



2007/2008 Budget Summary

June 2007

Every year the AUB administration presents to the Board of Trustees in June a Draft Operating Budget and final Capital Budget for the following fiscal year. This process results from several months of diligently identifying the university's priorities and needs while adhering to constraints due to limited resources. Below we have presented the main highlights of the 2007/2008 Draft Operating Budget and the 2007/2008 Capital Budget. For the past several years, AUB has succeeded in fulfilling its commitment to maintaining fiscal balance while adhering to its not-for-profit status. This is true with the exception, however, of the 2005/2006 operating result which ended in a financial loss of \$4.6 million owing to the July 2006 war in Lebanon which paralyzed the operations of the university and the country as a whole.

Such a loss is material even for an institution with the financial fortitude of AUB. Although AUB has provided for means to absorb this monetary setback, moving forward in the future has necessitated certain limitations in its ability to maneuver operationally in the coming few years. It is important to be aware of this fact when evaluating the budgetary recommendations presented below, as the AUB administration and its Board of Trustees went to significant lengths to lessen the impact that resulted from the war and its aftermath on the AUB community as a whole. Most notably, planned tuition rate increases for 2006/2007 were reduced considerably to three percent down from the originally announced increase of 4.2 percent on average for this year. In addition, the salary increase budget announced by the administration prior to the war was maintained in spite of the substantial financial burden that resulted from the 2005/2006 operating loss of \$4.6 million.

One of the key financial constraints facing the university relates to the operational costs of our new facilities. With these vital new projects comes the financial burden of their running costs. Although these expenses are anticipated, they nonetheless require careful planning and balancing of our finite financial resources. Also imposed on the university is the very large and growing governmental receivables position. At the end of April 2007, the Lebanese government owed the university \$55 million in the form of receivables due from the NSSF, Ministry of Health and Ministry of Finance. Although a receivables balance is a normal part of operations, the governmental receivables position is an excessive drain on the university which imposes very tight constraints on the university's working capital. As this receivables position grows, it becomes more difficult to meet our obligations.

Another financial constraint for the university lies in the fact that although many generous donors support the university, many of those funds do not provide relief for operating expenses. A gift from a donor to build a new facility may allow us to construct the building, but the university must provide the annual funds needed to run the facility thereafter. Also, as the university borrows to expand its infrastructure, the

debt service eventually falls on the operating budget adding further onus on an already strained operating budget. Similarly, our necessary investments in university advancement are fully expensed to operations; however, the fundraising that results from those activities may not benefit operations for years to come.

Draft Operating Budget for 2007/2008

The 2007/2008 Draft Operating Budget represents an initial view of the financial operating plan for the next fiscal year. It is important to note that this is a draft budget and that the final version will be presented to the Board of Trustees for ratification in September 2007. Although we feel that this draft version is representative of the final budget to be adopted, changes can and most likely will occur over the course of the summer in response to evolving realities. These assumptions and recommendations are thus based on the proviso that the economic and political environment in Lebanon remains relatively stable. In absence of such stability, the operating budget remains subject to significant modification if deemed necessary by the university administration and its trustees. The following are some of the key assumptions of the Draft Operating Budget:

- No growth in student population
- 7% increase in fuel and electricity costs
- 10% increase in library periodical costs
- Modest HIP premium increase
- Reasonable rate increases at AUBMC
- Rate increases for certain internal services & fees

The following are the key recommendations of the Draft Operating Budget:

- Average of 4.2% tuition rate increase in 2007/08 over the prior year
- Unify tuition rates into three main categories for 1) Medicine, 2) Professional (Business and Engineering) and 3) Science & Liberal Arts.
- 0% increase in dormitory rates
- 8% increase in student scholarships
- 4% pool for academic performance (merit) increases, 3% for non-academic

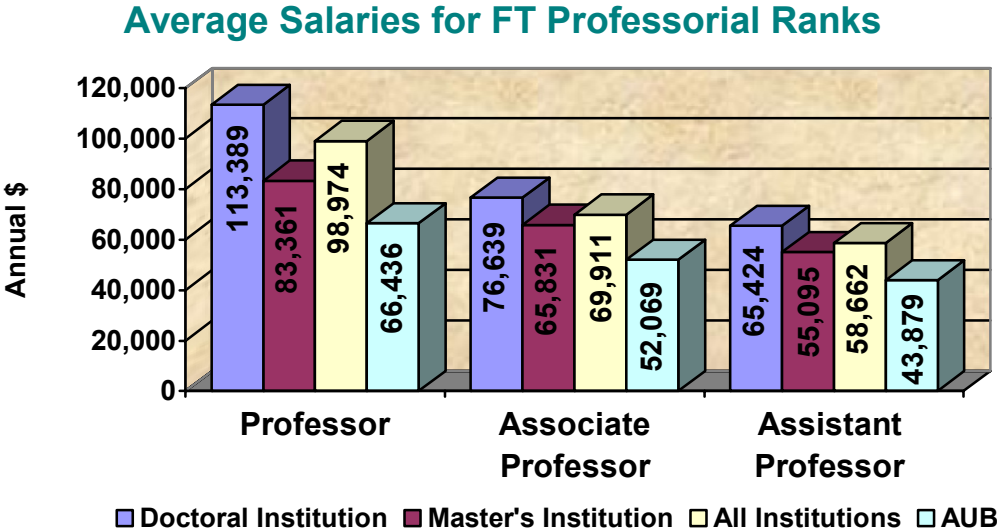
Tuition and Student Financial Support

Two years ago, AUB started to bring tuition rates into line across the faculties principally with those in Arts and Sciences which substantially lag behind other faculties. Last year’s events deferred by one year the execution of this plan. We are continuing this year with the strategy as illustrated in the below table.

Tuition Rate Increases

	2005/06	2006/07	2007/08	Envisioned FY09-FY12
FAS - New Students	5.0%	3.0%	7.0%	23% - 29%
FAS - Continuing	5.0%	3.0%	6.0%	22% - 27%
OSB	4.0%	3.0%	4.0%	16%
FAFS	2.75%	3.0%	3.0%	14%
FEA	2.75%	3.0%	3.0%	11%
FHS	2.75%	3.0%	2.5%	11%
FM and SN	2.75%	3.0%	3.0%	12%
Annual Average	3.7%	3.0%	4.2%	4% - 5%

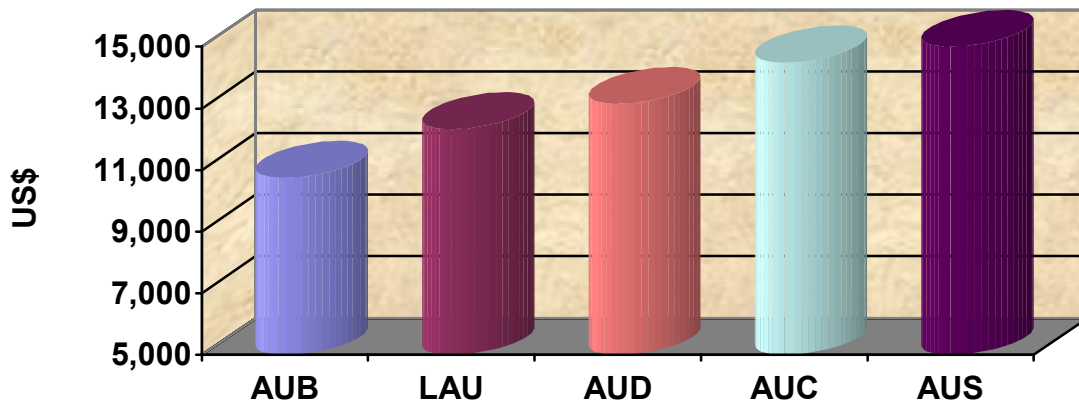
The higher average increase rate of tuition this year is also due to the extra cost push elements in our proposed budget notably rising operating costs. One of these cost pushes is increasing faculty salaries so that they remain in a range that is competitive with U.S. international rates. AUB strives to maintain a competitive stance with peer institutions in the U.S. that define themselves as mainly Master’s degree universities. The chart below (which does not include the salaries of faculty clinicians) presents our current challenge.



In viewing this chart, one must remember that taxes in Lebanon are about one half of what they are in the U.S. This brings AUB salaries closer to those in the U.S. One must also note that different disciplines have varied salary ranges. The difference in salary between professors of business versus professors in the humanities, for example, is driven by market forces that can result in significant divergences. AUB’s benefit structure is also more generous in some areas than that of U.S. universities. Even so, AUB needs to remain competitive in all areas so that it can continue to attract full-time faculty members of high academic quality.

Compared to certain peer institutions in the region, AUB is very well positioned versus other universities in Lebanon and in the Middle East. We consider AUB to provide an exemplary education to its students for a price that is well below other major institutions of similar or lesser stature. The below table compares tuition rates for fall and spring semesters for 2006/2007 that have been averaged to account for minor differences in pricing practices between the various institutions. AUB offers the lowest tuition of the five universities listed below which are AUB, the Lebanese American University (LAU), American University in Dubai (AUD), American University in Cairo (AUC), American University of Sharjah (AUS).

Average Undergraduate Tuition

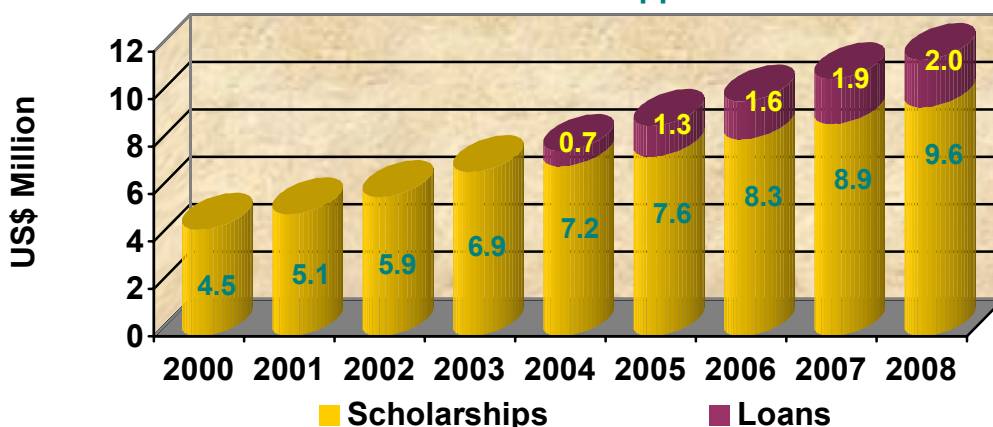


Within Lebanon, LAU is 15 percent higher than AUB. In terms of value for one's money, there is no value superior to that offered by AUB.

Given our strong competitive advantage, the university intends to keep its overall tuition rate increases at a level between four and five percent over the next five years. As part of our tuition rationalization process, students newly entering the Faculty of Arts and Sciences can expect to pay higher tuition rate increases than students entering the university in other faculties. We feel that this is a fair distribution of increasing tuition rates, as the gap between the Faculty of Arts & Sciences and other faculties has become unjustifiably wide.

As part of our commitment to keep AUB's quality education accessible to a broad range of student applicants and continuing students, we are increasing our financial support as depicted in the below graph.

Student Financial Support



AUB has strengthened its commitment to need-based scholarship support. Total financial aid as a percentage of tuition has been increased to 16 percent. We propose a \$700,000 increase in scholarships to a total of \$9.6 million. This represents an eight percent increase over 2006/2007. Moreover, AUB supports loans for selected financial aid recipients totaling \$2 million in 2007/2008.

Revenue Generation and Operational Expenditures

Net revenues are expected to increase at the university in 2007/2008 by approximately \$10.3 million as detailed in the below table.

Net Revenue Generation

	US\$ Million
Hospital Revenues & Support	4.5
Tuition	4.7
Investment and Endowment Income	1.1
Total	10.3

Our intention is to allocate these funds in a balanced manner towards the below list of operational expenditures.

Operational Expenditures

	US\$ Million
Scholarships & Financial Assistance	1.3
Pool for Performance-Based Salary Increases	2.4
Benefits and Healthcare	1.3
Medical and Pharmaceutical Supplies	1.3
Interest Expense	1.0
Utilities	0.7
General Supplies	0.6
Library Books and Periodicals	0.4
Equipment and Miscellaneous	1.3
Total	10.3

Non-Instructional Support Services Costs

Several years ago, the university sought to achieve efficiency gains through growth in its academic programs and academic support services (such as Jafet Library or the Office of Student Affairs) while keeping its non-academic support services costs relatively constant. The below table illustrates our continued commitment to invest a disproportionate amount of our funds into academic support services at the expense of the non-academic services.

Non-Instructional Support Services Costs Per Student

Costs (\$)	2003/04	2004/05	2005/06	2006/07	2007/08	% PA
Academic	1,363	1,467	1,497	1,704	2,087	11.3
Non-Academic	1,986	2,097	2,201	2,310	2,369	4.5
Total	3,349	3,564	3,698	4,014	4,456	7.4

We feel that our continued commitment towards academic support is an important part of maintaining our competitive edge in the marketplace allowing us to provide the best academic environment possible.

Capital Budget for 2007/2008

The Capital Budget for 2007/2008 comprises construction projects and major equipment acquisitions deemed priorities for the coming fiscal year for the Campus and AUBMC as listed below.

New Campus Projects

	Cost (\$M)	Date
CCC Scientific Research Building	4.6	Feb 2007
Charles Hostler Student Center	24.2	Oct 2007
Cooling Plant	3.1	Feb 2008
Olayan School of Business	24.1	Sep 2008
New Dormitory	6.0	Sep 2008
Irani Oxy Engineering Complex	16.4	Aug 2009
Issam Fares Institute	5.2	Aug 2009
Dar Al-Handasah Architecture Building	5.9	2011/2012
Bechtel/Engineering & Science Library	7.0	2010/2011
Total	96.5	

New AUBMC Projects

	Cost (\$M)	Date
Abu Khater Ambulatory Care Center	10.7	May 2007
Building 56	7.6	Jul 2007
School of Nursing	4.0	May 2008
Abou Haidar Neuroscience Center	5.7	May 2008
Naef K. Basile Adult Cancer Center	2.5	Sep 2008
Neonatal Intensive Care Unit - NICU	2.1	July 2009
Renovation of Surgical Rooms	8.0	2010/2011
Total	40.6	

Annual funding for the capital projects and major equipment acquisitions is planned to come from a variety of sources available to the university. The sources are listed with their corresponding amounts in the table below.

2007/2008 Capital Funding

	Cost (\$M)
AUB Funding	13.0
Loan Financing	19.6
Donor Funding	8.1
American Schools & Hospitals Abroad	1.8
Total	42.5

Closing Remarks

The Draft Operating Budget for 2007/2008 represents a year of planned fiscal balance for the university as a whole in the shadow of last year's financial deficit of \$4.6 million. This hinges, first and foremost, on relatively predictable operating conditions and political stability and security in the country. We hope that this year will represent a return to calm and stability for the good of the university and the country as a whole.