

American University of Beirut

Financial Statements as of and for the
Years Ended September 30, 2009 and 2008, and
Independent Auditor's Report

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
American University of Beirut:

We have audited the accompanying statements of financial position of American University of Beirut (the "University") as of September 30, 2009 and 2008, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

June 25, 2010

AMERICAN UNIVERSITY OF BEIRUT

**STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2009 AND 2008**

ASSETS	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 74,899,228	\$ 29,702,596
Accounts and grants receivable - net of allowance for doubtful accounts of \$15,427,000 and \$21,093,000 in 2009 and 2008, respectively	74,300,343	96,408,416
Inventories and prepaid expenses	14,389,656	11,638,383
Contributions receivable - net of allowances	39,626,695	50,408,420
Investments	454,901,309	409,325,988
Property and equipment - net	<u>272,766,695</u>	<u>252,969,660</u>
TOTAL	\$ <u>930,883,926</u>	\$ <u>850,453,463</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 43,441,848	\$ 33,662,031
Deposits and deferred revenues	39,664,277	42,892,077
Term loan and credit agreements payable	77,363,889	42,750,000
Accrued end-of-service benefits	<u>58,000,000</u>	<u>52,400,000</u>
Total liabilities	<u>218,470,014</u>	<u>171,704,108</u>
NET ASSETS:		
UNRESTRICTED:		
Unrestricted - Board designated	94,357,453	88,885,169
Unrestricted - Undesignated	<u>397,741,710</u>	<u>375,201,843</u>
Total unrestricted	<u>492,099,163</u>	<u>464,087,012</u>
TEMPORARILY RESTRICTED	103,055,080	102,138,010
PERMANENTLY RESTRICTED	<u>117,259,669</u>	<u>112,524,333</u>
Total net assets	<u>712,413,912</u>	<u>678,749,355</u>
TOTAL	\$ <u>930,883,926</u>	\$ <u>850,453,463</u>

See accompanying notes to financial statements.

AMERICAN UNIVERSITY OF BEIRUT
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009				2008			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating:								
Revenues - contributions, grants, and contracts	\$ 5,806,166	\$ 19,629,194	\$ -	\$ 25,435,360	\$ 5,741,611	\$ 19,841,661	\$ -	\$ 25,583,272
Fees from services - educational services - net								
financial aid:								
2009, \$11,740,000; 2008, \$10,629,000	94,625,968	-	-	94,625,968	84,728,149	-	-	84,728,149
Health services	99,321,637	-	-	99,321,637	88,807,911	-	-	88,807,911
Auxiliary enterprises	4,109,601	-	-	4,109,601	3,688,866	-	-	3,688,866
Net investment return recognized in operations	10,466,184	8,454,923	-	18,921,107	8,249,849	7,834,666	-	16,084,515
	214,329,556	28,084,117	-	242,413,673	191,216,386	27,676,327	-	218,892,713
Net assets released from restrictions	23,268,559	(23,268,559)	-	-	25,574,193	(25,574,193)	-	-
Total operating revenues	237,598,115	4,815,558	-	242,413,673	216,790,579	2,102,134	-	218,892,713
EXPENSES:								
Educational services	109,047,029	-	-	109,047,029	92,650,523	-	-	92,650,523
Health services	97,490,390	-	-	97,490,390	85,294,128	-	-	85,294,129
Auxiliary enterprises	3,835,151	-	-	3,835,151	3,047,721	-	-	3,047,721
Management and general	27,683,326	-	-	27,683,326	20,602,703	-	-	20,602,703
Development and public relations	5,983,284	-	-	5,983,284	5,019,619	-	-	5,019,619
Total operating expenses	244,039,180	-	-	244,039,180	206,614,694	-	-	206,614,694
(DEFICIENCY) EXCESS OF OPERATING REVENUES OVER OPERATING EXPENSES	(6,441,065)	4,815,558	-	(1,625,507)	10,175,885	2,102,134	-	12,278,019
NONOPERATING ACTIVITIES:								
Endowment and property and equipment acquisition contributions	-	4,383,955	4,751,187	9,135,142	-	6,245,658	14,931,336	21,176,994
Net investment return in excess of (less than) amounts recognized in operations	8,456,648	(4,596,643)	117,306	3,977,311	(68,439,040)	(13,881,142)	(569,274)	(82,889,456)
Net assets released from restrictions	3,818,957	(3,685,800)	(133,157)	-	15,338,658	(15,399,921)	61,263	-
Loss on disposal of fixed assets	(577,333)	-	-	(577,333)	-	-	-	-
Net gain on sale of property	22,754,944	-	-	22,754,944	-	-	-	-
Total nonoperating activities	34,453,216	(3,898,488)	4,735,336	35,290,064	(53,100,382)	(23,035,405)	14,423,325	(61,712,462)
CHANGE IN NET ASSETS	28,012,151	917,070	4,735,336	33,664,557	(42,924,497)	(20,933,271)	14,423,325	(49,434,443)
NET ASSETS:								
Beginning 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
End of year	\$ 492,099,163	\$ 103,055,080	\$ 117,259,669	\$ 712,413,912	\$ 464,087,012	\$ 102,138,010	\$ 112,524,333	\$ 678,749,355

See accompanying notes to financial statements.

AMERICAN UNIVERSITY OF BEIRUT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Total change in net assets	\$ 33,664,557	\$ (49,434,443)
Adjustments to reconcile total change in net assets to net cash provided by operating activities:		
Depreciation	9,413,178	7,733,936
Net gain on sale of property	(22,754,944)	-
Allowance for doubtful accounts and grants receivable	6,100,151	3,877,353
Write-off of construction in progress	-	2,901,368
Loss on disposal of fixed assets	577,333	-
Contributions restricted for endowment and property and equipment acquisitions	(9,135,142)	(18,169,666)
Net (appreciation) depreciation in fair value of investments	(4,174,412)	93,231,687
Contributions of property and equipment	(862,607)	(62,394)
Decrease (increase) in accounts and grants receivable	12,007,922	(13,463,132)
(Increase) decrease in inventories and prepaid expenses	(2,751,273)	1,711,593
Decrease (increase) in contributions receivable excluding amounts for endowment and property and equipment acquisitions	3,345,144	(6,513,673)
Increase in accounts payable and accrued expenses	2,043,649	8,876,989
Increase in deposits and deferred revenues	772,200	5,969,667
Increase in accrued end-of-service benefits	5,600,000	2,400,000
Net cash provided by operating activities	<u>33,845,756</u>	<u>39,059,285</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	160,817,655	372,019,232
Purchase of investments	(202,335,870)	(386,233,796)
Proceeds from sale of property	21,300,000	-
Purchase of property and equipment	(27,469,995)	(43,901,764)
Decrease in amount related to plant assets included in accounts payable and accrued expenses	7,736,168	897,523
Net cash used in investing activities	<u>(39,952,042)</u>	<u>(57,218,805)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for:		
Investment in endowment	9,685,453	15,257,131
Investment in property and equipment	6,886,270	6,593,996
Income and net losses (gains) restricted for investment	117,306	(569,274)
Proceeds from term loan	40,000,000	18,500,000
Repayment of term loan	(5,386,111)	(3,750,000)
Net cash provided by financing activities	<u>51,302,918</u>	<u>36,031,853</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	45,196,632	17,872,333
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>29,702,596</u>	<u>11,830,263</u>
End of year	<u>\$ 74,899,228</u>	<u>\$ 29,702,596</u>
SUPPLEMENTAL DATA - Cash paid for interest	<u>\$ 2,426,092</u>	<u>\$ 1,311,895</u>
SUPPLEMENTAL DATA - Fair value of property received as partial consideration for University property sold	<u>\$ 6,700,000</u>	<u>\$ -</u>

See accompanying notes to financial statements.

AMERICAN UNIVERSITY OF BEIRUT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

1. Nature of Operations

American University of Beirut (the “University”) is an independent, not-for-profit, coeducational, and 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 6,211 undergraduate students and 1,352 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, 2009, approximately 41% of the University’s assets are located in the Republic of Lebanon. Approximately 69% 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) Accounting Standards Codification (ASC) 205-958, *Presentation of Financial Statements -- Not-for-Profit Entities*. 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 of Trustees 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 unexpendable, except as permitted by the University’s spending policy, based on total return. The University’s endowment spending policy is designed to stabilize annual spending levels to preserve the real value of the endowment portfolio over time. To meet these objectives, the spending 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, 2009, relate to the years ended September 30, 2009 and 2008. The majority of 2006 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.

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.

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 recognized 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, 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 utilizes the established exchange rate 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.

The monthly exchange rate established between the Lebanese pound and the U.S. dollar is L£1,508 = \$1. This rate has remained unchanged since 1999.

Fair Value of Financial Information – The fair value of the University's investments is discussed in Note 4. 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 loans 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, 2009 and 2008, the carrying amount of the loans payable approximates fair value.

Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") 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 Authoritative Pronouncements – Effective for the fiscal year beginning October 1, 2009, the University adopted FASB ASC 820-10, *Fair Value Measurements*. FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and enhances disclosures about fair value measurements. Fair value is defined under FASB ASC 820-10 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date (see Note 4).

The provision of FASB ASC 825-10, *The Fair Value Option for Financial Assets and Financial Liabilities*, was effective October 1, 2009. FASB ASC 825-10 gives entities the option, at specific election dates, to measure certain financial assets and liabilities at fair value. The election may be applied to financial assets and liabilities on an instrument-by-instrument basis, is irrevocable, and may only be applied to entire instruments. Unrealized gains and losses on instruments for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The University did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

Effective for the year ended September 30, 2009, the University adopted FASB ASC 958-205, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*, and enhanced disclosures for all endowment funds (see Note 5).

New Accounting Pronouncements – In March 2008, the FASB issued FASB ASC 815-10 *Disclosures about Derivative Instruments and Hedging Activities*. FASB ASC 815-10 changes the disclosure requirements for derivative instruments and hedging activities and is effective for financial statements issued for fiscal years beginning after November 15, 2008.

In June 2006, FASB issued FASB ASC 740-10-05-6, *Accounting for Uncertainty in Income Taxes*. FASB ASC 740-10-05-6 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 evaluating the impact of FASB ASC 740-10-05-6 on the financial statements for fiscal year 2010.

Reclassifications – During 2009, the University found that it had overstated accounts receivable and deferred revenues in its 2008 financial statements by \$7,810,065 as a result of recording pre-billings to students for future attendance. The 2008 statements of financial position and cash flows have been reclassified to correct this situation. The statements of financial position and cash flows line items and related amounts as previously reported and as reclassified are as follows:

	<u>2008, As Previously Reported</u>	<u>2008, As Reclassified</u>
Accounts and grants receivable	\$ 104,218,471	\$ 96,408,416
Deposits and deferred revenues	\$ 50,702,132	\$ 42,892,077
Increase in accounts and grants receivable	\$ (11,508,746)	\$ (13,463,132)
Increase in deposits and deferred revenues	\$ 4,015,281	\$ 5,969,667

3. Investments

The composition of investments as of September 30, 2009 and 2008, is as follows:

	2009		2008	
	Cost	Fair value	Cost	Fair value
Cash	\$ 1,309	\$ 1,352	\$ 1,309	\$ 1,300
Money market funds	6,130,990	6,130,990	27,968,648	27,968,648
U.S. government obligations	1,998,256	2,060,883	2,769,484	2,768,542
Mutual funds – fixed income	100,249,529	102,424,921	57,566,621	53,466,722
Alternative investments:				
Hedge funds	93,755,204	140,080,557	93,755,204	122,881,599
Real estate	12,061,067	11,137,303	9,635,610	11,509,111
Private equity	13,687,544	11,767,257	11,692,092	10,880,528
Venture capital	7,166,938	7,259,222	6,302,864	7,810,651
Mutual funds – equities	88,548,075	92,882,399	98,464,299	101,785,040
Mutual funds – emerging markets	9,694,863	10,648,164	—	—
Mutual funds – commodities	6,327,159	6,880,809	—	—
International equities	1,399,999	1,569,162	4,168,682	3,412,122
Corporate stocks	59,529,886	62,743,077	70,104,738	66,506,714
Accrued fees and amounts due (to) from broker	(685,116)	(684,787)	334,978	335,011
Total investments	<u>\$ 399,865,703</u>	<u>\$ 454,901,309</u>	<u>\$ 382,764,529</u>	<u>\$ 409,325,988</u>

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

At September 30, 2009, the University had funding commitments outstanding of approximately \$24 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 \$151.4 million and \$85.4 million, are pledged as collateral for the term loan payable to bank at September 30, 2009 and 2008, respectively (see Note 11).

A summary of the University's total investment return and its classification in the financial statements for years ended September 30, 2009 and 2008, is as follows:

<u>2009</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Dividends and interest on investments, net of expenses of \$1,303,917	\$ 8,836,219	\$ 7,278,992	\$ 36,800	\$ 16,152,011
Net appreciation (depreciation) in fair value of investments	<u>7,632,321</u>	<u>(3,454,755)</u>	<u>(3,154)</u>	<u>4,174,412</u>
Net return on investments	16,468,540	3,824,237	33,646	20,326,423
Interest on cash and cash equivalents	<u>2,461,297</u>	<u>34,043</u>	<u>83,660</u>	<u>2,579,000</u>
Total return	18,929,837	3,858,280	117,306	22,905,423
Less allocated to annuity funds	<u>(7,005)</u>	<u>-</u>	<u>-</u>	<u>(7,005)</u>
	18,922,832	3,858,280	117,306	22,898,418
Net investment return recognized in operations	<u>10,466,184</u>	<u>8,454,923</u>	<u>-</u>	<u>18,921,107</u>
Net investment return in excess of (less than) amounts recognized in operations	<u>\$ 8,456,648</u>	<u>\$ (4,596,643)</u>	<u>\$ 117,306</u>	<u>\$ 3,977,311</u>

<u>2008</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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 and cash equivalents	<u>878,582</u>	<u>9,302</u>	<u>10,676</u>	<u>898,560</u>
Total return	(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 less than amounts recognized in operations	<u>\$ (68,439,040)</u>	<u>\$ (13,881,142)</u>	<u>\$ (569,274)</u>	<u>\$ (82,889,456)</u>

4. Fair Value Measurements

As discussed in Note 2, as of October 1, 2008, the University adopted FASB ASC 820-10 and has valued its investments in accordance with this standard.

FASB ASC 820-10 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under FASB ASC utilize relevant observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities. Market price data is generally obtained from exchange or dealer markets. Instruments categorized in Level 1 primarily consist of a broadly traded range of equities and debt securities.
- Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers, and brokers.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This consists of the University's ownership in alternative investments (principally) which are based on valuation techniques that use significant inputs that are unobservable. The value of certain alternative investments represents the ownership interest in the net asset value (NAV) of the respective partnership. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future values. In addition, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The University's assets and liabilities measured at fair value as of September 30, 2009, are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 1,352	\$ -	\$ -	\$ 1,352
Money market funds	6,130,990	-	-	6,130,990
U.S. government obligations	2,060,883	-	-	2,060,883
Mutual funds – fixed income	102,424,921	-	-	102,424,921
Alternative investments:				
Hedge funds	-	84,667,914	55,412,643	140,080,557
Real estate	-	-	11,137,303	11,137,303
Private equity	-	-	11,767,257	11,767,257
Venture capital	-	-	7,259,222	7,259,222
Mutual funds – equities	92,882,399	-	-	92,882,399
Mutual funds – emerging markets	10,648,164	-	-	10,648,164
Mutual funds – commodities	6,880,809	-	-	6,880,809
International equities	1,569,162	-	-	1,569,162
Corporate stocks	62,743,077	-	-	62,743,077
Accrued fees and amounts due to (from) broker	<u>(684,787)</u>	<u>-</u>	<u>-</u>	<u>(684,787)</u>
Total	<u>\$ 284,656,970</u>	<u>\$ 84,667,914</u>	<u>\$ 85,576,425</u>	<u>\$ 454,901,309</u>

The additional information about Level 3 assets and liabilities measured at fair value for the year ended September 30, 2009, is as follows:

Beginning balance October 1, 2008	\$ 79,253,105
Net appreciation in fair value	1,942,268
Net purchases	<u>4,381,052</u>
Ending balance September 30, 2009	<u>\$ 85,576,425</u>

The net appreciation in the fair value of Level 3 investments detailed above includes \$5,311,449 of net depreciation on certain Level 3 investments.

5. Endowment

The University's endowment consists of separate funds established over many years for a wide variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As defined by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The composition and changes in the University's endowment net assets as of September 30, 2009 and 2008, are as follows:

	2009			Total
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	
Changes in endowment net assets				
Beginning balance - October 1, 2008	\$ 231,973,637	\$ 102,138,010	\$ 112,524,333	\$ 446,635,980
Investment returns:				
Investment income	3,994,460	7,313,035	120,460	11,427,955
Net appreciation depreciation	<u>(5,325,318)</u>	<u>(3,454,755)</u>	<u>(3,154)</u>	<u>(8,783,227)</u>
Total investment returns	(1,330,858)	3,858,280	117,306	2,644,728
Gifts	-	24,013,149	4,751,187	28,764,336
Other changes -				
Release from restriction	<u>-</u>	<u>(26,954,359)</u>	<u>(133,157)</u>	<u>(27,087,516)</u>
Ending balance - September 30, 2009	<u>\$ 230,642,779</u>	<u>\$ 103,055,080</u>	<u>\$ 117,259,669</u>	<u>\$ 450,957,528</u>

	2008			
	Unrestricted	Temporarily	Permanently	Total
	Net Assets	Restricted	Restricted	
Changes in endowment net assets				
Beginning balance - October 1, 2007	\$ 291,510,588	\$ 123,071,281	\$ 98,101,008	\$ 512,682,877
Investment returns:				
Investment income	9,016,938	11,158,655	69,312	20,244,905
Net depreciation	<u>(68,553,889)</u>	<u>(17,205,131)</u>	<u>(638,586)</u>	<u>(86,397,606)</u>
Total investment returns	(59,536,951)	(6,046,476)	(569,274)	(66,152,701)
Gifts	-	26,087,319	14,931,336	41,018,655
Other changes -				
Release from restriction	<u>-</u>	<u>(40,974,114)</u>	<u>61,263</u>	<u>(40,912,851)</u>
Ending balance - September 30, 2008	<u>\$ 231,973,637</u>	<u>\$ 102,138,010</u>	<u>\$ 112,524,333</u>	<u>\$ 446,635,980</u>

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. As of September 30, 2009, the deficiency was \$2,508,992. Such losses have been charged to unrestricted investments functioning as endowment.

6. Contributions Receivable

Contributions receivable as of September 30, 2009 and 2008, consist of the following:

	2009	2008
Amounts expected to be collected in:		
Less than one year	\$ 35,257,225	\$ 34,712,043
One to five years	9,350,407	18,450,643
More than five years	<u>1,655,279</u>	<u>2,928,452</u>
	46,262,911	56,091,138
Less:		
Discount to present value at 0.95% to 2.93%	(486,617)	(1,264,744)
Allowance for doubtful collection	<u>(6,149,599)</u>	<u>(4,417,974)</u>
	<u>\$ 39,626,695</u>	<u>\$ 50,408,420</u>

7. Property and Equipment

Property and equipment as of September 30, 2009 and 2008, consist of the following:

	<u>2009</u>	<u>2008</u>
Land and land improvements	\$ 73,296,158	\$ 78,884,420
Buildings and building improvements	196,682,133	146,317,623
Equipment	125,019,206	118,106,958
Library books	736,737	736,737
Construction in progress	<u>11,919,885</u>	<u>42,005,095</u>
Total property and equipment	407,654,119	386,050,833
Less accumulated depreciation	<u>134,887,424</u>	<u>133,081,173</u>
Property and equipment - net	<u>\$ 272,766,695</u>	<u>\$ 252,969,660</u>

In connection with a number of projects now in the construction phase and others still in the design phase, the University has commitments aggregating \$10.3 million at September 30, 2009.

8. 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 is a defined contribution plan established to cover 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 2009 and 2008 was \$1,082,647 and \$977,916, respectively. Assets for this plan are maintained by an independent custodian.

Plan B is a defined contribution plan established to cover all academic non-U.S. citizen or nonresident 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 \$46,200,000 and \$42,800,000 at September 30, 2009 and 2008, respectively. Total expense under this plan for 2009 and 2008 was \$5,397,899 and \$5,759,635, respectively. Assets for this plan, totaling \$45,710,654 and \$44,869,017 at September 30, 2009 and 2008, respectively, are reported as a component of the investments on the statements of financial position.

In addition to the Plan A and Plan B detailed above, the University is also required to contribute to the end-of-service indemnity plan mandated by Lebanese Social Security Law for Lebanese nationals (referred to hereafter as "Plan C"). 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 8.5% 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 \$11,800,000 and \$9,600,000 at September 30, 2009 and 2008, respectively. Total expense under this plan for 2009 and 2008, funded on a pay-as-you-go basis, was \$4,040,978 and \$3,597,330, respectively.

9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at September 30, 2009 and 2008, are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Educational services:		
Instruction	\$ 24,660,394	\$ 28,054,558
Research	12,478,219	11,325,227
Academic support	3,695,709	2,911,168
Student aid	33,493,213	30,363,511
Health services	3,345,705	4,152,325
Property and equipment	20,426,428	20,820,919
College Hall Fund	3,040,715	3,050,412
Other	1,914,697	1,459,890
Total temporarily restricted net assets	<u>\$ 103,055,080</u>	<u>\$ 102,138,010</u>

Permanently restricted net assets at September 30, 2009 and 2008, are restricted for investment in perpetuity, with investment return available to support the following activities:

	<u>2009</u>	<u>2008</u>
Educational services:		
Instruction	\$ 71,622,043	\$ 70,192,362
Research	2,544,438	2,129,994
Academic support	1,217,645	1,217,645
Student aid	36,609,821	33,778,829
Health services	2,005,633	2,003,053
Other	3,260,089	3,202,450
Total permanently restricted net assets	<u>\$ 117,259,669</u>	<u>\$ 112,524,333</u>

10. 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 for each of the years ended September 30, 2009 and 2008.

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.

11. Term Loan and Credit Agreements Payable

As of September 30, 2009, the University had four agreements with a commercial bank to provide financing for various capital projects. A summary of the agreement is presented in the following table.

<u>Description</u>	<u>\$25 Million Loan</u>	<u>\$5.5 Million Loan</u>	<u>\$50 Million Loan</u>	<u>\$6 Million Loan</u>
Agreement date	January 15, 2003	July 1, 2005	December 1, 2007	November 19, 2008
Balance payable at September 30, 2009	\$ 16,250,000	\$ 5,225,000	\$ 50,000,000	\$ 5,888,889
Interest rate at September 30, 2009	0.2473%	0.2473%	0.2473%	0.67%
Interest expense - 2009	\$ 847,909	\$ 251,872	\$ 585,171	\$ 6,973
Interest expense - 2008	\$ 900,846	\$ 209,224	\$ 240,043	-
Interest capitalized - 2009	-	-	\$ 741,140	-
Interest capitalized - 2008	\$ 591,353	\$ 52,089	-	-
Monthly principal payments	\$ 416,667	\$ 30,556	-	\$ 111,111
Principal payments began/begin	January 1, 2008	January 1, 2009	December 1, 2017	September 1, 2009
Maturity	January 20, 2013	July 22, 2015	December 13, 2022	February 2014

The aggregate principal payments related to the above loans are due as follows:

Years ending September 30	
2010	\$6,700,000
2011	6,700,000
2012	6,700,000
2013	2,950,000
2014	922,229
Thereafter	53,391,660
Total	<u><u>\$77,363,889</u></u>

The University has entered into three floating London InterBank Offered Rate to fixed-rate swap agreements (the derivative instrument) with a commercial bank as a hedge on its long-term loans to protect against the risk of interest rate changes.

The terms of the agreement for each derivative instrument are as follows:

The first derivative instrument entered into on December 22, 2008, with a maturity date of December 22, 2015. The notional amount of this derivative instrument will float from \$5,500,000 to \$3,116,666 based upon a predetermined schedule. As of September 30, 2009, the notional amount of this contract was \$5,255,556. The University is the fixed-rate payer at 4.35%.

The second derivative instrument was entered on January 2, 2009, with a maturity date of December 1, 2012. The notional amount of this derivative will float from \$19,583,333.67 to \$416,666.85 based upon a predetermined schedule. As of September 30, 2009, the notional amount of this contract was \$16,250,000. The University is the fixed-rate payer at 4.21%.

The third derivative instrument was entered on February 2, 2009, with a maturity date of December 13, 2017. The notional amount of the contract is \$50,000,000. The University is the fixed-rate payer at 2.83%.

The loans are secured by a pledge of certain securities of the University's investment portfolio (see Note 3). The University has complied as of September 30, 2009, with the required covenant to keep a ratio of consolidated total liabilities to consolidated total net assets of 0.5 to 1.

12. Sale of University Property

On December 5, 2006, the University signed an agreement with International College (IC) to sell the portion of the University campus, together with all buildings thereon, to IC for \$21.3 million and title to a building (the "Embassy Premises") currently owned by IC (the "Transaction"). The Transaction was closed on June 3, 2009. The total sale/exchange of property amounted to \$28 million, of which the University received in cash \$21.3 million and the title deed for the land of Plot 545 Ain El Mreisseh (the "Embassy Premises") appraised at \$6.7 million. The net book value of the property sold to IC at the date of the transaction amounted to approximately \$ 5.25 million, resulting in a gain of approximately \$22.8 million.

13. Subsequent Events

Subsequent events have been evaluated through June 25, 2010, which is the date when the financial statements were available to be issued.