

OPE ID: 00836200

School Name:

University of Alberta (The)

No application has been started.

University Campus
Edmonton, Canada

Electronic Application

Section A. Please answer these general questions.

1. Tell us why you are submitting the application.
2. What is the name of your institution?
University of Alberta (The)
- 3a. Do you have another name such as trade name or d/b/a name under which you legally do business as a postsecondary educational institution?
- 3b. During the past four years, have you had another name that you have not previously reported to the Department of Education?
4. Check here if you are an institution resulting from a merger in the past four years that you have not previously reported to the Department of Education, and give the OPE ID numbers of the former (pre-merger) institutions.
5. What is your 8-digit OPE ID number?
00836200
- 6a. What is your 9-digit Tax Identification Number (TIN) assigned by the IRS?
- 6b. What is your 9-digit DUNS number?
208095844
7. What was your most recently completed award year?
Beginning Date:
Ending date:
8. What is your current award year?
Beginning Date:
Ending date:
9. Does your institution have a website (or home page) on the Internet?
www.ualberta.ca

10. Who is your chief executive officer (CEO)/president/chancellor?

Name	Dr. Indira Samarasekera
Job title	President
Business address	3-1 University Hall Edmonton, Alberta CANADA T6G 2J9
Telephone number	780-492-3212
Fax number	780-492-9265
E-mail address	president@ualberta.ca

11. Who is chief your fiscal officer/financial officer?

Name	Ms Phyllis Clark
Job title	Vice-President, Finance & Administration

Business address	1-3, University Hall Edmonton, Alberta CANADA T6G 2J9
Telephone number	780-492-2657
Fax number	780-492-1439
E-mail address	phyllis.clark@ualberta.ca

12. Who is your chief financial aid director?

Name	Ms Cheryl Luchkow
Job title	Assistant Dean of Students
Business address	5-02 Students' Union Building Edmonton, Alberta CANADA T6G 2J7
Telephone number	780-492-4080
Fax number	780-492-1545
E-mail address	cheryl.luchkow@ualberta.ca

13. To whom do you wish us to send all ongoing correspondence and publications concerning federal student financial aid?

Name	Mr. Kaelan Maher
Job title	Director-Access Fund
Mailing address	1-80 Students' Union Building Edmonton, Alberta CANADA T6G 2J7
Telephone number	(780) 492-7165
Fax number	(780) 492-9607
E-mail address	kaelan.maher@su.ualberta.ca

14. Whom should we contact if we have questions about information in this form?

Check here if this is the same person as in Question 12.

Section B. Please tell us about your accreditation and state authorization to provide postsecondary education.

15. What is your accrediting agency?

Accreditor Abbreviation	Name of Accreditor	Year Last Accredited	Number of Years	Primary Accreditor	Institution-wide/ Programmatic	End Date
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16. Check here if you do **not** offer a flight program.

If you offer a flight program, provide your certification number from the U.S. Federal Aviation Administration (FAA).

Number Date FAA certification expires

Section C. Please describe your institutional control and structure.

18. Check your type of institutional structure.

Public institution

Private nonprofit 501(c)(3) institution

For-profit institution

Foreign institution (check one)

- Public institution
- Private non-profit institution
- For-profit institution

19. Check here if this is a request for initial certification.

For all other institutions, since you were last certified to participate in federal student financial aid programs, has your institutional structure changed?

If yes, give the date of change.

20. Check here if you have a board of trustees.

Check here if you have a board of directors.

Check here if you have more than 10 on your board, list only the board's executive committee, and provide the name of a contact person in Question 21.

21. If you provide only the board's executive committee in Question 20, tell us who is the appropriate person to contact for further information about your board (for example, the board's recording secretary)?

Section D only applies to proprietary schools and not-for-profit institutions with a change in control.

Section E. Please provide the following information for each educational program that you are requesting be eligible to participate in federal student financial aid programs.

26. Please check each box that describes the educational programs that you provide as of the date you submit this application or that you will provide during the current award year. **Provide information only on programs that you wish to be eligible for federal student financial aid.** (You may check more than one box.)

a. associate degree programs

b. bachelor's degree programs

c. master's degree programs or doctoral degree programs

d. first professional degree programs

Measure by direct assessment instead of clock or credit hours

e. graduate or professional programs

- do not lead to a post-baccalaureate degree

- are at least 10 weeks, and

- provide at least 8 semester or trimester credit hours, 12 quarter credit hours, or 300 clock hours of instruction.

- prepare students for gainful employment in a recognized occupation.

f. two-academic-year transfer programs

g. undergraduate programs that

- lead to a certificate or other recognized educational credential,

- prepare students for gainful employment in a recognized occupation,

- are at least 15 weeks, and

- provide at least 16 semester or trimester credit hours, 24 quarter credit hours, or 600 clock hours of instruction.

h. undergraduate programs that

- lead to a certificate or other recognized educational credential,

- prepare students for gainful employment in a recognized occupation,
- are at least 10 weeks, and
- provide at least 8 semester or trimester credit hours, 12 quarter credit hours, or 300 clock hours of instruction.

AND

- require an enrolling regular student to have an associate degree or higher degree.
- i. undergraduate programs that
- lead to a certificate or other recognized educational credential,
 - prepare students for gainful employment in a recognized occupation.
 - are at least 10 weeks, and
 - provide at least 300 but not more than 599 clock hours of instruction.
 - do not exceed by more than 50% the minimum number of clock hours established by the state for such training programs, and
 - have been provided for at least one year.
- j. Post-baccalaureate teacher certification program necessary to become a teacher in an elementary or secondary school in that state. Please refer to the *glossary* for more information about this program type.

Check here if you award an associate degree, bachelor's degree, or higher degree to all your students who successfully complete each of your programs.

27. If you checked boxes **e.**, **g.**, **h.**, or **i.** in Question 26 provide the following information.

27a. Graduate non-degree programs.

27b. Undergraduate non-degree programs.

27c. Short-term undergraduate non-degree programs.

28. Do you contract with an organization or ineligible institution (such as internship, externships, practicum in nursing, midwifery, medical technician, etc.) to provide more than 25% of any educational program?

Section F. Please tell us about your locations.

29. What is your principal location?

University of Alberta (The)
 University Campus
 201 Administration Building
 Edmonton, Alberta CANADA T6G 2E1

30. Provide the following information for your locations (other than your principal location) at which you provide educational programs to students whom you wish to participate in federal student financial aid programs.

OPE ID	Location Name and Address	DUNS	Disapproval/ Closure Date	Receive Mailings	Other Address
00836201	University of Alberta - Faculty of Medicine & Dentistry			No	

2-45 Medical Sciences Building Edmonton, Alberta CANADA T6G 2H7				
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Section G. Please tell us about your tele/corr courses, your students enrolled under ability-to-benefit provisions, and your incarcerated students.

31. Are any of your programs offered in whole or part by correspondence or telecommunications?

32 a. For the most recently completed award year, were more than 50% of your courses taught by means of correspondence?

Note: If a course is offered through traditional methods and through correspondence, then that course should be counted under other methods and correspondence. Therefore, the same course might be counted more than once.

32 b. For the most recently completed award year, were 50% or more of your regular students enrolled in correspondence courses?

33. During the most recently completed award year, were 50% or more of your regular students ability-to-benefit students?

Note: Do not include students who are being educated at your institution under a specific contract with federal, state, or local governments for training purposes (such as most contracts under the Job Training Partnership Act).

34. During the most recently completed award year, were 25% or more of your regular students incarcerated?

Section H. Please complete this section if this is an initial application *or* you were certified but you have a change in your ownership *or* structure *or* you are seeking reinstatement.

Check here if this is **not** an initial application or a change in ownership or structure or for reinstatement or for addition of a Title IV program.

Section I. If you are a foreign institution, please complete this section (this includes foreign graduate medical schools).

41. Do you admit as regular students only people who have a credential of secondary school completion or its recognized equivalent?

Yes

42. In the country where you are located, are you legally authorized to provide an educational program beyond the secondary school level?

Yes

If yes, what is the name and address of the agency or ministry within the country that enforces this authority?

Name of office	Alberta Learning - Adult Learning Division
Business address	7th floor, 10155-102 Street Edmonton, Alberta CANADA T5J 4L5
Telephone number	(780) 427-5607
Fax number	(780) 427-9430
E-mail address	phil.gougeon@gov.ab.ca

43. Are you legally authorized to award a degree that is equivalent to an associate, baccalaureate, graduate, or professional degree awarded in the United States?

Yes

44. Do you provide an educational program that is at least a two-academic-year program acceptable for full credit toward the equivalent of a baccalaureate degree awarded in the United States?

Yes

45. Do you provide any educational programs that meet all three of these criteria?

- The program is equivalent to at least a one-academic-year training program in the United States.

and

- The program leads to a certificate, degree, or other educational credential that is equivalent to one offered in the United States.

and

- The program prepares students for gainful employment in an occupation that is equivalent to one in the United States.

Yes

46. Do you have administrative offices and/or recruiting offices in the United States that represent you?

No

If yes, provide the following information.

X Check here if you are a foreign institution **that is a foreign graduate medical school or if you are a university that has a medical school.**

47. Where is the facility at which you provide graduate medical educational program instruction in your country?

Foreign Medical Facility and Address	Contact Name	Telephone Number/ Fax Number	E-mail	End Date
University of Alberta (The) Faculty of Medicine and Dentistry 2-45 Medical Sciences Building Edmonton, Alberta CANADA T6G 2J7	Dr. D. Lorne Tyrrell, Dean	(780) 492-6350 (780) 492-9531	lorne.tyrrell@ualberta.ca	

48. What entity in your country is legally authorized to evaluate the quality of your medical educational program?

Name and Address	Contact Name	Telephone Number/ Fax Number	E-mail	End Date
Canada: Committee on Accreditation of Canadian Medical Schools (LCME) 774 Echo Drive Ottawa, CANADA K1S 5P2	Dr. David Hawkins	613 730 0687 613 730 1196		

49. Are you approved by an entity listed in Question 48 to provide a graduate medical educational

program in your country?

Yes

50. What is the length of the program of graduate clinical and medical instruction?

48 months

51. Is any part of your program of graduate clinical instruction provided in the United States?

No

If yes, provide the following information.

Do you provide the remainder of your program of graduate medical instruction in your country?

52. List the dates of graduation and the number of regular students who graduated within the past three 12-month periods.

Date	Date	Date
06/12/2000	06/10/2001	06/15/2002
Graduates	Graduates	Graduates
104	107	104

53. What are the beginning and ending dates of your institution's most recently completed academic year?

Beginning Date

08/27/2001

Ending Date

06/15/2002

54. How many full-time regular students were enrolled during the most recently completed academic year?

461

55. How many of the regular students in Question 54 were not U.S. citizens or residents eligible for U.S. federal financial aid programs?

460

56. During the most recently completed year, how many of your regular students and graduates from the three preceding academic years took any "step" of the examinations administered by the Educational Commission for Foreign Medical Graduates?

(N/A for Canadian schools)

How many of these students received passing scores on any "step" of the examinations?

(N/A for Canadian schools)

57. Is any part of your program of Veterinary instruction provided in the United States?

No

If yes, provide the following information.

Section J. Please tell us about your third-party servicers, (which includes your Ability to Benefit Testers.)

Check here if you do **not** contract with a third-party or outside servicer.

58. If you contract with any third-party servicer or outside party to perform any function related to federal student financial aid programs, provide the following information about each servicer.

58b. Please identify your Ability To Benefit Tester(s).

ASSET Program

Career Programs Assessment (CPAT)

COMPASS Subtests
 Combined English Language Skills Assessment(CELSA)

Computerized Placement Tests (CPTs)/Accuplacer
 Descriptive Tests of Language Skills (DTLS)
 Wonderlic Basic Skills Test (WBST)
 WorkKeys Program

Section K. Please assure us of your administrative capability and your financial responsibility.

59. Do you have a system of internal checks and balances for administering federal student financial aid that meets federal regulations? (See 34 CFR 668.16.)
60. Do you divide the functions of determining student awards and disbursing funds that result from those award decisions? (See 34 CFR 668.16.)
61. Do you have procedures that ensure frequent, periodic reconciliation of fiscal office and financial aid office award data? (See 34 CFR 668.14, 668.16, 668.24, 674.19, 675.19, 676.19, and 690.81.)
62. Do you have a system to identify and resolve discrepancies in information you receive from various sources about a student's application for financial aid? (See 34 CFR 668.16.)
63. Do you have a policy that meets federal regulations for requiring satisfactory academic progress for recipients of federal student financial aid? (See 34 CFR 668.16 and 668.34.)
64. Do you have procedures that ensure that your requests for federal cash do not exceed the amount of funds you need immediately to make aid disbursements to students? (See 34 CFR 668.163.)
65. Do you have a policy that meets federal regulations for refunding Title IV funds when a student withdraws from classes? (See 34 CFR 668.22.)
- 66a. Have you submitted your required annual financial statement audits to us on time? (For initial applicants, have you established a process to ensure that you submit your required annual financial statement audit to us on time?) (See 34 CFR 668.23.)
- 66b. Have you submitted your required annual federal student financial aid compliance audits to us on time? (For initial applicants, have you established a process to ensure that you submit your required annual federal student financial aid compliance audit to us on time?) (See 34 CFR 668.23.)
67. Do you use the electronic processes required by the Secretary? (See 34 CFR 668.16.)
68. Do you have a process to insure you obtain the necessary approvals from the Department for expanding or re-establishing your institutional eligibility, (such as changes of ownership resulting in a change of control, excluded changes in ownership, or adding new locations in certain circumstances), and that you notify us within 10 days about other important changes (such as changing your name, address or official)? (See 34 CFR 600.10, 600.20 and 600.21)
69. Use this area if you need extra space to tell us about any unusual circumstances or to provide additional explanations about your application.
70. Provide the following information for any person or firm outside your institution that you wish to designate as your agent to represent you in matters related to this application.

Name	Job Title	Business Address	Telephone Number	Fax Number	Email Address
Ms Liz Smolec	FFEL Contact	FGSR; 105 Administration Building University of Alberta	(780) 492-3165	(780) 492-0692	liz.smolec@ualberta.ca

Edmonton, CANADA
T6G 2M7

71. Reporting of Foreign Gifts, Contracts and Relationships.

Click here to return to the Index



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DEC 18 2003

FEDERAL STAFFORD LOAN
NEW YORK OFFICE

18 December 2003

Ms. Olga Touliatos
US Department of Education
Federal Student Aid
75 Park Place, Room 1206
New York, NY 10007

Dear Ms. Touliatos:

Recertification of the University of Alberta

Please be advised that I have authorized Cheryl Luchkow, Assistant Dean of Students and Director of University Bursaries and Emergency Funding, to sign Section L of the Federal Stafford Loan School Certification for undergraduate student applicants on my behalf.

Sincerely,

Roderick D. Fraser, PhD
President

cc: C Luchkow

Section L. Please have the appropriate person in authority review, sign, and date this document.

I hereby certify that, to the best of my knowledge and belief, all information in this document is true and correct. I understand that if my institution provides false or misleading information, (a) the U.S. Department of Education may deny the institution's request for eligibility to participate in federal student financial aid programs and/or revoke eligibility once it has been granted and (b) the institution may be liable for all federal student financial aid funds it or its students received. I also understand that I may be subject to a fine of not more than \$25,000 or imprisonment of not more than five years, or both, for misinformation that is material to receipt and stewardship of federal student financial aid funds.

Signature of President/CEO/Chancellor

C. Lucknow

Date

DEC 20/02

Name of institution

University of Alberta

Name of President/CEO/Chancellor

Dr Roderick Frawen

Check here if this is the same person as in Question 10. If not, complete the information below.

Job title

ASSISTANT DEAN OF STUDENTS & DIRECTOR STUDENT FINANCIAL AID

Business street address

5-02 STUDENTS' UNION BLDG

City

EDMONTON, AB

State (or province) and zip+4 (and country, if outside the U.S.)

ALBERTA T6G 2J7

Telephone number (including area code)

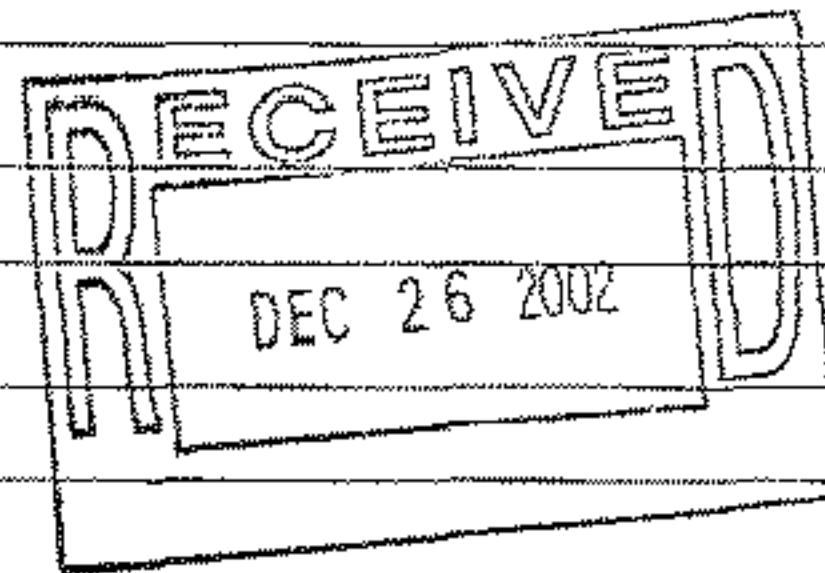
780 492-4145 ext:

Fax number (including area code)

780 492-1545 ext:

E-mail address (if applicable)

Cheryl.Lucknow@ualberta.ca





550

UNIVERSITY OF ALBERTA

FINANCIAL STATEMENTS

for the Year Ended March 31, 2002

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FINANCIAL SERVICES

University of Alberta
Financial Analysis
For the year ended March 31, 2002

To reflect the nature and restrictions placed on its revenue sources, the University classifies its revenues into separate categories. The major classification distinction is whether the revenues represent unrestricted or restricted contributions. Unrestricted contributions are flexible in that they are available to the University's Board of Governors to allocate for spending, as it deems appropriate. Such contributions are recognized as revenue immediately. The University, on the other hand, can only expend restricted contributions for the specific purposes defined by the external sponsor or donor. Such contributions are deferred and recognized as revenue when the related expenses are incurred. The term "deferrals" is used to describe the deferred component.

Within this structure, the University segregates its financial activity into six funds to further enhance accountability, budgetary control and stewardship of resources:

Unrestricted:

- General Operating - this fund includes the provincial government base operating grant, tuition fee revenue, investment income available for general spending and any new revenues generated by faculties and administrative units
- Ancillary Services - these University business enterprises provide goods and services to the University community and to individuals, companies and organizations external to the University. These units are expected to operate on a break-even basis, covering their full operating and capital costs.

Restricted:

- Access - funded by the provincial government for the purposes of implementing specific new programs or expanding existing programs. Viable programs may become part of the base operating grant in subsequent years.
- Research - funded by grants and contracts from external sponsors, donations and endowment investment income available for spending.
- Special Purpose - funded by grants and contracts from external sponsors, donations and endowment investment income available for spending. Expenditures include scholarships and bursaries, and other special projects involving teaching and public service.
- Capital - funded by provincial grants and other donations. Funds are designated for the acquisition of buildings, equipment and furnishings, including major renovations.

For financial statement reporting purposes, the Statement of Financial Position, Statement of Revenue and Expense, and Statement of Changes in Net Assets combine the assets, liabilities, equity and revenues and expenses of all funds.

Excess of Revenue over Expense

The University ended the 2002 year with a \$30.2 million excess of revenue over expense (2001 - \$2.8) and a \$23.7 million unrestricted net assets deficiency (2001 - \$37.9). The increase in excess of revenue over expense is mainly due to funding received which had not been budgeted for in the 2002 fiscal year and includes: Federal government funding of \$11.9 million for indirect costs associated with research activity incurred in 2002 and prior years, \$7.8 million from the sale of the Viking Kinsella natural gas properties and \$2.7 million of additional performance funding from the Province of Alberta.

Revenues

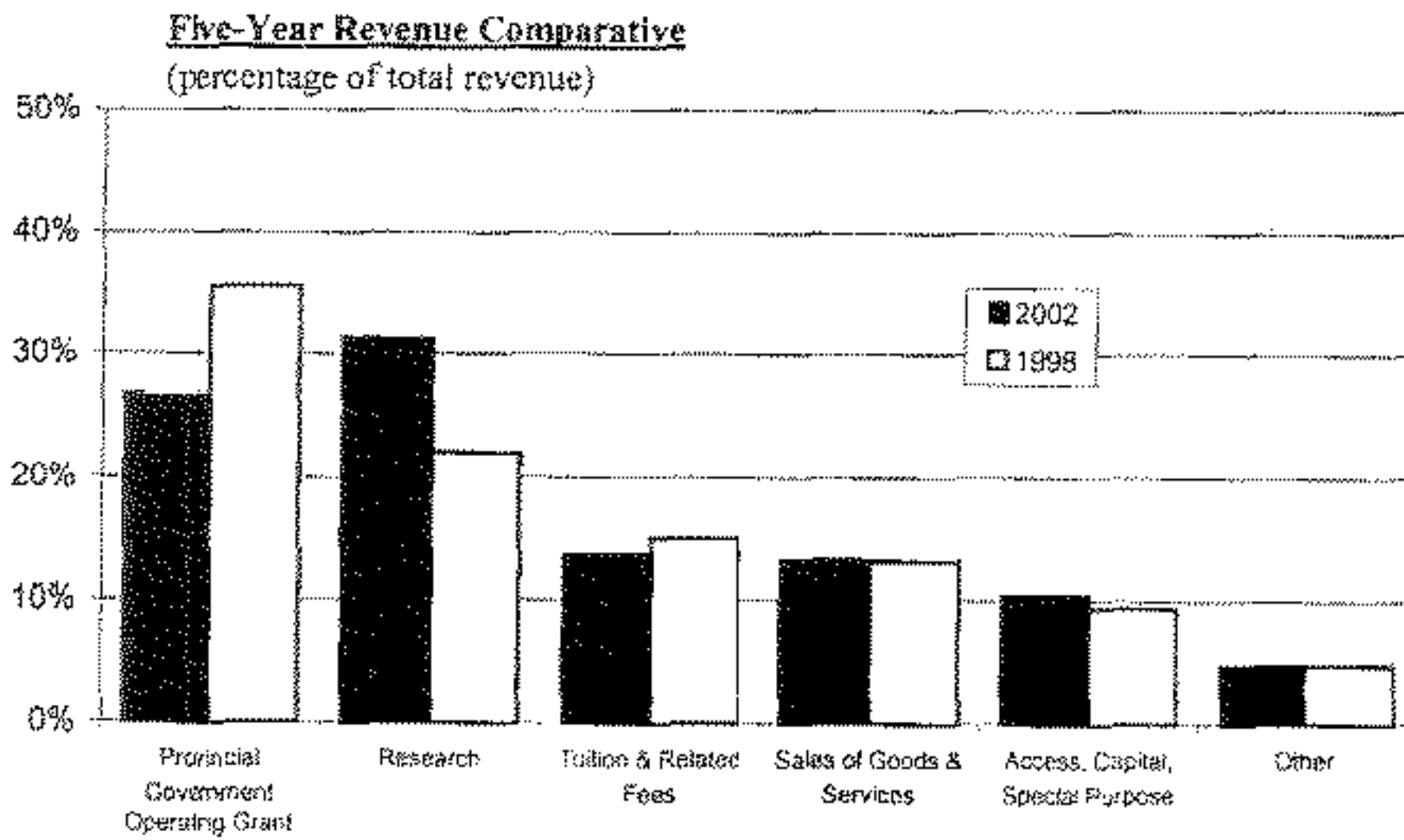
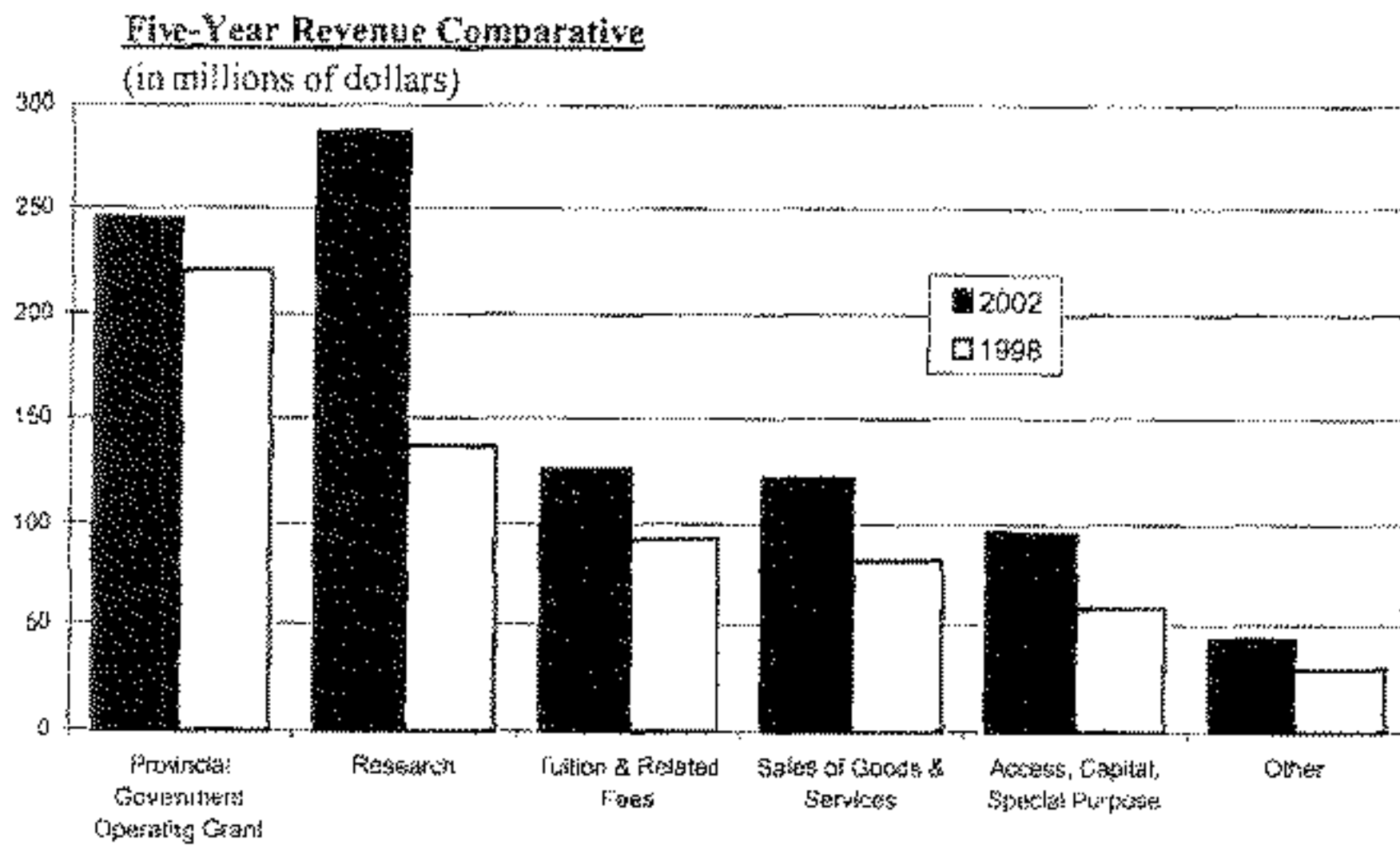
The following table highlights the various revenue sources both before and after deferrals:

	2002		2001
	(000's)	(000's)	(000's)
	Revenue per Financial Statements	2002 Deferrals	Revenue before Deferrals
			Revenue before Deferrals
Provincial government	\$ 342,588	\$ 51,303	\$ 391,891
Other government sources	87,923	60,060	147,983
Credit course tuition and related fees	125,761	-	125,761
Grants	30,826	17,119	47,945
Investment income	37,423	6,203	43,626
Donations	15,697	8,702	24,399
Royalty income	2,000	-	2,000
Sales of goods and services	130,915	3,265	134,180
Revenue	<u>\$ 773,133</u>	<u>\$ 146,652</u>	<u>\$ 919,785</u>
			<u>\$ 815,293</u>

Total Revenues (before deferrals)

The composition of University funding is changing. While the University's major funding continues to come from the provincial operating grant and tuition fees, the increase in revenue in recent years is mainly due to increases in restricted funds for sponsored research, infrastructure and specific academic programs. The provincial government base operating grant has declined as a percentage of gross revenues during the past five-year period from 35.6% in 1998 to 26.7% in 2002.

In 2002 total revenues (before deferrals) amounted to \$919.8 million (1998 - \$618.4), representing a 48.7% increase.



Provincial Government

In 2002, total provincial government revenue (before deferrals) amounted to \$393.9 million, representing an increase of \$42.7 million (12.1%) compared to the prior year.

	2002 (000's)	2001 (000's)	Change (000's)
Unrestricted:			
Base operating grant	\$ 245,148	\$ 238,894	\$ 6,254
Envelope	10,395	2,083	8,312
Other	12,149	8,301	3,848
	<u>267,692</u>	<u>249,278</u>	<u>18,414</u>
Restricted:			
Access grants	21,636	13,083	8,553
Capital grants	29,577	21,365	8,212
Research grants	65,708	59,053	6,655
Other	9,278	8,452	826
	<u>126,199</u>	<u>101,953</u>	<u>24,246</u>
Revenue (before deferrals)	<u>\$ 393,891</u>	<u>\$ 351,231</u>	<u>\$ 42,660</u>

The base operating grant increased by 2.6% compared to the prior year. New funding for the Faculty Renewal and Retention program of \$10.1 million was offset by a decrease of \$8.3 million due to the one time utility rebate received in 2001. The increase in Access funding is mainly due to the addition of twelve new programs. Capital grants includes an increase of \$12.0 million for Infrastructure Renewal Envelope (IRE) - Facilities, offset by 2001 funding for IRE Equipment (\$1.4) and Faculte St. Jean residence project funding (\$2.5).

Research

Research revenue (before deferrals) amounted to \$287.5 million, representing an increase of \$46.9 million (19.5%) compared to the prior year.

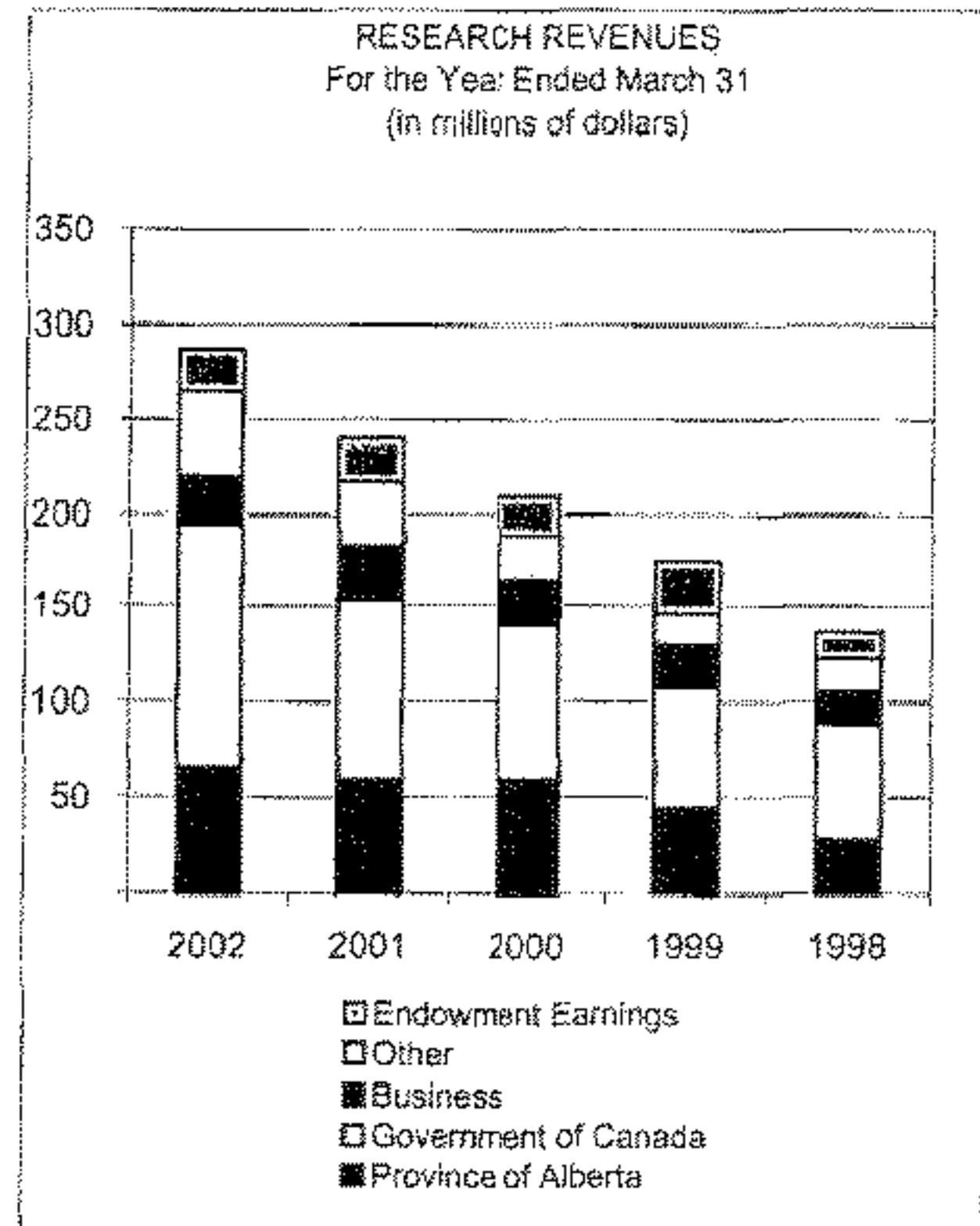
	2002 (000's)	2001 (000's)	Change (000's)
Research revenue by source:			
Provincial government	\$ 65,708	\$ 59,053	\$ 6,655
Other governments	143,130	103,948	39,182
Grants and donations	48,520	51,307	(2,787)
Investment income	20,159	15,305	4,854
Royalty income	2,000	8,412	(6,412)
Sales of goods and services	7,949	2,523	5,426
	<u>287,466</u>	<u>240,548</u>	<u>46,918</u>
Research revenue (before deferrals)	<u>\$ 287,466</u>	<u>\$ 240,548</u>	<u>\$ 46,918</u>

The quality of University of Alberta research is reflected in the success of its researchers in competitions for research funding. Ranking among the top five universities in Canada in funding from all three national granting councils in 2001 (latest year for which ranking is available), and second from the Natural Sciences and Engineering Research Council, the University attracts support from a wide variety of government, business and private sources for research of international stature.

The University continues to be very successful in meeting its aggressive funding targets for increased research activity. The University's strategic business plan has set a new sponsored research funding goal of \$400 million per year by fiscal year 2006.

Government funding support continues to increase demonstrating their commitment to research activities and infrastructure support. The increase for the past year includes: Province of Alberta (\$6.7), Canada Foundation for Innovation (CFI \$16.4), Social Sciences and Humanities Research Council (SSHRC \$12.9), Canadian Institutes of Health Research (CIHR \$5.3), Canada Research Chairs (CRC \$4.2) and the National Research Council (NRC \$3.2). The SSHRC increase includes an \$11.9 million one-time federal investment, which is intended to help alleviate financial pressures that are associated with federally supported research activity. Funding from business decreased by \$5.1 million. Other sources increased by \$11.9 million, which include associations, foundations, institutes and individuals.

Research funding has increased by 110.9% during the past five years. In addition to increased support from government (114.7%), other notable increases for the past five-year period are endowment earnings (65.3%), increased support from the business sector (49.4%) and increases from other sources (193.0%). In 2002, research funding represented 31.3% of total revenues (before deferrals) as compared to 22.0% in 1998.



The quality of research at the University and the receptive economic environment in Edmonton has resulted in an acceleration of technology transfer activity in recent years with 59 active spin-off companies. The licensing of patents and other research and development products has generated \$19.9 million in revenue over the past 5 years. Royalty revenue decreased by \$6.4 million as compared to last year, when there was a large licensing transaction.

Both the Canadian and Alberta governments have initiated new programs that will provide funds to attract outstanding faculty members in key research areas. The Canadian government is well into the Canada Research Chairs program. The Alberta Ingenuity Fund is launching new programs funded by the recently established Alberta Heritage Foundation for Science and Engineering Research (AHFSER).

Tuition and Related Fees

Tuition and related fees amounted to \$125.8 million (2001 - \$116.2). The increase is attributable to a 3.2% increase in tuition coupled with a 4.2% enrolment increase.

The University's tuition revenue for 2002 is estimated at 23% of net operating expenses, well under the 30% cap set by Alberta Learning. The tuition fee (instructional fees only) for an Arts or Science student with a full time course load in 2002 was \$3,890 compared with \$3,056 in 1998, representing a 27.3% increase.

Investment Income

The rate of return on investments in 2002 was 7.1% (2001 - 7.7%). Investment income (before deferrals) has decreased by \$5.3 million as compared to the prior year due to various factors that have resulted in a number of small decreases. These include: a decline in the return on short-term investments (2002 - 3.8%, 2001 - 5.9%), a decrease in gain on foreign exchange due to the relative stability of the Canadian dollar to the US dollar, and a decrease in endowment income due to decreased capital gains realized.

Investment performance against established benchmarks was favorable. The return on short-term investments of 3.8% compares favorably with the Scotia Capital Markets 91-Day Treasury Bill return of 3.7%. The 7.1% return on endowment assets substantially exceeded the benchmark return of 2.6%. The endowment benchmark return is comprised of the following: 2% Scotia Capital markets 91-Day Treasury Bill return, 38% Scotia Capital Markets Universe Bond Index, 30% Toronto Stock Exchange 300 Composite capped index, and 30% Morgan Stanley Capital International World Index excluding Canada.

Sales of Goods and Services

Ancillary services units and academic and administrative units generate revenues through the sale of goods and services to individuals, companies and organizations external to the University. Sales of goods and services also include miscellaneous types of revenues received by the University. Sales of goods and services (before deferrals) amounted to \$134.2 million (2001 - \$112.8) and represent 14.6% of total revenues.

The ancillary services units generated sales of \$59.3 million for 2002 (2001 - \$58.0). The units with the largest sales are: Bookstore (\$20.1), Housing and Food Services (\$15.9), Utilities (\$13.0) and Parking Services (\$8.2).

The remaining \$74.9 million (2001 - \$54.8) represents sales activity that occurs across all faculties and administrative units and includes: Faculty of Medicine and Dentistry (\$24.2) which is mainly revenue from the Capital Health Authority (CHA) in support of positions that provide an interaction between the academic environment and the clinical services environment, non credit tuition and related fees generated by the Faculty of Extension (\$6.8), proceeds from the sale of the Viking Kinsella natural gas properties (\$6.1, which is net of \$1.7 included in the ancillary services units), Physical Education and Recreation revenue generated by athletic teams, sport camps, sports clinics and rentals of facilities (\$4.7), Student Services revenue including the University Health Centre (\$3.0), Faculty of Business professional and executive development programs (\$2.8) and the Faculty of Agriculture, Forestry and Home Economics (\$2.4) which is mainly from the sale of animal, plant and related products.

The \$20.1 million increase in faculty and administrative units is due to increased activity or new sales activity primarily in the following areas: proceeds from the sale of Viking Kinsella (\$6.1), increased billing activity for the Faculty of Medicine (\$6.4) and new clinical trials revenue from the Northern Alberta Clinical Research Centre (\$4.1).

Expenses

Over a five-year period expenses have increased by 45.9%, from \$538.3 million in 1998 to \$785.3 million in 2002.

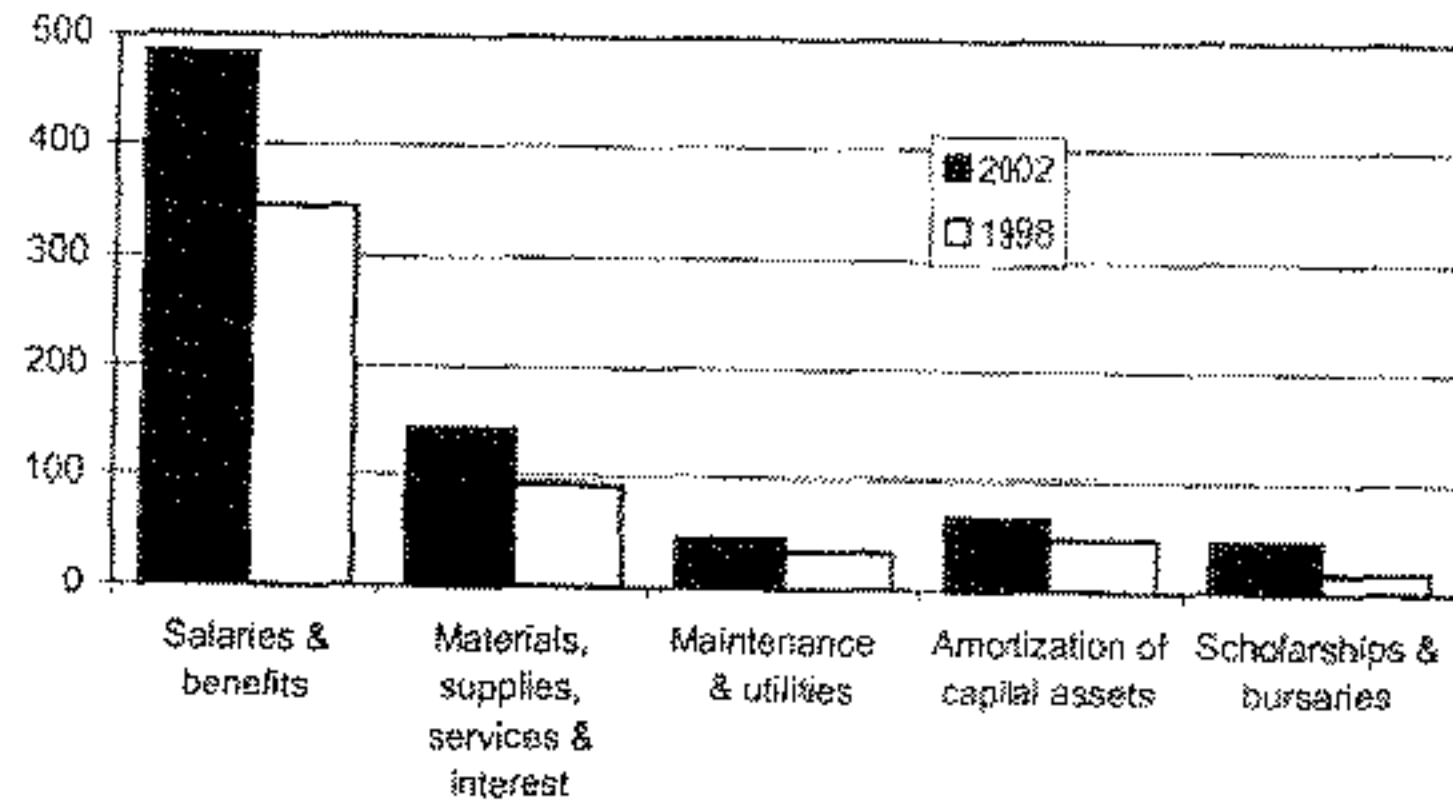
Total expenses for 2002 increased by \$56.6 million (7.8%) as compared to the prior year (2001 - \$728.7). The main components of the increased expense as compared to the prior year are as follows:

Salaries expense increased by \$29.5 million (7.7%); \$18.0 million in the general operating fund, \$8.6 million in the research fund and \$2.9 million in the remaining funds. The collective bargaining process resulted in negotiated salary increases for academic and support staff that averaged 4%. There were also general increases in new hires, particularly of academic staff (118 new faculty members were hired) and payouts to departing employees

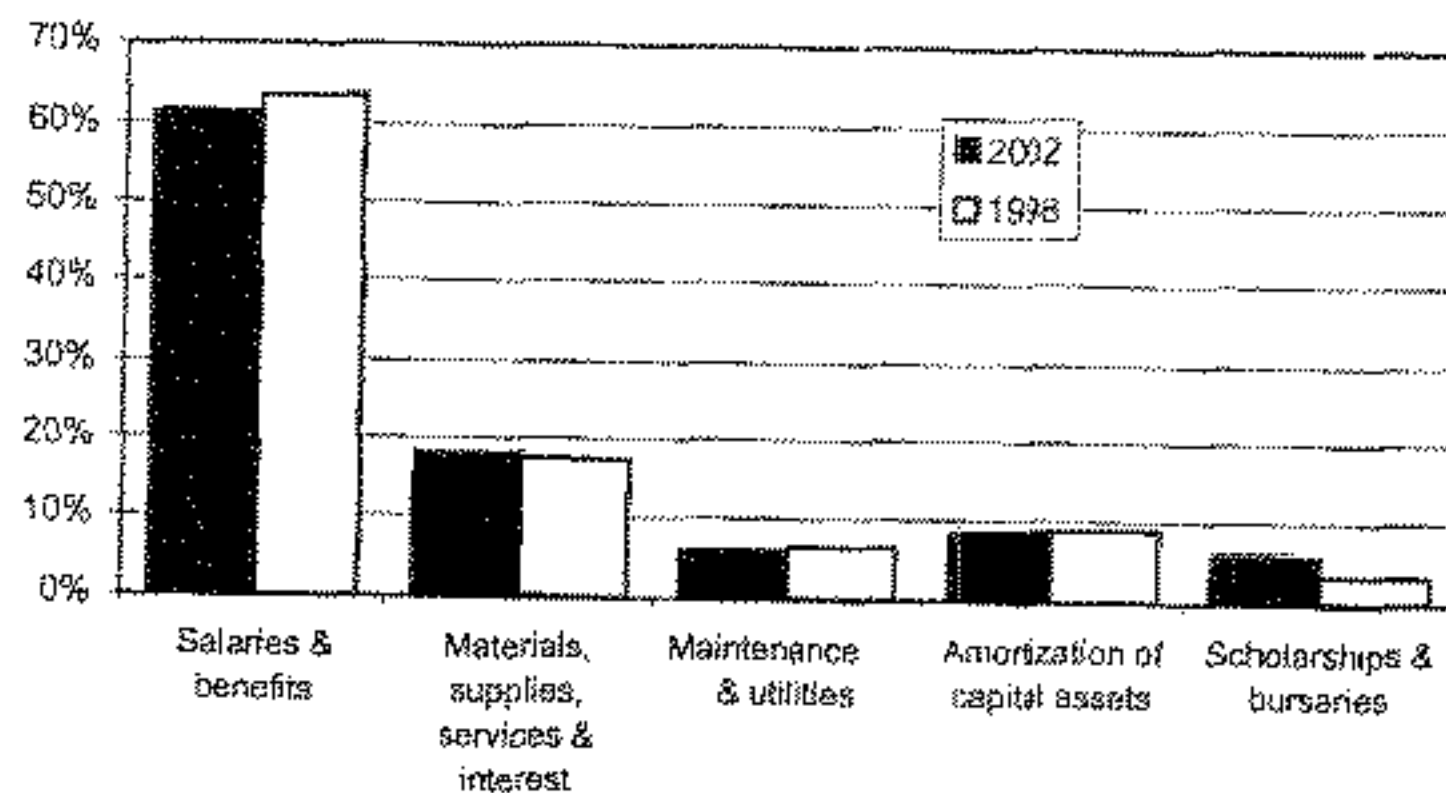
Benefits expense increased by \$7.8 million (12.6%); \$6.2 million in the operating fund, \$1.0 million in the research fund and \$0.6 million in the remaining funds. This increase is due to increased staff numbers coupled with increased benefit costs primarily for supplementary health care, dental care and Canada Pension Plan contributions.

Materials, supplies and services expense increased by \$10.3 million (8.2%) and is attributable to the increase in sales of goods and services, and increased research activity.

Five-Year Expense Comparative
(in millions of dollars)



Five-Year Expense Comparative
(percentage of total expense)



Scholarships and bursaries expense increased by \$4.7 million (11.3%). This increase was spread throughout a number of initiatives and programs. A variety of scholarship programs received a \$2.5 million increase in support from the general operating fund. An additional \$1.8 million was due to increased funding within sponsored research and includes increases in program funding by NSERC (\$0.2) and CIHR (\$0.3). In addition scholarships funded from endowments increased by \$0.4 million. During the past five years scholarship and bursary payments have increased from \$18.5 million to \$46.7 million (a 152.4% increase), demonstrating an ever increasing commitment to student assistance.

Amortization of capital assets increased by \$5.0 million (8.1%) due primarily to the significant additions to buildings, utilities and equipment in recent years.

All other areas of expense were comparable to the prior year.

Financial Position

The University's net assets position increased by \$58.8 million due to an increase in endowments of \$28.5 million, an increased investment in capital assets and collections of \$16.1 million and a decrease in the unrestricted net assets deficiency of \$14.2 million.

Endowments

Endowments consist of restricted donations to the University, the principal of which is required to be maintained intact in perpetuity as well as internal allocations by the Board of Governors. The investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Board of Governors. University policy protects the economic value of the endowments by limiting the amount of income that may be expended and reinvesting unexpended income. The University has long recognized the value of permanent funding support and through successful fund raising efforts over the years now ranks fourth overall amongst Canadian universities in terms of total endowment funds.

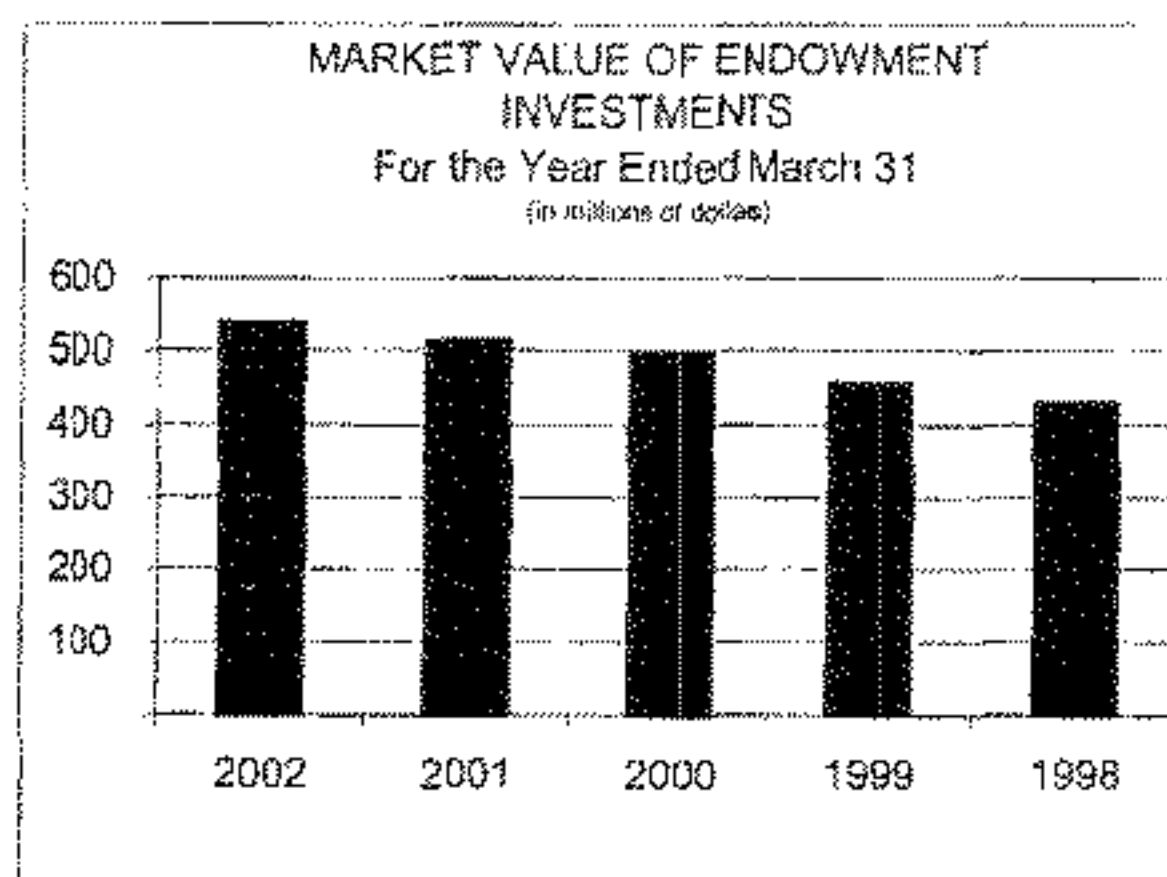
Endowment funding supports a variety of key initiatives in the areas of Scholarships, Chairs, Visiting Speakers, Research and many other activities and programs. The investment income allocated for spending on these programs was \$25.9 million (2001 - \$24.7) and represents a 65.1% increase in funds available for spending compared to five years ago (1998 - \$15.7). The spending allocation is based on a moving average of the endowment's market value.

Endowments increased by \$28.5 million through gifts of endowment principal (\$13.9), capitalization of investment income (\$14.0) and net transfers (\$0.6). Included in net transfers is a Board of Governors approved \$1.5 million transfer of internally restricted endowment funds to unrestricted funds. This is the second of three annual transfers from the Endowment Fund for the Future (EFF) to allocate resources to assist in funding the cost of the University's fund raising campaign. Endowment principal has steadily grown from \$261.3 million in 1998 (\$428.9 market value) to \$491.1 million in 2002 (\$536.8 market value).

Market Value of Endowment Investments

The endowment investment policy is designed to meet the funding objectives of the University by maximizing returns with an acceptable level of risk, while maintaining the real capital value of the endowment and providing for an appropriate level of spending.

Endowment investments earned a return of 7.1% for the year ending March 31, 2002 and averaged 13.6% on a five-year annualized basis.



Acquisition of Capital Assets and Collections

	2002 (000's)	2001 (000's)	Change (000's)
Buildings and utilities	\$ 71,807	\$ 77,373	\$ (5,566)
Equipment, furnishings and software	69,526	46,623	22,903
Library materials	7,116	6,732	384
Permanent collections	7,039	6,473	566
Total acquisitions	\$ 155,488	\$ 137,201	\$ 18,287

The additions to buildings and utilities are distributed amongst many different University structures and facilities, both on the main campus and at other off-campus locations. The most significant additions to individual buildings in 2002 were as follows: \$31.8 million towards completion of the new Electrical and Computer Engineering Research Facility (ECERF) and the Engineering Teaching and Learning Centre (ETLC), \$4.2 million towards completion of Foote Field and \$6.4 million towards construction of the Swine Research and Composting Facilities located on the South Campus.

The \$22.9 million increase in equipment, furnishings and software is mainly due to the increased research activity, the purchase and installation of the new telephone and voicemail system, and equipment for the new ECERF and ETLC buildings.

Unrestricted Net Assets Deficiency

The decrease of \$14.2 million in the unrestricted net assets deficiency is summarized in the table below:

	<u>2002</u> (000's)	<u>2001</u> (000's)	<u>Change</u> (000's)
Unexpended (over expended) funds:			
General operating	\$ 405	\$ (9,597)	\$ 10,002
Ancillary services	10,454	10,955	(501)
Special purpose	34,987	32,244	2,743
Research	<u>17,065</u>	<u>11,695</u>	<u>5,370</u>
Sub-total	62,911	45,297	17,614
Accrued employee benefits	<u>(86,581)</u>	<u>(83,175)</u>	<u>(3,406)</u>
Total unrestricted net assets deficiency	<u>\$ (23,670)</u>	<u>\$ (37,878)</u>	<u>\$ 14,208</u>

The most significant factor contributing to the increase in general operating funds was the federal government payment of \$11.9 million for indirect costs associated with research activity. The first time consolidation for the Northern Alberta Clinical Research Centre of \$1.9 million was the largest single factor for the increase in unexpended research funds.

The main reason for the increase in accrued employee benefits was an increase in the vacation pay liability.

UNIVERSITY OF ALBERTA
STATEMENT OF ADMINISTRATIVE RESPONSIBILITY
FOR FINANCIAL REPORTING

The administration of the University is responsible for the preparation and for the integrity and objectivity of the accompanying financial statements and the notes thereto. The administration believes that the financial statements present fairly the University's financial position as at March 31, 2002 and the results of its operations for the year then ended.

The financial statements have been prepared in accordance with generally accepted accounting principles. Where alternative accounting methods exist, those deemed most appropriate in the circumstances have been chosen. Financial statements are not precise, since they include certain amounts based on estimates and judgments. Such amounts have been determined on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the administration has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements. The integrity of internal controls is reviewed on an ongoing basis by the Internal Audit Department.

The Board of Governors carries out its responsibility for review of the financial statements principally through its Audit Committee. The majority of the members of the Committee are not officers or employees of the University. This committee meets regularly with administration and with external and internal auditors to discuss the results of audit examinations and financial reporting matters. The external and internal auditors have full access to the Board Audit Committee with and without the presence of the administration. The Board of Governors of the University of Alberta has approved the financial statements.

The financial statements for the year ended March 31, 2002 have been audited and reported on by the Auditor General for the Province of Alberta whose report outlines the scope of his audit and presents his opinion on the financial statements.



Roderick Fraser
President



Phyllis Clark
Vice President (Finance and Administration)

May 31, 2002



AUDITOR'S REPORT

To the Board of Governors
of The University of Alberta

I have audited the statement of financial position of The University of Alberta as at March 31, 2002 and the statements of revenue and expense and changes in unrestricted net assets deficiency, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
May 31, 2002

 CA
Auditor General

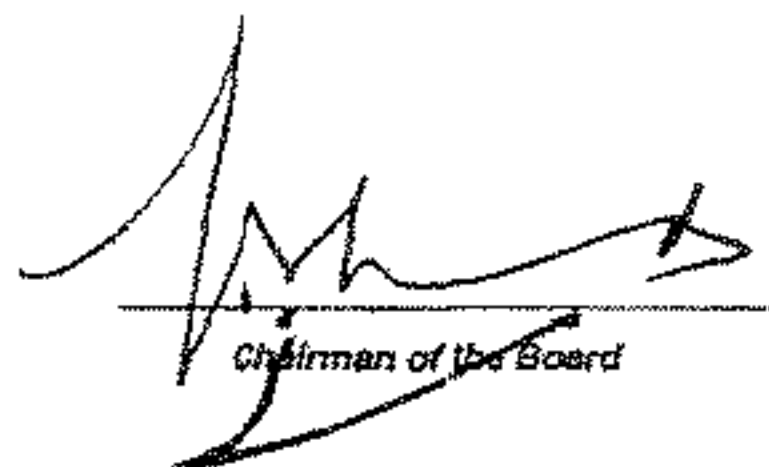
STATEMENT OF FINANCIAL POSITION

UNIVERSITY OF ALBERTA

AT MARCH 31, 2002
(in thousands of dollars)

	2002	2001
ASSETS		
Current Assets		
Cash and short-term investments	\$ 148,450	\$ 168,259
Accounts receivable and accrued interest	102,160	75,017
Other assets	10,729	10,068
	<u>261,339</u>	<u>253,344</u>
Investments (Note 3)	597,707	532,382
Capital assets and collections (Note 6)	866,770	780,407
	<u>\$ 1,725,816</u>	<u>\$ 1,566,133</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Outstanding cheques	\$ 15,100	\$ 12,889
Accounts payable and accrued liabilities	59,753	62,988
Current portion of employee benefit liabilities (Note 7)	38,062	36,001
Current portion of long-term debt (Note 8)	4,628	1,960
Deferred contributions, research and other (Note 9)	145,817	125,561
Deferred revenue	14,556	12,053
	<u>277,916</u>	<u>251,452</u>
Employee benefit liabilities (Note 7)	48,519	47,174
Long-term debt (Note 8)	48,786	55,603
Deferred contributions, research and other (Note 9)	60,000	60,000
Deferred contributions, capital (Note 9)	12,175	1,672
Unamortized deferred capital contributions (Note 10)	544,754	475,380
	<u>992,150</u>	<u>891,281</u>
Net Assets		
Endowments (Note 11)	491,147	462,644
Investment in capital assets and collections (Note 12)	266,189	250,086
Unrestricted net assets deficiency	(23,670)	(37,878)
	<u>733,666</u>	<u>674,852</u>
	<u>\$ 1,725,816</u>	<u>\$ 1,566,133</u>

Signed on behalf of the Board of Governors



Chairman of the Board



President

**STATEMENT OF REVENUE AND EXPENSE
AND CHANGES IN UNRESTRICTED NET ASSETS DEFICIENCY**

UNIVERSITY OF ALBERTA

FOR THE YEAR ENDED MARCH 31, 2002
(in thousands of dollars)

	<u>2002</u>	<u>2001</u>
REVENUE		
Provincial government (Note 16)	\$ 342,588	\$ 309,102
Other government sources	87,923	63,829
Credit course tuition and related fees	125,761	116,245
Grants	30,826	28,968
Investment income (Note 4)	37,423	44,569
Donations (Note 5)	15,697	15,192
Royalty income	2,000	8,412
Sales of goods and services	130,915	110,507
	<u>773,133</u>	<u>696,824</u>
Amortization of deferred capital contributions (Note 10)	42,380	34,645
	<u>815,513</u>	<u>731,469</u>
EXPENSE		
Salaries	413,498	384,033
Employee benefits	69,979	62,169
Materials, supplies and services	136,433	126,137
Maintenance and utilities	45,965	46,672
Scholarships and bursaries	46,748	42,000
Interest	6,080	6,027
Amortization of capital assets	66,639	61,670
	<u>785,342</u>	<u>728,708</u>
EXCESS OF REVENUE OVER EXPENSE	30,171	2,761
TRANSFER (TO) FROM ENDOWMENTS (Note 11)	(601)	1,523
TRANSFER (TO) FROM NET INVESTMENT IN CAPITAL ASSETS (Note 12)	(15,362)	456
Change in unrestricted net assets deficiency for the year	14,208	4,740
UNRESTRICTED NET ASSETS DEFICIENCY, BEGINNING OF YEAR	<u>(37,878)</u>	<u>(42,618)</u>
UNRESTRICTED NET ASSETS DEFICIENCY, END OF YEAR	<u>\$ (23,670)</u>	<u>\$ (37,878)</u>

-----The accompanying notes are part of these financial statements.-----

STATEMENT OF CHANGES IN NET ASSETS

UNIVERSITY OF ALBERTA

FOR THE YEAR ENDED MARCH 31, 2002

(in thousands of dollars)

	Endowments			Investment in Capital Assets and Collections	Unrestricted Net Assets Deficiency
	Externally Restricted	Internally Restricted	Total		
NET ASSETS, March 31, 2000	\$ 372,385	\$ 46,515	\$ 418,900	\$ 249,744	\$ (42,618)
Excess of revenue over expense	-	-	-	-	2,761
Capitalization of investment income (Note 4)	28,961	-	28,961	-	-
Gifts of endowment principal (Note 5)	16,306	-	16,306	-	-
Transfers (Note 11)	-	(1,523)	(1,523)	-	1,523
Net investment in capital assets (Note 12)	-	-	-	(456)	456
Contributions of assets not subject to amortization	-	-	-	798	-
NET ASSETS, March 31, 2001	\$ 417,652	\$ 44,992	\$ 462,644	\$ 250,086	\$ (37,878)
Excess of revenue over expense	-	-	-	-	30,171
Capitalization of investment income (Note 4)	14,018	-	14,018	-	-
Gifts of endowment principal (Note 5)	13,884	-	13,884	-	-
Transfers (Note 11)	1,230	(629)	601	-	(601)
Net investment in capital assets (Note 12)	-	-	-	15,362	(15,362)
Contributions of assets not subject to amortization	-	-	-	741	-
NET ASSETS, March 31, 2002	\$ 446,784	\$ 44,363	\$ 491,147	\$ 266,189	\$ (23,670)

----- The accompanying notes are part of these financial statements. -----

STATEMENT OF CASH FLOWS

UNIVERSITY OF ALBERTA

FOR THE YEAR ENDED MARCH 31, 2002
(in thousands of dollars)

	2002	2001
CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES		
Cash received from provincial government	\$ 349,967	\$ 319,155
Cash received from other government sources	72,474	76,693
Cash received from credit course tuition and related fees	126,515	116,428
Cash received from grants and donations	45,195	52,833
Investment and royalty income received for operating purposes	41,477	54,411
Cash received from sales of goods and services	129,477	108,802
Cash paid for salaries and employee benefits	(480,188)	(441,851)
Cash paid for materials, supplies and services	(137,213)	(118,088)
Cash paid for maintenance and utilities	(45,965)	(44,792)
Cash paid for scholarships and bursaries	(46,748)	(42,000)
Interest paid	(6,257)	(4,992)
	<u>48,734</u>	<u>76,599</u>
CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES		
Acquisition of capital assets and collections		
Internally funded	(38,059)	(25,404)
Externally funded - contributions	(110,443)	(93,273)
Externally funded - long term debt	(3,249)	(15,718)
Proceeds on disposal of capital assets and collections	312	180
Purchases of investments, net	(65,325)	(18,840)
	<u>(216,764)</u>	<u>(153,055)</u>
CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES		
Contributions restricted to endowments	27,902	45,267
Long-term debt - new financing	-	21,802
Long-term debt - repayments	(4,149)	(1,504)
Capital contributions	122,257	64,277
	<u>146,010</u>	<u>129,842</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(22,020)	53,386
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>155,370</u>	<u>101,984</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 133,350</u>	<u>\$ 155,370</u>
Cash and cash equivalents consists of:		
Cash and short-term investments	\$ 148,450	\$ 168,259
Outstanding cheques	(15,100)	(12,889)
	<u>\$ 133,350</u>	<u>\$ 155,370</u>

----- The accompanying notes are part of these financial statements. -----

(in thousands of dollars)

MARCH 31, 2002

1. Authority and Purpose

The corporation "The Governors of the University of Alberta" operates under the authority of the Universities Act, Chapter U-3, Revised Statutes of Alberta, 2000. The mission of the University includes post secondary and graduate education, research, and public service. The University is a registered charity, and is exempt, under Section 149 of the Income Tax Act, from the payment of income tax.

2. Significant Accounting Policies

a. General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates, which may vary from actual results. Such estimates, the potential errors of which, in administration's opinion, are within reasonable limits of materiality have been made using professional judgements and conform to the significant accounting policies summarized below. These significant accounting policies are presented to assist the reader in evaluating these financial statements and, together with the following notes, should be considered an integral part of the financial statements.

b. Interest in Joint Ventures

These financial statements include the University's interest in joint ventures using the proportionate consolidation method. Tri-Universities Meson Facility (TRIUMF) (20% interest) is a joint venture, amongst the University and four other universities, and was established to operate a facility for research in sub-atomic physics. The Northern Alberta Clinical Research Centre (50% interest) was established on April 1, 2001 and is a joint venture between the University and the Capital Health Authority (CHA) to support the shared missions of the CHA and the University relative to collaborative clinical research.

c. Investments

Investments are recorded at cost or amortized cost where applicable. Gains or losses on sales of investments are recognized in the year of disposal or when there is other than a temporary impairment in the value of an investment.

d. Capital Assets and Collections

All capital assets and collection items are recorded at cost as acquired. Gifts in kind of capital assets and collection items are capitalized at fair market value, as determined by expert appraisal. Amortization of capital assets is recorded on a straight line basis over the assets' estimated useful lives. Estimated useful lives range from 10 to 40 years for buildings and utilities, from 3 to 25 years for equipment and furnishings, and 10 years for that portion of library materials which are not part of the University's permanent collections.

Collections are not amortized and include that portion of library assets considered to have permanent value, museum specimens, archival materials, maps, and works of art.

e. Revenue Recognition

Unrestricted contributions are recognized as revenue when received, or when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted investment income is recognized as revenue as earned. Pledges are recognized as revenue when collected.

Revenues received for the provision of goods or services are recognized in the period in which the goods are provided or the services rendered or substantially rendered. Tuition fees are recognized as revenue when the related instruction is delivered.

Restricted contributions are recognized as revenue in accordance with the deferral method, as summarized below:

Contributions, including investment income, restricted for purposes other than endowment or the acquisition of capital assets are deferred and recognized as revenue in the year in which the related expenses are incurred. Contributions restricted to the acquisition of capital assets having limited life are initially recorded as deferred contributions in the period in which they are received and, when expended, are transferred to unamortized deferred capital contributions and amortized to revenue over the useful lives of the related assets.

(In thousands of dollars)

MARCH 31, 2002

2. Significant Accounting Policies (continued)

Endowment contributions, including realized capital gains on endowment investments and that portion of investment earnings, which, in accordance with agreements with benefactors or the authority provided by Section 17(1)(m) of the Universities Act, are allocable to endowment principal, are recognized as direct increases in net assets. Contributions restricted to the acquisition of non-consumable capital assets are initially recorded as deferred contributions in the period in which they are received and, when expended, are recognized as direct increases in net assets.

f. Employee Future Benefits

The University participates with other employers in the Universities Academic Pension Plan and the Public Service Pension Plan. These pension plans are multi-employer defined benefit pension plans that provide pensions for the University's participating employees based on years of service and earnings. Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates that are expected to provide for benefits payable under the respective pension plan.

The cost of providing non-vesting and non-accumulating employee future benefits for compensated absences under the University's long-term disability leave plans is charged to expense in full when the event occurs which obligates the University to provide the benefits. The cost of these benefits is actuarially determined using the accumulated benefit method, a market interest rate and management's best estimate of the retirement ages of employees, expected health care costs and the period of employee disability. Actuarial gains or losses on the accrued benefit obligation are amortized over the average expected period the benefits will be paid.

The cost of providing accumulating post employment benefits under the University's early retirement benefit plans is charged to expense over the period of service provided by the employee. The cost of these benefits is actuarially determined using the projected benefit method pro rated on services, a market interest rate and management's best estimate of expected health care, dental care, life insurance costs and the period of benefit coverage. The excess of net actuarial gains or losses over 10% of the benefit obligation is amortized over the average remaining service period of active employees expected to receive benefits under the plans.

g. Contributed Services

Volunteers as well as members of the staff of the University contribute an indeterminable number of hours per year to assist the institution in carrying out its mission. Such contributed services are not recognized in the financial statements.

h. Fair Value of Financial Instruments and Cash Equivalents

The carrying values of financial assets and financial liabilities are considered to approximate fair value unless otherwise disclosed. Cash and cash equivalents consist of cash, short-term investments and outstanding cheques.

(in thousands of dollars)

MARCH 31, 2002

3. Investments

	2002		2001	
	Cost	Market Value	Cost	Market Value
Money market investments	\$ 22,386	\$ 22,393	\$ 1,084	\$ 1,169
Marketable securities				
Government bonds	41,651	41,178	36,212	37,414
Corporate bonds	46,394	46,913	52,055	52,927
Pooled bond funds	148,544	142,987	137,035	133,802
Pooled equity funds	187,575	181,502	183,567	183,553
Common shares	143,590	202,832	111,387	168,588
	<u>567,754</u>	<u>615,412</u>	<u>520,256</u>	<u>576,284</u>
Other				
Common shares (subject to restrictions *)	4,056	34,278	-	-
Not publicly traded				
Common shares	96	475	4,056	4,056
Mortgages	2,312	2,345	4,400	5,022
Real estate	1,103	1,103	2,586	2,586
	<u>7,567</u>	<u>38,201</u>	<u>11,042</u>	<u>11,664</u>
Total	<u>\$ 597,707</u>	<u>\$ 676,006</u>	<u>\$ 531,382</u>	<u>\$ 589,117</u>

Investments are comprised of endowment and non-endowed funds. Endowment investments, including cash and short-term investments, are recorded at cost of \$488,088 (2001 - \$459,180) with a market value of \$536,804 (2001 - \$512,583).

* Common shares subject to restrictions relate to shares that were received as compensation for licensing University technology. These shares are currently in escrow and once released are subject to further restrictions on their liquidity.

	2002				Weighted Average Term to Maturity 8.9 years	2001	
	Term to Maturity (in years)					Total	Total
	Under 1	1 to 5	5 to 10	Over 10			
Money Market Investments	22,386	-	-	-	22,386	1,084	
<i>effective yield</i>					2.46%	4.98%	
Marketable securities							
Government bonds	2,274	20,426	10,366	8,585	41,651	36,212	
<i>effective yield</i>					5.39%	6.14%	
Corporate bonds	2,952	15,735	22,481	5,226	46,394	52,055	
<i>effective yield</i>					6.49%	6.66%	
Pooled bond funds	-	-	-	-	148,544	137,035	
<i>effective yield</i>					4.63%	5.45%	
Other (not publicly traded)							
Mortgages	-	2,312	-	-	2,312	4,400	
<i>effective yield</i>					6.42%	6.49%	

(In thousands of dollars)

MARCH 31, 2002

4. Investment Income

	2002	2001
Income on investments held for endowment		
Externally restricted	\$ 41,090	\$ 54,635
Internally restricted	5,884	8,283
	<u>46,974</u>	<u>62,918</u>
Income on other investments	10,670	14,999
Total investment income earned in period	57,644	77,917
Amounts deferred in period	(6,203)	(4,387)
Income capitalized to endowment principal	(14,018)	(28,961)
Total investment income recognized as revenue	<u>\$ 37,423</u>	<u>\$ 44,569</u>

5. Donations

	2002	2001
Donations included in statement of revenue and expense	\$ 15,697	\$ 15,192
Gifts included in externally restricted endowment principal	13,884	16,306
Total donations	<u>\$ 29,581</u>	<u>\$ 31,498</u>

6. Capital Assets and Collections

	2002			2001		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Buildings and utilities	\$ 1,017,357	\$ 474,894	\$ 542,463	\$ 945,557	\$ 449,977	\$ 495,580
Equipment and furnishings	533,881	350,462	183,419	481,194	328,011	153,183
Library materials	90,688	65,258	25,430	83,572	60,345	23,227
Capital assets with limited life	1,641,926	890,614	751,312	1,510,323	838,333	671,990
Land	10,624	-	10,624	10,624	-	10,624
Capital assets	<u>1,652,550</u>	<u>\$ 890,614</u>	<u>761,936</u>	<u>1,520,947</u>	<u>\$ 838,333</u>	<u>682,614</u>
Collections - Library	87,349		87,349	81,057		81,057
- Other	17,485		17,485	16,736		16,736
Collections	<u>104,834</u>		<u>104,834</u>	<u>97,793</u>		<u>97,793</u>
Capital assets and collections	<u>\$ 1,757,384</u>		<u>\$ 866,770</u>	<u>\$ 1,618,740</u>		<u>\$ 780,407</u>

Included in buildings and utilities is \$7,688 (2001 - \$34,063) recorded as work in progress, which is not subject to amortization as the assets are not yet available for use.

(in thousands of dollars)

MARCH 31, 2002

7. Employee Benefit Liabilities

	Academic Staff	Support Staff	Total 2002	Total 2001
Vacation pay	\$ 14,129	\$ 16,984	\$ 31,113	\$ 29,191
Long-term disability leave plans	10,651	22,690	33,341	32,607
Early retirement benefit plans	10,296	11,831	22,127	21,288
Retirement incentive programs				89
	<u>35,076</u>	<u>51,505</u>	<u>86,581</u>	<u>83,175</u>
Less current portion	17,125	20,937	38,062	36,001
	<u>\$ 17,951</u>	<u>\$ 30,568</u>	<u>\$ 48,519</u>	<u>\$ 47,174</u>

The University's defined benefit plans provide post-employment benefits to most of its employees, and include long-term disability leave plans, early retirement benefit plans and pension plans. The University's defined benefit plans, other than the pension plans, are unfunded.

	2002		2001	
	Long-term Disability	Early Retirement	Long-term Disability	Early Retirement
Accrued benefit obligation:				
Balance, beginning of year	\$ 18,713	\$ 20,916	\$ 22,722	\$ 20,558
Current service cost	3,830	1,220	2,446	916
Interest cost	1,412	1,433	1,652	1,447
Benefits paid	(3,240)	(1,814)	(3,123)	(1,633)
Actuarial (gains) / loss	700	3,160	(4,984)	(372)
Balance, end of year	<u>21,415</u>	<u>24,915</u>	<u>18,713</u>	<u>20,916</u>
Plan assets				
Funded status - plan deficit	<u>21,415</u>	<u>24,915</u>	<u>18,713</u>	<u>20,916</u>
Unamortized net actuarial gains / (loss)	11,926	(2,788)	13,894	372
Accrued benefit liability	<u>\$ 33,341</u>	<u>\$ 22,127</u>	<u>\$ 32,607</u>	<u>\$ 21,288</u>

(in thousands of dollars)

MARCH 31, 2002

7. Employee Benefit Liabilities (continued)

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligations are as follows:

	<u>Long-term Disability</u>	<u>Early Retirement</u>
Discount rate	6.75%	6.75%
Rate of compensation increase	n/a	4.00%
Annual inflation rates:		
Dental costs	n/a	3.00%
Supplemental health care costs	n/a	6.75%
Alberta health care costs	n/a	3.00%
Existing claims and pension contributions	2.50%	n/a
Benefit costs	5.00%	n/a

The University participates with other employers in the Universities Academic Pension Plan (UAPP) and the Public Service Pension Plan (PSPP). These pension plans are multi-employer defined benefit plans. The pension expense recorded in these financial statements is equivalent to the University's actuarially determined contributions of \$19,509 (UAPP - \$13,258; PSPP - \$6,251) for the year ended March 31, 2002 (2001 - \$17,628 (UAPP - \$12,067; PSPP - \$5,561)).

At December 31, 2001 the Universities Academic Pension Plan financial statements reported an overall deficit for the plan, consisting of a pre-1992 deficiency and a post-1991 surplus. The unfunded liability for service prior to January 1, 1992 as determined by actuarial valuation is being financed by additional contributions from the Province of Alberta, employers and employees. Contribution rates are set on the basis that the additional contributions will eliminate the unfunded liability on or before December 31, 2043. The rate for the additional contributions to eliminate the unfunded liability for each of employer and employee at December 31, 2001 is 0.07% (2000 - 0.475%) of salary and the rate for the Province of Alberta is 1.25% (2000 - 1.25%) of salary. Additional contributions made by the University amounted to \$374 (2001 - \$861), which are included in pension expense for the year.

Until December 31, 2000 the Universities Academic Pension Plan was established through a separate provincial statute, and the Provincial Treasurer of Alberta was the trustee of the plan. Effective January 1, 2001 the Universities Academic Pension Plan became a non-statutory pension plan subject to the Employment Pension Plans Act of Alberta.

(in thousands of dollars)

MARCH 31, 2002

8. Long-term Debt

	Collateral	Maturity Date	Interest Rate %	Amount Outstanding	
				2002	2001
Mortgages payable to CMHC*:					
Lister Residences	Title to land, building	July 2014	5.125	\$ 1,665	\$ 1,759
Michener Park Phase I	Title to land, building	April 2018	5.875	2,886	2,992
MacKenzie Hall	Title to land, building	November 2018	6.250	1,513	1,563
Debentures payable, Province of Alberta:					
Extension Centre - AMFC*	None	October 2002	7.875	137	265
Housing Union Building	None	June 2008	5.387	2,342	2,650
South Field Car Park - AMFC	None	November 2014	10.250	1,575	1,632
Extension Centre - AMFC	None	October 2017	8.750	7,192	7,397
Steam Turbine Generator - AMFC	Equipment, cash flows	May 2020	6.250	16,504	19,200
Newton Place - AMFC	Title to land, building	August 2024	6.000	15,375	15,684
Bank loans payable:					
Newton Place	None	February 2003	6.210	2,602	2,602
East Campus Housing	Title to land, building	August 2008	6.900	1,623	1,819
				53,414	57,563
Less current portion				4,628	1,960
				<u>\$ 48,786</u>	<u>\$ 55,603</u>

*Canada Mortgage and Housing Corporation (CMHC)

*Alberta Municipal Financing Corporation (AMFC)

The principal portion of long-term debt repayments required over the next five years are as follows:

	Total
2003	\$ 4,628
2004	\$ 2,012
2005	\$ 2,143
2006	\$ 2,283
2007	\$ 2,433

The estimated fair value for mortgages, debentures and loans payable as at March 31, 2002 is \$53,656 (2001 - \$59,140).

(in thousands of dollars)

MARCH 31, 2002

9. Deferred Contributions

Deferred contributions represent unspent externally restricted grants and donations. Changes in the deferred contributions balances are as follows:

	2002			2001
	Capital	Research, Access and Special Purpose	Total	Total
Balance, beginning of the year	\$ 1,672	\$ 185,561	\$ 187,233	\$ 167,980
Grants and donations received	70,884	330,682	401,566	316,076
Recognized as revenue	-	(259,053)	(259,053)	(202,140)
Transferred to unamortized deferred capital contributions	(60,381)	(51,373)	(111,754)	(94,683)
Balance, end of the year	12,175	205,817	217,992	187,233
Less current portion	-	145,817	145,817	125,561
	\$ 12,175	\$ 60,000	\$ 72,175	\$ 61,672

Included in Research, Access, and Special Purpose deferred contributions are grants and donations received of \$51,373 (2001 - \$31,155) applied to the purchase of capital assets.

10. Unamortized Deferred Capital Contributions

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of revenue and expense. The changes in the deferred capital contributions balance are as follows:

	2002	2001
Balance, beginning of the year	\$ 475,380	\$ 415,342
Transferred from deferred contributions	111,754	94,683
Amortization to revenue	(42,380)	(34,645)
Balance, end of the year	\$ 544,754	\$ 475,380

(in thousands of dollars)

MARCH 31, 2002

11. Endowments

Endowments consist of restricted donations to the University, the principal of which is required to be maintained intact in perpetuity as well as internal allocations by the Board of Governors. The investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Board of Governors. Benefactors as well as University policy stipulate that the economic value of the endowments must be protected by limiting the amount of income that may be expended and reinvesting unexpended income. Under Section 17(1)(m) of the Universities Act, the University has the authority to alter the terms and conditions of an endowment to enable income earned by the endowment to be withheld from distribution to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment.

	2002			2001		
	Externally Restricted	Internally Restricted	Total	Externally Restricted	Internally Restricted	Total
Cumulative contributions	\$ 220,141	\$ 19,250	\$ 239,391	\$ 205,027	\$ 18,400	\$ 223,427
Cumulative capitalized earnings	226,643	25,113	251,756	212,625	26,592	239,217
	<u>\$ 446,784</u>	<u>\$ 44,363</u>	<u>\$ 491,147</u>	<u>\$ 417,652</u>	<u>\$ 44,992</u>	<u>\$ 462,644</u>

During the year the University capitalized \$14,018 (2001 - \$28,961) of earnings related to externally restricted endowments. A portion of this amount was added to externally restricted endowments through the authority provided to the University by Section 17(1)(m) of the Universities Act. The University intends that this portion be maintained in perpetuity.

The Board of Governors approved a transfer of \$1,479 (2001 - \$1,523) of internally restricted endowment net assets to unrestricted net assets deficiency. This is the second of three annual transfers from the Endowment Fund for the Future (EFF) to allocate resources to assist in funding the cost of the University's fund raising campaign. The University also approved a transfer of \$850 (2001 - \$0) from unrestricted net assets to internally restricted endowments to allow the University to offer additional Henry Marshall Tory Chair appointments. Furthermore, the University transferred \$1,230 (2001 - \$0) from unrestricted net assets to externally restricted endowment net assets. This transfer reflected endowment contributions previously recorded as unrestricted contributions and the establishment of specific endowment trusts by the University. The combined effect of these transfers increased the unrestricted net assets deficiency by \$601.

(in thousands of dollars)

MARCH 31, 2002

12. Investment in Capital Assets and Collections

Net assets invested in capital assets and collections represents the carrying amount of capital assets and collections less unamortized deferred capital contributions and any related debt, including internal loans held by endowment resources net of internal deferred financing charges relating to such loans.

	<u>2002</u>	<u>2001</u>
Capital assets and collections at net book value	\$ 866,770	\$ 780,407
Less amounts financed by:		
Unamortized deferred capital contributions	(544,754)	(475,380)
Long-term debt related to capital expenditures	(52,768)	(51,477)
Internal car park loans held by endowments, net of deferred finance charges	<u>(3,059)</u>	<u>(3,464)</u>
Balance, end of year	<u>\$ 266,189</u>	<u>\$ 250,086</u>

	<u>2002</u>	<u>2001</u>
The changes during the year are as follows:		
Investment in capital assets and collections, beginning of year	<u>\$ 250,086</u>	<u>\$ 249,744</u>
Acquisition of capital assets and collections	42,993	41,718
Repayment of long-term debt	2,365	1,876
Long-term debt, new financing	(3,249)	(15,718)
Net book value of asset disposals	(2,488)	(1,307)
Amortization of capital assets	<u>(24,259)</u>	<u>(27,025)</u>
Net investment in capital assets	15,362	(456)
Contributions of assets not subject to amortization	<u>741</u>	<u>798</u>
Increase for the year	<u>16,103</u>	<u>342</u>
Investment in capital assets and collections, end of year	<u>\$ 266,189</u>	<u>\$ 250,086</u>

(in thousands of dollars)

MARCH 31, 2002

13. Budget Comparison

A Treasury Board Directive under the Financial Administration Act of the Province of Alberta requires universities to disclose their annual approved budgets in their financial statements. The following is a comparison of the approved budget with actual revenues and expenses.

	Actual	Budget	Variance
Revenue:			
Government sources	\$ 430,511	\$ 418,363	\$ 12,148
Credit course tuition and related fees	125,761	120,416	5,345
Grants, donations, investment and royalty income	85,946	90,737	(4,791)
Sales of goods and services	130,915	98,637	32,278
	<u>773,133</u>	<u>728,153</u>	<u>44,980</u>
Amortization of deferred capital contributions	42,380	46,700	(4,320)
	<u>815,513</u>	<u>774,853</u>	<u>40,660</u>
Expense:			
Salaries	413,498	417,988	4,490
Employee benefits	69,979	67,656	(2,323)
Materials, supplies, services and other expenses	235,226	215,299	(19,927)
Amortization of capital assets	66,639	70,349	3,710
	<u>785,342</u>	<u>771,292</u>	<u>(14,050)</u>
Excess of revenue over expense	<u>\$ 30,171</u>	<u>\$ 3,561</u>	<u>\$ 26,610</u>

14. Salary Disclosure

A Treasury Board Directive under the Financial Administration Act of the Province of Alberta requires the disclosure of certain salary and employee benefit information.

	2002			2001
	Salary	Benefits and Allowances	Total	Total
President	\$ 305	\$ 32	\$ 337	\$ 278
Vice-Presidents:				
Provost and Vice-President Academic	246	13	259	218
Vice-President Research	176	12	188	198
Vice-President Finance and Administration	242	5	247	228
Vice-President External Affairs	184	13	197	168
Vice-President Facilities and Operations	117	8	125	-

The Chair and members of the Board of Governors, the Chancellor and members of the Senate, and external members of the Board's standing committees receive no remuneration for the services that they provide to the University.

Benefits include Employment Insurance, Canada Pension Plan and Workers Compensation Board premiums, pension plan contributions, Alberta Health Care, group life insurance, supplementary health care, short and long-term disability plans, dental plan, accidental disability and dismemberment, and remission of tuition fees. A car allowance is included in the benefits and allowances for the President.

Effective July 1, 2001 the Board of Governors divided the Finance and Administration Portfolio into two portfolios (Finance and Administration, Facilities and Operations). The Facilities and Operations portfolio was filled in an acting capacity from July 1, 2001 to February 28, 2002 and was vacant for the month of March 2002. The Research portfolio was vacant for the month of July 2001.

(in thousands of dollars)

MARCH 31, 2002

15. Contingent Liabilities and Commitments

The University is a defendant in a number of legal proceedings. Claims against the University in these proceedings have not been reflected in these financial statements. While the ultimate outcome and liability of these proceedings cannot be reasonably estimated at this time, the University believes that any settlement will not have a material adverse effect on the financial position or the results of operations of the University.

Academic staff members are entitled to a Professional Expense Allowance, enabling them to incur expenditures on behalf of the institution for expenses related to their teaching, research, professional, or general University duties. At March 31, 2002 approximately \$3,410 (2001- \$3,647) of such allowances is committed for expenses not yet incurred.

The University is one of fifty members of CURIE, the Canadian Universities Reciprocal Insurance Exchange, a self-insurance reciprocal established to share the insurable property, liability, and errors and omissions risks of member universities. The projected cost of claims against the exchange is based on actuarial projections and is funded through members' premiums. As at December 31, 2001 CURIE had a surplus of \$7,226 (2000 - \$6,693) of which the University's pro rata share is approximately 4.71% (2000 - 4.74%) on an ongoing basis.

The University's total budget commitment, as approved by the Board of Governors, for the costs of construction of an undergraduate student residence amounts to \$24,000.

In 2001 the University entered into a five-year agreement (\$41,217) for information technology support with an external party. The cost of \$31,752 over the remaining four-year period provides for manager application support and manager development services for the University's administrative information systems.

16. Related Party Transactions

The University operates under the authority and statutes of the Province of Alberta. Transactions between the University and the Province of Alberta are summarized below.

	2002	2001
Alberta Learning:		
Operating grant	\$ 245,148	\$ 238,894
Access funding	18,016	13,083
Envelope funding	10,395	3,178
Other	14,547	11,704
Total Alberta Learning	288,106	266,859
Total other provincial ministries, departments, and agencies	105,785	84,372
Total contributions received	393,891	351,231
Less: deferred contributions	(51,303)	(42,129)
Revenue from provincial government	<u>\$ 342,588</u>	<u>\$ 309,102</u>

17. Comparative Figures

Certain 2001 figures have been reclassified to conform to the presentation adopted in the 2002 financial statements.



UNIVERSITY OF ALBERTA

FINANCIAL STATEMENTS

for the Year Ended March 31, 2003

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University of Alberta
Financial Analysis
For the year ended March 31, 2003

To reflect the nature and restrictions placed on its revenue sources, the University classifies its revenues into separate categories. The major classification distinction is whether the revenues represent unrestricted or restricted contributions. Unrestricted contributions are flexible in that they are available to the University's Board of Governors to allocate for spending, as it deems appropriate. Such contributions are recognized as revenue immediately. The University, on the other hand, can only expend restricted contributions for the specific purposes defined by the external sponsor or donor. Such contributions are deferred and recognized as revenue when conditions of the contributions are met. The term "deferrals" is used to describe the deferred component.

Within this structure, the University segregates its financial activity into six funds to further enhance accountability, budgetary control and stewardship of resources:

Unrestricted:

- General Operating - this fund includes the provincial government base operating grant, tuition fee revenue, investment income available for general spending and any new revenues generated by faculties and administrative units.
- Ancillary Services - these University business enterprises provide goods and services to the University community and to individuals, companies and organizations external to the University. These units are expected to operate on a break-even basis, covering their full operating and capital costs.
- Access - funded by the provincial government for the purposes of implementing specific new programs or expanding existing programs. Viable programs may become part of the base operating grant in subsequent years.

Restricted:

- Research - funded by grants and contracts from external sponsors, donations and endowment investment income available for spending.
- Special Purpose - funded by grants and contracts from external sponsors, donations and endowment investment income available for spending. Expenditures include scholarships and bursaries, and other special projects involving teaching and public service.
- Capital - funded by provincial grants and other donations. Funds are designated for the acquisition of buildings, equipment and furnishings, including major renovations.

For financial statement reporting purposes, the Statement of Financial Position, Statement of Revenue and Expense, and Statement of Changes in Net Assets combine the assets, liabilities, equity and revenues and expenses of all funds.

Excess of Revenue over Expense

The University ended the 2003 fiscal year with a \$37.3 million deficiency of revenue over expense (2002 - \$31.8 excess of revenue over expense) and a \$45.5 million unrestricted net assets deficiency (2002 - \$7.8). The decrease of \$69.1 million, from an excess of revenue over expense to a deficiency, is primarily due to decreased investment income of \$45.5 million. The investment income decrease is mainly attributable to losses on the endowment net assets due to declining yields (2003 - 12.6% loss; 2002 - 7.1% return). In addition, in 2002 the federal government provided a one-time payment of \$11.9 million for indirect costs associated with research activity for the years 2002 and prior, and the University also received \$7.8 million for the sale of the Viking Kinsella natural gas properties; there were no such additional revenues in 2003.

Revenues

The following table highlights the various revenue sources both before and after deferrals:

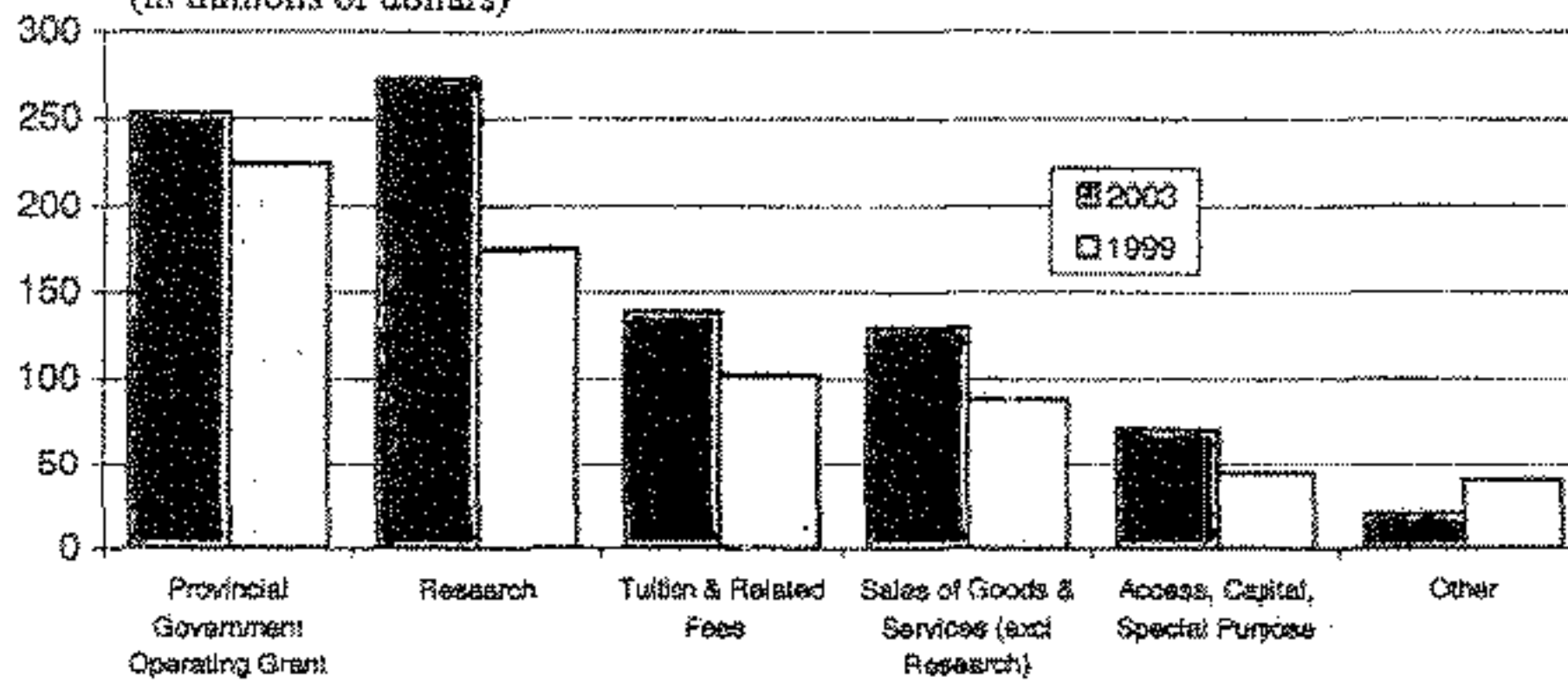
	2003		2002	
	(000's)	(000's)	(000's)	(000's)
	Revenue per Financial Statements	Deferrals	Revenue before Deferrals	Revenue before Deferrals
Provincial government	\$ 375,325	\$ 39,951	\$ 415,276	\$ 393,891
Other government sources	90,872	45,245	136,117	147,983
Credit course tuition and related fees	138,617	-	138,617	125,761
Grants	27,884	16,456	44,340	47,945
Investment income (loss)	(8,171)	-	(8,171)	43,534
Donations	15,304	2,840	18,144	24,399
Royalty income	1,249	-	1,249	2,000
Sales of goods and services	140,232	-	140,232	134,180
Revenue	<u>\$ 781,312</u>	<u>\$ 104,492</u>	<u>\$ 885,804</u>	<u>\$ 919,693</u>

Total Revenues (before deferrals)

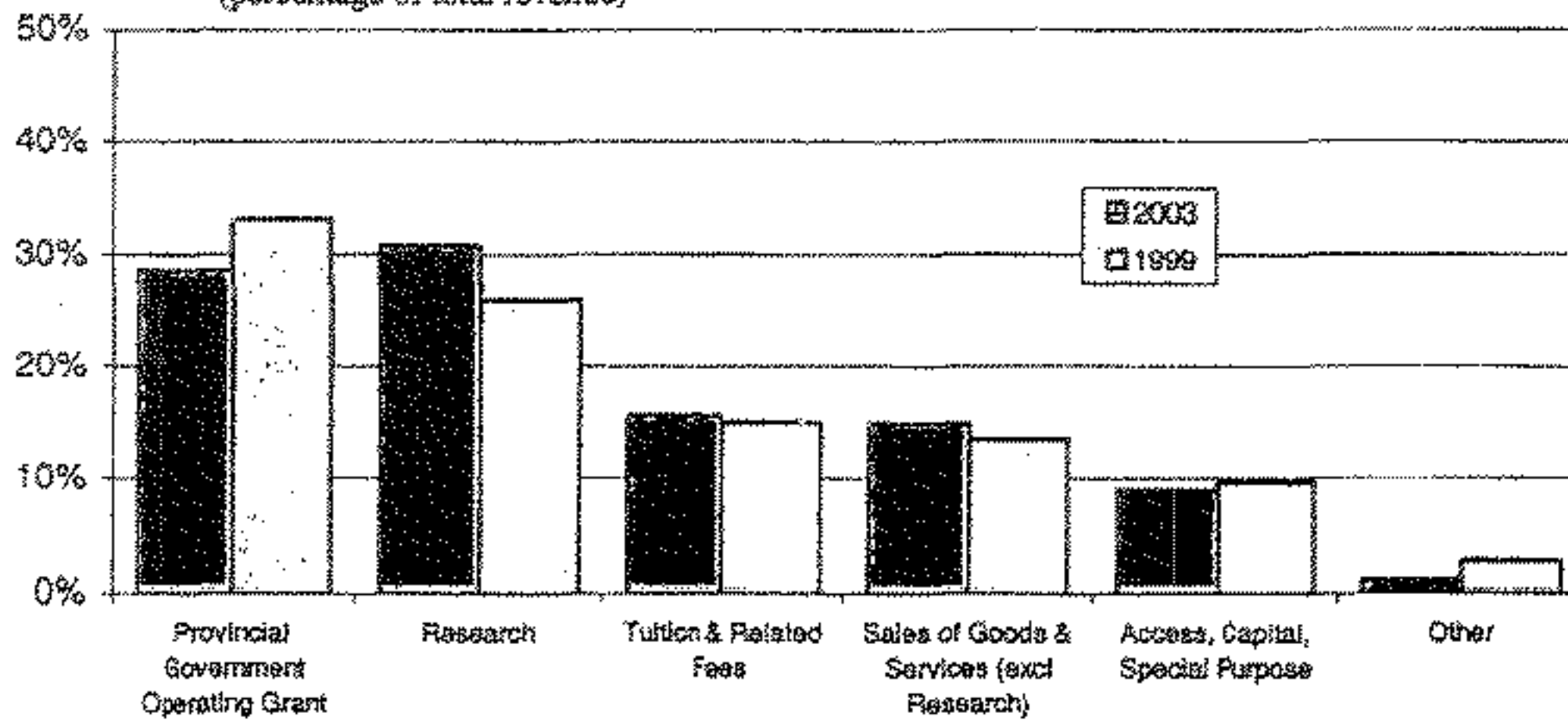
The composition of University funding is changing. While the University's major funding continues to come from the provincial operating grant and tuition fees, the increase in revenue in recent years is mainly due to increases in restricted funds for sponsored research, infrastructure and specific academic programs. The provincial government base operating grant has declined as a percentage of gross revenues during the past five-year period from 33.1% in 1999 to 28.6% in 2003; however the funding for the current year represents an improvement as compared to the prior year (2002 - 26.7%).

In 2003 total revenues (before deferrals) amounted to \$885.8 million (1999 - \$675.8), representing a 31.1% increase.

Five-Year Revenue Comparative
(in millions of dollars)



Five-Year Revenue Comparative
(percentage of total revenue)



Provincial Government

In 2003, total provincial government revenue (before deferrals) amounted to \$415.3 million, representing an increase of \$21.4 million (5.4%) compared to the prior year.

	<u>2003</u> (000's)	<u>2002</u> (000's)	<u>Change</u> (000's)
Unrestricted:			
Base operating grant	\$ 252,868	\$ 245,148	\$ 7,720
Performance envelope award	-	2,675	(2,675)
Access grants	16,809	17,581	(772)
Other	<u>25,912</u>	<u>19,869</u>	<u>6,043</u>
	295,589	285,273	10,316
Restricted:			
Capital grants (including capital Access grants)	23,136	32,754	(9,618)
Research grants	83,549	65,662	17,887
Other	<u>13,002</u>	<u>10,202</u>	<u>2,800</u>
	119,687	108,618	11,069
Revenue (before deferrals)	<u>\$ 415,276</u>	<u>\$ 393,891</u>	<u>\$ 21,385</u>

The base operating grant increased by 3.1% compared to the prior year. Other unrestricted funding includes \$2.4 million of additional grants for enrolment growth. Capital grants includes new funding for Boiler #6 of \$6.8 million, which is offset by a decrease to the Infrastructure Renewal Envelope grant of \$17.4 million.

Research

Research revenue (before deferrals) amounted to \$272.9 million, representing a decrease of \$13.1 million (4.6%) compared to the prior year. The main reason for this decrease was the absence of indirect cost recovery funding from the federal government in 2003 and investment losses on endowments that support research activity. Increased funding by the provincial government reduced the impact of these decreases.

	<u>2003</u> (000's)	<u>2002</u> (000's)	<u>Change</u> (000's)
Research revenue by source:			
Provincial government	\$ 83,606	\$ 65,708	\$ 17,898
Other government sources	132,283	143,130	(10,847)
Grants and donations	48,061	48,456	(395)
Investment income	3,442	20,620	(17,178)
Sales of goods and services	<u>5,461</u>	<u>8,013</u>	<u>(2,552)</u>
Research revenue (before deferrals)	<u>\$ 272,853</u>	<u>\$ 285,927</u>	<u>\$ (13,074)</u>

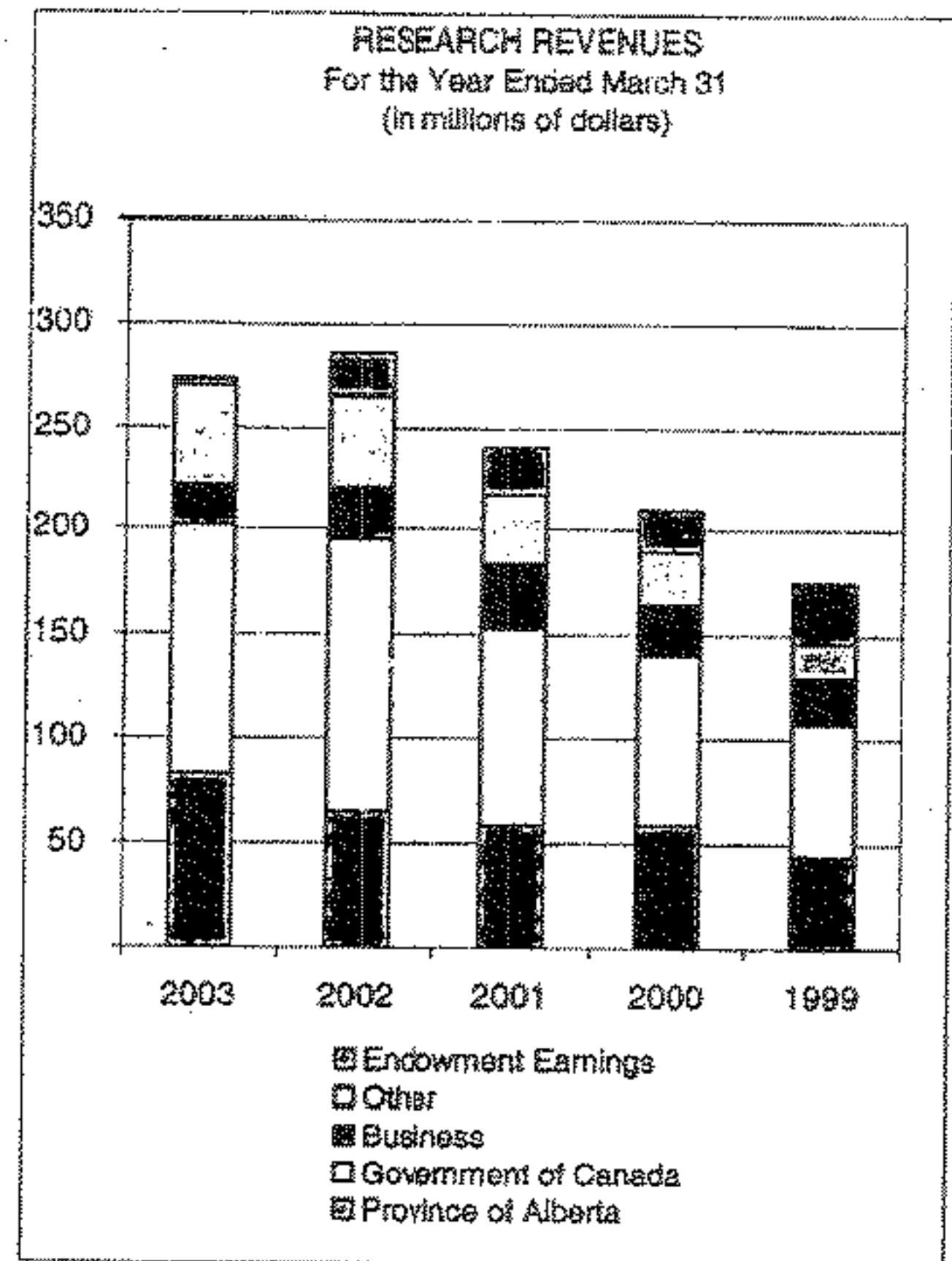
The quality of University of Alberta research is reflected in the success of its researchers in competitions for research funding. The University ranks amongst the top 5 universities in Canada in funding from all three national granting councils in 2002 (latest year for which ranking is available), and ranks third in funding received from the Natural Sciences and Engineering Research Council (NSERC). Funding from the Canada Research Chairs program over the past 3 years amounts to \$14.6 million. The University also attracts support from a wide variety of government, business and private sources for research of international stature.

The University continues to be very successful in meeting its aggressive funding targets for increased research activity. The University's strategic business plan has set a sponsored research funding goal of \$400 million per year by fiscal year 2006.

Government funding support continues to demonstrate their commitment to research activities and infrastructure support. The Province of Alberta increase for the past year includes: Alberta Innovation and Science for new programs (\$10.9) and for the National Institute for Nanotechnology (NINT \$8.0) and Alberta Gaming Research Institute (\$6.3). Though funding from individual federal government agencies changed, total research funding from the federal government remained the same. In 2002 the federal government provided a one-time payment of \$11.9 million for indirect costs associated with research activity. There was no such funding for 2003, as the new federal government program will be implemented in fiscal 2004. Funding from business decreased by \$5.6 million. Other sources increased by \$5.2 million, which include associations, foundations, institutes and individuals. Endowment earnings decreased by \$17.6 million due to investment losses; therefore \$15.7 million was transferred from prior years cumulative earnings to fund research expenditures.

Research funding has increased by 55.6% during the past five years. In addition to increased support from government (87.4%), other sources (as noted above) have increased for the past five-year period (200.3%). Research activities funded from the business sector decreased 14.3% during the past five-year period. In 2003, research funding represented 30.8% of total revenues (before deferrals) as compared to 25.9% in 1999.

The quality of research at the University and the receptive economic environment in Edmonton has resulted in an acceleration of technology transfer activity in recent years with 63 active spin-off companies. The licensing of patents and other research and development products has generated \$16.9 million in revenue over the past 5 years. Royalty revenue decreased by \$0.8 million compared to last year, as certain technologies have matured and are facing competitive pressure from new products.



Tuition and Related Fees

Tuition and related fees amounted to \$138.6 million (2002 - \$125.8). The increase is attributable to a 3.7% increase in tuition coupled with a 4.6% enrolment increase.

The University's tuition revenue for 2003 is 23.6% of net operating expenses, well under the 30% cap set by Alberta Learning. The tuition fees (instructional fees only) for an Arts or Science student with a full time course load in 2003 was \$4,032 compared with \$3,329 in 1999, representing a 21.1% increase.

Investment Income (Loss)

In 2003, the University retroactively changed its accounting policy on the valuation of investments from recording long-term investments at cost to recording these investments at market value. The investment loss for the year was \$8.2 million (before deferrals). This marks a sharp decline from the income of \$43.5 million (before deferrals) recorded in the prior year. Investments primarily fall into the following two categories, the Unitized Endowment Pool (UEP) and the Non-Endowed Investment Pool (NEIP).

The UEP recorded a loss of 12.6% for the year (2002 - 7.1% return). This compares with the benchmark loss of 12.7% (2002 - 2.6% return). As at March 31, 2003 the benchmark was comprised of the following: 2% Scotia Capital 91 Day T-Bill return, 32.5% Scotia Capital Universe Bond Index, 3.5% Scotia Capital Real Return Bond Index, 19.5% S&P/TSX Composite Index, and 42.5% Morgan Stanley Capital International World Index. As the UEP was in transition during the year to a new investment policy, the benchmark was changed on a monthly basis to reflect this transition. The transition to the new investment policy is expected to be substantially completed in July 2003.

The NEIP, comprised of 3 distinct strategies, recorded an overall loss of 0.2% for the year. The highly secure short-term money market investments had a return of 2.7% (2002 - 3.8%); compared with the benchmark Scotia Capital 91 Day T-Bill return of 2.7% (2002 - 3.7%). The high quality mid-term bond portfolio had a return of 13.4% (2002 - 3.0%); compared with benchmark Scotia Capital Short Term Bond Index return of 7.0% (2002 - 5.8%). These positive results were unfortunately negated by the loss in the year of 12.6% (2002 - 7.1% return) on the long-term portion of the NEIP, which is invested in the UEP.

Sales of Goods and Services

Ancillary services units and academic and administrative units generate revenues through the sale of goods and services to individuals, companies and organizations external to the University. Also included in sales are miscellaneous types of revenues received by the University. Sales of goods and services amounted to \$140.2 million (2002 - \$130.9) and represent 17.0% of total revenues.

The ancillary services units generated sales of \$62.9 million for 2003 (2002 - \$59.3). The units with the largest sales are: Bookstore (\$21.4); Housing and Food Services (\$15.8); Utilities (\$13.4) and Parking Services (\$8.4).

The remaining \$77.3 million (2002 - \$71.6) represents a \$5.7 million increase in sales, with the most significant activity as follows: Faculty of Medicine and Dentistry (\$33.8) which is mainly revenue from the Capital Health Authority (CHA) in support of positions that provide an interaction between the academic environment and the clinical services environment; non credit tuition and related fees generated by the Faculty of Extension (\$7.4); Physical Education and Recreation revenue generated by athletic teams, sport camps, sports clinics and rentals of facilities (\$5.6); Faculty of Business professional and executive development programs (\$2.7) and Faculty of Agriculture, Forestry and Home Economics (\$2.3) which is mainly from the sale of animal, plant and related products.

The \$5.7 million increase in faculty and administrative units is due to increased activity or new sales activity primarily in the following areas: increased billing activity for the Faculty of Medicine (\$9.5); decrease of institutional revenues due to Viking Kinsella sale proceeds received in 2002 (\$6.1) and a net general increase across all other units (\$2.3).

Expenses

Over a five-year period expenses have increased by 40.2%, from \$615.6 million in 1999 to \$863.1 million in 2003.

Total expenses for 2003 increased by \$77.7 million (9.9%) as compared to the prior year (2002 - \$785.3). The main components of the increased expense as compared to the prior year are as follows:

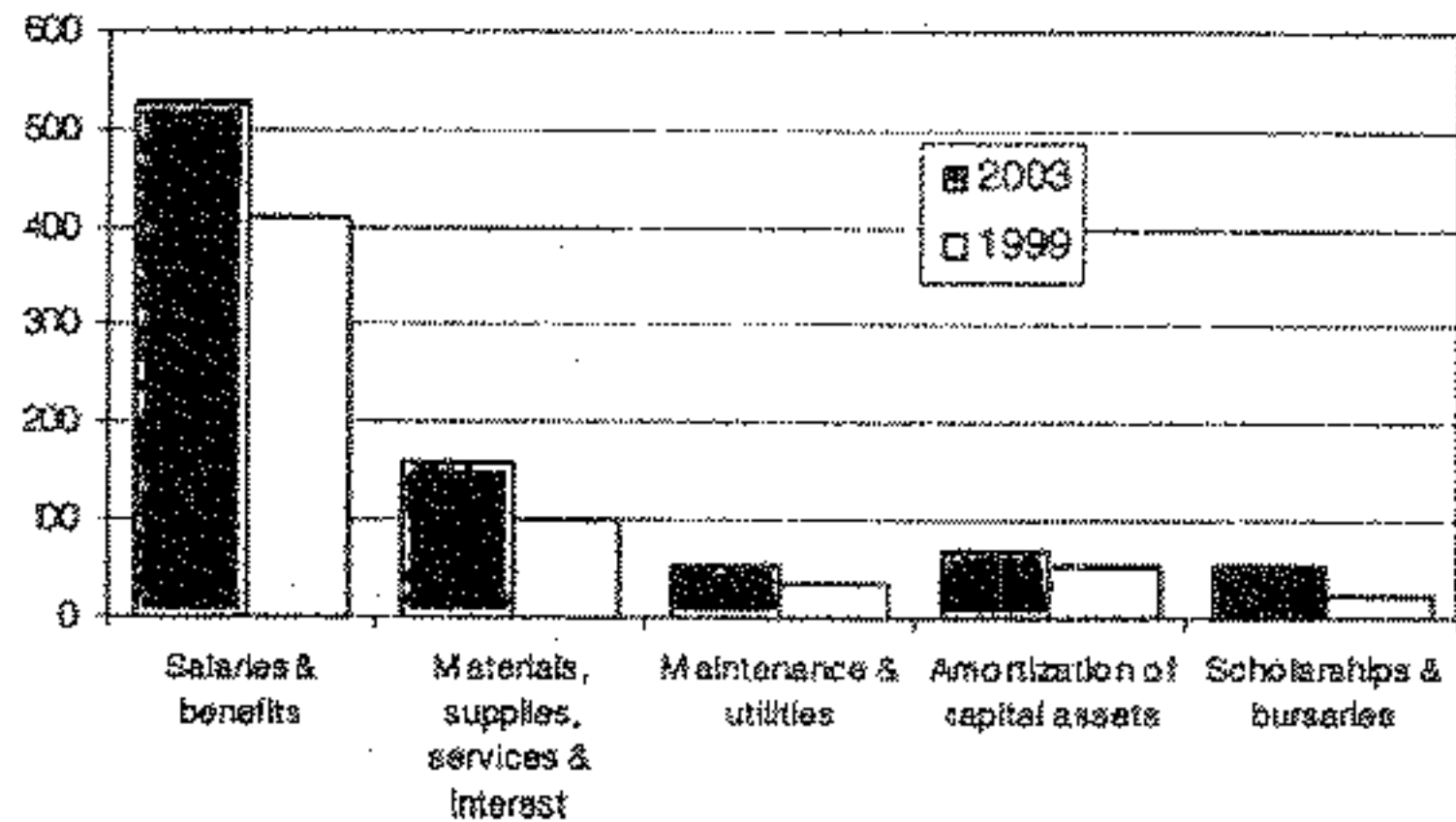
Salaries expense increased by \$37.2 million (9.0%): \$14.9 million in the general operating fund, \$14.5 million in the research fund and \$7.8 million in the remaining funds. The collective bargaining process resulted in negotiated salary increases for academic and support staff that averaged 4% and in addition staff received merit increases. There were also increases in new hires (approximately 440) relating to the increased level of activity (2003 - approx. 8430 staff; 2002 - approx. 7990 staff).

Benefits expense increased by \$9.3 million (13.3%): \$4.3 million in the operating fund, \$2.5 million in the research fund and \$2.5 million in the remaining funds. This increase is due to increased salary costs and increased staff numbers coupled with increased benefit rates.

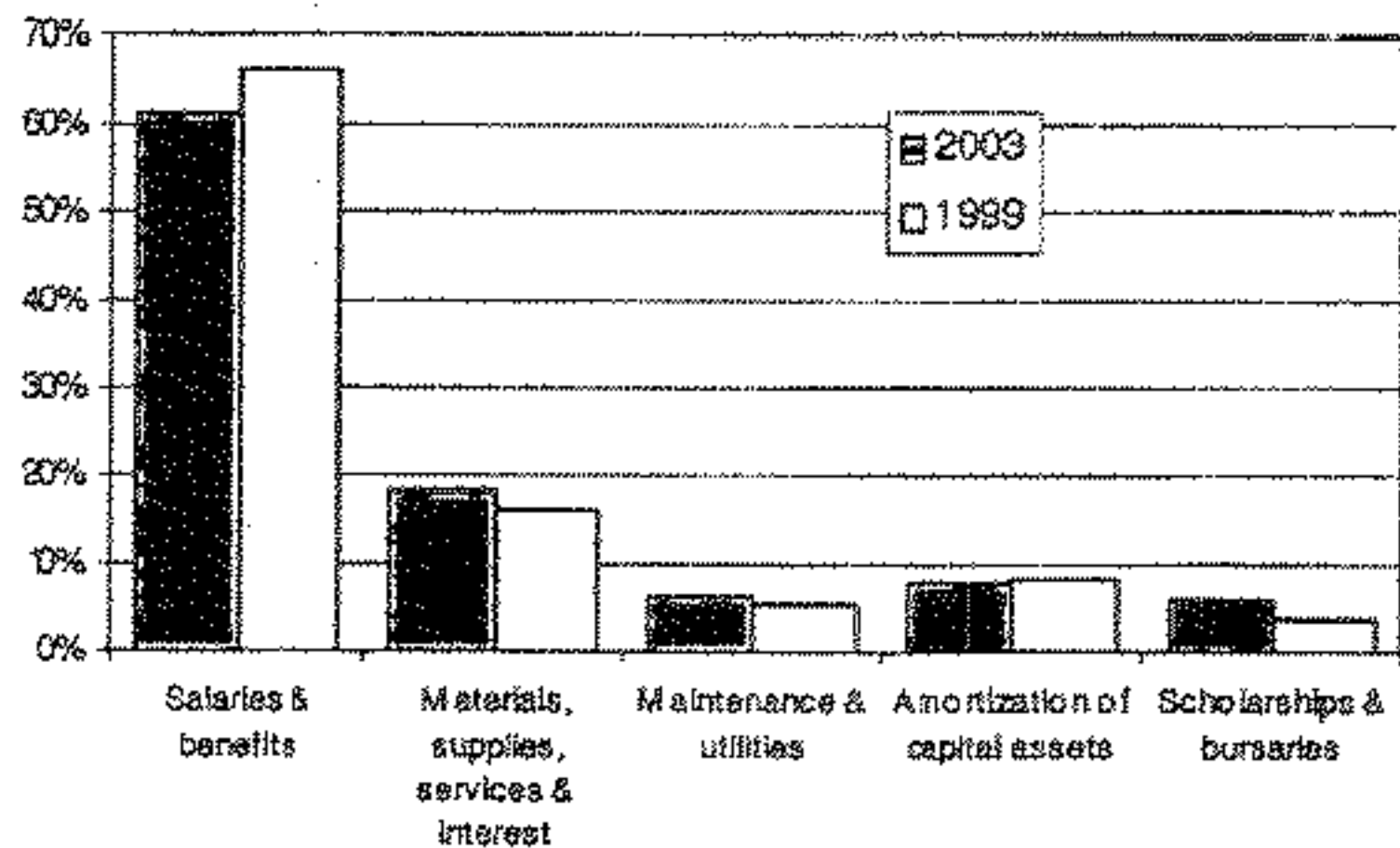
Materials, supplies and services expense increased by \$17.0 million (12.5%) and is mainly attributable to the increased research activity (\$10.5) and increased ancillary cost of sales (\$3.1).

Maintenance and utilities expense increased by \$6.8 million (14.9%) and is mainly due to increases in the cost of electrical power and natural gas.

Five-Year Expense Comparative
(in millions of dollars)



Five-Year Expense Comparative
(percentage of total expense)



Scholarships and bursaries expenses increased by \$5.2 million (11.1%). This increase was spread throughout a number of initiatives and programs. A variety of scholarship programs received a \$2.8 million increase in support from the general operating fund. An additional \$1.5 million was due to increased funding within sponsored research and includes increases in program funding by NSERC (\$1.0) and Canadian Institutes of Health Research (CIHR) (\$0.3). In addition, scholarships funded from endowments increased by \$1.1 million. During the past five years scholarship and bursary payments have increased from \$22.3 million to \$51.9 million (a 132.7% increase), demonstrating an ever increasing commitment to student assistance.

Amortization of capital assets increased by only \$2.1 million (3.1%) this year as the costs of the Administration Systems Renewal Project (ASRP) are now fully amortized.

All other areas of expense were comparable to the prior year.

Financial Position

The University's net assets position decreased by \$82.8 million due to a decrease in endowment value of \$71.8 million, an increased investment in capital assets and collections of \$26.7 million and a decrease in the unrestricted net assets of \$37.7 million.

Endowments

Endowments consist of restricted donations to the University, the principal of which is required to be maintained intact in perpetuity, as well as internal allocations by the Board of Governors. The investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Board of Governors. University policy protects the economic value of the endowments by limiting the amount of income that may be expended and reinvesting unexpended income. The University has long recognized the value of permanent funding support and through successful fund raising efforts over the years now ranks fourth overall amongst Canadian universities in terms of total endowment funds.

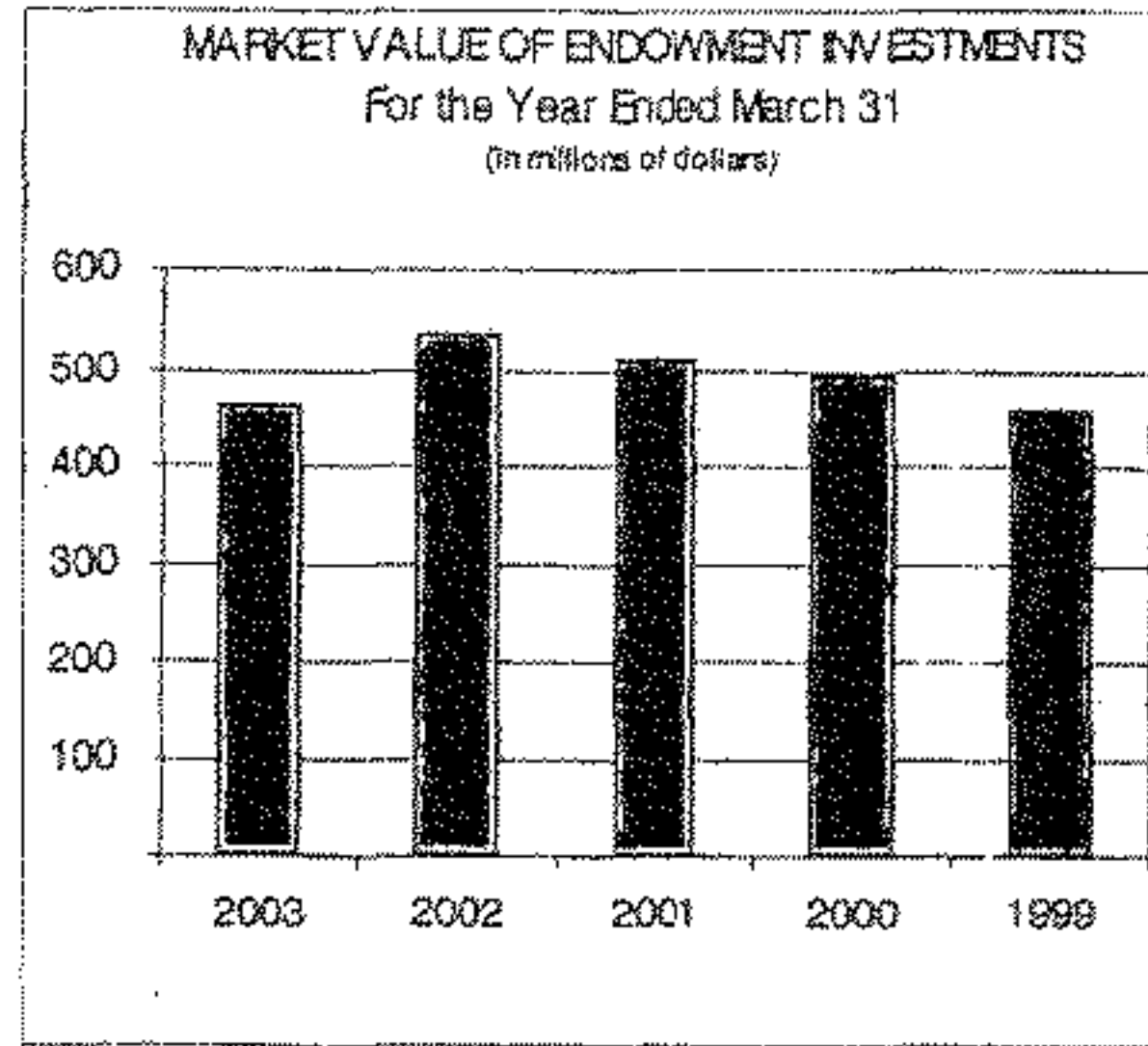
Endowment funding supports a variety of key initiatives in the areas of Scholarships, Chairs, Visiting Speakers, Research and many other activities and programs. The spending allocation on these programs was \$28.3 million (2002 - \$30.9) for both internally restricted and externally restricted endowments, and represents a 46.6% increase in funds available for spending compared to five years ago (1999 - \$19.3). The spending allocation is based on a moving average of the endowment's market value.

Externally restricted endowments decreased by \$70.5 million. The University received \$15.2 million in gifts of endowment principal. However, cumulative capitalized earnings of \$85.7 million were required to cover the investment loss on externally restricted endowments of \$61.3 million and the \$24.4 million approved spending allocation.

Market Value of Endowment Investments

The market value of endowments decreased by \$71.8 million this year. The endowment investment policy, which is long term in nature, is designed to meet the funding objectives of the University by maximizing returns with an acceptable level of risk, while maintaining the real capital value of the endowment and providing for an appropriate level of spending.

Endowment investments recorded a loss of 12.6% for the year and averaged a return of 4.4% on a five-year annualized basis and a return of 11.0% on a ten-year annualized basis. Despite this past year's poor absolute performance results, the strong long-term performance during a period of very low inflation has resulted in the market value of the endowments in aggregate remaining above their inflation-adjusted target.



Acquisition of Capital Assets and Collections

	<u>2003</u> (000's)	<u>2002</u> (000's)	<u>Change</u> (000's)
Buildings and utilities	\$ 74,273	\$ 71,807	\$ 2,466
Equipment, furnishings and software	56,690	69,526	(12,836)
Library materials	8,422	7,116	1,306
Permanent collections	<u>7,224</u>	<u>7,039</u>	<u>185</u>
Total acquisitions	<u>\$ 146,609</u>	<u>\$ 155,488</u>	<u>\$ (8,879)</u>

The additions to buildings and utilities are distributed amongst many different University structures and facilities, both on the main campus and at off-campus locations. The most significant additions to individual buildings in 2003 were as follows: \$16.3 million towards construction of a new Undergraduate Residence, \$10.6 million towards planning and site preparation for the Health Research Innovation Facility (HRIF), \$8.4 million in building systems programs, \$6.8 million towards construction of Boiler #6 and \$4.0 million towards construction of the Natural Resources Engineering Facility (NREF).

The \$12.8 million decrease in the current year in equipment, furnishings and software is mainly due to greater activity in the prior year, which included equipment for the new Electrical and Computer Engineering Research Facility (ECERF) and the Engineering Teaching and Learning Centre (ETLC), and the purchase and installation of the telephone and voice mail system.

Unrestricted Net Assets (Deficiency)

The decrease of \$37.7 million in the unrestricted net assets is summarized in the table below:

	<u>2003</u> (000's)	<u>2002</u> (000's)	<u>Change</u> (000's)
Unexpended (over expended) funds:			
General operating	\$ (28,490)	\$ 2,292	\$ (30,782)
Access grants	7,333	8,458	(1,125)
Ancillary services	11,295	10,454	841
Special purpose	28,501	24,703	3,798
Research	15,063	16,092	(1,029)
Sub-total	<u>33,702</u>	<u>61,999</u>	<u>(28,297)</u>
Cumulative excess earnings (internally restricted endowments)	11,172	16,798	(5,626)
Accrued employee benefits	<u>(90,338)</u>	<u>(86,581)</u>	<u>(3,757)</u>
Total unrestricted net assets (deficiency)	<u>\$ (45,464)</u>	<u>\$ (7,784)</u>	<u>\$ (37,680)</u>

The most significant factors contributing to the decrease in general operating funds were a decrease in investment income of \$12.1 million and the absence of Federal government indirect cost recovery funding in 2003 (2002 - \$11.9). In addition, the operating fund received \$6.1 million in 2002 for the sale of the Viking Kinsella natural gas properties; there were no such additional revenues in 2003.

The decrease in cumulative excess earnings on the internally restricted endowments is due to investment losses.

The increase in accrued employee benefits included the vacation pay liability (\$1.7), long-term disability liability (\$0.8) and early retirement benefit liability (\$1.2).

UNIVERSITY OF ALBERTA
STATEMENT OF ADMINISTRATIVE RESPONSIBILITY
FOR FINANCIAL REPORTING

The administration of the University is responsible for the preparation and for the integrity and objectivity of the accompanying financial statements and the notes thereto. The administration believes that the financial statements present fairly the University's financial position as at March 31, 2003 and the results of its operations for the year then ended.

The financial statements have been prepared in accordance with generally accepted accounting principles. Where alternative accounting methods exist, those deemed most appropriate in the circumstances have been chosen. Financial statements are not precise, since they include certain amounts based on estimates and judgments. Such amounts have been determined on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the administration has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements. The integrity of internal controls is reviewed on an ongoing basis by the Internal Audit Department.

The Board of Governors carries out its responsibility for review of the financial statements principally through its Audit Committee. The majority of the members of the Committee are not officers or employees of the University. This committee meets regularly with administration and with external and internal auditors to discuss the results of audit examinations and financial reporting matters. The external and internal auditors have full access to the Board Audit Committee with and without the presence of the administration. The Board of Governors of the University of Alberta has approved the financial statements.

The financial statements for the year ended March 31, 2003 have been audited and reported on by the Auditor General for the Province of Alberta whose report outlines the scope of his audit and presents his opinion on the financial statements.



Roderick Fraser
President



Phyllis Clark
Vice President (Finance and Administration)

May 27, 2003



AUDITOR'S REPORT

To the Board of Governors
of The University of Alberta

I have audited the statement of financial position of The University of Alberta as at March 31, 2003 and the statements of revenue and expense and changes in unrestricted net assets (deficiency), changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

 FCA
Auditor General

Edmonton, Alberta
May 27, 2003

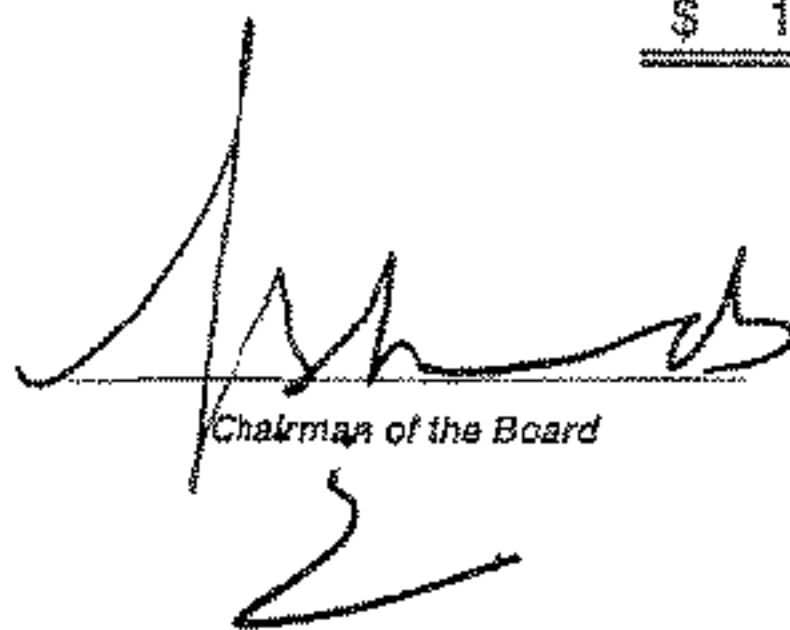
STATEMENT OF FINANCIAL POSITION

UNIVERSITY OF ALBERTA

AT MARCH 31, 2003
(in thousands of dollars)

	2003	Restated (Note 3) 2002
ASSETS		
Current Assets		
Cash and short-term investments	\$ 152,131	\$ 148,450
Accounts receivable and accrued interest	122,985	102,160
Other assets	11,142	10,729
	<u>286,258</u>	<u>261,339</u>
Investments (Note 4)	579,426	645,309
Capital assets and collections (Note 7)	943,079	866,770
	<u>\$ 1,808,763</u>	<u>\$ 1,773,418</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Outstanding cheques	\$ 16,358	\$ 15,100
Accounts payable and accrued liabilities	88,185	59,753
Current portion of employee benefit liabilities (Note 8)	39,495	38,062
Current portion of long-term debt (Note 9)	2,499	4,628
Deferred contributions, research and other (Note 10)	159,623	134,182
Deferred revenue	15,124	14,556
	<u>321,284</u>	<u>266,281</u>
Employee benefit liabilities (Note 8)	50,843	48,519
Long-term debt (Note 9)	72,163	48,786
Deferred contributions, research and other (Note 10)	75,000	60,000
Deferred contributions, capital (Note 10)	2,592	15,352
Unamortized deferred capital contributions (Note 11)	576,167	540,937
	<u>1,098,049</u>	<u>979,875</u>
Net Assets		
Endowments (Note 12)	459,441	531,321
Investment in capital assets and collections (Note 13)	296,737	270,006
Unrestricted net assets (deficiency)	(45,464)	(7,784)
	<u>710,714</u>	<u>793,543</u>
	<u>\$ 1,808,763</u>	<u>\$ 1,773,418</u>

Signed on behalf of the Board of Governors



Chairman of the Board



President

-----The accompanying notes are part of these financial statements.-----

