates so that movements in market interest rates are counter balanced by offsetting revenue and expense streams. For most loans made after January 1, 2004, ACFA uses the following to minimize the exposure related to fluctuations in interest rates: loan interest rate swaps to swap fixed rate loan interest to floating; floating rate notes which reprice at approximately the same time as the loans; and debt interest rate swaps to swap fixed rate debt interest to floating. Cross currency interest rate swaps are used to mitigate foreign exchange rate fluctuations as described in Note 11 (g).

ACFA's Canadian dollar bank accounts are exposed to interest rate risk. Canadian cash balances are held in CCITF.

(c) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk from borrowers or local authorities is described in Note 4 and ACFA does not believe it has any significant credit exposure on loans. Credit exposure with derivative counterparties is described in Note 6.

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk refers to the potential impact of changes in interest rates on ACFA's earnings when maturities of its interest rate sensitive assets are not matched with the maturities of its interest rate sensitive liabilities. ACFA's interest rate sensitive assets and liabilities are those that: generate interest income such as loans and cash, incur interest expense such as debt, are interest rate swaps or are near-term cash inflows (outflows) such as accrued interest receivable (payable) associated with an underlying interest rate sensitive asset or liability. Non-interest rate sensitive assets and liabilities excluded in the tables below are: accounts receivable, prepaid expenses, tangible capital assets and accounts payable.

The contractual principal amounts of ACFA's interest rate sensitive assets and liabilities by maturity / next repricing date are summarized below.

Maturity / Repricing	2017	2018 to 2020	2021 and after	Total
Financial Assets				
Cash and restricted cash	$ 13,846	$ -	$ -	$ 13,846
Accrued interest receivable on loans	102,603	-	-	102,603
Accrued interest receivable on debt swaps (a)	16,189	-	-	16,189
Loans to local authorities	1,187,631	2,458,821	11,920,372	15,566,824
December 31, 2016	**$ 1,320,269**	**$2,458,821**	**$ 11,920,372**	**$ 15,699,462**
Loan effective rate, 2016 (b)	3.84%	3.84%	3.83%	3.83%
	2016	**2017 to 2019**	**2020 and after**	**Total**
December 31, 2015	**$ 1,265,109**	**$1,944,643**	**$ 12,183,175**	**$ 15,392,927**
Loan effective rate, 2015 (b)	3.94%	3.98%	3.97%	3.97%

a. Included in derivatives in favourable position on the statement of financial position.

b. The effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the loan to the net carrying amount.

Maturity / Repricing	2017	2018 to 2020	2021 and after	Total
Financial Liabilities				
Accrued interest payable on debt	$ 35,896	$ -	$ -	$ 35,896
Accrued interest payable on loan swaps (a)	55,092	-	-	55,092
Debt by type:				
Short-term (c)	2,296,701	-	-	2,296,701
Floating	1,480,000	-	-	1,480,000
Fixed (b)	2,755,620	2,197,367	6,726,694	11,679,681
December 31, 2016	**$ 6,623,309**	**$2,197,367**	**$ 6,726,694**	**$ 15,547,370**
Debt effective rate, 2016 (d)	3.48%	3.24%	4.05%	3.87%
	2016	**2017 to 2019**	**2020 and after**	**Total**
December 31, 2015	**$ 5,077,509**	**$3,655,400**	**$ 6,574,146**	**$ 15,307,055**
Debt effective rate, 2015 (d)	2.55%	3.28%	4.26%	4.02%

a. Included in derivatives in unfavourable position on the statement of financial position.

b. Foreign currency denominated debt is translated at the foreign exchange rate at the reporting date.

c. Comprised of contractual principal of $2,300,000 (2015 - $2,010,000) net of discounts on short-term notes of $3,299 (2015 – $2,692).

d. The effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the debt to the net carrying amount.

Loan interest rate swaps and debt interest rate swaps with outstanding notional amounts of $14,983,161 and $10,650,492 respectively (2015 – $14,338,276 and $9,789,179 respectively) have not been included in the above table as notional amounts do not represent either financial assets or financial liabilities. Notional amounts are not recorded in the statement of financial position.

The interest rate sensitivity analysis below has been determined based on the exposure to interest rate fluctuations for significant interest rate sensitive assets and liabilities as at the reporting date. ACFA's significant interest rate sensitive assets and liabilities are those amounts in its loan and debt portfolios subsequent to January 1, 2004 that have been swapped, and can be represented by the outstanding notional amounts of the associated loan and debt swaps. The interest sensitivity arises due to the floating leg of the interest rate swap. Also included in the interest rate sensitivity analysis are floating rate debt and cash.

The potential impact of an immediate and sustained increase (decrease) of 25 basis points in interest rates throughout the year with all other variables held constant would impact net interest income by $7,166 increase and $7,166 decrease (2015 - $5,851 increase and $5,851 decrease).

(e) Liquidity Risk

Liquidity risk is the risk that ACFA will encounter difficulty in meeting obligations associated with its financial liabilities. ACFA's exposure to liquidity risk arises due to its cash flow requirements to fulfill debt payments and redemptions and loan demand of local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. Surplus funds are invested in CCITF. To the extent there are differences in maturities between the collection of principal and interest from loans, and repayment of principal and interest on debt, the Province of Alberta on-lends debt to ACFA to ensure ACFA maintains an adequate cash balance.

Interest and principal repayments, as well as other payments for derivative financial instruments, are relevant for the presentation of the maturities of cash flows. The future cash flows below are not discounted. Foreign currencies are translated at the foreign exchange rate at the reporting date.

The maturities of ACFA's contractual cash flows for financial liabilities at December 31, 2016, with the assumption that all debt is redeemed at the maturity date, based on the earlier of repricing or principal repayments, are as follows:

Estimated Future Cash Out Flows	2017	2018 to 2020	2021 and after	Total
Accounts payable	$ 560	$ -	$ -	$ 560
Debt by type, contractual repayments of principal:				
Short-term (a)	2,296,701	-	-	2,296,701
Floating (b)	1,480,000	-	-	1,480,000
Fixed	2,755,620	2,197,367	6,726,694	11,679,681
Debt by type, contractual payments of interest:				
Short-term (a)	3,299	-	-	3,299
Floating (b)	3,592	-	-	3,592
Fixed	305,562	766,375	1,734,776	2,806,713
Loan swaps (pay fixed, receive floating) (b)	326,369	878,104	2,230,449	3,434,922
Commitments for leases and supplies and services	178	75	-	253
Commitments for loans	73,300	124,200	-	197,500
Total	**$ 7,245,181**	**$ 3,966,121**	**$10,619,919**	**$21,903,221**

a. Comprised of contractual principal of $2,300,000 net of discounts on short-term notes of $3,299.

b. Where the amount of interest is not fixed, as is the case for issued debt with a variable interest rate or for the floating leg of a loan swap, the amounts included in the above table are an estimate and have been determined by reference to the conditions existing at the reporting date.

In conjunction with the liquidity analysis provided above for the financial liabilities, management has determined the following liquidity analysis of financial assets is necessary to evaluate the nature and extent of the liquidity risk. Foreign currencies are translated at the foreign exchange rate at the reporting date.

Estimated Future Cash In Flows	2017	2018 to 2020	2021 and after	Total
Accounts receivable	$ 88	$ -	$ -	$ 88
Loans, contractual collection of principal (a)	1,209,053	2,516,810	12,038,462	15,764,325
Loans, contractual receipts of interest (a)	575,877	1,523,276	3,853,259	5,952,412
Debt swaps (receive fixed, pay floating) (a) (b)	352,191	393,947	995,082	1,741,220
Total	**$ 2,137,209**	**$4,434,033**	**$ 16,886,803**	**$ 23,458,045**

a. The amounts presented represent the contractual collection of principal and interest, and assumes no loan prepayments or credit default by local authorities and no credit default by counterparties. $197,500 of the contractual principal to be collected are loans that ACFA has contractually committed to fund after December 31, 2016.

b. Where the amount of interest is not fixed, as is the case for the floating leg of a debt swap, the amounts included in the above table are an estimate and have been determined by reference to the conditions existing at the reporting date.

(f) Refinancing Risk

Refinancing risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to refinancing. Refinancing risk arises as local authorities may terminate loans with prepayment fee and refinance at current interest rates. ACFA manages this risk by monitoring the contractual maturities and durations of its loan and debt portfolios; by charging a prepayment fee to local authorities in accordance with the Stop-Loss Settlement Policy; and raising debt in capital markets, either domestic or foreign, at the best possible interest rate utilizing the Province of Alberta's credit rating.

(g) Foreign Currency Risk

Foreign currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As at December 31, 2016, ACFA held foreign currency denominated debt outstanding of $1,200,000 USD (2015 – $600,000 USD), $125,000 AUD (2015 – nil), and 175,000 EUR (2015 – nil). Foreign currency denominated debt instruments require ACFA to make all periodic payments of interest expense, as well as the repayment of the aggregate principal balance due at maturity, in the respective foreign currency. As such, any changes in the foreign currency exchange rate from the date the foreign currency denominated debt instruments were issued to the date those debt instruments mature, expose ACFA to foreign currency risk.

To manage the exposure to foreign currency risk on the foreign currency denominated debt instruments, ACFA has obtained cross currency interest rate swaps with the same payment terms, payment dates, maturity dates and notional values as the foreign currency denominated debt instruments. In exchange for payments of interest and principal denominated in Canadian dollars, the cross currency interest rate swaps entitle ACFA to receive all the amounts necessary to satisfy the periodic payments of interest expense and the aggregate principal balance due at maturity on the foreign currency denominated debt instruments.

(g) Foreign Currency Risk (Continued)

Because of this, any changes in the amount of cash required to satisfy the periodic settlement of interest expense throughout the term of the foreign currency debt instruments as well as the principal repayment required at maturity, will be offset by the cash provided from the respective cross currency interest rate swaps, regardless of the changes in the foreign exchange rate of the respective currency versus the Canadian dollar.

During the year, there no were no foreign denominated debts that have matured (2015 – $700,000 USD matured), therefore, there was no realized gains or losses on foreign exchange (2015 – loss of $179,680) and no realized gains or losses on derivatives (2015 – gain of $179,680). Realized gains and losses are recognized in the statement of operations and as reclassification adjustments in the statement of remeasurement gains and losses.

As at December 31, 2016, ACFA has no other financial instruments that are exposed to foreign currency risk.

NOTE 12 – CONTRACTUAL OBLIGATIONS AND COMMITMENTS

(a) Lease

ACFA has obligations under an operating lease expiring on October 31, 2018 for the rental of premises, and various other obligations for supplies and services under contracts entered into before December 31, 2016. The estimated aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

	Supplies and Services	Lease
2017	$ 88	$ 90
2018	-	75
Total	**$ 88**	**$ 165**

(b) Loans

In the normal course of business, ACFA enters into loan commitments to provide customers with sources of credit. Commitments to extend credit represent undertakings to make credit available in the form of loans for specific amounts, interest rates and terms to maturity, subject to ACFA's normal credit policies and appropriate collateral. Loan commitments include authorized loans not yet drawn down or awaiting further draw down.

The loan commitments indicate the maximum credit exposure to ACFA should the loans be fully drawn, represent future cash requirements and as at December 31, 2016 were:

	2016
2017	$ 73,300
2018	124,200
Total	**$ 197,500**

NOTE 13 – BUDGET

The 2016 budget was approved by the Board of Directors on December 2, 2015. Budget amounts for 2016 were prepared on an amortized cost basis and remeasurement gains and losses on derivatives were not budgeted.

NOTE 14 – APPROVAL OF FINANCIAL STATEMENTS

The financial statements were recommended for approval by the Audit Committee on March 15, 2017 and subsequently approved by the Board of Directors on March 23, 2017.

Schedule 1 — Debt

As at December 31, 2016 *(in thousands of dollars)*

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Public – Short-term:				
Jan-03-2017	0.5704%	Short-term	(b)	$ 200,000
Jan-10-2017	0.5699%	Short-term	(b)	200,000
Jan-17-2017	0.5751%	Short-term	(b)	200,000
Jan-24-2017	0.5709%	Short-term	(b)	200,000
Jan-31-2017	0.5710%	Short-term	(b)	200,000
Feb-07-2017	0.5701%	Short-term	(b)	200,000
Feb-14-2017	0.5704%	Short-term	(b)	200,000
Feb-21-2017	0.5720%	Short-term	(b)	200,000
Feb-28-2017	0.5771%	Short-term	(b)	200,000
Mar-07-2017	0.5794%	Short-term	(b)	200,000
Mar-14-2017	0.5905%	Short-term	(b)	200,000
Mar-28-2017	0.6264%	Short-term	(b)	100,000
				2,300,000
Private – Canada Pension Plan Investment Fund/ CPP Investment Board:				
Oct-01-2020	6.2800%	Fixed		222,367
Jun-01-2022	6.0600%	Fixed		100,000
Apr-05-2023	5.8900%	Fixed		50,000
Dec-01-2023	5.5000%	Fixed		150,000
Dec-03-2024	5.1800%	Fixed		78,000
Nov-03-2026	4.4900%	Fixed		200,000
Nov-03-2031	4.5000%	Fixed		125,396
Nov-02-2032	4.8300%	Fixed		190,383
				1,116,146

Schedule 1 – Debt

As at December 31, 2016 (in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Public – Fixed and Floating:				
Jun-15-2017	4.6500%	Fixed		400,000
Jun-15-2017	4.6500%	Fixed		300,000
Jun-15-2017	1.7500%	Fixed	(b)	500,000
Jun-21-2017	1.0000%	Fixed	(b) (c)	805,620
Dec-15-2017	1.7000%	Fixed	(b)	750,000
Jun-01-2018	5.1500%	Fixed		50,000
Jun-01-2018	5.1500%	Fixed		50,000
Jun-15-2018	0.9850%	Floating	(a) (b)	500,000
Jun-15-2018	0.9850%	Floating	(a) (b)	500,000
Jun-15-2018	1.6000%	Fixed	(b)	500,000
Dec-01-2019	4.0000%	Fixed	(b)	275,000
Jun-01-2020	1.2500%	Fixed	(b)	600,000
Jun-01-2020	1.2500%	Fixed	(b)	500,000
Jun-17-2020	1.0750%	Floating	(a) (b)	165,000
Jun-17-2020	1.0750%	Floating	(a) (b)	315,000
Dec-15-2022	2.5500%	Fixed	(b)	720,000
Dec-15-2022	2.5500%	Fixed	(b)	600,000
Dec-01-2023	5.1000%	Fixed		20,000
Dec-15-2025	4.4500%	Fixed		100,000
Dec-15-2025	4.4500%	Fixed		100,000
Dec-15-2025	4.4500%	Fixed		100,000
Jun-01-2026	2.2000%	Fixed	(b)	300,000
Aug-17-2026	2.0500%	Fixed	(b) (c)	805,620
Dec-14-2026	3.1000%	Fixed	(b) (d)	121,338
Sep-20-2029	2.9000%	Fixed	(b)	30,000
Sep-20-2029	2.9000%	Fixed	(b)	170,000
Sep-20-2029	2.9000%	Fixed	(b)	50,000
Sep-20-2029	2.9000%	Fixed	(b)	50,000
Sep-20-2029	2.9000%	Fixed	(b)	150,000
Jun-01-2031	3.5000%	Fixed	(b)	1,268,000
Dec-01-2033	3.9000%	Fixed	(b)	200,000

Schedule 1 – Debt

As at December 31, 2016 (in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Dec-01-2033	3.9000%	Fixed	(b)	110,000
Dec-01-2033	3.9000%	Fixed	(b)	215,000
Dec-01-2033	3.9000%	Fixed	(b)	225,000
Dec-01-2033	3.9000%	Fixed	(b)	110,000
Dec-01-2033	3.9000%	Fixed	(b)	140,000
Dec-01-2043	1.1500%	Fixed	(b) (e)	247,957
				12,043,535
Total contractual principal outstanding – 2016				15,459,681
Unamortized net (discounts)				(37,871)
Unamortized commission fees				(15,702)
Total amortized debt – 2016				**$ 15,406,108**
Total contractual principal outstanding – 2015				15,219,546
Unamortized net (discounts)				(35,947)
Unamortized commission fees				(18,454)
Total amortized debt – 2015				**$ 15,165,145**

NOTES

a. Floating rate notes that pay interest quarterly at the Canadian Deposit Offered Rate (“CDOR”) plus predetermined spreads with principal paid on termination. The interest rates provided are based on the CDOR as of the reporting date plus the contractual predetermined spread.

b. Notes were on-lent from the Province of Alberta.

c. Note issued in US dollars and translated to Canadian dollars using the foreign exchange rate at the reporting date.

d. Note issued in Australian dollars and translated to Canadian dollars using the foreign exchange rate at the reporting date.

e. Note issued in European Union Euros and translated to Canadian dollars using the foreign exchange rate at the reporting date.

University Of Lethbridge
Blakiston House

> The University of Lethbridge has a strategic goal to provide at least 20% of our student enrolment with on-campus residences since it is a well-known fact that students who live in residences on campus are more successful academically, get involved more in campus life and the University community and thus have a richer post-secondary experience. Without the services of ACFA the University would not be in a position to finance residence construction on its own.

Nancy Walker
Vice-President, Finance & Administration, University of Lethbridge

University of Alberta

Physical Activity and Wellness Centre

The Physical Activity and Wellness (PAW) Centre serves the health and physical activity needs of over 40,000 University of Alberta students, faculty and staff. Spanning over 17,000 square metres, the facility has become a central gathering space on campus and features a state-of-the-art fitness centre, two-storey climbing wall, student lounges and social street. The PAW Centre is a true partnership, supported by students and donors who recognize the health benefits of physical activity. Financing through the ACFA ensures the facility will serve the public good for many years to come.

Gitta Kulczycki
Vice-President, Finance & Administration, University of Alberta


VAN VLIET COMPLEX
Genie

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