ALBERTA CAPITAL FINANCE AUTHORITY

ACFA

ALBERTA CAPITAL FINANCE AUTHORITY

Annual Report 2019

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ORGANIZATION

About ACFA

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. ACFA provides local authorities within the Province of Alberta with financing for capital projects on a prudent basis consistent with the viability of the Alberta Capital Finance Authority ("ACFA").

In November 2019, the Government of Alberta passed the *Reform of Agencies, Boards and Commissions and Government Enterprises Act, 2019* (Bill 22) that will dissolve the ACFA in a phased-in approach. This includes ACFA's assets, liabilities, and operations being transferred to the Province. The *Alberta Capital Finance Authority Act* and its related regulations will be repealed and replaced with the *Local Authorities Financing Act* and its related regulation which will come into force upon proclamation to support the dissolution of ACFA.

The dissolution of ACFA is targeted for 2020-21. As part of the transition process, all classes of Shareholders will be refunded the par value of their share(s) at $10 per share, in the future. Please see note 8 for share information. After the dissolution of ACFA, the program of providing low-cost loans to local authorities will be continued by the Province.

At the end of December 31, 2019, Alberta Capital Finance Authority ("ACFA") still operated under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended.

Loans

Various loan options are provided to borrowers. 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.

MESSAGE FROM THE DIRECTOR

The Alberta Capital Finance Authority and its predecessor, the Alberta Municipal Financing Corporation, have played a very important role in Alberta's development in the 64 years it has operated. The program of passing on the government's low interest rates to municipalities and other local authorities has helped to build and enhance communities throughout Alberta. I want to assure our borrowers that while changes are being made to how the program is administered, the government fully intends to continue to provide low cost loans to local authorities.

ACFA is working with the Department of Treasury Board and Finance to address the many issues that need to be dealt with before the transfer of the lending responsibilities can be fully implemented. For the time being, ACFA continues to operate as it has in the past and the loan approval process is unchanged. It is anticipated that the transition to having local authorities borrow from the Government of Alberta targeted in 2020-2021, but no decision on the final transition date has been made.

The lending processes, policies and structures that ACFA currently has in place will be retained by government. To be clear, there will be no change to the:

- method used to calculate loan interest rates;
- types of loan structures available to local authorities;
- policies used to assess loans, including loan limits;
- security requirements for loans;
- application process and quarterly lending; and,
- ability to prepay loans.

Some technical details will change after the transition is complete, including that the legal party to the loan will be the Government of Alberta. Also, loan payments will be made to the Government of Alberta instead of ACFA.

I would also point out that ACFA's lending staff will be retained and will continue to work on loans to local authorities. We know that these employees have worked effectively with borrowers in the past and will continue to do so in the future.

An immediate change to ACFA's governance during the transition period was made in the legislation. During the transition period, instead of having nine board members with four representing the various local authorities, I have been appointed as the sole director of ACFA. Also, the ownership of ACFA has changed. While previously the Government of Alberta owned a majority of the shares with the remainder held by local authorities, ACFA now has a single share owned by the Government of Alberta.

Thank you for your understanding.

[Original signed by Lowell Epp]

Lowell Epp

Director

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, 2019.

Loans

During 2019, ACFA's loan portfolio decreased from $15,971 million to $15,928 million, a decrease of $43 million. New loans issued during the year totaled $1,400 million, an increase of $90 million from new loans issued in 2018. Loan repayments totaled $1,055 million and loan prepayments totaled $388 million.

Analysis of New Loans Issued

By jurisdiction and purpose for the year ended December 31, 2019
(in thousands of dollars)

	Cities	Towns	Villages	Other	Total
Airport infrastructure	$ -	$ -	$ -	$ 70,000	$ 70,000
Electric, gas and telephone	182,967	1,039	-	-	184,006
Equipment and machinery	41,370	768	-	-	42,138
Health ancillary operations	-	-	-	173,672	173,672
Land	-	1,250	-	4,873	6,123
Landfill development	70,146	-	-	508	70,654
Municipal buildings	5,831	7,896	-	107	13,834
Parks and recreation	54,167	16,000	-	4,888	75,055
Public Housing	9,000	-	-	-	9,000
Roads and sidewalks	60,285	10,934	-	11,885	83,104
Sewer and water	232,331	47,583	2,265	27,561	309,740
Student residences, parkades and ancillary operations	-	-	-	200,112	200,112
Transit	99,600	-	-	-	99,600
Other	59,273	-	-	3,800	63,073
Total	**$ 814,970**	**$ 85,470**	**$ 2,265**	**$ 497,406**	**$ 1,400,111**

Ten Year Loan Review 2010 – 2019
(in thousands of dollars)

	2019	2018	2017
New Loans Issued During the Year			
By Jurisdiction			
Cities	$ 814,970	$ 782,938	$ 749,347
Colleges, technical institutes and universities	200,112	104,934	113,035
Counties, municipal and irrigation districts, regional services commissions and Metis settlements	41,514	77,526	92,451
Health authorities	173,672	59,500	69,469
Regional airport authorities	70,000	180,000	175,000
School districts and divisions	-	-	9,883
Specialized municipalities	12,108	17,620	11,432
Towns and villages	87,735	87,897	44,741
Total	**$ 1,400,111**	**$ 1,310,415**	**$ 1,265,358**
Loans repaid during year	1,443,755	951,450	1,220,000
Loans outstanding at December 31	15,927,504	15,971,147	15,612,182
Debt issued during year	10,469,622	11,344,094	11,688,228
Debt repaid during year	10,731,959	10,681,070	11,817,586
Debt outstanding at December 31 (1)	15,725,431	16,098,870	15,338,330
Accumulated operating surplus at December 31 (2)	527,398	485,399	447,721
Lending rate at December 31 *(based on 20 year term)*	2.683%	3.254%	2.915%

(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 2010 to 2012.

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Ten Year Loan Review 2010 – 2019 (continued)

(in thousands of dollars)

2016	2015	2014	2013	2012	2011	2010
$ 874,535	$ 856,455	$ 1,268,006	$ 965,741	$ 1,038,483	$ 934,531	$ 1,252,567
264,749	35,500	197,500	185,575	48,591	34,416	102,600
66,856	70,328	47,979	74,314	127,642	70,331	104,018
33,772	55,389	5,000	-	32,300	176,000	15,000
230,000	375,000	573,000	427,901	930,000	603,000	390,000
-	3,815	-	10,000	5,000	-	2,553
40,026	4,600	4,411	22,408	21,695	6,480	206,332
67,531	58,178	60,885	42,435	91,518	50,833	74,737
$ 1,577,469	**$ 1,459,265**	**$ 2,156,781**	**$ 1,728,374**	**$ 2,295,229**	**$ 1,875,591**	**$ 2,147,807**
1,110,320	1,119,826	896,295	616,856	748,646	558,690	541,729
15,566,824	15,099,678	14,760,239	13,499,753	12,388,235	10,841,652	9,524,751
12,578,684	9,498,090	6,975,269	9,817,168	10,194,626	6,342,634	6,126,386
12,332,455	9,284,730	5,879,467	8,624,025	8,750,958	5,041,780	4,526,162
15,459,681	15,219,546	14,772,276	13,550,326	12,234,586	10,798,646	9,497,846
405,406	351,727	294,096	236,849	184,979	134,293	100,076
3.058%	2.831%	2.957%	3.623%	2.958%	3.145%	4.124%

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 decreased from $16,099 million to $15,725 million, a decrease of $374 million. During the year, ACFA borrowed a total of $10,470 million consisting of $10,020 in short-term notes (period of 90 days or less) and $450 million in long-term debt (period of 1 year or more). ACFA repaid a total of $10,732 million consisting of $10,457 million in short-term notes and $275 million in long-term fixed and floating rate debt.

The outstanding contractual principal owed by ACFA at December 31, 2019, includes the following foreign currency denominated fixed rate debt:

- $485 million Australian Dollar (2018 - $485 million);
- €225 million European Euro (2018 - €225 million);
- 1.4 billion kr Swedish Krona (2018 – nil)
- £650 million UK Pound Sterling (2018 – £650 million); and
- $600 million US Dollar (2018 - $600 million).

The foreign currency denominated debt translates to $2,861 million CAD (2018 - $2,770 million CAD) at the end of December 31, 2019. All foreign currency cash flows are simultaneously swapped to floating rate Canadian dollar denominated cash flows, thus mitigating foreign currency risk. The strategy to manage foreign currency risk is outlined in Note 12 (f) – Foreign Currency Risk in the financial statements.

ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

December 31, 2019

ALBERTA CAPITAL FINANCE AUTHORITY
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 Director oversees management's responsibilities for financial reporting, and internal control systems over financial reporting. The Director reviews the financial statements and other financial information, as well as any issues related to them, with both management and the auditors before recommending the financial statements for approval to the Director.

The Auditor General of Alberta is designated as the external auditor in the *Alberta Capital Finance Authority Act*. The Auditor General of Alberta has full access to the Director, with and without the presence of management. The Independent Auditor's Report outlines the scope of the audit and provides the audit opinion on the fairness of presentation of the information in the financial statements.

Edmonton, Alberta
March 30, 2020

[Original signed by Laura Spencer]

Laura Spencer
Treasurer

[Original signed by Bernadiene Hsie]

Bernadiene Hsie
Vice President, Senior Financial Officer

Auditor General OF ALBERTA

Independent Auditor's Report

To the Shareholder of Alberta Capital Finance Authority

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Capital Finance Authority which comprise the statement of financial position as at December 31, 2019, and the statements of operations and accumulated operating surplus, remeasurement gains and losses, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Alberta Capital Finance Authority as at December 31, 2019, and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of Alberta Capital Finance Authority in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

I draw attention to Note 2 of the financial statements, which describes the effects of the *Reform of Agencies, Boards and Commissions and Government Enterprises Act, 2019* on the Authority. My opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Alberta Capital Finance Authority 2019 Annual Report*, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Alberta Capital Finance Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Alberta Capital Finance Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Alberta Capital Finance Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Alberta Capital Finance Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause Alberta Capital Finance Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

March 30, 2020
Edmonton, Alberta

ALBERTA CAPITAL FINANCE AUTHORITY
STATEMENT OF FINANCIAL POSITION
As at December 31, 2019
(in thousands of dollars)

	2019	2018
Assets		
Cash (Note 4)	$ 13,440	$ 94,718
Restricted cash (Note 4)	196,794	288,726
Accounts receivable	460	598
Accrued interest receivable on loans to local authorities	95,073	97,616
Loans to local authorities (Note 5)	15,927,504	15,971,147
Derivatives in favourable position (Note 7)	760,965	633,959
	16,994,236	17,086,764
Liabilities		
Accounts payable	454	735
Accrued interest payable on debt	45,845	44,515
Debt (Note 6, Schedule 1)	15,657,227	16,023,839
Derivatives in unfavourable position (Note 7)	1,160,341	1,020,266
	16,863,867	17,089,355
Net financial assets (debt)	130,369	(2,591)
Non-financial assets		
Tangible capital assets (Net of accumulated amortization $13; 2018 - $11)	7	9
	7	9
Accumulated surplus (deficit)	$ 130,376	$ (2,582)
Accumulated surplus (deficit) is comprised of:		
Share capital, issued and fully paid (Note 8)	-	63
Accumulated operating surplus (Note 9)	527,398	485,399
Accumulated remeasurement losses	(397,022)	(488,044)
Share Capital and Accumulated Surplus (Deficit)	$ 130,376	$ (2,582)

Contractual obligations and commitments are found in Note 13.
The accompanying notes and schedule are an integral part of these financial statements.

These financial statements were reviewed and approved by the Director.

[Original signed by Lowell Epp]

Lowell Epp
Director

ALBERTA CAPITAL FINANCE AUTHORITY
STATEMENT OF OPERATIONS AND ACCUMULATED OPERATING SURPLUS
For the year ended December 31, 2019
(in thousands of dollars)

	Budget (Note 15)	2019	2018
Interest Income			
Loans	$ 585,669	$ 573,905	$ 578,231
Loan swaps (pay fixed, receive floating)	(90,007)	(151,298)	(203,200)
Investments	2,032	7,775	5,302
	497,694	430,382	380,333
Interest Expense			
Debt	385,279	384,246	372,979
Debt swaps (receive fixed, pay floating)	19,522	(34,146)	(68,953)
Amortization of net discounts on debt	56,675	39,013	36,229
Amortization of commission fees	528	3,710	3,539
	462,004	392,823	343,794
Net interest income	35,690	37,559	36,539
Other Income			
Loan prepayment fees (Note 7)	-	47,992	5,150
Swap termination and amendment fees (Note 7)	-	(42,312)	(5,141)
Miscellaneous income (Note 7)	-	-	2,518
	-	5,680	2,527
Net interest income and other income	35,690	43,239	39,066
Non-Interest Expenses			
Administration and office expenses (Note 10,11)	1,381	1,238	1,383
Amortization of tangible capital assets	3	2	4
Write down of tangible capital assets	-	-	1
Non-interest and other expenses	1,384	1,240	1,388
Operating surplus	34,306	41,999	37,678
Accumulated operating surplus, beginning of year	485,962	485,399	447,721
Accumulated operating surplus, end of year	$ 520,268	$ 527,398	$ 485,399

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

ALBERTA CAPITAL FINANCE AUTHORITY
STATEMENT OF REMEASUREMENT GAINS AND LOSSES
For the year ended December 31, 2019
(in thousands of dollars)

	2019	2018
Derivatives		
Accumulated remeasurement losses on derivatives, beginning of year	$ (361,224)	$ (556,647)
Unrealized (losses) gains – fair value of derivatives	(17,416)	195,423
Accumulated remeasurement losses on derivatives, end of year	(378,640)	(361,224)
Foreign Exchange		
Accumulated remeasurement losses on foreign exchange, beginning of year	(126,820)	(26,280)
Unrealized gains (losses) – foreign currency translation	108,438	(100,540)
Accumulated remeasurement losses on foreign exchange, end of year	(18,382)	(126,820)
Accumulated remeasurement losses, end of year	$ (397,022)	$ (488,044)

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

ALBERTA CAPITAL FINANCE AUTHORITY
STATEMENT OF CASH FLOWS
For the year ended December 31, 2019
(in thousands of dollars)

	2019	2018
Operating Activities		
Loan interest income	$ 576,448	$ 579,030
Investments	7,904	5,022
Debt swaps (receive fixed, pay floating)	30,308	77,167
Loan prepayment fees	47,992	5,150
Swap termination and amendment fees	(42,312)	(5,141)
Debt interest expense	(382,916)	(369,021)
Discounts paid at debt maturity	(37,059)	(48,929)
Commission fees	(1,500)	(8,354)
Loan swaps (pay fixed, receive floating)	(151,808)	(218,050)
Cash collateral	91,783	(275,428)
Miscellaneous income (Note 7)	-	2,518
Administration and office expenses	(1,424)	(1,233)
Cash flows from (used in) operating activities	137,416	(257,269)
Investing Activities		
Loan principal repayments	1,443,755	951,450
Loans issued	(1,400,112)	(1,310,415)
Cash flows from (used in) investing activities	43,643	(358,965)
Financing Activities		
Debt issued	10,469,622	11,344,094
Debt redemption	(10,731,959)	(10,681,070)
Cash flows (used in) from financing activities	(262,337)	663,024
Net (decrease) increase in cash	(81,278)	46,790
Cash, beginning of year	94,718	47,928
Cash, end of year	$ 13,440	$ 94,718

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

Note 1 – Authority

At the end of December 31, 2019, Alberta Capital Finance Authority ("ACFA") operated 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. On October 24, 2019, the Alberta Capital Finance Authority Regulation was amended to restrict ACFA from passing resolutions, that deal with matters to implement new lending policies, standards or procedures, or amended lending policies, standards, or procedures without the prior approval of the President of Treasury Board and Minister of Finance. This supports the transition plan to dissolve ACFA which was announced in Government of Alberta's 2019 Budget.

Note 2 – Pending Legislation

In November 2019, the *Reform of Agencies, Boards and Commissions and Government Enterprises Act, 2019* (Bill 22) received Royal Assent in the Legislative Assembly of Alberta. In the bill, the *Alberta Capital Finance Authority Act* and its related regulations will be repealed and replaced with the *Local Authorities Financing Act* and its related regulation. The *Local Authorities Financing Act will* come into force upon proclamation to support the dissolution of ACFA and the transferring ACFA's assets, liabilities, and operations to the Department of Treasury Board and Finance. The dissolution of ACFA is targeted for 2020-21.

Although ACFA will be dissolved into the Department of Treasury Board and Finance, the financial statements have been prepared on a going concern basis as it is the Department of Treasury Board and Finance's intention to assume the assets, liabilities and derivative financial instruments from ACFA – and operate these in the ordinary course of operation. As a result, the amounts recorded in the balance sheet are measured at carrying value in accordance to accounting policies described in Note 3.

ACFA's debt redemption requirements in Note 6, maturity dates of interest rate swaps in Note 7, interest rate sensitive assets and liabilities in Note 12 c), contractual cash flows for financial liabilities in Note 12 d), contractual obligations and commitments in Note 13 are based on contractual maturity and contractual repricing dates as of December 31, 2019, and do not incorporate any changes in maturity or repricing dates that may occur based on decisions made by Government of Alberta after dissolution has occurred.

Note 3 – 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.

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 and 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. 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 derivative 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. Tangible capital 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 entity's ability to finance its activities and meet its liabilities and commitments.

(in thousands of dollars, except share amounts)

Note 4 – Cash

	2019	2018
Cash	$ 13,440	$ 94,718
Uncashed coupons and cheques	$ 349	$ 498
Posted cash collateral (Note 7)	196,445	288,228
Restricted cash	$ 196,794	$ 288,726

Cash in ACFA's operating account, uncashed coupon account, and uncashed cheques account earn interest as part of the Province of Alberta's CCITF. Amounts classified as uncashed coupons and cheques are set aside for outstanding debt obligations on unredeemed coupons and bonds. For the year ended December 31, 2019, deposits in CCITF had a time-weighted return of 1.88% per annum (2018 – 1.65% per annum).

Cash collateral is posted to counterparties when ACFA has exceeded established thresholds of net unfavorable positions with counterparties under the Credit Support Annex ("CSA") Agreements as described in Note 7. Posted cash collateral earns interest as prescribed by the CSA Agreements.

Note 5 – Loans to Local Authorities

	2019		2018	
Municipal authorities and regional services commissions	$10,254,596	64%	$10,417,971	65%
Regional airport authorities	3,966,124	25%	3,997,226	25%
Educational and health authorities	1,706,784	11%	1,555,950	10%
Amortized cost	$15,927,504	100%	$15,971,147	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 (Director) for any reason;

the loan must have been approved by the Board of Directors, who may consider the loan application on the recommendation of the President prior to November 22, 2019. After the *Reform of Agencies, Boards and Commissions and Government Enterprises Act, 2019* (Bill 22) received Royal Assent on November 22, 2019, the loan must have been approved by the sole director of ACFA, who may consider the loan application on the recommendation of management.

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, and regional services commissions account for a majority of loan assets held by ACFA. This borrower category 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.

(in thousands of dollars, except share amounts)

(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, 2019, 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 12 (c).

Note 6 – Debt

	2019		2018	
Contractual principal	$ 15,725,431	(a, b)	$ 16,098,870	(c)
Unamortized net discounts	(46,801)		(51,418)	
Unamortized commission fees	(21,403)		(23,613)	
	$ 15,657,227		$ 16,023,839	

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). ACFA is fully responsible for repaying the debt.

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
2020	$ 1,950,000	$ 480,000	$ 1,322,367		$ 3,752,367
2021	-	-	1,116,310	(a)	1,116,310
2022	-	-	1,720,000		1,720,000
2023	-	-	220,000		220,000
2024	-	-	78,000		78,000
	1,950,000	480,000	4,456,677		6,886,677
Thereafter	-	-	8,838,754	(b)	8,838,754
	$ 1,950,000	$ 480,000	$ 13,295,431		$ 15,725,431

(a) £650,000 GBP ($1,116,310 CAD) fixed term debt maturing November 15, 2021 translated at the foreign exchange rate at the reporting date.
(b) Includes $600,000 USD ($779,280 CAD) fixed term debt maturing August 17, 2026, $175,000 AUD ($159,635 CAD) fixed term debt maturing December 14, 2026, $310,000 AUD ($282,782 CAD) fixed term debt maturing April 11, 2028, 1,400,000 kr (Swedish Krona) ($195,160 CAD) fixed term debt maturing February 20, 2029 and €225,000 EUR ($328,118 CAD) fixed term debt maturing December 1, 2043 translated at the foreign exchange rates at the reporting date.
(c) Includes the following foreign currency debt translated at the foreign exchange rates as at December 31, 2018: £650,000 GBP ($1,135,535 CAD) fixed term debt maturing November 15, 2021, $600,000 USD ($818,520 CAD) fixed term debt maturing August 17, 2026, $175,000 AUD ($168,280 CAD) fixed term debt maturing December 14, 2026, $310,000 AUD ($298,096 CAD) fixed term debt maturing April 11, 2028, and €225,000 EUR ($351,293 CAD) fixed term debt maturing December 1, 2043.

Additional detail on the contractual pricing and effective interest rates of outstanding debt is provided in Note 12 (c).

(in thousands of dollars, except share amounts)

Note 7 – 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 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 terminated with a 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, two loan swaps were unwound, and twenty-eight loan swaps were amended due to prepayments and resulted in $47,992 (2018 – $5,150) in prepayments fees recovered from local authorities and $42,312 (2018 - $5,141) in swap termination and amendment fees remitted to the swap counterparties.

Interest rate swaps include the following outstanding cross currency swaps:

	2019				2018			
Swapped	**Receive fixed interest in foreign currency on foreign currency notional**		**Pay floating interest in Canadian on Canadian equivalent notional at issue**		**Receive fixed interest in foreign currency on foreign currency notional**		**Pay floating interest in Canadian on Canadian equivalent notional at issue**	
Australian Dollar	$	485,000	$	470,438	$	485,000	$	470,438
European Euro	€	225,000	$	325,875	€	225,000	$	325,875
Swedish Krona	kr	1,400,000	$	200,000	kr	-	$	-
United Kingdom Pound Sterling	£	650,000	$	1,061,125	£	650,000	$	1,061,125
United States Dollar	$	600,000	$	787,200	$	600,000	$	787,200

To minimize its foreign currency risk on debt, cross currency interest rate swaps are used as described in Note 12 (f).

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

Maturities	**2020**	**2021 to 2023**	**2024 and after**	**Total**
Interest rate swaps, December 31, 2019	$ 1,164,460	$ 3,052,589	$ 23,982,672	$ 28,199,721

	2019	**2020 to 2022**	**2023 and after**	**Total**
Interest rate swaps, December 31, 2018	$ 541,941	$ 4,205,446	$ 23,396,995	$ 28,144,402

(in thousands of dollars, except share amounts)

At December 31, 2019, 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:

	2019	**2018**
Accrued interest receivable on debt swaps	$ 5,443	$ 1,605
Accrued interest payable on loan swaps	$ 26,178	$ 26,688

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 based on 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 $106,353 (2018 - $91,840) and a decrease in fair value of $110,517 (2018 - $95,438), 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. It 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 ("CSA") 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. Until September 26, 2019, Alberta Investment Management Corporation ("AIMCo") provided collateral management services for ACFA and exchanged collateral with counterparties of behalf of ACFA. On September 27, 2019, AIMCo was no longer a party under the Province of Alberta's master agreement with counterparties and the collateral management services transferred from AIMCo to the Province. The CSA agreements were amended as a result.

In the prior year, the Province of Alberta signed additional CSAs which resulted in the receipt of $2,518 in Make Whole Amounts. Make Whole Amounts are the positive net benefit as a result of existing derivatives being collateralized under CSA's signed in 2018.

(in thousands of dollars, except share amounts)

These amounts are recorded as miscellaneous income in the Statement of Operations and Accumulated Operating Surplus and under operating activities in the Statement of Cash Flows.

During the year ended December 31, 2019, ACFA was required to post cash and non-cash collateral on multiple occasions. As at December 31, 2019, the following cash collateral was outstanding:

	2019	2018	
	Cash Collateral (a) (b)	Cash Collateral (a)	Non-Cash Collateral (a)
Posted to counterparties by ACFA on net unfavourable positions	$ 329,089	$ 288,228	$ nil
Received by ACFA on net favourable positions	132,644	nil	nil
Net collateral posted by ACFA (Note 4)	196,445	288,228	nil
Posted to counterparties on behalf of ACFA on net unfavourable positions	25,109	nil	nil
Received on behalf of ACFA on net favourable positions	3,181	13,396 (c)	68,024 (d)
Net collateral posted received on behalf of ACFA	21,928	13,396 (c)	68,024 (d)
Net collateral posted against derivative financial instruments	$ 218,373	$ 274,832	$ 68,024

(a) Beginning September 27, 2019, under new CSA's signed by the Province, cash in Canadian currency became the only acceptable form of collateral and was settled by ACFA.
(b) Effective December 20, 2019 the Province settled margin calls on behalf of ACFA. Collateral posted and received on ACFA's behalf is held by the Province and not recorded in the Statement of Financial Position. However, in the event the counterparty defaults on the terms of the derivative financial instrument, the full balance is available to ACFA.
(c) AIMCo held $9,820 US dollars in cash collateral on behalf of ACFA which translates to $13,396 CAD dollars at the end of December 31, 2018.
(d) Non-cash collateral includes securities such as treasury bills and bonds

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 $642,276 at December 31, 2019 (2018 - $540,650) are subject to master netting arrangements against unfavourable positions of $1,136,685 (2018 - $993,966), which reduces ACFA's credit exposure by $642,279 (2018 - $540,650).

(in thousands of dollars, except share amounts)

Note 8 – Share Capital

Upon the *Reform of Agencies, Boards and Commissions and Government Enterprises Act, 2019* (Bill 22) receiving Royal Assent in the Legislative Assembly of Alberta on November 22, 2019, all shares of the *Alberta Capital Finance Authority Act* were cancelled, resulting in the total share capital of $63,300 being transferred to accounts payable in the Statement of Financial Position. All classes of Shareholders will be refunded the par value of their share(s) at $10 per share during 2020. A new share was issued to the Province on November 22, 2019, making the Province the sole Shareholder of ACFA.

		2019			2018	
Class	**Restricted to**	**Maximum Shares Formerly Available**	**Cancelled and now refundable**	**Value**	**Issued and Fully Paid**	**Value**
A	Province of Alberta	4,500	4,500	$ -	4,500	$ 45,000
B	Municipal, airport and health authorities	1,000	890	-	887	8,870
C	Cities	750	590	-	589	5,890
D	Town and villages	750	274	-	275	2,750
E	Educational authorities	500	76	-	76	760
Total		7,500	6,330	$ -	6,327	$ 63,270

During the year, prior to the announcement to dissolve ACFA, one Class C share, three Class B shares, and three Class D shares were issued (2018 one Class B and one Class D share were issued), and four Class D shares were cancelled (2018 - one Class D share was cancelled).

Note 9 – 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, liabilities and business affairs 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 and 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, 2019 were $527,398 (2018 - $485,399). Capital management objectives, policies and procedures are unchanged since the preceding year.

(in thousands of dollars, except share amounts)

Note 10 – Director and Audit Committee Fees, and Related Party Transactions

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

	2019	2018
Board and Audit Committee Chairs	$9	$ 8
Board and Audit Committee	23	24
	$32	$ 32

ACFA has no employees. Its operations are managed by seconded 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 receiving and paying CSA collateral on behalf of ACFA as of December 20, 2019 (Note 7). 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 $937 (2018 - $983) 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 $44 (2018 - $213) due to related parties at December 31, 2019.

Note 11 – Expense by Object

	Budget	2019	2018
Salaries and benefits	$ 824	$ 802	$ 856
Services	257	198	286
Contract services	265	196	175
Goods	9	18	39
Financial transactions and other	26	24	27
	$ 1,381	$ 1,238	$ 1,383

Note 12 – Financial Risk Management

(a) 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 a financing plan that provides for a mixture of short-term, floating and fixed debt.

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 12 (f).

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

(in thousands of dollars, except share amounts)

(b) 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 5 and ACFA does not believe it has any significant credit exposure on loans. Credit exposure with derivative counterparties is described in Note 7.

(c) 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	2020	2021 to 2023	2024 and after	Total
Financial Assets:				
Cash and restricted cash	$ 210,234	$ -	$ -	$ 210,234
Accrued interest receivable on loans	95,073	-	-	95,073
Accrued interest receivable on debt swaps (a)	5,443	-	-	5,443
Loans to local authorities	870,442	2,482,033	12,575,029	15,927,504
December 31, 2019	$ 1,181,192	$ 2,482,033	$ 12,575,029	$ 16,238,254
Loan effective rate, 2019 (b)	3.63%	3.63%	3.69%	3.69%
	2019	**2020 to 2022**	**2023 and after**	**Total**
December 31, 2018	$ 1,532,077	$ 2,520,375	$ 12,401,360	$ 16,453,812
Loan effective rate, 2018 (b)	3.73%	3.74%	3.77%	3.77%

(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.

(in thousands of dollars, except share amounts)

Maturity/ Repricing	2020	2021 to 2023	2024 and after	Total
Financial Liabilities:				
Accrued interest payable on debt	$ 45,845	$ -	$ -	$ 45,845
Accrued interest payable on loan swaps (a)	26,178	-	-	26,178
Debt by type:				
Short-term (c)	1,942,001	-	-	1,942,001
Floating	480,000	-	-	480,000
Fixed (b)	1,322,367	3,056,310	8,916,754	13,295,431
December 31, 2019	$ 3,816,391	$ 3,056,310	$ 8,916,754	$ 15,789,455
Debt effective rate, 2019 (d)	2.68%	2.89%	2.84%	2.84%

	2019	2020 to 2022	2023 and after	Total
December 31, 2018	$ 3,205,393	$ 4,175,902	$ 8,777,968	$ 16,159,263
Debt effective rate, 2018 (d)	2.66%	2.89%	2.86%	2.85%

(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 $1,950,000 (2018 - $2,390,000) net of discounts on short-term notes of $7,999 (2018 - $10,810).
(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 $15,573,305 and $12,626,416 respectively (2018 - $15,692,986 and $12,451,416 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 $6,693 increase and $6,693 decrease (2018 - $7,863 increase and $7,863 decrease).

(d) 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, loan demand of local authorities, and cash collateral postings under CSA agreements.

ACFA manages its liquidity risk by monitoring its cash flows daily. 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.

(in thousands of dollars, except share amounts)

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, 2019, 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	**2020**	**2021 to 2023**	**2024 and after**	**Total**
Accounts payable	$ 454	$ -	$ -	$ 454
Debt by type, contractual repayments of principal:				
Short-term (a)	1,942,001	-	-	1,942,001
Floating (b)	480,000	-	-	480,000
Fixed	1,322,367	3,056,310	8,916,754	13,295,431
Debt by type, contractual payments of interest:				
Short-term (a)	7,999	-	-	7,999
Floating (b)	2,558	-	-	2,558
Fixed	360,741	948,358	2,008,916	3,318,015
Loan swaps (pay fixed, receive floating) (b)	140,402	373,958	821,891	1,336,251
Commitments for leases and supplies and services (Note 13)	183	308	121	612
Total	$ 4,256,705	$ 4,378,934	$ 11,747,682	$ 20,383,321

(a) Comprised of contractual principal of $1,950,000 (2018 - $2,390,000) net of discounts on short-term notes of $7,999 (2018 - $10,810).
(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.

(in thousands of dollars, except share amounts)

Estimated Future Cash In Flows	**2020**	**2021 to 2023**	**2024 and after**	**Total**
Accounts receivable	$ 460	$ -	$ -	$ 460
Loans, contractual collection of principal (a)	870,442	2,482,033	12,575,029	15,927,504
Loans, contractual receipts of interest (a)	562,919	1,500,759	3,670,428	5,734,106
Debt swaps (receive fixed, pay floating) (a) (b)	36,393	152,740	343,347	532,480
Total	$ 1,470,214	$ 4,135,532	$ 16,588,804	$ 22,194,550

(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.
(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.

(e) 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.

(f) 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, 2019, ACFA held foreign currency denominated debt as shown on the table below:

	2019		**2018**	
Currency	**Foreign Currency Notional**	**Canadian dollar carrying value at December 31**	**Foreign Currency Notional**	**Canadian dollar carrying value at December 31**
Australian Dollar	$ 485,000	$ 442,417	$ 485,000	$ 466,376
European Euro	€ 225,000	$ 328,118	€ 225,000	$ 351,293
Swedish Krona SEK	kr 1,400,000	$ 195,160	kr -	$ -
United Kingdom Pound Sterling	£ 650,000	$ 1,116,310	£ 650,000	$ 1,133,535
United States Dollar	$ 600,000	$ 779,280	$ 600,000	$ 818,520

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.

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.

(in thousands of dollars, except share amounts)

As at December 31, 2019, ACFA has no other financial instruments that are exposed to foreign currency risk.

Note 13 – Contractual Obligations and Commitments

Lease

ACFA has obligations under an operating lease expiring on February 28, 2025 for the rental of premises, and various other obligations for supplies and services under contracts entered into before December 31, 2019. The estimated aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

	Supplies and Services	Lease
2020	84	99
2021	-	100
2022	-	104
2023	-	104
2024 and after	-	121
Total	$ 84	$ 528

Note 14 – Subsequent Event

Subsequent to the year-end, on March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 are unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the contractual collection of principal and interest on loans to local authorities, the ability of the counterparties to the existing derivative contracts to comply with the contractual requirements of the agreements, and the ability to manage the liquidity risk related to the contractual payments of principal and interest on existing debt.

Note 15 – Budget

The 2019 budget was approved by the Board of Directors on December 5, 2018. Budget amounts for 2019 were prepared on an amortized cost basis and remeasurement gains and losses on derivatives were not budgeted.

Note 16 – Approval of Financial Statements

The financial statements were recommended for approval by the Vice-President, Senior Financial Officer on March 17, 2020 and subsequently approved by the Director and Treasurer on March 30, 2020.

ALBERTA CAPITAL FINANCE AUTHORITY
SCHEDULE 1 - DEBT
As at December 31, 2019
(in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes		Contractual Principal Outstanding
Short-term:					
January 2, 2020	1.7325%	Short-term	(b)	$	200,000
January 7, 2020	1.7323%	Short-term	(b)		200,000
January 14, 2020	1.7439%	Short-term	(b)		200,000
January 21, 2020	1.7617%	Short-term	(b)		100,000
January 21, 2020	1.8261%	Short-term	(b)		100,000
February 4, 2020	1.7580%	Short-term	(b)		175,000
February 11, 2020	1.7458%	Short-term	(b)		175,000
February 18, 2020	1.7516%	Short-term	(b)		200,000
February 25, 2020	1.7590%	Short-term	(b)		200,000
March 3, 2020	1.7634%	Short-term	(b)		200,000
March 10, 2020	1.7753%	Short-term	(b)		200,000
					1,950,000
Floating and Fixed:					
June 1, 2020	1.2500%	Fixed	(b)		600,000
June 1, 2020	1.2500%	Fixed	(b)		500,000
June 17, 2020	2.2050%	Floating	(a) (b)		165,000
June 17, 2020	2.2050%	Floating	(a) (b)		315,000
October 1, 2020	6.2800%	Fixed			222,367
November 15, 2021	1.0000%	Fixed	(b) (f)		1,116,310
June 1, 2022	6.0600%	Fixed			100,000
September 1, 2022	1.6000%	Fixed	(b)		300,000
December 15, 2022	2.5500%	Fixed	(b)		720,000
December 15, 2022	2.5500%	Fixed	(b)		600,000
April 5, 2023	5.8900%	Fixed			50,000
December 1, 2023	5.5000%	Fixed			150,000
December 1, 2023	5.1000%	Fixed			20,000
December 3, 2024	5.1800%	Fixed			78,000
December 15, 2025	4.4500%	Fixed			100,000
December 15, 2025	4.4500%	Fixed			100,000
December 15, 2025	4.4500%	Fixed			100,000
June 1, 2026	2.2000%	Fixed	(b)		300,000
August 17, 2026	2.0500%	Fixed	(b) (c)		779,280
November 3, 2026	4.4900%	Fixed			200,000
December 14, 2026	3.1000%	Fixed	(b) (d)		114,025
December 14, 2026	3.1000%	Fixed	(b) (d)		45,610
June 1, 2027	2.5500%	Fixed	(b)		300,000
June 1, 2027	2.5500%	Fixed	(b)		350,000
June 1, 2027	2.5500%	Fixed	(b)		300,000

ALBERTA CAPITAL FINANCE AUTHORITY
SCHEDULE 1 - DEBT
As at December 31, 2019
(in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
April 11, 2028	3.6000%	Fixed	(b) (d)	228,050
April 11, 2028	3.6000%	Fixed	(b) (d)	54,732
December 1, 2028	2.9000%	Fixed	(b)	900,000
December 1, 2028	2.9000%	Fixed	(b)	500,000
February 20, 2029	1.4025%	Fixed	(b) (g)	195,160
September 20, 2029	2.9000%	Fixed	(b)	30,000
September 20, 2029	2.9000%	Fixed	(b)	170,000
September 20, 2029	2.9000%	Fixed	(b)	50,000
September 20, 2029	2.9000%	Fixed	(b)	50,000
September 20, 2029	2.9000%	Fixed	(b)	150,000
June 1, 2030	2.0500%	Fixed	(b)	250,000
June 1, 2031	3.5000%	Fixed	(b)	1,268,000
November 3, 2031	4.5000%	Fixed		125,396
November 2, 2032	4.8300%	Fixed		190,383
December 1, 2033	3.9000%	Fixed	(b)	200,000
December 1, 2033	3.9000%	Fixed	(b)	110,000
December 1, 2033	3.9000%	Fixed	(b)	215,000
December 1, 2033	3.9000%	Fixed	(b)	225,000
December 1, 2033	3.9000%	Fixed	(b)	110,000
December 1, 2033	3.9000%	Fixed	(b)	140,000
November 2, 2037	3.1680%	Fixed	(b)	60,000
December 1, 2043	1.1500%	Fixed	(b) (e)	255,203
December 1, 2043	1.1500%	Fixed	(b) (e)	72,915
December 1, 2048	3.0500%	Fixed	(b)	200,000
December 1, 2048	3.0500%	Fixed	(b)	200,000
December 1, 2048	3.0500%	Fixed	(b)	200,000
				13,775,431
Total contractual principal outstanding - 2019				15,725,431
Unamortized net discounts				(46,801)
Unamortized commission fees				(21,403)
Total amortized debt - 2019			$	15,657,227
Total contractual principal outstanding - 2018				16,098,870
Unamortized net discounts				(51,418)
Unamortized commission fees				(23,613)
Total amortized debt - 2018			$	16,023,839

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 as of the reporting date.

(d) Note issued in Australian dollars and translated to Canadian dollars using the foreign exchange rate as of the reporting date.

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

(f) Note issued in UK Pounds Sterling and translated to Canadian dollars using the foreign exchange rate as of the reporting date.

(g) Note issued in Swedish Krona and translated to Canadian dollars using the foreign exchange rate as of the reporting date.

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