



Local Authorities PENSION PLAN

TOWN OF MORINVILLE	CITY OF FORT SASKATCHEWAN	WEST CENTRAL PLANNING AGENCY	M.D. OF TABER	ST. PAUL EDUCATION REGIONAL DIVISION NO. 1	TOWN OF WESTLOCK
PARKLAND REGIONAL LIBRARY	PONOKA COUNTY	DR. COOKE EXTENDED CARE CENTRE	M.D. OF WAINWRIGHT NO. 61	TOWN OF BROOKS	VILLAGE OF YOUNGSTOWN
BETHANY GROUP	CAPITAL HEALTH AUTHORITY	TOWN OF STAVELY	M.D. OF WILLOW CREEK NO. 26	GOLDEN HILLS REGIONAL DIVISION NO. 75	BUFFALO TRAIL REGIONAL DIVISION NO.28
ABC BENEFITS CORPORATION	CLEARVIEW SCHOOL DIVISION NO. 71	VILLAGE OF FORESTBURG	REGIONAL MUNICIPALITY OF WOOD BUFFALO	TOWN OF BARRHEAD	WESTERN IRRIGATION DISTRICT
GOOD SAMARITAN SOCIETY	CARITAS HEALTH GROUP	TOWN OF PEACE RIVER	TOWN OF GRANDE CACHE	ROCKY VIEW SCHOOL DIVISION NO. 41	PEMBINA HILLS REGIONAL DIVISION NO. 7
CITY OF MEDICINE HAT	CITY OF AIRDRIE	RED DEER PUBLIC SCHOOL DISTRICT NO. 104	LETHBRIDGE SCHOOL DISTRICT NO. 51	TOWN OF CLARESHOLM	LIVINGSTONE RANGE SCHOOL DIVISION NO. 68
EDMONTON SCHOOL DISTRICT NO. 7	ST. MICHAEL'S HEALTH CENTRE	TOWN OF DAYSLAND	TOWN OF RAINBOW LAKE	BETHANY CARE SOCIETY	KILLAM HEALTH CARE CENTRE
TOWN OF REDWATER	DAVID THOMPSON HEALTH REGION	STURGEON SCHOOL DIVISION NO. 24	VILLAGE OF EMPRESS	TOWN OF COALDALE	GRANDE YELLOWHEAD REGIONAL DIVISION NO. 35
EDMONTON NORTHLANDS	CAREWEST, A COMMUNITY OF CARING	TOWN OF FORT MACLEOD	TOWN OF WHITECOURT	ROCKY VIEW SCHOOL DIVISION NO. 41	CALGARY HEALTH REGION
TOWN OF CARDSTON	ST. JOSEPH'S AUXILIARY HOSPITAL	CITY OF RED DEER	NORTHLAND SCHOOL DIVISION NO. 61	TOWN OF DEVON	TOWN OF MANNING
EDMONTON CATHOLIC REGIONAL DIVISION NO. 7	ASPEN REGIONAL HEALTH AUTHORITY #11	MEDICINE HAT COLLEGE	OLDMAN RIVER INTERMUNICIPAL SERVICE AGENCY	GRANDE PRAIRIE PUBLIC SCHOOL DISTRICT NO. 2357	ALBERTA ASSOCIATION OF MUNICIPAL DISTRICTS & COUNTIES
CITY OF CAMROSE	REGIONAL HEALTH AUTHORITY #5	STARLAND COUNTY	TOWN OF VULCAN	TOWN OF EDSON	ALBERTA CATHOLIC SCHOOL TRUSTEE'S ASSOCIATION
VILLAGE OF IRMA	CITY OF WETASKIWIN	MEDICINE HAT CS REGIONAL DIVISION NO. 20	OUR LADY OF THE ROSARY HOSPITAL	SMOKY LAKE COUNTY	NORTHERN LIGHTS SCHOOL DIVISION NO. 69
M.D. OF ROCKY VIEW NO. 44	CAPITAL CARE GROUP	PRAIRIE ROSE REGIONAL DIVISION NO. 8	PARKLAND REGIONAL LIBRARY	TOWN OF MAYERTHORPE	VILLAGE OF CREMONA
MEDICINE HAT SCHOOL DISTRICT NO. 76	LAMONT HEALTH CARE CENTRE	TOWN OF WAINWRIGHT	PEACE HEALTH REGION	RED DEER COLLEGE	
TOWN OF SEDGEWICK	MOUNT ROYAL COLLEGE	METROPOLITAN CALGARY FOUNDATION	TOWN OF VERMILION	BEAVER COUNTY	
LETHBRIDGE NORTHERN IRRIGATION DISTRICT	M.D. OF PROVOST NO. 52	TOWN OF VAUXHALL	PEACE RIVER SCHOOL DIVISION #10	VILLAGE OF THORSBY	
ST. MARY RIVER IRRIGATION DISTRICT	GRANT MACEWAN COMMUNITY COLLEGE	WESTWIND SCHOOL DIVISION NO. 74	TOWN OF GRIMSHAW	COUNTY OF BARRHEAD NO. 11	
TOWN OF TABER	TOWN OF HIGH RIVER	M.D. OF ACADIA NO. 34	ELK ISLAND CS REGIONAL DIVISION NO. 41		
VULCAN COUNTY	PARKLAND COMMUNITY PLANNING SERVICES	RED DEER COUNTY	TOWN OF STONY PLAIN		
TOWN OF PONOKA	NORTHERN LIGHTS REGIONAL HEALTH SERVICES	TOWN OF TROCHU	PRAIRIE LAND REGIONAL BOARD NO. 25	TOWN OF INNISFAIL	ALBERTA SCHOOL BOARDS ASSOCIATION
HORIZON SCHOOL DIVISION NO. 67	YELLOWHEAD REGIONAL LIBRARY	COUNTY OF ST. PAUL NO. 19	CITY OF EDMONTON	HIGH PRAIRIE SCHOOL DIVISION #48	ALBERTA URBAN MUNICIPALITIES ASSOCIATION
ST. MARY'S HOSPITAL	TOWN OF PENHOLD	M.D. OF BONNYVILLE NO. 87	ST. ALBERT PSSD NO. 6	TOWN OF OLDS	ALLEN GRAY CONTINUING CARE CENTRE
CITY OF LETHBRIDGE	CITY OF CALGARY	CARDSTON COUNTY	GREATER ST. ALBERT CATHOLIC REG. DIV. NO. 29	FLAGSTAFF COUNTY	BATTLE RIVER REGIONAL DIVISION NO. 31
MOUNTAIN VIEW COUNTY		M.D. OF FAIRVIEW NO. 136	ST. JOSEPH'S GENERAL HOSPITAL	TOWN OF OYEN	TOWN OF SWAN HILLS
STRATHCONA COUNTY		COUNTY OF THORHILD NO. 7	TOWN OF TOFIELD	CITY OF GRANDE PRAIRIE	COUNTY OF ATHABASCA NO. 12
TOWN OF FOX CREEK		M.D. OF FOOTHILLS NO. 31	BONNYVILLE HEALTH CENTRE	HOLY SPIRIT RCS REGIONAL DIVISION NO. 4	PARKLAND SCHOOL DIVISION NO. 70
		KNEEHILL COUNTY	ST. MARY'S HEALTH CARE CENTRE	WHEATLAND COUNTY	TOWN OF BEAVERLODGE
		M.D. OF PEACE NO. 135	TOWN OF CASTOR	TOWN OF RAYMOND	
		M.D. OF SPIRIT RIVER NO. 133		LAMONT COUNTY	
		STURGEON COUNTY		TOWN OF ROCKY MOUNTAIN HOUSE	
		TOWN OF ATHABASCA			

2002 ANNUAL REPORT



Local Authorities
PENSION PLAN

securing your future, together™

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PLAN PROFILE

LAPP was established in 1962 as a defined benefit pension plan for employees of Local Authorities in Alberta. These include health authorities, cities, towns, villages, municipal districts, colleges, school boards and many other public sector organizations.

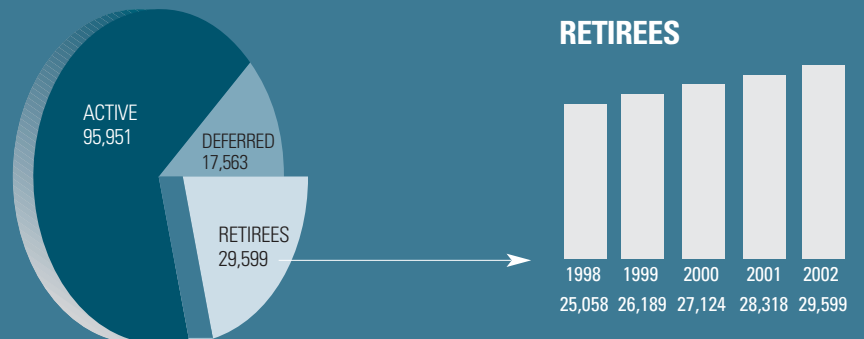
The Alberta Minister of Finance is currently the legal trustee of the Plan, which is governed by a 14-member Board of Trustees. The Board includes six employee nominees, six employer nominees and one nominee each from retirees and government. LAPP serves 95,951 active members, 17,563 deferred members, 29,599 retirees and 401 employers. The Plan is financed by employee and employer contributions and investment earnings of the LAPP Fund.

The Fund has a diversified investment portfolio consisting of bonds and mortgages, treasury bills, domestic and foreign stocks, and real estate.

MEMBERSHIP, DECEMBER 31, 2002

Total 143,113

Membership increased in 2002 by 9,663. Retirees currently make up 20.7% of membership. This proportion is expected to rise as baby boomers begin to retire.



LAPP's members are employed throughout the province, in many different careers. The names of all LAPP employers are listed in this Report.

Members can all share the reassurance that LAPP is strong and the pension promise is secure.



As a member of the fund-raising team, Karen takes personal pride in the new Red Deer College Library Information Common. "It's one of the busiest places on campus," she says. Although retirement seems distant, Karen already knows her plans will include plenty of travel. "There isn't a place I wouldn't go!"

KAREN OATWAY - Red Deer College

Net assets available for benefits, before the actuarial adjustment for fluctuations in fair value, decreased by 5.8% to \$8.431 billion in 2002.

Accrued benefits (liabilities) increased by 10.2% to \$10.037 billion.

To reduce volatility of the Plan's funded status, year over year changes in the market value of assets are actuarially smoothed over a three-year period.

After asset smoothing, the actuarial surplus decreased from \$635 million in 2001, to a \$445 million deficiency in 2002.

Despite poor investment returns in the past three years, over an 8-year term, returns have exceeded the required rate used by the actuary in determining the funding requirements of the Plan.

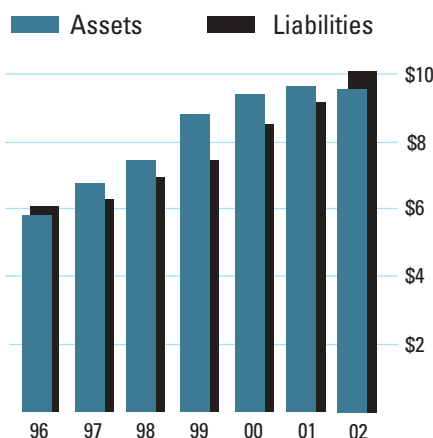
However, if investment returns continue to be poor, this will affect the long-term investment returns, and contribution rate increases will be necessary.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

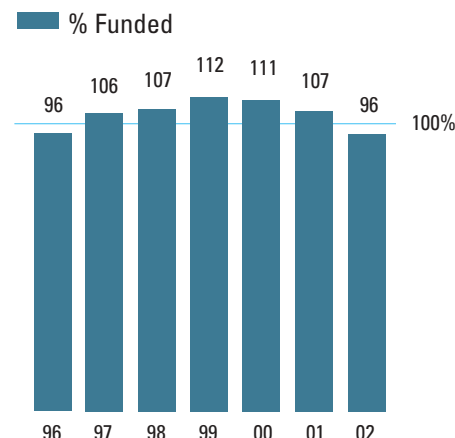
As at December 31, 2002 (\$ thousands)

	2002	2001
Net Assets Available for Benefits		
Net assets available for benefits	\$ 8,431,320	\$ 8,951,160
Actuarial adjustment for fluctuation in fair value of net assets	1,160,600	791,700
Actuarial value of net assets available for benefits	9,591,920	9,742,860
Accrued Benefits		
Actuarial value of accrued benefits	10,036,900	9,107,900
Actuarial (deficiency) Surplus	\$ (444,980)	\$ 634,960

ACTUARIAL FINANCIAL STATUS (\$ BILLIONS)



ACTUARIAL FUNDING STATUS

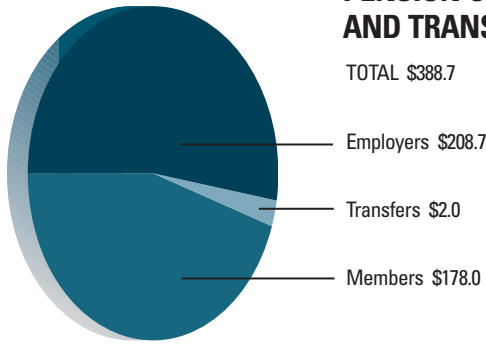


Calgary's Eaton's Centre is a 40-story office tower with over 800,000 square feet of net rentable area. LAPP holds a 14% investment (\$24.3 million) in this property.

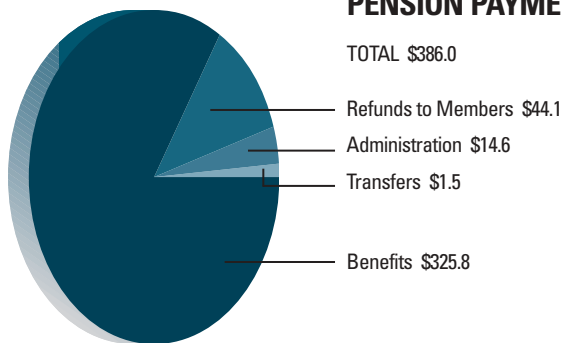


Yorkdale Shopping Centre in Toronto is Canada's second largest shopping centre occupying a 74 acre site with over 1.5 million square feet of leasable space. LAPP has a 14.0% interest (\$92.6 million investment) in this property.

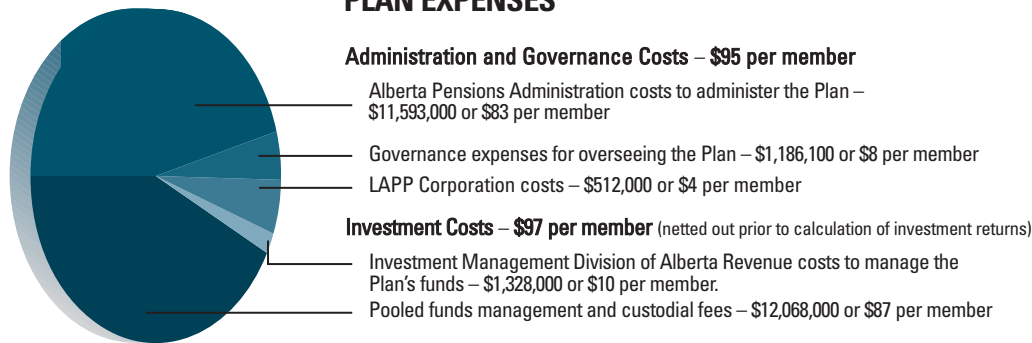
PENSION CONTRIBUTIONS AND TRANSFERS (\$ MILLIONS)



PENSION PAYMENTS (\$ MILLIONS)



PLAN EXPENSES



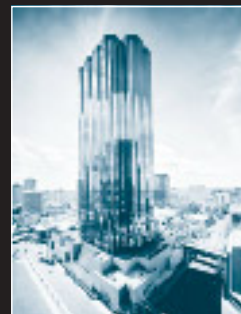
LAPP's large size allows for cost-effective administration and investment management. Plan expenses consisting of administration and governance costs (\$13,291,000) and investment costs (\$13,396,000) totalled \$26,687,000 in 2002 or \$192 per member.

With Plan assets over \$8.4 billion, this equates to a total cost of 0.32% of assets under administration (0.16% for administration and 0.16% for investment management services).



TD Square in Calgary is comprised of two office towers with retail space totaling over one million square feet of net rentable area.

LAPP has a 15% investment totaling \$15.3 million in this property.



Manulife Place located in Edmonton is an office/retail complex with 765,000 square feet of net rentable area.

LAPP holds a 14% interest (\$16.3 million investment) in this property.



RICHARD WEST
BOARD CHAIR

MESSAGE FROM THE CHAIR

On behalf of the Local Authorities Pension Plan Board of Trustees, I am pleased to present the 2002 Annual Report. I would like to mention some of our accomplishments in 2002, and take a brief glance into the future of the Plan.

Financial Results

2002 was a third consecutive year in which financial markets worldwide lost value. This is a rare event and LAPP, like most other major investors, suffered a decline in its assets.

At the same time, interest rates fell to near-record lows. If interest rates continue to remain low, this will cause our liabilities (the value of our promise to pay future pensions) to increase over time, because the Plan will be required to reduce its discount rate.

Our Plan moved from an actuarial surplus of approximately 12% at the end of 1999, to an actuarial deficit of approximately 4% at the end of 2002. The extent and swiftness of this change was dramatic, and reinforces the lesson that financial markets, in the short term, can gain or lose value unpredictably.

It also reinforces the lesson that pension plans such as LAPP are long-term investors. The contribution dollars of a new member joining the Plan today will be retained by the Plan and invested and reinvested for many years before being paid out to that member as part of a pension. Over that course of time, LAPP can expect to see several short-term shifts in the financial markets. However history teaches us that in the long run, invested money grows in value.

As part of its ongoing due diligence, the Board conducted another formal Asset/Liability study in 2002. As a result, the Board adjusted its investment policy, reallocating assets to investments that are intended to optimize our returns while limiting our investment risk to a prudent level. Specifically, we increased our allocation to real estate and to private equity, both long-term investments which should deliver good long-run returns. Real estate also contributes by providing protection from inflation.

As well as deciding on investment policy, the Board of Trustees is also tasked with making sure that contributions to the pension fund, together with the long-term gains from investments, accumulate to an amount sufficient to pay the pension promise in the future.

CALGARY RCSSD NO. 1
COUNTY OF CAMROSE
NO. 22

GRANDE PRAIRIE
REGIONAL COLLEGE

COUNTY OF FORTY MILE
NO. 8

LAC STE. ANNE COUNTY
TOWN OF BOW ISLAND

COUNTY OF GRANDE
PRAIRIE NO. 1

LACOMBE COUNTY

GRASSLANDS
REGIONAL DIVISION

NO. 6

LEDUC COUNTY

JASPER IMPROVEMENT
DISTRICT

COUNTY OF
LETHBRIDGE

TOWN OF BONNYVILLE

COUNTY OF MINBURN
NO. 27

MINERAL SPRINGS
HOSPITAL

LETHBRIDGE
COMMUNITY COLLEGE

COUNTY OF
PAINTEARTH
NO. 18

PARKLAND COUNTY

COUNTY OF STETTLER
NO. 6

FOOTHILLS SCHOOL
DIVISION NO. 38

TOWN OF OKOTOKS

COUNTY OF TWO HILLS
NO. 21

EASTERN IRRIGATION
DISTRICT

COUNTY OF WARNER
NO. 5

COUNTY OF
WETASKIWIN NO. 10

CITY OF ST. ALBERT

COUNTY OF VERMILION
RIVER NO. 24

FORT VERMILION
SCHOOL DIVISION
NO. 52

ALBERTA TEACHERS'
RETIREMENT FUND
BOARD

GREATER EDMONTON
FOUNDATION

“One of LAPP’s strengths is that we have a large proportion of active members making contributions to the Plan.”

While we are confident in the long-term growth of our investments, we must also monitor and adjust contribution rates as necessary to ensure there will be sufficient capital to invest to fulfill the Plan’s commitments. The Board is committed to maintaining the security of the pension promise for all Plan members. One of LAPP’s strengths is that we have a large proportion of active members making contributions to the Plan. When the Plan encounters a deficit, as at present, this means the burden of the deficit can be shared among many members, and over many years, reducing the impact on any individual member.

Contribution rates also must be set so that members who will receive a pension in the future are paying a fair value for that pension today, and that other members, in the past or in the future, will not be asked to pay more or less than their fair share. For that reason, and on the actuary’s advice, the Board increased current contribution rates, for both members and employers, by .5%, effective January 1, 2003.

Finally, the Board must also try to keep contribution rates reasonably stable. While we expect to see financial markets perform better in the long-term future than they have over the past three years, it is not prudent for the Plan to run a deficit for a lengthy period of time while we wait for a market recovery. Therefore, it is probable that contribution rates will have to rise over the next few years in order to begin reducing the present deficit and bringing the Plan back to fully funded status.

The Board will continue to closely monitor the Plan’s financial status, and if contribution rates must be adjusted, the Board will do so carefully, in order to protect the Plan while not over-reacting to temporary market conditions. We will give all stakeholders as much advance notice as possible of any contribution rate increases.

Governance

The Board has been working since 1994 to change LAPP from a plan controlled by the provincial government to a plan controlled by its employers and members. (Plan members should be aware that the provincial government legally severed all of its financial obligations to the Plan in 1999. Since then, LAPP’s employers and members have been solely responsible for the Plan’s financial well-being.)

The government, and LAPP’s employers and unions, have continued to work on plan independence in 2002. The Board remains supportive of independence, and continues to participate in the process. We are prepared to move the Plan to an independent structure if and when that becomes possible.

In the meantime, however, in 2002 the Board decided to address the governance structure of the current Plan. We have made recommendations to

MARQUIS FOUNDATION	TOWN OF MCLENNAN	WESTLOCK COUNTY	MUNICIPALITY OF CROWSNEST PASS	WETASKIWIN REGIONAL DIVISION NO. 11	ATHABASCA & AREA FAMILY AND COMMUNITY SUPPORT SERVICES
CAPITAL REGION AUTHORITY	CALGARY PUBLIC LIBRARY	RED DEER CATHOLIC REGIONAL DIVISION NO. 39	TOWN OF SMOKY LAKE	TOWN OF SYLVAN LAKE	TOWN OF LEGAL
TOWN OF SLAVE LAKE	TOWN OF ELK POINT	TOWN OF CARSTAIRS	CANADIAN ROCKIES REGIONAL DIVISION NO. 12	VILLAGE OF NOBLEFORD	FORT MCMURRAY REGIONAL AIRPORT COMMISSION
CITY OF LEDUC	GRANDE PRAIRIE RCSSD NO. 28	VILLAGE OF BERWYN	TOWN OF ST. PAUL	FORT MCMURRAY SCHOOL DISTRICT NO. 2833	PALLISER HEALTH AUTHORITY
CALGARY BOARD OF EDUCATION	TOWN OF LAC LA BICHE	CALGARY CONVENTION CENTRE	CAMROSE PUBLIC LIBRARY BOARD	VILLAGE OF LOUGHEED	
BOW RIVER IRRIGATION DISTRICT	VILLAGE OF HYTHE	TOWN OF KILLAM			

“While 2002 was a difficult year for LAPP financially, the Plan remains strong. LAPP is well-positioned to continue to secure your future, together.”

the provincial government for improvements which we believe would clarify the responsibilities and accountabilities of the groups that currently administer the Plan, thus making Plan governance more efficient and effective. We will report to all Plan stakeholders on our future progress in this area.

Board of Trustees Membership

Effective December 31, 2002, Rick Blakeley’s term on the Board ended. Mr. Blakeley was nominated by the Alberta Colleges and Institutes Faculties Association and served as a trustee since 1994. We wish him well in future endeavors and thank him for his work. Effective January 1, 2003, Carl Soderstrom was nominated by the Alberta Union of Provincial Employees and was appointed as a trustee. Mr. Soderstrom served on LAPP’s Board previously, and we welcome him back.

Conclusion

While 2002 was a difficult year for LAPP financially, the Plan remains strong. LAPP is well-positioned to continue to secure your future, together.

I wish to thank all Board members, LAPP staff, the Minister of Finance, Alberta Pensions Administration Corporation, and the Investment Management Division of the Alberta Department of Revenue for their continued hard work for LAPP. The Board of Trustees looks forward to continuing to serve all Plan employers and members.

Richard D. West

Board Chair 2002

Local Authorities Pension Plan

LOCAL AUTHORITIES PENSION PLAN 2002 BOARD OF TRUSTEES

For further information about your LAPP Board of Trustees, please see the inside back cover of this Annual Report or visit our Web site at www.lapp.ab.ca.



RICHARD WEST
CHAIR



LES YOUNG
VICE-CHAIR



KEN BALKWILL



RICK BLAKELEY



BEN BOETTCHER



TERRY CAVANAGH



ALEX FOWLIE



MARGARET JOHNSON



TONY KRIVOBLOCKI



RICHARD MARTIN



ELAINE NOEL-BENTLEY



BILL PURDY



JOHN VANDERKAAY



SANDRA WEIDNER

securing your future, together™

Tammy enjoys the one-to-one interaction with clients her job offers. "The rewards are endless," she says. "It's a great feeling to know you're really helping." Her plans for retirement include a big 5th wheel and traveling.



TAMMY SHADBOLT - Mistahia Health Region, with client John Yurichuk

MANAGEMENT DISCUSSION AND ANALYSIS

MESSAGE FROM THE CEO

We are pleased to present this Annual Report to all employers and stakeholders of the Local Authorities Pension Plan (LAPP). It allows us to provide you with audited financial information, to mention some of the Plan's accomplishments in 2002, and to help you understand your pension plan.

Financial Results

In a rare event, financial markets worldwide posted losses for a third consecutive year. While Canadian markets did relatively well compared to other countries, continued slow economic growth around the world reduced global trade and depressed stock markets substantially during the year. Widely-held expectations that stock markets would begin to climb again in 2002 did not materialize.

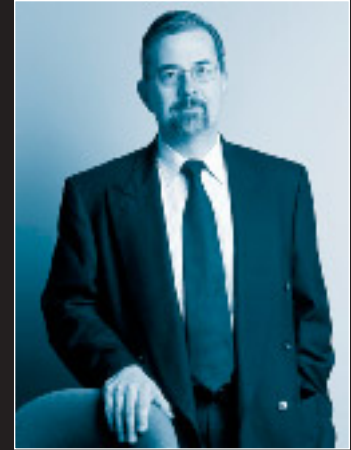
Toward the end of the year there was some evidence of a market recovery, but concerns about terrorism and international conflict continued to dampen investors' enthusiasm and keep substantial investment dollars out of the markets. We do not foresee the financial markets making large gains in 2003, but we do hope that political conflicts will resolve themselves quickly. This will give investors a greater degree of certainty that will allow more normal economic growth to resume.

In 2002, LAPP's fund earned an overall rate of return on investments of -5.8%. Over the past four years, the Plan has earned an annualized compound rate of return of 2.2%, which is below the 7.25% rate required by our actuarial assumptions to meet future obligations. As a result, the Plan's net assets available to pay benefits decreased to \$8.4 billion at December 31, 2002.

The actuary estimates the accumulated total value of accrued benefits (the Plan's liability to keep the pension promise) at \$10.037 billion as at December 31, 2002. The Plan therefore had a shortfall of \$1.605 billion, or about 16%.

LAPP, like most major pension plans, has historically followed the common actuarial practice of applying a formula to its net asset figure which results in "smoothing" the more extreme highs and lows of the marketplace. (Details of the formula are found in Note 2(c) to the financial statements.) The reason for using this method is that, as we have seen recently, financial markets can fluctuate dramatically, up and down, in a short period of time. Good management of the Plan's assets requires the trustees to take a longer-term view of investment and funding decisions, instead of reacting to temporary market fluctuations. Smoothing assets assists management in this task.

For example, in rising financial markets, using the smoothing formula will result in reporting Plan actuarial net asset values at lower than actual market value. In falling markets, such as those we have experienced over the past three years, using the smoothing formula will result in reporting Plan actuarial net asset values at higher than actual market value. In the long run, the market value and the smoothed value of assets will tend to be the same. Using the smoothing formula encourages the trustees, employers, and Plan members to make their decisions based on longer-term investment returns.



RON LITEPLO
CHIEF EXECUTIVE OFFICER

“Despite the deficit, LAPP’s pension promise is secure. It is backed by the Plan’s assets and by employer and employee contributions. We are confident that in the long run, our assets will grow to match our liabilities once again. Short term fluctuations may well interrupt long-term growth, but growth will return.”

The losses in the financial markets over the past three years have caused some Canadian pension plans to review their use of smoothing. LAPP’s Board of Trustees will review its policy on smoothing in 2003. However the Board has decided to continue the use of smoothing in the financial statements accompanying this report, because the Board believes that it is appropriate for a very long-term investor, such as LAPP, to report to Plan stakeholders, and set policy, on the basis of longer-term results and expectations, not short-term market fluctuations. The Board has taken care to ensure that actual market value figures are also clearly reported in the financial statements.

In 2002, the smoothing formula increases the Plan’s actuarial value of net assets available for payment of benefits by approximately \$1.16 billion. This has the result of reducing the reported actuarial deficit to about \$445 million, or about 4%.

Despite the deficit, LAPP’s pension promise is secure. It is backed by the Plan’s assets and by employer and employee contributions. We are confident that in the long run, our assets will grow to match our liabilities once again. Short term fluctuations may well interrupt long-term growth, but growth will return.

In 2002, we conducted another Asset/Liability study to forecast the likely returns on our assets under a number of future economic scenarios. As a result, the LAPP Board of Trustees revised its investment policy to further diversify the fund, better match our assets with our liabilities, and move toward longer-term assets.

As well, on the advice of the Plan actuary, the Board increased LAPP’s contribution rates by .5% for both employers and members to cover the cost of the pension benefits currently being earned. This was the first increase since 1993. The rates dropped in 1998 and remained at the reduced level for the past five years, so even after this increase, LAPP’s rates are still below their 1993-1997 level.

If LAPP continues to experience low investment returns, it will be necessary to further increase contribution rates in order to increase the asset base. Increasing rates will also ensure that the Plan remains financially sound, and that members are paying the appropriate amount for their pension without shifting costs to past or future generations of members.

In 2002, the Board also decided to examine a technique known as “risk budgeting” to support future investment policy decisions. LAPP’s administration will be analyzing the application of this concept and making recommendations to the Board in 2003. The Board’s intention is to use the most modern and effective methods of controlling investment risk and optimizing investments.

Finally, the Board reviewed the operations and structure of its investment manager, the Investment Management Division (IMD) of the Department of Revenue. IMD also embarked on a review of its own governance structure. As a result, the Board made recommendations to the provincial government about improving IMD’s structure and the contractual nature of its relationship with LAPP.

While we will inevitably experience financial setbacks from time to time, the Plan remains financially sound and will continue to do so.

Governance

The provincial government legally severed all of its financial obligations to the Plan in 1999. Since then, the Plan’s employers and members have been solely responsible for the Plan’s financial well-being. The Board supports the concept

of self-governance for LAPP. As authorized by legislation, the Board has been working since 1994 to transfer control of the Plan from the government to its members and employers. Little visible progress was made in 2002, but work toward independence continued. We expect the idea of independence of LAPP from the provincial government will be examined again by stakeholders in 2003.

In the meantime, the Board recognizes areas in which governance of the present Plan could be improved. A strong pension plan is founded on strong governance principles. In 2002 the Board began to work with the provincial government to better align the Board's legal authorities with high-quality governance practices. A report and recommendations have been presented to the provincial government and we are optimistic that improvements will be made.

Cost-Effectiveness

We know that in the long run, every dollar saved and invested becomes several dollars that can be used to pay members' pensions. We are always looking for ways to improve our productivity and to save money.

Annually the Board receives reports from an independent Canadian company that measures the effectiveness of investment and administration for pension plans around the world. These reports show that LAPP continues to enjoy some of the lowest investment and administrative costs of any pension plan of its size in Canada.

Communications

We are committed to making sure that members and employers understand their pension plan. In 2002 our Web site recorded 55,881 visits, showing us that you find it useful. We invite you to visit the site at www.lapp.ab.ca.

We updated the member annual statement guide and the member handbook. LAPP's handbook is now listed as a "best practice" by the U.S. National Association of State Retirement Administrators. We continue to print highlights reports, information bulletins, and other publications to inform you and answer your questions about the Plan.

As always, we invite your questions and comments about this report or any other LAPP communication materials.

Conclusion

I wish to thank the Board members, LAPP staff, and staff in the Department of Finance, Alberta Pensions Administration Corporation, and the Investment Management Division of the Department of Revenue for their continued support and solid work in 2002.

LAPP remains strong and well-managed despite another difficult year financially in 2002. We will continue to secure your future, together.

Ronald J. Liteplo

Chief Executive Officer

Local Authorities Pension Plan Corporation

"We are committed to making sure that members and employers understand their pension plan. In 2002 our Web site recorded 55,881 visits, showing us that you find it useful. We invite you to visit the site at www.lapp.ab.ca."

INVESTMENT REPORT

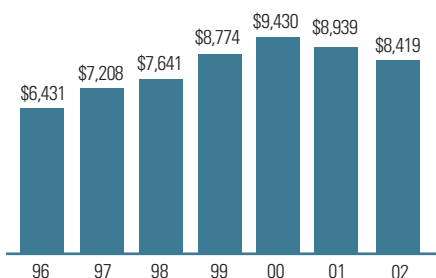
Investment Management and Objective

LAPP's assets are held in trust by the Minister of Finance and are invested for the benefit of the Plan's beneficiaries in accordance with the LAPP Board of Trustees' Statement of Investment Policy and Goals (SIP&G). The Investment Management Division (IMD) of Alberta Revenue is responsible for day-to-day management of the investments.

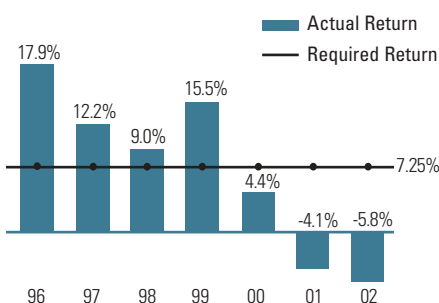
The investment policies adopted by the Board reflect an underlying philosophy of prudence. The SIP&G sets the framework in which the Plan assets are to be invested in order to earn the best possible return based on a level of risk acceptable to the Board. The future liabilities of the Plan are taken into consideration as well as historic performance and relationships among asset classes. Overall performance is measured against a clearly defined benchmark and is reviewed quarterly with emphasis on one-year and four-year time periods.

MARKET VALUE – INVESTMENTS

(millions)



ANNUAL RETURN (%)



COMPOUND ANNUALIZED RETURN (%)

Ending December 31, 2002

	Years				
	1	2	3	4	8
Actual Return	-5.8	-5.0	-1.9	2.2	8.0
Policy Benchmark	-6.8	-5.5	-2.4	1.3	7.8
Value Added	1.0	0.5	0.5	0.9	0.2

The Year in Review

A decline in global equity markets continued in 2002, reflecting fears of an economic slowdown and concerns over corporate governance. Generally global equity markets experienced their third consecutive negative year. The Canadian, U.S. and Europe, Australia and Far East (EAFE) markets were down 12.4%, 22.9%, and 16.8% respectively. This had a major negative impact on the Fund's total return but was partially offset by positive fixed income and real estate returns of 10.2% and 6.2% respectively.

Stock market returns led LAPP's total fund rate of return to -5.8% for the year and decreased the Fund's dollar value to \$8.4 billion. This is the second straight year of negative returns, and the third year where the Plan did not meet its actuarially required return of 7.25%.

Asset Mix Policy

The Board is responsible for setting an asset mix policy, which involves choosing allocations to various types of investments including stocks (Canadian equities), bonds (fixed income), foreign securities, and real estate.

LAPP's investment policy is structured to capture historically higher rates of return from equities. The 2002 asset mix was weighted to equities at 60%, with 35% allocated to fixed income and 5% to real estate.

In 2002, the Board conducted another Asset/Liability study to assess risk/return relationships and review ways to manage long run asset mix volatility. The objective of this study was to optimize long-term investment returns with a prudent level of risk. As a result, the Board revised its SIP&G by increasing the allocation to long-term bonds, real estate, and private international equity to further diversify the fund and better match its assets with its liabilities. This allocation shift will be phased in starting in 2003.

ASSET MIX (%)

December 31, 2002	Policy Asset Mix			Actual	
	2003	2002	2001	2002	2001
Fixed Income					
Cash & Short-term	2.0	2.0	2.0	0.8	1.2
Bonds & Mortgages	18.0	28.0	28.0	28.2	27.3
Long-term Bonds	10.0				
Real Return Bonds	5.0	5.0	5.0	5.1	4.6
Total	35.0	35.0	35.0	34.1	33.1
Equities & Real Estate					
Canadian	20.0	25.0	25.0	25.1	26.0
United States Public	12.5	17.5	17.5	16.7	17.7
International Private	5.0				
Non-North American	17.5	17.5	17.5	17.7	17.2
Real Estate	10.0	5.0	5.0	6.4	6.0
Total	65.0	65.0	65.0	65.9	66.9

“The investment policies adopted by the Board reflect an underlying philosophy of prudence. The SIP&G sets the framework in which the Plan assets are to be invested in order to earn the best possible return based on a level of risk acceptable to the Board.”

Performance

The Fund’s policy benchmark return is based on the long term asset mix weightings and publicly available market benchmarks, and helps to determine the impact of the IMD’s decisions. In 2002, the Plan experienced a return of -5.8%. However, actual performance was better than the policy benchmark return, which was down 6.8%. Over a four-year term, the Plan returned 2.2%, exceeding the policy benchmark return of 1.3% over the same period.

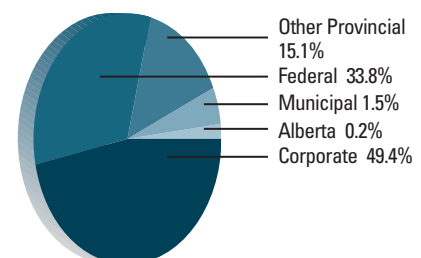
Fixed Income Investments

The Fund’s fixed income component is allocated into bonds, mortgages, real return bonds and cash. Overall, these allocations generally out-performed their respective benchmarks. Bonds and mortgages returned 9.5% versus the Scotia Capital Universe Bond Index return of 8.7%. The real return bond component earned 15.2% slightly under-performing its benchmark by 10 basis points. The cash and short-term component had a return of 2.8%, exceeding the 2.5% return of the Scotia Capital 91-Day T-bill Index.

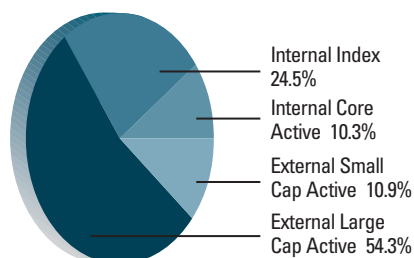
	Actual Fund Return %	Benchmark Index %	Value Added %
Short Term			
One year	2.8	2.5	0.3
Four year	4.6	4.3	0.3
Bonds & Mortgages			
One year	9.5	8.7	0.8
Four year	6.9	6.4	0.5
Real Return Bonds			
One year	15.2	15.3	-0.1

SUMMARY OF FIXED INCOME HOLDINGS

(Issued & guaranteed by)



SUMMARY OF CANADIAN EQUITY HOLDINGS



Canadian Equity Investments

LAPP invests in Canadian equities through several strategies, including both indexed (passive) and active mandates. Enhanced index and core strategies are managed internally by IMD, while external investment advisors manage the large and small cap active strategies.

The total Canadian equity return was -10.8% versus -12.4% for the S&P/TSX Composite Index. Because of an overweighting in growth stocks, the internally managed core product under-performed. However, this under-performance was surpassed by the other products, leading to an overall over-performance. A major contributor was the Plan's exposure to smaller capitalized companies. Not only did smaller capitalized companies perform very well against the larger capitalized segment of the market place, but also the individual managers out-performed in the smaller capitalized segment, exceeding the Nesbitt Burns Small Cap Index by a significant margin.

CANADIAN EQUITIES	Actual Fund Return %	Benchmark Index %	Value Added %
One year	-10.8	-12.4	1.6
Four year	3.1	2.0	1.1

Foreign Equity Investments

By policy, foreign equity is allocated into two markets: U.S. and non-North American. Within the non-North American segment, mandates are divided into either regional (e.g. Europe), where the manager invests solely within the region, or multi-regional (e.g. Europe, Australia and Far East), where the manager may invest across the different regions.

ANNUAL RETURN (%)

	2002	2001	2000	1999
Actual Fund Return	-5.8	-4.1	4.4	15.5
Policy Return	-6.8	-4.2	4.3	13.3
Short-term fixed income	2.8	4.9	5.6	5.0
SC 91-Day T-Bill Index	2.5	4.7	5.5	4.7
Bonds & Mortgages	9.5	8.7	10.8	-0.9
SC Universe Bond Index	8.7	8.1	10.2	-1.1
Real Rate of Return Bonds	15.2	-0.3	n/a	n/a
SC Real Return Bond Index	15.3	0.5	16.7	8.0
Canadian Equities	-10.8	-9.8	9.4	28.1
S&P/TSX Composite Index	-12.4	-12.6	7.4	31.7
United States Equities	-22.0	-6.6	-4.4	12.8
S&P 500 Index	-22.9	-6.4	-5.8	14.2
Non-North American Equities	-15.9	-16.1	-12.9	41.4
MSCI EAFE Index	-16.8	-16.5	-11.2	20.0
Real Estate	6.2	8.0	7.2	7.4
Russell Canadian Property Index	8.4	10.3	11.8	10.6

COMPOUND ANNUALIZED RETURN (%)

	1 yr	2 yr	3 yr	4 yr	8 yr
Actual Fund Return	-5.8	-5.0	-1.9	2.2	8.0
Policy Return	-6.8	-5.5	-2.4	1.3	7.8
Short-term fixed income	2.8	3.9	4.5	4.6	5.0
SC 91-Day T-Bill Index	2.5	3.6	4.2	4.3	4.7
Bonds & Mortgages	9.5	9.1	9.6	6.9	9.8
SC Universe Bond Index	8.7	8.4	9.0	6.4	9.6
Real Rate of Return Bonds	15.2	7.2	n/a	n/a	n/a
SC Real Return Bond Index	15.3	7.6	10.6	9.9	9.8
Canadian Equities	-10.8	-10.3	-4.1	3.1	8.9
S&P/TSX Composite Index	-12.4	-12.5	-6.3	2.0	7.6
United States Equities	-22.0	-14.6	-11.4	-5.9	8.9
S&P 500 Index	-22.9	-15.0	-12.1	-6.1	12.0
Non-North American Equities	-15.9	-16.0	-15.0	-3.4	4.7
MSCI EAFE Index	-16.8	-16.7	-14.9	-7.3	2.0
Real Estate	6.2	7.1	7.1	7.2	9.5
Russell Canadian Property Index	8.4	9.4	10.2	10.3	10.9

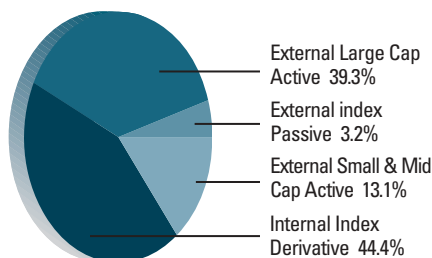


Ron enjoys the people contact his job offers him and the chance to pass on his experience to new employees. Ron says his hope for retirement is, "...a cabin on the lake, relaxing on the beach and water-skiing."

As a heavy-duty mechanic, Carson likes the challenges his job offers him daily. "With the newer buses and new technology, it's always interesting." When he retires, Carson says he'd like to travel more.

RON READWIN AND CARSON TSE - City of Calgary

SUMMARY OF UNITED STATES EQUITY HOLDINGS



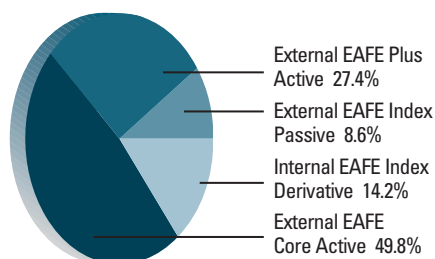
U.S. Equities

The Plan’s investments in the U.S. are allocated roughly 50/50 between passive index and active strategies. A significant portion (44.4%) is invested in the internally managed (structured) derivative index product, which is designed to manage the Fund’s exposure to foreign equity, consistent with the foreign property rules, while the remainder is allocated to external managers.

For 2002, the Plan’s U.S. equity exposure returned -22.0%, which is slightly higher than the S&P 500 Index return of -22.9% (in Canadian dollars). While externally managed active large cap and external index products under-performed, the internally managed derivative index product managed to out-perform. Most of the U.S. out-performance is attributed to the Plan’s small and mid capitalized companies exposure. Small and mid capitalized companies out-performed the larger capitalized stocks, and the manager out-performed the Russell 2500 benchmark by a significant margin.

U.S. EQUITIES	Actual Fund Return %	Benchmark Index %	Value Added %
One year	-22.0	-22.9	0.9
Four year	-5.9	-6.1	0.2

SUMMARY OF NON-NORTH AMERICAN EQUITY HOLDINGS



Non-North American Equities

The Non-North American equity component includes exposure to both developed and, on an opportunistic basis, emerging markets. Index-based strategies are allocated 23%, with a portion in an internal derivative product to manage the Fund’s exposure to foreign equity. The remaining exposure is allocated to external active managers.

The Plan’s Non-North American equity exposure, including emerging markets, returned -15.9% in 2002 relative to the MSCI EAFE Index, which returned -16.8% (in Canadian dollar terms). The internal index product under performed during the year. This was offset by the external index strategy and more so by the externally managed active products.

NON-NORTH AMERICAN EQUITIES	Actual Fund Return %	Benchmark Index %	Value Added %
One year	-15.9	-16.8	0.9
Four year	-3.4	-7.3	3.9

Real Estate

The real estate component provides diversification relative to the equity and fixed income markets. The Plan's investments are primarily in a mix of retail, office and industrial properties in major Canadian urban areas. The focus is on quality, featuring strong locations and tenants.

The real estate return in 2002 was 6.2% versus 8.4% for the Russell Canadian Property Index. The Russell Index is being discontinued and replaced with a new index known as the Industrial Property Index (IPD). This new Index is more representative and transparent of the market place and represents a better measurement standard.

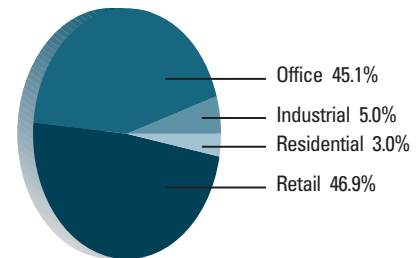
REAL ESTATE	Actual Fund Return %	Benchmark Index %	Value Added %
One year	6.2	8.4	-2.2
Four year	7.2	10.3	-3.1

Investment Costs

In 2002 investment costs were \$97 per member, compared to \$90 in 2001. Total costs consisted of IMD's costs to manage the Fund of \$1.3 million (\$10 per member), as well as \$12.1 million (\$87 per member) for pooled funds management and custodial fees. The cost increases were generally attributed to increased system and technology costs.

"The Plan's investments are primarily in a mix of retail, office and industrial properties in major Canadian urban areas. The focus is on quality, featuring strong locations and tenants."

REAL ESTATE



TOP 10 CANADIAN EQUITY HOLDINGS

December 31, 2002

Company	%
Royal Bank of Canada	5.9
Bank of Nova Scotia	4.4
Toronto Dominion Bank	3.7
BCE Inc.	3.5
Bank of Montreal	3.4
Sun Life Financial Services	3.2
Encana	3.0
Petro Canada	2.9
Alcan Inc.	2.1
Talisman Energy Inc.	2.0

TOP 10 US EQUITY HOLDINGS

December 31, 2002

Company	%
Microsoft Inc.	2.8
Citigroup Inc.	2.5
General Electric Co.	2.3
Exxon Mobil Corp.	2.2
Pfizer Inc.	2.1
American International Group Inc.	1.6
Wal-Mart Stores	1.5
Johnson & Johnson	1.3
Pepsico Inc.	1.2
Proctor & Gamble	1.2

TOP 10 NON-NORTH AMERICAN EQUITY HOLDINGS

December 31, 2002

Company	%
Vodafone Group	2.9
Glaxosmithkline	2.6
Total Fina Elf	2.2
BP PLC	2.0
HSBC Holdings	1.9
ENI	1.9
UBS AG	1.9
Novartis AG	1.7
Nokia Corporation	1.4
Royal Dutch Petroleum	1.3

“A significant milestone for LAPP and APA will be reached in May 2003, when the Alberta Pensions Excellence (APEX) project’s new pension administration system will enhance services for the benefit of employers, members, retirees and the LAPP Board of Trustees.”

ADMINISTRATION REPORT

Alberta Pensions Administration (APA) Corporation provides pension administration services for the Local Authorities Pension Plan (LAPP) by collecting contributions and keeping accurate and secure records, as well as paying benefits to retirees and members who are leaving LAPP. APA also provides Plan information to members and employers and helps support the activities of the LAPP Board of Trustees.

During the year APA focused on its strategic goal of implementing a new pension administration system as well as its core businesses of pension benefits administration and support services to sponsors and trustees.

APEX Project for a New Pension Administration System

A significant milestone for LAPP and APA will be reached in May 2003, when the Alberta Pensions Excellence (APEX) project’s new pension administration system will enhance services for the benefit of employers, members, retirees and the LAPP Board of Trustees.

APA needed to change its systems and technologies in order to more effectively deliver pension administration services to LAPP and to better respond to changes in the pension environment. The final product is a state-of-the-art application that consolidates 19 different business applications.

The APEX base calculation engine and web-based services will be in full production by September 2003. Call centre technology that enhances telephone service will be in place for LAPP in 2003. As well, an information management initiative encompassing document management, imaging and workflow management commenced in 2002. The APEX initiative will also include a review of the current pension payroll functionality. If appropriate, APA will migrate from the current legacy mainframe-based pension payroll application to a new one in 2003.

In preparation for implementation of the APEX system, LAPP employers participated in focus groups and received training for new operating procedures under the new system.

Pension Services and System Changes

While a number of Plan changes await the new APEX system, the current system was adapted as required in 2002 to maintain service and implement essential Plan changes.

In April, APA began providing system-generated termination options packages with estimates that give members who leave LAPP before retirement an opportunity to see the dollar values associated with their benefit choices.

Plan Administration Changes as a Result of New Legislation

Same Sex Benefits

In May, provincial legislation was amended to allow for same sex benefits. Basically, same sex couples may qualify for public sector pension benefits if the couple has lived together for three years or if they have lived together in a relationship of some permanence and have a child together.

Expanded Definition of "Service" and Increased Allowance for Personal Leaves

Several changes were made in mid-2002 to comply with the federal Income Tax Act provisions regarding pensions. The definition of "service" was broadened, including service outside of Canada that qualifies as pensionable service. Longer periods of leave became eligible for purchase as pension service. Qualifying leave now includes all periods of leave without salary, and all unsalaried portions of leave with partial salary, up to five years. In addition, up to three years of parenting leave can be purchased.

Performance Measurements

APA's service performance generally improved during 2002 as a result of hiring additional staff and increased training.

By the end of the first quarter, 83% of 2001 LAPP member annual statements were sent to employers to distribute to members, surpassing the target of 75%, and the achievement of 78% in the previous year. All of the statements were distributed by the end of the second quarter.

Surveys

Results of the annual Quantitative Service Measurement (QSM) survey of Canadian public sector pension administrators showed APA continues to be one of the most cost-effective pension plan administrators. APA's 2002 costs were 4% higher than the QSM average, largely because of major system work with the APEX project. Service standards also compare favorably with other QSM participants.

Communications

APA assisted LAPP with the production and distribution of publications for members and retirees as well as updating employer materials as required for legislative changes and in preparation for the new system. Additional communication with employers in advance of the new system included focus group sessions, workshops and newsletters.

During the year, APA provided 123 employee seminars for 2,949 LAPP members. There were also 612 one-on-one sessions for members. Thirty-eight employer workshops were held for 906 participants.

Risk Management

Implementation of APEX, web functions and related business cases will increase dependence on the security of data and infrastructure. To mitigate this risk, APA has increased its information technology infrastructure and has established cost-effective information technology service delivery using a blend of internal and contracted resources.

Work began in 2002 on data centre renovation, business resumption planning and information management initiatives.

Organizational Transformation

In preparation for dramatic changes associated with the APEX system, transition communication and staff training continued throughout the year. The transition initiatives will ensure APA has aligned its people, processes and systems so they are ready to work with the new pension system and adopt a new way of doing business.

"During the year, APA provided 123 employee seminars for 2,949 LAPP members. There were also 612 one-on-one sessions for members. Thirty-eight employer workshops were held for 906 participants."

**2002 STAKEHOLDER
SATISFACTION SURVEY RESULTS**

	Very Satisfied	Overall Satisfied
Employers	25% (26%)	96% (92%)
Members	36% (41%)	93% (87%)
Retirees	47% (61%)	96% (97%)

* 2001 results in ()

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements and information in the 2002 Annual Report are the responsibility of the Minister of Finance and Alberta Pensions Administration Corporation and have been approved by management.

The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgements. Financial information presented in the 2002 Annual Report that relates to the operations and financial position of the Local Authorities Pension Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, both the Minister of Finance and Alberta Pensions Administration Corporation maintain a system of internal accounting controls comprising written policies, standards and procedures, and a formal authorization structure.

These systems are designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of operations, investments, and financial statements. His examination is conducted in accordance with Canadian generally accepted auditing standards and includes tests and other procedures that allow him to report on the fairness of the financial statements prepared by management.

Peter Kruselnicki, P.Eng.
Deputy Minister of Finance

David Smith, CA
Chief Executive Officer
Alberta Pensions Administration Corporation



Although Bettie retired as a secretary/librarian for Edmonton Catholic Schools in 1990, she's still inspiring children to read. "I love finding 'that perfect book' for my grandchildren," she says. Bettie, and her husband John, have traveled extensively including trips to Indonesia, Australia and regularly to Europe. "The best thing about retirement," Bettie laughs, "is being your own boss!"

BETTIE ZYP - Retired member

AUDITOR'S REPORT

To the Local Authorities Pension Plan Board of Trustees

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Local Authorities Pension Plan (the Plan) as at December 31, 2002 and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2002 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
February 28, 2003

Fred Dunn
FCA
Auditor General

LAKELAND COLLEGE	MOUNTAIN VIEW REGIONAL WASTE MANAGEMENT COMMISSION	VILLAGE OF LOMOND	MOUNTAIN VIEW REGIONAL WATER SERVICES COMMISSION	GRANDE PRAIRIE AMBULANCE SERVICE	LAKELAND REGIONAL HEALTH AUTHORITY
TOWN OF WEMBLEY		ECONOMIC DEVELOPMENT EDMONTON		BROOKS & DISTRICT AMBULANCE ASSOCIATION	KNEEHILL HOUSING CORPORATION
NORTHWESTERN HEALTH SERVICES REGION	TOWN OF VEGREVILLE	NORTHERN GATEWAY REGIONAL DIVISION NO. 10	LIVING WATERS CATHOLIC REGIONAL DIVISION NO. 42	EPCOR UTILITIES INC.	CROSSROADS REGIONAL HEALTH AUTHORITY
TOWN OF FAIRVIEW	BLACK GOLD REGIONAL DIVISION NO. 18	TOWN OF SEXSMITH	PROVOST FOUNDATION	TOWN OF HINTON	CAPITAL REGION WASTEWATER COMMISSION
CROWSNEST PASS SENIOR HOUSING	PROVINCIAL HEALTH AUTHORITIES OF ALBERTA	VILLAGE OF GLENDON	CHRIST THE REDEEMER CS REGIONAL DIVISION NO. 3	LAKELAND COUNTY	VILLAGE OF DELIA
TOWN OF DIDSBURY	TOWN OF BASHAW	MERIDIAN FOUNDATION	CHILDREN'S HEALTH FOUNDATION	LAPP CORPORATION	TOWN OF HARDISTY
CITY OF SPRUCE GROVE	TABER IRRIGATION DISTRICT	COUNTY OF STETTLETT HOUSING AUTHORITY	VILLAGE OF ANDREW	BEAVER REGIONAL WASTE MANAGEMENT SERVICES COMMISSION	MISTAHIA HEALTH REGION
HOLY FAMILY CATHOLIC REGIONAL DIVISION NO. 37	TOWN OF COCHRANE	TOWN OF BOWDEN	M.D. OF GREENVIEW NO. 16	KEYANO COLLEGE	VILLAGE OF LINDEN
NORMANDEAU CULTURAL AND NATURAL HISTORY SOCIETY	VILLAGE OF MANNVILLE	CYPRESS COUNTY	NORTHERN SUNRISE COUNTY	FLAGSTAFF REGIONAL SOLID WASTE MANAGEMENT ASSOCIATION	WESTVIEW REGIONAL HEALTH AUTHORITY
OLDS COLLEGE	TOWN OF VIKING	TOWN OF BLACKFALDS	FRANCOPHONE EDUCATION REGION NO. 2	ALBERTA'S INDUSTRIAL HEARTLAND ASSOCIATION	COLD LAKE PUBLIC LIBRARY
FORTY MILE FOUNDATION	FORT MCMURRAY RCSSD NO. 32	CLEARWATER COUNTY	BIRCH HILLS COUNTY	COLD LAKE AMBULANCE SOCIETY	SUMMER VILLAGE OF SILVER BEACH
FAIRVIEW COLLEGE	TOWN OF STETTLETT	ALBERTA COLLEGE OF ART & DESIGN	M.D. OF LESSER SLAVE RIVER NO. 124	ALBERTA IRRIGATION PROJECTS ASSOCIATION	HEADWATERS HEALTH AUTHORITY
LEDUC MUNICIPAL LIBRARY	MILLWOODS SHEPHERD'S CARE FOUNDATION	VILLAGE OF ELNORA	PALLISER REGIONAL DIVISION NO. 26	ST. PAUL & DISTRICT AMBULANCE SERVICE SOCIETY	TRI-MUNICIPAL LEISURE FACILITY CORPORATION
PALLISER REGIONAL MUNICIPAL SERVICES	TOWN OF THREE HILLS	RED DEER LIBRARY BOARD	VILLAGE OF THORHILD		CHINOOK HEALTH REGION
VILLAGE OF BOYLE	VILLAGE OF RYLEY	CYPRESS VIEW FOUNDATION	ELK ISLAND PS REGIONAL DIVISION NO. 14		
MARY IMMACULATE HEALTH CARE CENTRE	VULCAN & DISTRICT RECREATION BOARD	ST. MICHAEL'S LONG TERM CARE CENTRE			
TOWN OF HANNA	EVERGREEN CSR DIVISION NO. 2	TOWN OF VALLEYVIEW			
VILLAGE OF BARONS	VILLAGE OF WABAMUN	VILLAGE OF CHAMPION	M.D. OF MACKENZIE NO. 23		
TOWN OF PROVOST	TOWN OF COALHURST	FORT SASKATCHEWAN PUBLIC LIBRARY	ALBERTA SCHOOL EMPLOYEE BENEFIT PLAN		
BRAZEAU COUNTY	VILLAGE OF HOLDEN	KEEWETINOK LAKES REGIONAL HEALTH AUTHORITY	M.D. OF CLEAR HILLS NO. 21		
TOWN OF DRUMHELLER	SADDLE HILLS COUNTY	CALGARY PARKING AUTHORITY	LEDUC FOUNDATION	LAMONT - TWO HILLS BUSINESS DEVELOPMENT CORPORATION	GREATER SOUTHERN SEPARATE CATHOLIC REGIONAL AUTHORITY NO. 4
EVERGREEN FOUNDATION	VILLAGE OF CARMANGAY	VILLAGE OF NAMPA	CLARESHOLM FAMILY AND COMMUNITY SUPPORT SERVICES	WHITECOURT AND DISTRICT PUBLIC LIBRARY	FIRE ETC.
TOWN OF MAGRATH	TOWN OF CORONATION	M.D. OF BIGHORN NO. 8	PEACE WAPITI SCHOOL BOARD NO. 33	STETTLETT WASTE MANAGEMENT	BIG COUNTRY WASTE MANAGEMENT COMMISSION
MACKENZIE MUNICIPAL SERVICES AGENCY	FLAGSTAFF FAMILY AND COMMUNITY SERVICE BOARD	VILLAGE OF NEW SAREPTA	CHINOOK'S EDGE SCHOOL DIVISION NO. 73	VILLAGE OF DONALDA	WOLF CREEK SCHOOL DIVISION NO. 72
TOWN OF TWO HILLS	CHINOOK FOUNDATION	SHORTGRASS LIBRARY SYSTEM	M.D. OF OPPORTUNITY NO. 17	EAST CENTRAL HEALTH	WOOD BUFFALO HOUSING AND DEVELOPMENT CORPORATION
VILLAGE OF RYCROFT	NORTHERN ALBERTA INSTITUTE OF TECHNOLOGY	WILD ROSE SCHOOL DIVISION NO. 66	ASPEN VIEW REGIONAL DIVISION NO. 19	COUNTY OF NEWELL NO. 4	
TOWN OF LACOMBE	TOWN OF ECKVILLE	TOWN OF BANFF	BEAVER FOUNDATION MANAGEMENT AGENCY	CAMROSE & DISTRICT SENIOR CENTRE	
KNEEHILL AMBULANCE SERVICE	SOUTHERN ALBERTA INSTITUTE OF TECHNOLOGY	BRAZEAU FOUNDATION			
TOWN OF REDCLIFF	ALBERTA MENTAL HEALTH BOARD	WOODLANDS COUNTY			
VILLAGE OF CONSORT	CITY OF COLD LAKE	FOOTHILLS FOUNDATION			
BROOKS PUBLIC LIBRARY	WETASKIWIN PUBLIC LIBRARY	YELLOWHEAD COUNTY			
WHEATLAND & ADJACENT DISTRICTS EMERGENCY MEDICAL ASSOCIATION	M.D. OF PINCHER CREEK NO. 9	VILLAGE OF SANGUDO			
TOWN OF LAMONT		M.D. OF NORTHERN LIGHTS NO. 22			

Local Authorities Pension Plan Financial Statements

December 31, 2002

securing your future, together™

FINANCIAL STATEMENTS

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2002
(\$ thousands)

See accompanying notes
and schedules.

	2002	2001
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	\$ 8,419,003	\$ 8,938,625
Contributions receivable (Note 6)	14,419	13,455
Accrued investment income	1,811	1,425
	8,435,233	8,953,505
Liabilities		
Accounts payable (Note 7)	3,913	2,345
Net assets available for benefits	8,431,320	8,951,160
Actuarial adjustment for fluctuation in fair value of net assets (Note 2 (c))	1,160,600	791,700
Actuarial value of net assets available for benefits	9,591,920	9,742,860
Accrued Benefits		
Actuarial value of accrued benefits	10,036,900	9,107,900
Actuarial (deficiency) surplus	\$ (444,980)	\$ 634,960

Statement of Changes in Net Assets Available for Benefits

For the year ended
December 31, 2002
(\$ thousands)

See accompanying notes
and schedules.

	2002	2001
Increase in assets		
Contributions (Note 8)	\$ 388,717	\$ 349,807
Decrease in assets		
Net investment loss (Note 9)	522,566	383,453
Pension benefits	325,761	308,330
Refunds to members	44,095	43,981
Transfers to other plans	1,515	4,291
Transfer to ENMAX Corporation	-	1,629
Plan expenses (Note 10)	14,620	10,486
	908,557	752,170
Decrease in net assets	(519,840)	(402,363)
Net assets available for benefits at beginning of year	8,951,160	9,353,523
Net assets available for benefits at end of year	\$ 8,431,320	\$ 8,951,160

	2002	2001
Increase in accrued Benefits		
Interest accrued on benefits	\$ 691,900	\$ 628,700
Benefits earned	426,200	367,800
Experience loss (Note 11 (a))	193,700	55,900
	1,311,800	1,052,400
Decrease in accrued benefits		
Benefits paid including interest	382,800	355,400
Net increase in accrued benefits	929,000	697,000
Accrued benefits at beginning of year	9,107,900	8,410,900
Accrued benefits at end of year (Note 11)	\$ 10,036,900	\$ 9,107,900

**Statement of
Changes in
Accrued Benefits**

For the year ended
December 31, 2002

(\$ thousands)

See accompanying notes
and schedules.

	2002	2001
Actuarial surplus at beginning of year	\$ 634,960	\$ 883,823
Decrease in net assets available for benefits	(519,840)	(402,363)
Net change in actuarial adjustment for fluctuation in fair value of net assets	368,900	850,500
Net increase in accrued benefits	(929,000)	(697,000)
Actuarial (deficiency) surplus at end of year (Note 12)	\$ (444,980)	\$ 634,960

**Statement of
Changes in
Actuarial Deficiency**

For the year ended
December 31, 2002

(\$ thousands)

See accompanying notes
and schedules.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1

Summary Description of the Plan

The following description of the Local Authorities Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 366/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, regional health authorities, school divisions, districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies.

(b) Funding Policy

Current and optional service costs are funded by employers and employees at rates which are expected to provide for all benefits payable under the Plan. The contribution rates for employers are 1.0% more than the rates for employees. There were no changes in rates in 2002. The rates in effect at December 31, 2002 were 4.025% of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 5.90% of the excess for employees, and 5.025% of pensionable earnings up to the YMPE and 6.90% of the excess for employers. The rates are to be reviewed at least once every three years by the board based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess. The maximum service allowable under the Plan is 35 years. Unreduced pensions are payable to members who retire with at least two years of membership and have either attained age 65, or age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members retiring early.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least two years of membership. Reduced pensions are payable to members who become partially disabled and retire early with at least two years of membership.

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least two years of service, a surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than two years, a lump sum payment must be chosen.

(f) Termination Benefits

Members who terminate with at least two years of membership and who are not immediately entitled to a pension may transfer out the commuted value for all earned service, contributions paid in respect of optional service with interest, plus excess contributions if applicable, which is subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of membership receive a refund of their contributions and interest.

(g) Optional Service and Reciprocal Transfers

All optional service purchases are to be cost-neutral to the Plan.

Transferred-in service will be on an actuarial reserve basis and transfers out will receive the greater of the termination benefits or commuted value for all service.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to 60% of the increase in the Alberta Consumer Price Index (CPI). The increase is an average based on the increase in the twelve-month period ending on October 31 in the previous year. This calculation method has been set out in the Plan regulations since 1993.

(i) Income Taxes

The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0216556.

NOTE 2

Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta Revenue. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

The Plan's percentage ownership in pooled investment funds at December 31 was as follows:

	% Ownership	
	2002	2001
Internally Managed Pooled Investment Funds		
Canadian Dollar Public Bond Pool	24.9	25.5
Canadian Pooled Equities Fund	14.9	18.7
Domestic Passive Equity Pooled Fund	22.7	22.7
EAFE Structured Equity Pooled Fund	44.2	49.2
Private Equity Pool	53.5	53.5
Private Mortgage Pool	29.4	30.6
Private Real Estate Pool	27.4	33.0
US Passive Equity Pooled Fund	42.9	49.5
United States Pooled Equities Fund	40.8	40.8
Externally Managed Pooled Investment Funds		
Canadian Large Cap Equity Pool	46.8	60.8
Canadian Small Cap Equity Pool	51.0	48.0
EAFE Core Equity Pool	28.7	30.1
EAFE Passive Equity Pool	19.5	21.6
EAFE Plus Equity Pool	30.4	29.7
US Large Cap Equity Pool	28.8	30.7
US Mid/Small Cap Equity Pool	42.4	33.8
US Passive Equity Pool	3.7	13.4

Note 2 - Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Revenue.

The fair value of private equities is estimated by Alberta Revenue.

Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

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

(c) Actuarial Value of Net Assets Available for Benefits

To reduce the impact of market volatility on the Plan's funded status, asset values are adjusted for fluctuations in fair value. Assets for the previous two years are projected to increase at the rate of return assumed in the actuarial valuation. The actuarial value of assets is determined by averaging three years' values, consisting of current market value and asset values projected from the year-end market values for the two previous years.

(d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment loss.

(f) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

Income and expense from derivative contracts are accrued as earned and included in net investment loss. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

NOTE 3

Investments (Schedules A to D)

	2002		2001	
	(\$ thousands)	%	(\$ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash				
Investment Trust Fund (a)	\$ 65,449	0.8	\$ 109,955	1.2
Canadian Dollar Public Bond Pool (b)	2,094,921	24.9	2,153,806	24.1
Real rate of return bonds (c)	425,674	5.1	414,636	4.6
Private Mortgage Pool (d)	281,934	3.3	281,819	3.2
Total fixed income securities	2,867,978	34.1	2,960,216	33.1
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (e)	1,149,571	13.6	1,060,406	11.9
Canadian Small Cap Equity Pool (e)	231,773	2.7	203,207	2.3
Domestic Passive Equity Pooled Fund (f)	517,839	6.2	612,328	6.8
Canadian Pooled Equities Fund (g)	199,693	2.4	407,134	4.6
Private Equity Pool (h)	18,603	0.2	32,733	0.4
Public equities, direct	-	-	18	-
	2,117,479	25.1	2,315,826	26.0
United States Equities (Schedule C)				
External Managers				
US Large Cap Equity Pool (i)	552,055	6.6	686,197	7.7
US Mid/Small Cap Equity Pool (i)	183,515	2.2	109,020	1.2
US Passive Equity Pool (j)	44,940	0.5	188,626	2.1
US Passive Equity Pooled Fund (j)	624,541	7.4	596,218	6.7
United States Pooled Equities Fund	303	-	1,363	-
	1,405,354	16.7	1,581,424	17.7
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (k)	742,193	8.8	771,002	8.6
EAFE Plus Equity Pool (k)	408,117	4.9	388,073	4.3
EAFE Passive Equity Pool (l)	128,212	1.5	189,222	2.1
Emerging Markets Equity Pool	-	-	3	-
EAFE Structured Equity Pooled Fund (l)	212,157	2.5	192,946	2.2
	1,490,679	17.7	1,541,246	17.2
Real Estate				
Private Real Estate Pool (m)	537,513	6.4	539,913	6.0
Total equities and real estate	5,551,025	65.9	5,978,409	66.9
Total investments	\$ 8,419,003	100.0	\$ 8,938,625	100.0

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

*Note 3 - Investments (Schedules A to D)
(continued)*

(e) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to invest in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(f) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(g) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(h) The Private Equity Pool is in the process of orderly liquidation.

(i) The External Managers US Large Cap Equity Pool consists of multiple portfolios and the External Managers US Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Standard & Poor's S&P 500 Index for the US Large Cap Pool and the Russell 2500 Index for the US

Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(j) The External Managers US Passive Equity Pool and the US Passive Equity Pooled Fund consists of a single portfolio of publicly traded United States equities similar in weights to the S&P 500 Index. The External Managers US Passive Equity Pool is managed passively by an external manager with expertise in the US equity market and the US Passive Equity Pooled Fund is managed internally. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. To enhance investment returns with no substantial increase in risks, the US Passive Equity Pooled Fund also invests in futures, swaps and other structured investments.

(k) The External Managers EAFE (Europe, Australia and Far East) Core and Plus Equity Pools consist of multiple portfolios of publicly traded Non-North American equities. Each Core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) EAFE Index asset mix by country. The Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

(l) The External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE Index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australia and the Far East

through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(m) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Russell Canadian Property Index over the long term. Real estate is held through intermediate companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

NOTE 4

Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the Board of Trustees established a policy asset mix of 35% fixed income instruments, 60% equities and 5% real estate. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5

Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31:

	2002			2001			
	Maturity			Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
	Under 1 Year	1 to 3 Years	Over 3 Years				
	%			(\$ thousands)			
Equity index swap contracts	69	31	-	\$ 1,090,633	\$ 9,836	\$ 1,007,777	\$ 36,051
Bond index swap contracts	100	-	-	38,109	329	59,931	29
Interest rate swap contracts	41	49	10	401,195	(23,206)	272,469	(11,752)
Forward foreign exchange contracts	100	-	-	276,015	1,291	288,645	548
Equity index futures contracts	-	-	-	-	-	35,853	1,262
				1,805,952	\$ (11,750)	1,664,675	\$ 26,138
Cross-currency interest rate swap contracts (b)	38	29	33	515,102		677,136	
				\$ 2,321,054		\$ 2,341,811	

(a) The method of determining fair value of derivative contracts is described in Note 2 (f).

(b) Cross-currency interest rate swap contracts are valued as a package, which include underlying securities. As at December 31, 2002, the combined values of cross-currency interest rate swap contracts and underlying securities amounted to \$ 518,675,000 (2001 \$680,665,000).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

NOTE 6

Contributions Receivable

	2002	2001
	(\$ thousands)	
Employers	\$ 7,854	\$ 7,278
Employees	6,565	6,177
	\$ 14,419	\$ 13,455

NOTE 7

Accounts Payable

	2002	2001
	(\$ thousands)	
Benefits	\$ 43	\$ 65
Refunds and transfers	5,880	3,395
Plan expenses	(2,010)	(1,115)
	\$ 3,913	\$ 2,345

NOTE 8

Contributions

	2002	2001
	(\$ thousands)	
Current and optional service		
Employers	\$ 208,662	\$ 187,601
Employees (a)	178,090	159,437
Transfers from other plans	1,965	2,769
	\$ 388,717	\$ 349,807

(a) Includes \$8,375,000 (2001 \$7,052,000) of optional service contributions.

NOTE 9

Net Investment Loss

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	2002	2001
	(\$ thousands)	
Deposits and Fixed Income Securities	\$ 282,875	\$ 201,543
Canadian Equities	(243,921)	(224,757)
Foreign Equities		
United States	(357,004)	(113,009)
Non-North American	(236,900)	(288,591)
Real Estate	32,384	41,361
	\$ (522,566)	\$ (383,453)

Net Investment loss is comprised of the following:

	2002	2001
	(\$ thousands)	
Net realized and unrealized losses on investments, including those arising from derivative transactions	\$ (823,250)	\$ (724,204)
Interest income	208,095	226,783
Dividend income	74,545	93,888
Real estate income	28,257	28,989
Securities lending income	1,855	1,844
Pooled funds management and associated custodial fees (Note 10)	(12,068)	(10,753)
	\$ (522,566)	\$ (383,453)

NOTE 10

Plan Expenses

	2002	2001
	(\$ thousands)	
General administration costs	\$ 9,026	\$ 7,237
APEX project costs	3,502	1,485
Investment management costs	1,329	907
LAPP Corporation costs	512	693
Actuarial fees	251	164
	\$14,620	\$10,486

General administration costs and business process reengineering costs (APEX project), including Plan board costs (see Note 13) were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Revenue on a cost recovery basis to manage the Plan's investment portfolio. Pooled funds management and associated custodial fees totalling \$12,068,000 (2001 \$10,753,000) (see Note 9), which have been included in calculating net investment loss, are excluded from Plan expenses.

LAPP Corporation costs include remuneration to senior officials of Local Authorities Pension Plan Corporation as follows:

	2002	2001
	(\$ thousands)	
Chief Executive Officer		
Salary and bonus	\$ 174.5	\$ 166.3
Benefits	7.9	7.8
Director, Pension Policy		
Salary and bonus	\$ 100.3	90.5
Benefits	6.5	5.9
	\$ 289.2	\$ 270.5

Total Plan expenses, including pooled funds management and associated custodial fees amounted to \$192 per member (2001 \$164 per member).

The \$28 per member cost increase is attributed to the following factors: increase in APEX project cost \$13, increase in operating cost \$9, increase in investment and pooled funds management cost \$7, and decrease in LAPP corporation cost \$1.

Pooled funds management and associated custodial fees amounted to \$87 per member (2001 \$83 per member). These expenses, which have been deducted in arriving at net investment loss of the pools, are included in the determination of investment returns for the Plan (see Note 9).

Total plan expenses including pooled funds management and associated custodial fees amounted to 0.32% (2001: 0.24%) of assets under administration.

NOTE 11

Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2001 by William M. Mercer Limited and was then extrapolated to December 31, 2002. The 2001 valuation was completed after the financial statements of the Plan for 2001 were released. As a result, the differences between the actuarial valuation results and extrapolation results for 2001 are accounted for net experience losses in 2002.

The net experience losses as revealed in the December 31, 2001 actuarial valuation and reported in 2002 were mainly attributed to the following factors:

- Salary and Yearly Maximum Pensionable Earnings increases were other than assumed,
- Current service contributions were less than normal actuarial cost, and
- Retirement and mortality experience was less favourable than assumed.

The experience gains due to lower than expected cost-of-living adjustments and more favourable termination experience have been completely offset by the losses.

Note 11 - Accrued Benefits (a) Actuarial Valuation - (continued)

The 2001 valuation was determined using the projected benefit method based on service. The assumptions used in the actuarial valuation and extrapolation were developed as the best estimate of expected market conditions and other future events. These estimates were, after consultation with the Plan's actuary, adopted by the Local Authorities Pension Plan Board of Trustees.

The major assumptions used were:

	December 31	
	2002 Extrapolation	2001 Valuation
Investment return	7.25 %	7.25 %
Inflation rate	3.5	3.5
Salary escalation rate*	4.25	4.25

* In addition to merit and promotion.

The Board of Trustees has authorized a policy to have an actuarial valuation of the Plan to be carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2002 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2003.

(b) Sensitivity of Changes in Major Assumptions

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

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

	Sensitivities		
	Changes in Assumptions %	Increase in Plan Deficiency (\$ million)	Increase in Current Service Cost as a % of Pensionable Earnings*
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	\$ 667	0.7%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	429	0.7%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	1,604	2.3%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2001 valuation is 11.0%.

**NOTE 12
Actuarial Deficiency**

The Plan's actuarial deficiency is determined on the going concern basis, taking into account the actuarial adjustment for fluctuations in fair value of net assets (see Note 2 (c)), which has the effect of increasing the fair value of net assets available for benefits by \$1,160,600,000 (2001 \$791,700,000) at December 31, 2002. The actuarial deficiency reported on this basis provides information about future funding levels required by the Plan. It is not indicative of the true solvency position of the Plan.

**NOTE 13
Remuneration of Board Members**

Remuneration paid with respect to a total of 14 board members during the year amounted to \$106,000 (2001 \$92,000).

**NOTE 14
Budget Information**

The accrued benefits are based on the Local Authorities Pension Plan Board of Trustees best estimates of future events after consultation with the Plan's actuary. Differences between actual results and the board's expectations are disclosed as experience gains and losses in the statement of changes in accrued benefits. Accordingly, a budget is not included in these financial statements.

**NOTE 15
Comparative Figures**

Comparative figures have been restated to be consistent with 2002 presentation.

SCHEDULE A

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

December 31, 2002
(\$ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	\$ 76,312	\$ 129,937
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	936,157	970,602
Provincial		
Alberta, direct and guaranteed	4,937	7,532
Other, direct and guaranteed	418,202	499,902
Municipal	40,858	37,155
Corporate	883,759	744,386
Private		
Corporate	484,176	546,832
	2,768,089	2,806,409
Receivable from sale of investments and accrued investment income	24,406	26,015
Liabilities for investment purchases	(829)	(2,145)
	23,577	23,870
	\$ 2,867,978	\$ 2,960,216

(a) Fixed income securities held as at December 31, 2002 had an average effective market yield of 4.82% per annum (2001: 5.22% per annum). The following term structure of these securities as at December 31, 2002 was based on principal amount.

	2002	2001
	%	%
Under 1 year	2	5
1 to 5 years	29	28
6 to 10 years	28	25
11 to 20 years	16	17
Over 20 years	25	25
	100	100

SCHEDULE B

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

December 31, 2002
(\$ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	\$ 27,111	\$ 43,424
Public Equities (a) (b)		
Consumer discretionary	182,064	202,395
Consumer staples	90,706	79,537
Energy	312,418	261,120
Financials	595,176	606,235
Health care	73,711	108,652
Industrials	198,297	249,947
Information technology	106,028	255,472
Materials	337,552	296,831
Telecommunication services	98,165	104,167
Utilities	53,942	56,175
	2,048,059	2,220,531
Passive index	11,652	16,099
	2,059,711	2,236,630
Private Equities	16,338	22,887
Receivable from sale of investments and accrued investment income	19,720	22,450
Liabilities for investment purchases	(5,401)	(9,565)
	14,319	12,885
	\$ 2,117,479	\$ 2,315,826

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling \$254,579,000 (2001 \$270,594,000), which were used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

SCHEDULE C

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

December 31, 2002
(\$ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	\$ 11,225	\$ 7,416
Public Equities (a) (b)		
Consumer discretionary	191,034	207,733
Consumer staples	120,071	113,252
Energy	84,048	98,125
Financials	293,573	285,912
Health care	209,620	225,282
Industrials	174,048	190,404
Information technology	198,553	272,176
Materials	43,169	44,883
Telecommunication services	48,179	73,821
Utilities	38,820	46,279
	1,401,115	1,557,867
Receivable from sale of investments and accrued investment income	8,056	19,492
Liabilities for investment purchases	(15,042)	(3,351)
	(6,986)	16,141
	\$ 1,405,354	\$ 1,581,424

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling \$626,945,000 (2001 \$577,707,000), which were used as underlying securities to support the notional amount of US equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

SCHEDULE D

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

December 31, 2002
(\$ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	\$ 37,355	\$ 39,378
Public Equities (a)		
Country		
United Kingdom	396,070	376,351
Japan	225,157	249,008
Switzerland	132,591	107,898
France	127,191	169,902
Netherlands	95,034	110,779
Germany	83,684	103,617
Australia	68,556	57,141
Italy	58,838	52,924
Hong Kong	41,365	55,918
Spain	30,739	45,906
Finland	28,874	27,429
Sweden	26,077	28,573
Other	144,958	106,539
	1,459,134	1,491,985
Receivable from sale of investments and accrued investment income	8,767	22,175
Liabilities for investment purchases	(14,577)	(12,292)
	(5,810)	9,883
	\$ 1,490,679	\$ 1,541,246

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling \$209,109,000 (2001 \$184,590,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps and futures contracts.

LOCAL AUTHORITIES PENSION PLAN 2002 BOARD OF TRUSTEES

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COMMITTEE LEGEND

- AC - Appeals Committee Members
- AAC - Audit and Actuarial Committee Members
- IC - Investment Committee Members
- PB - Policy and Benefits Committee Members



Local Authorities
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