

American University of Beirut

Financial Statements as of and for the
Years Ended September 30, 2008 and 2007, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
American University of Beirut:

We have audited the accompanying statement of financial position of American University of Beirut (the "University") as of September 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the University for the year ended September 30, 2007, were audited by other auditors whose report, dated September 29, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the University as of September 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

May 31, 2009

AMERICAN UNIVERSITY OF BEIRUT

STATEMENTS OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 29,702,596	\$ 11,830,263
Accounts and grants receivable — net of allowance for doubtful accounts of \$21,093,000 and \$17,216,000, respectively	104,218,471	96,587,078
Inventories and prepaid expenses	11,638,383	13,349,976
Contributions receivable — net of allowances	50,408,420	47,576,208
Investments	409,325,988	487,773,837
Property and equipment — net	<u>252,969,660</u>	<u>219,640,806</u>
TOTAL	<u>\$ 858,263,518</u>	<u>\$ 876,758,168</u>
LIABILITIES		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 33,662,031	\$ 23,887,519
Deposits and deferred revenues	50,702,132	46,686,851
Term loan and credit agreements payable	42,750,000	28,000,000
Accrued end-of-service benefits	<u>52,400,000</u>	<u>50,000,000</u>
Total liabilities	<u>179,514,163</u>	<u>148,574,370</u>
NET ASSETS:		
Unrestricted — Board designated	88,885,169	122,997,866
Unrestricted — undesignated	<u>375,201,843</u>	<u>384,013,643</u>
Total unrestricted net assets	464,087,012	507,011,509
TEMPORARILY RESTRICTED	102,138,010	123,071,281
PERMANENTLY RESTRICTED	<u>112,524,333</u>	<u>98,101,008</u>
Total net assets	<u>678,749,355</u>	<u>728,183,798</u>
TOTAL	<u>\$ 858,263,518</u>	<u>\$ 876,758,168</u>

See accompanying notes to financial statements.

AMERICAN UNIVERSITY OF BEIRUT

STATEMENTS OF ACTIVITIES YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING:								
Revenues — contributions, grants, and contracts	\$ 5,741,612	\$ 19,841,661	\$ -	\$ 25,583,273	\$ 3,501,840	\$ 18,685,170	\$ -	\$ 22,187,010
Fees from services — educational services — net financial aid:								
2008, \$10,629,000; 2007, \$9,771,0000	84,728,149	-	-	84,728,149	76,531,271	-	-	76,531,271
Health services	88,807,911	-	-	88,807,911	80,924,110	-	-	80,924,110
Auxiliary enterprises	3,688,866	-	-	3,688,866	3,320,456	-	-	3,320,456
Net investment return recognized in operations	8,249,849	7,834,666	-	16,084,515	12,502,835	7,719,405	-	20,222,240
	191,216,387	27,676,327	-	218,892,714	176,780,512	26,404,575	-	203,185,087
Net assets released from restrictions	25,574,193	(25,574,193)	-	-	23,889,349	(23,889,349)	-	-
Total operating revenues	216,790,580	2,102,134	-	218,892,714	200,669,861	2,515,226	-	203,185,087
EXPENSES:								
Educational services	92,650,523	-	-	92,650,523	91,031,239	-	-	91,031,239
Health services	85,294,129	-	-	85,294,129	79,470,691	-	-	79,470,691
Auxiliary enterprises	3,047,721	-	-	3,047,721	3,527,017	-	-	3,527,017
Management and general	20,602,703	-	-	20,602,703	17,259,712	-	-	17,259,712
Development and public relations	5,019,619	-	-	5,019,619	4,576,533	-	-	4,576,533
Total operating expenses	206,614,695	-	-	206,614,695	195,865,192	-	-	195,865,192
EXCESS OF OPERATING REVENUES OVER OPERATING EXPENSES	10,175,885	2,102,134	-	12,278,019	4,804,669	2,515,226	-	7,319,895
NONOPERATING ACTIVITIES:								
Endowment and property and equipment acquisition contributions	-	6,245,658	14,931,336	21,176,994	-	5,993,013	10,604,425	16,597,438
Net investment return in excess of amounts recognized in operations	(68,439,040)	(13,881,142)	(569,274)	(82,889,456)	50,950,687	10,032,302	705,776	61,688,765
Net assets released from restrictions	15,338,658	(15,399,921)	61,263	-	11,948,171	(12,021,639)	73,468	-
Write-off of construction in progress	-	-	-	-	(6,174,922)	-	-	(6,174,922)
Total nonoperating activities — net	(53,100,382)	(23,035,405)	14,423,325	(61,712,462)	56,723,936	4,003,676	11,383,669	72,111,281
CHANGE IN NET ASSETS	(42,924,497)	(20,933,271)	14,423,325	(49,434,443)	61,528,605	6,518,902	11,383,669	79,431,176
NET ASSETS:								
Beginning of year	507,011,509	123,071,281	98,101,008	728,183,798	445,482,904	116,552,379	86,717,339	648,752,622
End of year	\$464,087,012	\$102,138,010	\$112,524,333	\$678,749,355	\$507,011,509	\$123,071,281	\$98,101,008	\$728,183,798

See accompanying notes to financial statements.

AMERICAN UNIVERSITY OF BEIRUT

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Total change in net assets	\$ (49,434,443)	\$ 79,431,176
Adjustments to reconcile total change in net assets to net cash provided by operating activities:		
Depreciation	7,733,936	11,058,502
Provision for (recovery of) doubtful accounts and grants receivable	3,877,353	(359,907)
Write-off of construction in progress	2,901,368	6,174,922
Contributions restricted for endowment and property and equipment acquisitions	(18,169,666)	(16,599,438)
Net depreciation (appreciation) in fair value of investments	93,231,687	(74,435,885)
Contributions of property and equipment	(62,394)	(515,000)
(Increase) decrease in accounts and grants receivable	(11,508,746)	15,155,203
Decrease (increase) in inventories and prepaid expenses	1,711,593	(9,682,598)
(Increase) decrease in inventories and prepaid expenses endowment and property and equipment acquisitions	(6,513,673)	633,475
Increase in accounts payable and accrued expenses	8,876,989	2,012,134
increase in deposits and deferred revenues	4,015,281	3,182,966
Increase in accrued end of service benefits	<u>2,400,000</u>	<u>1,400,000</u>
Net cash provided by operating activities	<u>39,059,285</u>	<u>17,455,550</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	372,019,232	175,279,680
Purchase of investments	(386,233,796)	(186,901,525)
Purchase of property and equipment	(43,901,764)	(29,683,563)
Decrease (increase) in amount related to plant assets included in accounts payable and accrued expenses	<u>897,523</u>	<u>(1,915,855)</u>
Net cash used in investing activities	<u>(57,218,805)</u>	<u>(43,221,263)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for:		
Investment in endowment	15,257,131	9,861,640
Investment in property and equipment	6,593,996	9,829,125
Income and net gains restricted for investment	(569,274)	705,776
Proceeds from credit agreements	<u>14,750,000</u>	<u>3,000,000</u>
Net cash provided in financing activities	<u>36,031,853</u>	<u>23,396,541</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,872,333	(2,369,172)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>11,830,263</u>	<u>14,199,435</u>
End of year	<u>\$ 29,702,596</u>	<u>\$ 11,830,263</u>
SUPPLEMENTAL DATA — Cash paid for interest	<u>\$ 1,311,895</u>	<u>\$ 1,011,397</u>

See accompanying notes to financial statements.

AMERICAN UNIVERSITY OF BEIRUT

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008 AND 2007

1. NATURE OF OPERATIONS

American University of Beirut (the “University”) is an independent, not-for-profit, coeducational, nonsectarian institution of higher learning located in Beirut, Lebanon, where it also operates a 421-bed medical center. The University was granted its charter in 1863 by the State of New York and was founded in 1866. It is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

The purpose of the University, as an institution of higher learning, is to share in the education of the youth of the Middle East, in service of its people, and in the advancement of knowledge.

The University presently serves approximately 6,061 undergraduate students and 1,253 graduate and professional students in the faculties of Arts and Sciences, Agriculture and Food Sciences, Engineering and Architecture, Medicine, and Public Health, and in the schools of Business and Nursing.

At September 30, 2008, approximately 44% of the University’s assets are located in the Republic of Lebanon. Approximately 63% of those assets are property and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The financial statements are prepared on the accrual basis of accounting in accordance with the provisions of Financial Accounting Standards Board “(FASB) Statement No.117, “*Financial Statements for Not-for-Profit Organizations.*” The University reports its net assets in one of the following three classes:

Unrestricted Net Assets — Net assets not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees. In addition, accumulated unexpended gains drawn against the spending policy are included in unrestricted net assets and may only be expended pursuant to the University’s spending policy.

Temporarily Restricted Net Assets — Net assets subject to donor-imposed restrictions that will be met by actions of the University or the passage of time.

Permanently Restricted Net Assets — Net assets subject to donor-imposed restrictions that stipulate they be maintained permanently, but permit the use of part or all of the income derived from them.

Substantially all gains/(losses), both realized and unrealized, arising from investment of the University’s endowment resources and expendable resources designated by the Board for investment purposes (quasi-endowment) are classified as either unrestricted net assets or temporarily restricted net assets in the accompanying financial statements. The University, however, intends to continue its management of endowment and similar resources in the manner employed in prior years, which considers gains as part of the original contribution and unexpended except as permitted by the University’s spending policy, based on total return. Such policy allows expenditure of 4.75% of the average of the prior 20 quarters’ market value. Expendable amounts exceeding current yield (i.e., interest and dividends) are charged against accumulated gains.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by explicit donor-imposed restrictions or by law. When such restrictions expire, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets.

Contributions, including unconditional promises to give (pledges and grants), are reported as revenues in the appropriate net asset class in the period received at the estimated present value of future cash flows, net of an allowance for estimated uncollectible contributions receivable. Amortization of the present value discount is recorded as additional contribution revenue in the appropriate net asset class.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash, including property and equipment, are recorded at their estimated fair value as increases in unrestricted net assets unless the donor restricts their use.

Health services revenues are recorded at the University's established rates, with provisions for third-party contractual adjustments, charity care, and bad debts deducted to arrive at net patient service revenues. Estimated contractual adjustments, including prospective rate adjustments arising under third-party agreements, are accrued in the period services are rendered. Differences between estimated retroactive third-party settlements for prior periods and subsequent final settlements are recorded as current period adjustments to revenues. The estimated settlements at September 30, 2008 relate to the years ended September 30, 2008, 2007, and 2006. The majority of 2005 third-party billings have been settled and final settlements have been made for all other prior years.

Grants and contracts are reported as revenues when expenses are incurred in accordance with the terms of the agreements. Contract amounts received in advance are recognized as deferred revenues.

Expenses are charged to the functions incurring or benefiting from their occurrence. Certain expenses are allocated between medical educational services and health services based on actual levels of effort of the faculty members providing services to each function. Other expenses are allocated among functions on the basis of direct salary cost, metered usage, or other appropriate measures of the expenses incurred.

Operations — Operations include all revenues earned and expenses incurred by the University except for net appreciation and depreciation in fair value of investments in excess of amounts allowed to support operations under the spending rate, contributions for property and equipment acquisitions or for permanently restricted purposes, net assets released from restrictions for capital expenditures, exchange gains and losses on translation of assets and liabilities denominated in Lebanese pounds, and other nonrecurring transactions.

Cash Equivalents — Cash equivalents include all investments with maturities of three months or less at time of purchase, except for such assets held by the University's investment managers as part of their long-term investment strategies.

Property and Equipment — Land, buildings, and improvements are stated at values from an appraisal made in 1965 by the University, plus subsequent additions at cost. Equipment and construction in progress are stated at cost. Library books are valued at \$1 per volume, except for 1,233 volumes of rare books valued at a total amount of \$41,820, based on appraisals made in 1967 and 1968.

Depreciation is determined on the straight-line method over the estimated useful lives of the assets. Depreciation is not computed in the year of acquisition of assets, but a full year's depreciation is reflected as expense in the year of asset disposal. Depreciable lives for land improvements and buildings and building improvements range from 20 to 50 years, and estimated useful lives of equipment range from 3 to 20 years.

Inventories — Inventories are stated at the lower of cost (stated at average cost) or market.

Currency Exchange — As indicated in Note 1, the University conducts its educational, health, and auxiliary activities from facilities located in the Republic of Lebanon. The local currency is the Lebanese pound, and many of the University's transactions are denominated in that currency. Other transactions occur in U.S. dollars. Assets, liabilities, and related net assets are recorded in the currency in which they are denominated (i.e., Lebanese pounds or U.S. dollars). To provide for reporting of revenue and expense transactions in U.S. dollars at the time of their occurrence, the University establishes exchange rates between the pound and the dollar at the beginning of each month and translates assets and liabilities at the month-end rate. Exchange gains or losses are recognized as revenue or expense.

During 2008 and 2007, established monthly exchange rates between the Lebanese pound and the U.S. dollar were L£1,508 = \$1. The rates at September 30, 2008 and 2007, were L£1,508 = \$1.

At September 30, 2008, the University had an accumulated loss arising from translation of balance sheet accounts denominated in Lebanese pounds of \$15,964,385, and there was no change during 2008 and 2007.

Accounting Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could be different from those estimates.

Income Taxes — The University has been granted tax-exempt status as a not-for-profit organization under Section 501(c) (3) of the Internal Revenue Code, and accordingly, files Federal Tax Form 990 (Return of Organization Exempt from Income Tax) annually. No provision for income taxes is required in the accompanying financial statements.

Adoption of New Accounting Pronouncements — In June 2006, the FASB issued Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109*. FIN No.48 prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity, before being measured and recognized in the financial statements. University management is currently evaluating the impact of FIN No. 48 on the financial statements for fiscal year 2009.

In September 2006, the FASB issued FASB Statement (“SFAS”) No. 157, *Fair Value Measurements*. SFAS No. 157 defines the term fair value, establishes a framework for measuring it within accounting principles generally accepted in the United States of America, and expands disclosures about its measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. University management is currently evaluating the impact of SFAS No. 157 on the financial statements for fiscal year 2009.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits universities to measure certain financial instruments and certain other items at fair value and is effective for fiscal years beginning after November 15, 2007. University management is currently evaluating the affect of SFAS No. 159 on the financial statements for fiscal year 2009.

In August 2008, the FASB issued FASB Staff Position (“FSP”) No. 117-1, *Endowments of Non-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), and Enhanced Disclosures for All Endowment Funds*. FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA Act of 2006. This FSP is also expected to improve disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. FSP 117-1 is effective for fiscal years ending after December 15, 2008. University management is currently evaluating the impact of FSP 117-1 on the financial statements for fiscal year 2009.

Other Significant Accounting Policies — Other significant accounting policies are set forth in the following notes.

3. INVESTMENTS

The University reports its investments at fair value based upon quoted market values. Alternative investments such as private equity and real estate, which are not readily marketable, are carried at fair values provided by external investment managers and are reviewed by management for reasonableness. Those fair values may differ significantly from values that would be determined if ready markets for these securities existed. A summary of the composition of investments at September 30, 2008 and 2007, is as follows:

	2008		2007	
	Cost	Fair value	Cost	Fair value
Cash	\$ 1,309	\$ 1,300	\$ 966	\$ 1,151
Due from (to) brokers	425,415	425,415	(37,420)	(37,420)
Money market funds	27,968,648	27,968,648	12,886,157	12,886,157
U.S. Government obligations	2,769,484	2,768,542	12,704,363	12,362,436
Mutual funds — fixed income	57,566,621	53,466,722	27,722,962	25,637,085
Alternative investments:				
Hedge funds	93,755,204	122,881,599	53,775,204	93,253,274
Real estate	9,635,610	11,509,111	7,496,103	13,508,021
Private equity	11,692,092	10,880,528	5,501,986	5,495,984
Venture capital	6,302,864	7,810,651	5,920,176	6,492,897
Mutual funds — equities	98,464,299	101,785,040	122,875,515	188,568,261
International equities	4,168,682	3,412,122	7,792,136	11,988,679
Corporate stocks	70,104,738	66,506,714	99,063,086	117,804,920
Accrued fees net of accrued income	(90,437)	(90,404)	(187,744)	(187,608)
	<u>\$ 382,764,529</u>	<u>\$ 409,325,988</u>	<u>\$ 355,513,490</u>	<u>\$ 487,773,837</u>

Although the University does not directly employ investment-related derivatives, it does approve of strategic use of derivatives by external investment managers.

At September 30, 2008, the University had funding commitments outstanding of approximately \$18 million under the terms of certain investment agreements. The University maintains sufficient liquidity in its investment portfolio to cover such commitments.

Certain securities, with a fair value of \$85.4 million and \$134.3 million, are pledged as collateral for the term loan payable to bank at September 30, 2008 and 2007, respectively (see Note 10).

A summary of the University's total investment return and its classification in the financial statements for years ended September 30, 2008 and 2007, is as follows:

2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest on investments — net of expenses of \$1,502,273	\$ 14,331,830	\$ 11,149,353	\$ 58,636	\$ 25,539,819
Net depreciation in fair value of investments	<u>(75,387,970)</u>	<u>(17,205,131)</u>	<u>(638,586)</u>	<u>(93,231,687)</u>
Net return on investments	(61,056,140)	(6,055,778)	(579,950)	(67,691,868)
Interest on cash equivalents	<u>878,582</u>	<u>9,302</u>	<u>10,676</u>	<u>898,560</u>
Total return on investments and cash equivalents	(60,177,558)	(6,046,476)	(569,274)	(66,793,308)
Less allocated to annuity funds	<u>(11,633)</u>	<u>-</u>	<u>-</u>	<u>(11,633)</u>
	(60,189,191)	(6,046,476)	(569,274)	(66,804,941)
Net investment return recognized in operations	<u>8,249,849</u>	<u>7,834,666</u>	<u>-</u>	<u>16,084,515</u>
Net investment return in excess of amounts recognized in operations	<u>\$ (68,439,040)</u>	<u>\$ (13,881,142)</u>	<u>\$ (569,274)</u>	<u>\$ (82,889,456)</u>
2007	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest on investments — net of expenses of \$1,685,368	\$ 3,130,191	\$ 3,095,045	\$ 47,802	\$ 6,273,038
Net appreciation in fair value of investments	<u>59,275,245</u>	<u>14,596,938</u>	<u>563,702</u>	<u>74,435,885</u>
Net return on investments	62,405,436	17,691,983	611,504	80,708,923
Interest on cash equivalents	<u>1,083,010</u>	<u>59,724</u>	<u>94,272</u>	<u>1,237,006</u>
Total return on investments and cash equivalents	63,488,446	17,751,707	705,776	81,945,929
Less allocated to annuity funds	<u>(34,924)</u>	<u>-</u>	<u>-</u>	<u>(34,924)</u>
	63,453,522	17,751,707	705,776	81,911,005
Net investment return recognized in operations	<u>12,502,835</u>	<u>7,719,405</u>	<u>-</u>	<u>20,222,240</u>
Net investment return in excess of amounts recognized in operations	<u>\$ 50,950,687</u>	<u>\$ 10,032,302</u>	<u>\$ 705,776</u>	<u>\$ 61,688,765</u>

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable at September 30, 2008 and 2007, consist of the following:

	2008	2007
Amounts expected to be collected in:		
Less than one year	\$ 34,712,043	\$ 30,774,833
One to five years	18,450,643	20,886,400
More than five years	<u>2,928,452</u>	<u>1,439,334</u>
	56,091,138	53,100,567
Less:		
Discount to present value at 3%	1,264,744	1,715,121
Allowance for doubtful collection	<u>4,417,974</u>	<u>3,809,238</u>
	<u>\$ 50,408,420</u>	<u>\$ 47,576,208</u>

5. PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2008 and 2007, consist of the following:

	2008	2007
Land and land improvements	\$ 78,884,420	\$ 70,753,149
Buildings and building improvements	146,317,623	124,511,486
Equipment	118,106,958	109,252,957
Library books	736,737	730,391
Construction in progress	<u>42,005,095</u>	<u>41,422,285</u>
	386,050,833	346,670,268
Less accumulated depreciation	<u>133,081,173</u>	<u>127,029,462</u>
	<u>\$ 252,969,660</u>	<u>\$ 219,640,806</u>

6. EMPLOYEE BENEFIT PLANS

The University has contributory and noncontributory employee benefit plans designed to provide pension benefits and, in accordance with Lebanese law, end-of-service indemnities.

Plan A covers academic and management U. S. Citizens or Resident Aliens employed by the University. The plan requires an employee to contribute at least 5% of basic salary in order to receive the University's contribution of 10% of basic salary to this plan. Total expense under this plan for 2008 and 2007 was \$977,916 and \$895,224, respectively.

Plan B covers all academic non-U. S. Citizen or non-Resident Alien employees of the University. The University records in each participating Employee Memorandum Account a future service benefit in an amount equal to 12.5% of basic salary if the employees contribute 5% to a plan managed and maintained by an independent provider. The liability reflected in the financial statements for this plan is \$42,800,000 and \$38,900,000 at September 30, 2008 and 2007, respectively. Total expense under this

plan for 2008 and 2007 was \$5,759,635 and \$4,771,467, respectively.

Plan C is the end of service indemnity plan mandated by Lebanese Social Security Law. This plan covers all nonacademic Lebanese national employees of the University. The University is required to make contributions to this plan in an amount equal to 8½% of the employee's compensation. The University's exposure for ongoing payment of benefits to retirees is subject to the provisions of Lebanese law. The liability recorded for such benefits in the financial statements is \$9,600,000 and \$11,100,000 at September 30, 2008 and 2007, respectively. Total expense under this plan for 2008 and 2007 was \$3,597,330 and \$3,122,247, respectively.

7. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2008 and 2007, are available for the following purposes:

	2008	2007
Educational services:		
Instruction	\$ 28,054,558	\$ 29,288,545
Research	11,325,227	10,038,942
Academic support	2,911,168	2,908,375
Student aid	30,363,511	39,654,962
Health services	4,152,325	2,456,278
Property and equipment	20,820,919	33,376,882
College Hall Fund	3,050,412	3,717,358
Other	<u>1,459,890</u>	<u>1,629,939</u>
	<u>\$ 102,138,010</u>	<u>\$ 123,071,281</u>

Permanently restricted net assets at September 30, 2008 and 2007, are restricted for investment in perpetuity, with investment return available to support the following activities:

	2008	2007
Educational services:		
Instruction	\$ 70,192,362	\$ 62,775,534
Research	2,129,994	2,243,998
Academic support	1,217,645	1,217,145
Student aid	33,778,829	25,150,506
Health services	2,003,053	3,503,053
Other	<u>3,202,450</u>	<u>3,210,772</u>
	<u>\$ 112,524,333</u>	<u>\$ 98,101,008</u>

8. FAIR VALUE OF FINANCIAL INFORMATION

The fair value of the University's investments is discussed in Note 3. The fair value of the University's other financial instruments, other than term loan payable, approximates their carrying value because of the short maturity of these instruments.

The fair value of the University's term loan payable is based on the discounted future cash payments to be made. The discount rate used approximates current market rates for loans of similar maturities and credit quality. At September 30, 2008 and 2007, the carrying amount of the loans payable approximates fair value.

9. MEDICAL MALPRACTICE INSURANCE AND LITIGATION

The University has obtained medical malpractice liability coverage, under public liability insurance coverage from a commercial carrier, for claims made during the policy period with coverage limits dependent on the time of occurrence of the alleged event and subject to deductibles dependent on the jurisdiction in which the claim arises. The cost of providing the public liability insurance coverage, including that for medical malpractice, was \$425,000 and \$424,000 for the years ended September 30, 2008 and 2007, respectively.

The University is a defendant to various claims alleging medical malpractice or arising out of the operations of its educational programs at its Beirut campus. The outcome of these actions, seeking damages potentially in excess of the University's insurance coverage, cannot be determined at this time. University management believes that the University has good and meritorious defenses against these claims, and does not expect the ultimate resolution of these actions to have a material adverse effect on the University's financial position.

10. TERM LOAN AND CREDIT AGREEMENTS PAYABLE

At September 30, 2008, the University had three agreements with a commercial bank to provide financing for various capital projects. A summary of the agreement is presented in the following table.

Description	\$25 Million Loan	\$5.5 Million Loan	\$50 Million Loan
Agreement date	January 15, 2003	July 1, 2005	December 1, 2007
Amount drawn at September 30, 2008	\$ 25,000,000	\$ 5,500,000	\$ 16,000,000
Balance payable at September 30, 2008	21,250,000	5,500,000	16,000,000
Interest rate at September 30, 2008	4.446 %	4.750 %	3.05%–3.44%
Interest expense — 2008	\$ 900,846	\$ 209,224	\$ 240,043
Interest expense — 2007	935,396	90,372	-
Interest capitalized — 2008	591,353	52,089	240,043
Interest capitalized — 2007	606,905	52,089	-
Monthly principal payments	416,667	30,556	-
Principal payments began/begin	January 1, 2008	January 1, 2009	December 1, 2017
Maturity	January 20, 2013	July 22, 2015	December 13, 2022

During 2008, the University entered into interest rate swap agreement for two of the three loans. The swap agreements are not material to the financial statements at September 30, 2008. The rate for the \$5.5 million loan was changed in January 2009 to 4.60%. With the drawn down in December 2008 of the remaining \$34 million commitment under the \$50 million loan agreement, the rate was fixed at 3.08% through December 2017 at which time amortization of the principal will begin based on a fifteen year amortization period with the balance due at the maturity date. The balance due at maturity date of the \$5.5 million loan will approximate \$3,090,000. The loans are secured by a pledge of certain securities of the University's investment portfolio (see Note 3).

11. CONSTRUCTION COMMITMENTS

In connection with a number of projects now in the construction phase and others still in the design phase, the University has commitments aggregating \$9.9 million at September 30, 2008.

12. PENDING SALE OF PROPERTY

On December 5, 2006, the University signed an agreement with International College (IC) to sell the portion of the University campus currently occupied by IC, together with all buildings thereon, to IC for \$22 million and title to a building (the “Embassy Premises”) currently owned by IC (the “Transaction”). A deposit of \$1 million has been received from IC, and an additional \$1 million placed in escrow to be released to the University upon closing of the Transaction.

The closing of the transaction has not taken place and is contingent on IC curing any encroachments of the Embassy Premises onto surrounding plots and the University realigning its physical campus boundaries to conform to the dimensions as provided in the agreement, as well as the obtaining of required governmental approvals. The agreement can be terminated by either party if closing does not take place by June 30, 2011, unless IC elects to an extension of the termination date to June 30, 2014.

This transaction is scheduled to close on June 3, 2009.

13. SUBSEQUENT EVENT

Under date of November 19, 2008, the University entered into a credit agreement with a bank that allows borrowing of up to \$6 million on or prior to August 30, 2009, for the acquisition of medical equipment for the University’s hospital located on the Beirut, Lebanon campus. Interest will be based on the University’s choice of Libor or money market rates plus 0.25%. Repayment of the loan will commence at the earlier of the date of the expiration of the commitment or the drawn down of the commitment amount based on a four-and-a-half year amortization period with the balance due in February 2014.

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