ALBERTA CAPITAL FINANCE AUTHORITY

2014

Annual Report

ACFA

ALBERTA CAPITAL FINANCE AUTHORITY

For more information, please visit our website (www.acfa.gov.ab.ca) or contact:

ALBERTA CAPITAL FINANCE AUTHORITY

#2160, Sun Life Place
10123 - 99 Street NW
Edmonton, AB T5J 3H1

Phone: 780.427.9711
Fax: 780.422.2175
Email: webacfa@gov.ab.ca

www.acfa.gov.ab.ca

By scanning this QR Code from your smart device you will be pointed to the area on our website where you can view PDFs of this and previous year's ACFA Annual Reports, Financial Statements and Highlights.

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DIRECTORS AND REPRESENTATIVES

BOARD OF DIRECTORS

Appointed	D. Carpenter	*All representing Class A shareholders*
	R. Gilmour	
	F. Hawkins	
	B. Pickering	
	G. Smith	
Elected	K. Craig	*Representing Class D shareholders*
	G. Huybregts	*Representing Class B shareholders*
	M. Parker	*Representing Class C shareholders*
	R. Ritter	*Representing Class E Shareholders*

REPRESENTATIVES

Asset Liability Committee	T. Holinski	*Chair of the Asset Liability Committee*
	L. Epp	*Vice Chair of the Asset Liability Committee*
	A. Brown	*Member*
	S. Thompson	*Member*
	S. Wagner	*Member*
Audit Committee	R. Ritter	*Chair of the Audit Committee*
	D. Carpenter	*Vice Chair of Audit Committee*
	F. Hawkins	*Member*
Officers	F. Hawkins	*Chair of the Board*
	T. Holinski	*President and Treasurer*
	L. Epp	*Vice-President*
	B. Hsie	*Senior Accounting Officer and Assistant Treasurer*
	A. Morrison	*Corporate Secretary*

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 a non-profit corporation that owns 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 administered by a Board of Directors. The Lieutenant Governor in Council appoints up to five directors to represent the Class A common shareholder. Each of the other four classes of shareholders elects one director to the Board.

Loans

Terms for loans are prescribed in ACFA's resolution relating to the terms and conditions for lending money to shareholders.

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.

CHAIR'S REPORT

Generally, 2014 was a solid year for Alberta growth. The changing outlook due to energy market declines late in the year will present challenges for public infrastructure development and financing going forward. Alberta Capital Finance Authority looks forward to continue providing cost effective solutions to municipalities and local authorities as it has done for over 58 years.

Loan growth in 2014 was up with new loans issued of $2,157 million. The combination of the issuance of new loans and the maturing of existing debt necessitated the borrowing of $6,975 million, used to fund new loans, repay short-term debt and refinance maturing long term debt.

ACFA completed the implementation of an updated accounting system and undertook a major update to its Loan Management System. These projects have greatly assisted ACFA in terms of operational efficiency.

After a large turnover of Board members in 2013, the ACFA Board found its stride in 2014. It took on refining and developing several processes including Board Review and Evaluation as well a review of the Board committees.

There were several changes to ACFA's Board of Directors in 2014. Paul Whittaker, the Deputy Minister appointee of Municipal Affairs retired from government and was replaced by Andre Corbould. Later in 2014, Andre moved to another government Ministry and ACFA welcomed our current Deputy Minister appointee of Municipal Affairs, Brad Pickering.

At ACFA's 2014 Annual General Meeting, Mayor Kim Craig was elected as a Class "D" shareholder representative and Trevor Thain departed from the position of Board Chair. I replaced Trevor as Board Chair and George Huybregts was appointed Vice Chair of the Board. I would like to thank Trevor Thain for his 6 years of service on ACFA's Board with 4 years as Board Chair/Vice Chair. Trevor worked diligently to add his banking and credit risk expertise to Board discussions and worked very closely with management in developing the loan security policy adopted by ACFA in 2014.

2014 also saw changes to the Audit Committee. Long-term members Fred Barth and Harold Johnsrude left the Audit Committee as they came to the end of their maximum terms as Audit Committee members. I was appointed to the Audit Committee and David Carpenter was appointed Vice Chair of the Audit Committee. ACFA also acquired a new Loans Officer and Accounting Officer. On behalf of the Board I would like to acknowledge the dedication and professionalism of both our former and new members of the ACFA Board of Directors and Audit Committee.

ACFA remains committed to continuous operational improvement and maintaining the highest quality products and services our shareholders have come to expect. The ACFA Board and Staff are ready to meet the challenges of 2015.

[Original signed by Frank Hawkins]

Frank Hawkins
Chair of the Board
March 18, 2015

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, 2014.

LOANS

During 2014, ACFA's loan portfolio increased from $13,500 million to $14,760 million, an increase of $1,260 million. New loans issued during the year totaled $2,157 million, an increase of $428 million from new loans issued in 2013. Loan repayments totaled $889 million and loan prepayments totaled $7 million. In 2014, interest rates for all terms trended lower. Included in this review is an Analysis of New Loans Issued in 2014 by jurisdiction and purpose, a Schedule of Loans Outstanding at December 31, 2014 and a Ten Year Loan Review 2005 - 2014.

Analysis of New Loans Issued

By jurisdiction and purpose for the year ended December 31, 2014
(in thousands of dollars)

	Cities	Towns	Villages	Other	Total
Airport infrastructure	$ —	$ —	$ —	$ 573,000	$ 573,000
Health	—	—	—	5,000	5,000
Parks and recreation	349,892	23,350	—	1,243	374,485
Sewer and water	350,371	19,043	500	31,906	401,820
Roads and sidewalks	150,593	7,319	180	9,066	167,158
Student residences, parkade and ancillary operation	—	—	—	197,500	197,500
Electric, gas and telephone	255,813	—	—	—	255,813
Municipal buildings	42,356	875	—	3,300	46,531
Equipment and machinery	41,750	1,933	90	1,504	45,277
Land	18,400	2,458	—	1,391	22,249
Landfill development	27,486	—	—	492	27,978
School	—	637	—	750	1,387
Public housing	200	—	—	1,400	1,600
Senior citizen lodges	—	—	—	1,252	1,252
Transit	29,600	—	—	—	29,600
Other	1,545	4,500	—	86	6,131
Total	**$ 1,268,006**	**$ 60,115**	**$ 770**	**$ 827,890**	**$ 2,156,781**

Schedule of Loans Outstanding

at December 31, 2014

(in thousands of dollars)

	Principal Outstanding 2013	January 1 to December 31, 2014 New Loans Issued	January 1 to December 31, 2014 Principal Repaid	Principal Outstanding 2014
By Jurisdiction				
Cities	$ 7,986,885	$ 1,268,006	$ 671,764	$ 8,583,127
Specialized municipalities	529,412	4,411	30,410	503,413
Towns	465,943	60,115	45,232	480,826
Villages	16,503	770	1,867	15,406
Counties	291,069	36,901	31,298	296,672
Municipal districts	51,711	5,386	7,641	49,456
Irrigation districts and regional services commissions	188,575	5,692	12,945	181,322
Metis settlements	305	—	100	205
Regional airport authorities	2,716,385	573,000	15,453	3,273,932
Health authorities	337,670	5,000	14,230	328,440
Colleges, technical institutes and universities	843,734	197,500	48,079	993,155
School districts and divisions	71,561	—	17,276	54,285
Total	$ 13,499,753	$ 2,156,781	$ 896,295	$ 14,760,239
By Purpose				
Municipal – general	$ 8,533,614	$ 1,125,468	$ 734,679	$ 8,924,403
Municipal – utility	996,325	255,813	67,942	1,184,196
Airport infrastructure	2,716,693	573,000	15,466	3,274,227
Health – ancillary operation	337,670	5,000	14,230	328,440
Student residence, parkade and ancillary operation	843,734	197,500	48,079	993,155
School – core operation	71,717	—	15,899	55,818
Total	$ 13,499,753	$ 2,156,781	$ 896,295	$ 14,760,239

Ten Year Loan Review 2005 - 2014

(in thousands of dollars)

	2014	2013	2012
New Loans Issued During the year By Jurisdiction			
Cities	$ 1,268,006	$ 965,741	$ 1,038,483
Specialized municipalities	4,411	22,408	21,695
Towns and villages	60,885	42,435	91,518
Counties, municipal and irrigation districts, regional services commissions and Metis settlements	47,979	74,314	127,642
Regional airport authorities	573,000	427,901	930,000
Health authorities	5,000	—	32,300
Colleges, technical institutes and universities	197,500	185,575	48,591
School districts and divisions	—	10,000	5,000
Total	$ 2,156,781	$ 1,728,374	$ 2,295,229
By Purpose			
Municipal	$ 1,381,281	$ 1,104,898	$ 1,279,338
ME *first!*	—	—	—
Airport infrastructure	573,000	427,901	930,000
Health – ancillary operation	5,000	—	32,300
Student residence, parkade and ancillary operation	197,500	185,575	48,591
School – core operation	—	10,000	5,000
Total	$ 2,156,781	$ 1,728,374	$ 2,295,229
Loans repaid during year	896,295	616,856	748,646
Loans outstanding at December 31	14,760,239	13,499,753	12,388,235
Debt issued during year	6,975,269	9,817,168	10,194,626
Debt repaid during year	5,879,467	8,624,025	8,750,958
Debt outstanding at December 31 (1)	14,772,276	13,550,326	12,234,586
Accumulated operating surplus at December 31 (2)	294,096	236,849	184,979
Lending rate at December 31 *(based on 20 year term)*	2.957%	3.623%	2.942%

NOTES:

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

(2) Effective January 1, 2013, loans, 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.

2011	2010	2009	2008	2007	2006	2005
$ 934,531	$ 1,252,567	$ 1,600,849	$ 993,947	$ 878,623	$ 619,472	$ 355,350
6,480	206,332	46,201	16,538	70,009	159,519	6,794
50,833	74,737	81,164	79,424	59,207	40,338	44,219
70,331	104,018	80,657	43,698	54,408	47,806	49,656
603,000	390,000	40,000	120,000	100,000	20,000	75,000
176,000	15,000	55,000	—	11,308	99,673	37,920
34,416	102,600	65,000	131,200	66,750	60,863	82,998
—	2,553	—	—	—	—	—
$ 1,875,591	**$ 2,147,807**	**$ 1,968,871**	**$ 1,384,807**	**$ 1,240,305**	**$ 1,047,671**	**$ 651,937**
$ 1,062,175	$ 1,637,304	$ 1,808,871	$ 1,133,607	$ 1,048,329	$ 861,369	$ 446,841
—	—	—	—	13,918	5,766	9,178
603,000	390,350	40,000	120,000	100,000	20,000	75,000
176,000	15,000	55,000	—	11,308	99,673	37,920
34,416	102,600	65,000	131,200	66,750	60,863	82,998
—	2,553	—	—	—	—	—
$ 1,875,591	**$ 2,147,807**	**$ 1,968,871**	**$ 1,384,807**	**$ 1,240,305**	**$ 1,047,671**	**$ 651,937**
558,690	541,729	640,379	432,514	505,056	446,349	500,825
10,841,652	9,524,751	7,918,673	6,590,181	5,637,888	4,902,639	4,301,317
6,342,634	6,126,386	6,895,208	2,624,881	1,551,905	1,178,396	972,000
5,041,780	4,526,162	5,596,477	1,701,278	835,987	570,396	832,604
10,798,646	9,497,846	7,899,846	6,610,928	5,678,476	4,963,963	4,355,963
134,293	100,076	65,357	42,072	25,120	15,674	11,673
3.145%	4.124%	4.395%	5.150%	4.726%	4.365%	4.569%

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

ACFA's interest income on loans, including income from investments and loan prepayment fees, exceeded interest expense on debt by $58 million, as the yield on the loans was slightly higher than the yield on the debt. The annual operating surplus before unrealized changes in fair value of derivatives and foreign exchange was $57 million. After the recognition of unrealized losses in fair value of derivatives and foreign exchange of $528 million, the annual deficit was $471 million. As a result, ACFA moved from a reported surplus of $133 million to an accumulated deficit of $338 million during the year.

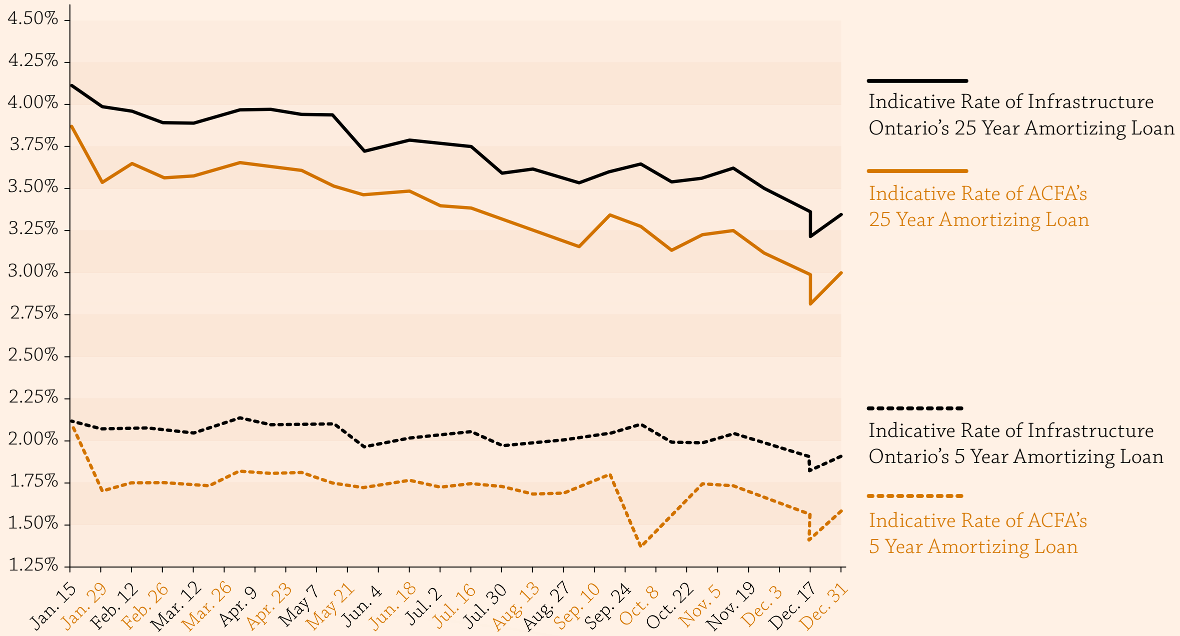
INTEREST RATES

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.

COMPARATIVE LOAN SPREADS WITH INFRASTRUCTURE ONTARIO

In order to compare Alberta loan rates to those of Ontario municipal borrowers, rates of Infrastructure Ontario were reviewed and compared to the rates ACFA would have offered. The following graph illustrates ACFA's rates were consistently below Infrastructure Ontario's throughout the year. The spreads between ACFA's rates and those of Infrastructure Ontario's for 5 and 25 year terms at the beginning of the year were nil and 24 basis points respectively. The spread between ACFA and Infrastructure Ontario ended the year at 51 and 54 basis points respectively.

Comparing ACFA and Infrastructure Ontario's 5 and 25 Year Lending Rates in 2014



DEBT

The contractual principal amount of ACFA's debt increased from $13,550 million to $14,772 million, an increase of $1,222 million. During the year, ACFA borrowed a total of $6,975 million consisting of $5,457 million in short-term notes and $1,518 million in mid-term to long-term debt. ACFA repaid a total of $5,879 million consisting of $5,208 million in short-term notes and $671 million in term fixed rate debt.

Of the contractual principal ending December 31, 2014, ACFA holds $1,300 million in US dollar denominated floating rate debt (via the Province of Alberta), which translates to $1,508 million CAD. The US dollar denominated cash flows are simultaneously swapped to Canadian dollar denominated cash flows, thus offsetting foreign currency risk.

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, 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 (ALCO) 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 surplus (deficit) 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 loan prepayment 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 loan prepayment 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 mainly 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 to 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.

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 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.

Because of ACFA's short-term borrowing activities in the past five years, made advantageous by spreads in the debt and swap markets, the term to maturity of its debt has decreased. However, ACFA recognizes it must extend the term to maturity of its debt by reducing its activity in the short-term market and increasing its activity in the long-term market. Longer term debt issuances were executed in 2014 to aid ACFA in extending the term to maturity of its debt.

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

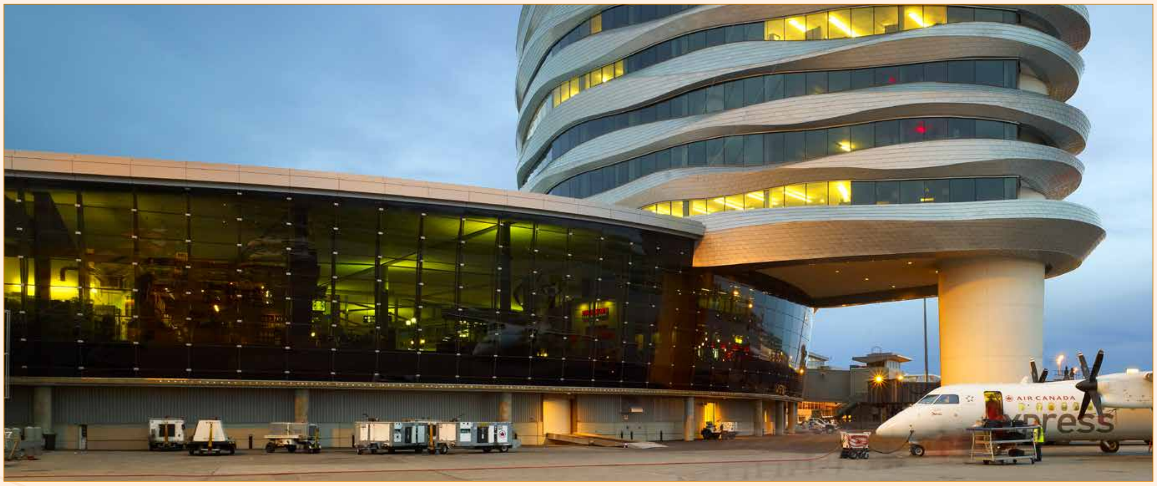
Credit risk is the risk of loss due to a borrower or counterparty failing to meet their obligations to ACFA. Historically, ACFA has not been required to record any provisions or allowances regarding credit losses nor has it suffered any such losses. The Board has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability. The Board also implemented a new Loan Security Policy, effective January 1, 2014, that specifies the collateral requirements of each shareholder class.

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 prescribed 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.

FUNDED PROJECT HIGHLIGHT GALLERY

Town of Stettler, Stettler Swimming Pool

City of Camrose, Jeanne and Peter Lougheed Performing Arts Centre



Edmonton International Airport, Control Office Tower


Town of Redwater, Pembina Place Cultural Centre Kitchen


Capital Region Northeast Water Services Commission, Mechanical Equipment at OLPS


University of Alberta, Health Research Innovation Facility

Town of Beaumont, RCMP Building

MacEwan University, Student Residence Building

Village of Marwayne, Centre Street

Lethbridge County, Diamond City Water Station

SAIT, Underground Parkade Entrance

The Calgary Airport Authority, International Terminal Rendering

FUNDED PROJECT HIGHLIGHT GALLERY

FINANCIAL STATEMENTS

Alberta Capital Finance Authority

December 31, 2014

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 then approves the financial statements.

[Original signed by Troy Holinski]

Troy Holinski
President
March 18, 2015
Edmonton, Alberta

INDEPENDENT AUDITOR'S REPORT

AUDITOR GENERAL
Alberta

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, 2014, 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, 2014, 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.

[Original signed by Merwan N. Saher, FCA]

Merwan N. Saher, FCA
Auditor General
March 18, 2015
Edmonton, Alberta

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at December 31, 2014
(in thousands of dollars)

		2014		2013
Assets:				
Cash (Note 3)	$	46,650	$	137,033
Restricted cash (Note 3)		497		497
Accounts receivable		23		2
Accrued interest receivable on loans to local authorities		106,859		106,556
Loans to local authorities (Note 4)		14,760,239		13,499,753
Derivatives in favourable position (Note 6)		789,160		613,656
Prepaid expenses		—		15
Tangible capital assets (Net of accumulated amortization $4; 2013 - $1)		26		19
	$	15,703,454	$	14,357,531
Liabilities:				
Accounts payable	$	614	$	599
Accrued interest payable on debt		31,045		29,331
Debt (Note 5, Schedule 1)		14,722,028		13,482,879
Derivatives in unfavourable position (Note 6)		1,288,139		711,804
		16,041,826		14,224,613
Share Capital and Accumulated Surplus:				
Share capital, issued and fully paid (Note 7)		63		64
Accumulated surplus:				
Accumulated operating surplus (Note 8)		294,096		236,849
Accumulated remeasurement losses		(632,531)		(103,995)
Share Capital and Accumulated (Deficit) Surplus		(338,372)		132,918
	$	15,703,454	$	14,357,531

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 approved by the Board of Directors.

[Original signed by Frank Hawkins]

Frank Hawkins
Chair of the Board

[Original signed by Troy Holinski]

Troy Holinski
President

STATEMENT OF OPERATIONS AND ACCUMULATED OPERATING SURPLUS

For the year ended December 31, 2014
(in thousands of dollars)

	Budget	2014	2013
	(Note 13)		
Interest Income:			
Loans	$ 582,244	$ 571,188	$ 533,927
Loan swaps (pay fixed, receive floating)	(304,499)	(284,342)	(262,479)
Investments	—	3,373	1,709
	277,745	290,219	273,157
Interest Expense:			
Debt	354,703	357,120	310,919
Debt swaps (receive fixed, pay floating)	(158,205)	(144,639)	(106,234)
Amortization of net discounts on debt	16,821	15,976	12,146
Amortization of commission fees	2,614	4,008	3,756
	215,933	232,465	220,587
Net interest income	61,812	57,754	52,570
Other Income:			
Loan prepayment fees	—	694	287
Net interest income and other income	61,812	58,448	52,857
Non-Interest Expense:			
Administration and office expenses (Note 9, 10)	1,045	1,198	986
Amortization of tangible capital assets	—	3	1
	1,045	1,201	987
Operating surplus	60,767	57,247	51,870
Accumulated operating surplus, beginning of year	239,042	236,849	184,979
Accumulated operating surplus, end of year	$ 299,809	$ 294,096	$ 236,849

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, 2014
(in thousands of dollars)

	2014	2013
Derivatives:		
Accumulated remeasurement losses on derivatives, beginning of year	$ (59,991)	$ (812,987)
Unrealized (losses) gains attributable to change in fair value of derivatives	(403,086)	752,996
Accumulated remeasurement losses on derivatives, end of year	(463,077)	(59,991)
Foreign Exchange:		
Accumulated remeasurement (losses) gains on foreign exchange, beginning of year	(44,004)	18,726
Unrealized losses attributable to foreign exchange translation	(125,450)	(62,730)
Accumulated remeasurement losses on foreign exchange, end of year	(169,454)	(44,004)
Accumulated remeasurement losses, end of year	$ (632,531)	$ (103,995)

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

STATEMENT OF CASH FLOWS

For the year ended December 31, 2014
(in thousands of dollars)

	2014	2013
Operating Activities:		
Interest received:		
Loans	$ 570,885	$ 531,744
Investments	3,374	1,708
Debt swaps (receive fixed, pay floating)	140,406	103,760
Loan prepayment fees	694	287
Interest paid:		
Debt	(355,406)	(311,006)
Discounts paid at debt maturity	(12,033)	(15,975)
Premiums received at debt issue	13,392	—
Commission fees	(3,445)	(6,886)
Loan swaps (pay fixed, receive floating)	(282,364)	(259,930)
Administration and office expenses	(1,193)	(1,031)
Cash flows from operating activities	74,311	42,671
Capital Activities:		
Acquisition of tangible capital assets	(10)	(20)
Cash flows used in capital activities	(10)	(20)
Investing Activities:		
Loan principal repayments	896,295	616,856
Loans issued	(2,156,781)	(1,728,374)
Cash flows used in investing activities	(1,260,486)	(1,111,518)
Financing Activities:		
Debt issued	6,975,269	9,817,168
Debt redemptions	(5,879,467)	(8,624,025)
Cash flows from financing activities	1,095,802	1,193,143
Net increase (decrease) in cash	(90,383)	124,276
Cash, beginning of year	137,033	12,757
Cash, end of year	$ 46,650	$ 137,033

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

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.

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 a US dollar bank account. 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.

(in thousands of dollars, except share amounts)

(j) Net Debt Model of Presentation

PSAS require the statement of financial position to report net debt. Net debt is measured as the difference between liabilities and financial assets, and provides an indicator of future revenues required to pay for past transactions and events, and is a test of sustainability. ACFA does not report a net debt indicator as its ability to provide loans to local authorities is not dependent on raising revenue, but rather the borrowing limit set by legislation.

Note 3 – Cash

	2014	2013
Cash in CCITF	$ 46,650	$ 137,033
Restricted cash in CCITF	$ 497	$ 497

For the year ended December 31, 2014, deposits in CCITF had a time-weighted return of 1.18% per annum (2013 – 1.16% per annum). Restricted cash in CCITF is set aside for outstanding debt obligations on unredeemed coupons and bonds.

Note 4 – Loans to Local Authorities

	2014	2013
Amortized cost	$ 14,760,239	$ 13,499,753

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. Loan applications exceeding debt limits or debt servicing limits require the Board's approval. Additionally, the President may take any loan application he deems necessary to the Board for review and approval.

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 69% (2013 – 71%) of all 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 account for 22% (2013 – 20%) of all loan assets held by ACFA. This borrower category utilizes 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 account for the remaining 9% (2013 – 9%) of loan assets, each with terms and conditions specific to their respective loan agreements.

(in thousands of dollars, except share amounts)

As at and for the year ended December 31, 2014, 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

	2014	2013
Contractual principal	$ 14,772,276	$ 13,550,326
Unamortized net (discounts) and premiums	(31,771)	(48,407)
Unamortized commission fees	(18,477)	(19,040)
Total	$ 14,722,028	$ 13,482,879

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
2015	$ 1,400,000	$ 912,070 [(a)]	$ 800,000	$ 3,112,070
2016	—	900,000	600,000	1,500,000
2017	—	—	2,646,060 [(b)]	2,646,060
2018	—	1,000,000	600,000	1,600,000
2019	—	—	275,000	275,000
	1,400,000	2,812,070	4,921,060	9,133,130
Thereafter	—	165,000	5,474,146	5,639,146
Total	$ 1,400,000	$ 2,977,070	$ 10,395,206	$ 14,772,276

NOTES:

(a) Includes $300,000 USD ($348,030 CAD) floating rate debt maturing June 15, 2015 and $400,000 USD ($464,040 CAD) floating rate debt maturing September 25, 2015 translated at the foreign exchange rate at the reporting date.

(b) Includes $600,000 USD ($696,060 CAD) fixed term debt maturing June 21, 2017 translated at the foreign exchange rate at the reporting date.

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

(in thousands of dollars, except share amounts)

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 penalty if a large loan prepayment occurs or if step-up debt is called. Penalties imposed by the counterparty are in turn recovered from the local authority according to the stop-loss policy so there is no financial loss to ACFA.

Interest rate swaps include the following outstanding cross currency swaps :

(a) Receive fixed on an original notional value of $600,000 USD (2013 – $600,000 USD) and pay floating on an original notional value of $617,400 CAD (2013 – $617,400 CAD); and

(b) Receive floating on an original notional value of $700,000 USD (2013 – $700,000 USD) and pay floating on an original notional value of $723,010 CAD (2013 – $723,010 CAD).

To minimize its foreign currency risk on US dollar denominated 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	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Interest rate swaps, December 31, 2014	$ 1,222,972	$ 4,413,253	$ 17,710,529	$ 23,346,754
Interest rate swaps, December 31, 2013	$ 264,693	$ 2,106,887	$ 18,119,563	$ 20,491,143

(in thousands of dollars, except share amounts)

At December 31, 2014, 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:

	2014	2013
Accrued interest receivable on debt swaps	$ 13,581	$ 9,348
Accrued interest payable on loan swaps	$ 49,483	$ 47,505

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); and
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 $141,962 (2013 - $123,505) and a decrease in fair value of $147,505 (2013 - $128,557), 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.

(in thousands of dollars, except share amounts)

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. During the year ended December 31, 2014, ACFA was not required to post cash collateral (2013 – $nil). As of December 31, 2014, no posted cash collateral was outstanding (2013 – $nil).

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 $656,317 at December 31, 2014 (2013 - $495,471) are subject to master netting arrangements against unfavourable positions of $1,237,698 (2013 - 676,208), which reduces ACFA's credit exposure by $656,317 (2013 - $495,471).

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:

			2014		2013	
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	883	8,830	881	8,810
C	Cities	750	588	5,880	588	5,880
D	Town and villages	750	281	2,810	281	2,810
E	Educational authorities	500	75	750	83	830
	Total	7,500	6,327	$ 63,270	6,333	$ 63,330

During the year, two Class B shares were issued (2013 – two Class B shares were issued and 17 were cancelled), and eight Class E shares were cancelled (2013– two Class D shares were 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 AAA 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.

(in thousands of dollars, except share amounts)

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 at the lowest possible cost and operate on a breakeven basis while maintaining positive net assets. 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, 2014 were $294,096 (2013 – $236,849). Capital management objectives, policies and procedures are unchanged since the preceding year.

Note 9 – Director, Audit Committee and Asset Liability Committee Fees and Related Party Transactions

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

	2014		2013	
	Number of Individuals	Total	Number of Individuals	Total
Board and Audit Committee Chairs	2	$ 11	2	$ 14
Board, Audit and Asset Liability Members	10	35	9	31
Total	12	$ 46	11	$ 45

There are two additional board members who are employees of the Province of Alberta and do not receive compensation from ACFA.

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 Innovation and 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, 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 $776 (2013 – $683) 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 $76 (2013 – $83) due to related parties at December 31, 2014.

(in thousands of dollars, except share amounts)

Note 10 – Expense by Object

	Budget	2014	2013
Salaries and benefits	$ 603	$ 646	$ 562
Services	270	266	234
Contract services with related parties	137	239	150
Goods	26	30	27
Financial transactions and other	9	17	13
Amortization of tangible capital assets	—	3	1
	$ 1,045	$ 1,201	$ 987

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. 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. 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 4 year business plan and annual budget that is approved by the Board, quarterly financial forecasting and reporting to monitor financial results, codes of conduct and ethics for the Board 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. It maintains an active relationship with the Auditor General of Alberta.

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) Assets 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 at the lowest possible cost 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 preferential credit rating and operates under an approved 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 debt to floating so that movements in market interest rates are counter balanced by offsetting revenue and expense streams. In accordance with ACFA's Derivative Policy, ACFA manages its interest rate risk by matching its debt maturity profile to the forecast cash flows and their effect on ACFA's surplus. 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 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 sensitive asset or liability. Non-interest 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 sensitive assets and liabilities by maturity/ next repricing date are summarized in the following table.

(in thousands of dollars, except share amounts)

Maturity/Repricing	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Financial Assets:				
Cash and restricted cash	$ 47,147	$ —	$ —	$ 47,147
Accrued interest receivable on loans	106,859	—	—	106,859
Accrued interest receivable on debt swaps [a]	13,581	—	—	13,581
Loans to local authorities	1,107,383	2,757,421	10,895,435	14,760,239
December 31, 2014	$ 1,274,970	$ 2,757,421	$ 10,895,435	$ 14,927,826
Loan effective rate, 2014 [b]	4.05%	4.09%	4.10%	4.10%
December 31, 2013	$ 1,128,292	$ 1,888,092	$ 10,736,803	$ 13,753,187

NOTES:

[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	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Financial Liabilities:				
Accrued interest payable on debt	$ 31,045	$ —	$ —	$ 31,045
Accrued interest payable on loan swaps [a]	49,483	—	—	49,483
Debt by type:				
Short-term [c]	1,396,722	—	—	1,396,722
Floating [b]	2,977,070	—	—	2,977,070
Fixed [b]	800,000	3,246,060	6,349,146	10,395,206
December 31, 2014	$ 5,254,320	$ 3,246,060	$ 6,349,146	$ 14,849,526
Debt effective rate, 2014 [d]	2.79%	3.32%	4.20%	4.03%
December 31, 2013	$ 4,805,276	$ 1,400,000	$ 7,419,306	$ 13,624,582
Gap 2014	$ (3,979,350)	$ (488,639)	$ 4,546,289	$ 78,300
Gap 2013	$ (3,676,984)	$ 488,092	$ 3,317,497	$ 128,605

NOTES:

[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 $1,400,000 net of discounts on short-term notes of $3,278 (2013 – $2,580).

[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 $13,554,565 and $9,792,189 respectively (2013 – $12,095,454 and $8,395,689 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 $3,003 increase ($3,003 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, 2014, with the assumption that all debt is redeemed at the maturity date, based on the earlier of repricing or principal repayments, are as follows:

(in thousands of dollars, except share amounts)

Estimated Future Cash Out Flows	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Accounts payable	$ 614	$ —	$ —	$ 614
Debt by type, contractual repayments of principal:				
Short-term [a]	1,396,722	—	—	1,396,722
Floating [b]	2,977,070	—	—	2,977,070
Fixed	800,000	3,246,060	6,349,146	10,395,206
Debt by type, contractual payments of interest:				
Short-term [a]	3,278	—	—	3,278
Floating [b]	7,606	—	—	7,606
Fixed	328,849	562,693	2,176,236	3,067,778
Loan swaps (pay fixed, receive floating) [b]	286,561	528,964	2,371,243	3,186,768
Commitments for leases and supplies and services	174	180	72	426
Commitments for loans	50,800	—	—	50,800
Total	$ 5,851,674	$ 4,337,897	$ 10,896,697	$ 21,086,268

NOTES:

[a] Comprised of contractual principal of $1,400,000 net of discounts on short-term notes of $3,278 (2013 – $2,580).

[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 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	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Accounts receivable	$ 23	$ —	$ —	$ 23
Loans, contractual repayments of principal [a]	1,107,383	2,757,421	10,895,435	14,760,239
Loans, contractual receipts of interest [a]	575,307	1,500,640	3,993,263	6,069,210
Debt swaps (receive fixed, pay floating) [a] [b]	150,536	262,266	1,151,514	1,564,316
Total	$ 1,833,249	$ 4,520,327	$ 16,040,212	$ 22,393,788

NOTES:

[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 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 penalty 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 penalties to local authorities in accordance with the stop-loss penalty policy; and raising debt in capital markets, either domestic and 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, 2014, ACFA has aggregate US dollar denominated debt outstanding of $1,300,000 USD (2013 – $1,300,000 USD). The US dollar 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 US dollars. As such, any changes in the Canadian/US dollar foreign exchange rate from the date the US dollar denominated debt instruments were issued to the date the US dollar denominated debt instruments mature, expose ACFA to foreign currency risk.

To manage the exposure to foreign currency risk on the US dollar 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 US dollar 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, in US dollars, all the amounts necessary to satisfy the periodic payments of interest expense and the aggregate principal balance due at maturity on the US dollar 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 US dollar 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 Canadian/US dollar foreign exchange rate.

As at December 31, 2014, ACFA has no other financial instruments that are exposed to foreign currency risk.

(in thousands of dollars, except share amounts)

Note 12 – Contractual Obligations and Commitments

(a) Lease

ACFA has obligations under an operating lease expiring in July 2018 for the rental of premises, and various other obligations for supplies and services under contracts entered into before December 31, 2014. The estimated aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

	Supplies and Services	Lease
2015	$ 89	$ 85
2016	4	86
2017	4	86
2018	—	72
Total	$ 97	$ 329

(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, 2014 were:

	2014
2015	$ 50,800
Total	$ 50,800

Note 13 – Budget

The 2014 budget was approved by the Board of Directors on December 12, 2013. Budget amounts for 2014 were prepared on an amortized cost basis and remeasurement gains and losses on foreign exchange and derivatives were not budgeted.

Note 14 – Approval of Financial Statements

The financial statements were recommended for approval by the Audit Committee on March 10, 2015 and subsequently approved by the Board of Directors on March 18, 2015.

SCHEDULE 1 – DEBT

As at December 31, 2014
(in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Public – Short-term:				
Jan-06-2015	0.9414%	Short-term	(d)	$ 100,000
Jan-13-2015	0.9277%	Short-term	(d)	100,000
Jan-20-2015	0.9398%	Short-term	(d)	100,000
Jan-27-2015	0.9408%	Short-term	(d)	100,000
Feb-03-2015	0.9146%	Short-term	(d)	100,000
Feb-03-2015	0.9769%	Short-term	(d)	70,000
Feb-10-2015	0.9461%	Short-term	(d)	100,000
Feb-17-2015	0.9541%	Short-term	(d)	100,000
Feb-24-2015	0.9597%	Short-term	(d)	100,000
Mar-03-2015	0.9666%	Short-term	(d)	100,000
Mar-10-2015	0.9680%	Short-term	(d)	100,000
Mar-17-2015	0.9879%	Short-term	(d)	110,000
Mar-24-2015	1.0095%	Short-term	(d)	110,000
Mar-31-2015	1.0287%	Short-term	(d)	110,000
				1,400,000
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
Public – Fixed and Floating:				
Jun-01-2015	4.9000%	Fixed		100,000
Jun-01-2015	4.9000%	Fixed		100,000
Jun-03-2015	1.2000%	Floating	(a) (d)	100,000
Jun-15-2015	0.1406%	Floating	(b) (c) (d)	348,030
Jun-15-2015	3.0500%	Fixed		600,000
Sep-25-2015	0.1656%	Floating	(b) (c) (d)	464,040
May-27-2016	1.4100%	Floating	(a) (d)	900,000
Jun-15-2016	4.3500%	Fixed		300,000
Jun-15-2016	4.3500%	Fixed		300,000
Jun-15-2017	4.6500%	Fixed		400,000
Jun-15-2017	4.6500%	Fixed		300,000
Jun-15-2017	1.7500%	Fixed	(d)	500,000
Jun-21-2017	1.0000%	Fixed	(c) (d)	696,060
Dec-15-2017	1.7000%	Fixed	(d)	750,000
Jun-01-2018	5.1500%	Fixed		50,000
Jun-01-2018	5.1500%	Fixed		50,000

SCHEDULE 1 – DEBT

As at December 31, 2014
(in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Jun-15-2018	1.3400%	Floating	(a) (d)	500,000
Jun-15-2018	1.3400%	Floating	(a) (d)	500,000
Jun-15-2018	1.6000%	Fixed	(d)	500,000
Dec-01-2019	4.0000%	Fixed	(d)	275,000
Jun-17-2020	1.4300%	Floating	(a) (d)	165,000
Dec-15-2022	2.5500%	Fixed	(d)	720,000
Dec-15-2022	2.5500%	Fixed	(d)	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
Sep-20-2029	2.9000%	Fixed	(d)	30,000
Sep-20-2029	2.9000%	Fixed	(d)	170,000
Sep-20-2029	2.9000%	Fixed	(d)	50,000
Sep-20-2029	2.9000%	Fixed	(d)	50,000
Sep-20-2029	2.9000%	Fixed	(d)	150,000
Jun-01-2031	3.5000%	Fixed	(d)	1,268,000
Dec-01-2033	3.9000%	Fixed	(d)	200,000
Dec-01-2033	3.9000%	Fixed	(d)	110,000
Dec-01-2033	3.9000%	Fixed	(d)	215,000
Dec-01-2033	3.9000%	Fixed	(d)	225,000
Dec-01-2033	3.9000%	Fixed	(d)	110,000
Dec-01-2033	3.9000%	Fixed	(d)	140,000
				12,256,130
Total contractual principal outstanding – 2014				14,772,276
Unamortized net (discounts)				(31,771)
Unamortized commission fees				(18,477)
Total amortized debt – 2014				**$ 14,722,028**
Total contractual principal outstanding – 2013				13,550,326
Unamortized net premiums				(48,407)
Unamortized commission fees				(19,040)
Total amortized debt – 2013				$ 13,482,879

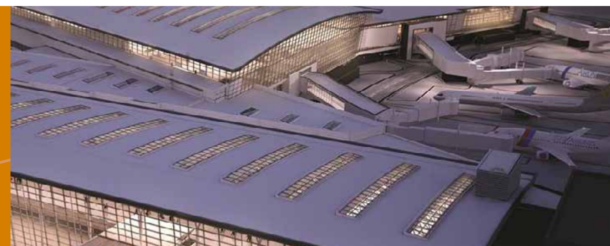
NOTES:

(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) Floating rate notes that pay interest quarterly at the USD London Interbank Offered Rate ("LIBOR") plus predetermined spreads with principal paid on termination. The interest rates provided are based on the USD LIBOR as of the reporting date plus the contractual predetermined spread.

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

(d) Notes were on-lent from the Province of Alberta.



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ACFA
ALBERTA CAPITAL FINANCE AUTHORITY

#2160, Sun Life Place
10123 - 99 Street NW
Edmonton, AB T5J 3H1

Phone: 780.427.9711
Fax: 780.422.2175
Email: webacfa@gov.ab.ca

www.acfa.gov.ab.ca

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