MEMORANDUM

TO : DISTRIBUTION
FROM : ANDREW W. SNAITH
SUBJECT : AUC’S OPERATING BUDGET FOR FY 2008
DATE : OCTOBER 4, 2006

1. Introduction

Budgeting for FY 2008 should continue to be informed by the long-range plan that was presented to the Board in May 2004 and which focused on the following goals and objectives:

- Recruiting more full-time faculty and reducing dependence on part-time teachers;
- Recruiting more American faculty in order to bring the overall composition of the faculty closer to that set out in the Protocol;
- Upgrading salaries to facilitate recruitment of outstanding faculty;
- Securing the accreditation of all of our professional degree programs;
- Improving the quality of research and increasing external funding for research;
- Developing a focused marketing strategy to attract greater numbers of international students in both the undergraduate and graduate programs (while recognizing that there is little, if any, room for growth in the numbers of study-abroad students).

More recently, President Arnold’s Vision Statement (“Building on Strong Foundations: AUC in 2012) has additionally stressed the need for incremental resource allocation to the following areas:

- Increasing teaching resources and expanding enrollments in the Arabic Language Institute, the demand for whose services continues to be very strong.
- Expanding graduate enrollments by perhaps as much as 50% over the next five years, with particular focus on the possible creation of a new full-time MBA program and strengthening of existing programs such as our LL.M and MA/Human Rights Law programs.
- Moving the Center for Adult & Continuing Education progressively from the low-end adult education market currently served to an intermediate market of recent graduates and entry-level workers seeking to enhance their employability and future career prospects.
- Strengthening capabilities in finance, human resources, planning/assessment, student services, facilities management and general academic support.

Program and expenditure initiatives for FY 2008 will be reviewed within the context of these overarching priorities.
Planning units requesting the launch of new programs and major initiatives in FY 2008 should not include the cost of these activities within their annual funding request. Academic departments seeking approval for new activities that will require outlays during FY 2008 should channel their requests through the deans to the Provost’s Office, while units in other areas should submit their proposals directly to the concerned Area Head. Proposals for new activities that, if approved, will be ongoing throughout the FY 2008 – 2012 planning period should be accompanied by a financial case that presents in adequate detail information on anticipated revenues (if any), expenses and capital expenditures, together with details on the assumptions on which the projections over the five-year period have been based. Funding proposals that do not give evidence of having been rigorously examined in financial terms are unlikely to be approved for inclusion in the FY 2008 budget even if they correspond to institutional objectives and priorities.

The preparation process for the steady-state, operating budget for FY 2008 is detailed below.

2. Budget Preparation Process

We are planning to migrate our financial, human resources and payroll systems to SAP ERP software at the beginning of 2007. Accordingly, in the absence of unforeseen setbacks, we will be running SAP in FY 2008. We will therefore be using SAP’s budget preparation software for the budget preparation cycle. The SAP implementation team is in the process of training administrative assistants how to enter department and unit budgets into the system. Each major budget center has been provided a user license to permit interactive sessions. Because of strict budget limitations on the cost of implementing SAP it has not been possible to provide Organizational Areas with as many licenses as we would have liked. Additional licenses can be purchased at an approximate cost of $6,000 per license, but funds will need to be found within existing FY 2007 operating budgets and Area contingency funds.

You are urged to check that all administrative assistants in your Area have received, or are about to receive, training in entering requested budgets for FY 2008. Please contact Mr. Hany Abdel Malek (ext 5429) or Mr. Atef Yacoub (ext 5470) in the Budget & Financial Planning Office if anyone has been overlooked in this process. The Budget Office will also have a support team consisting of these persons plus Amir Tawadrous (ext 5256) in the event of any difficulties encountered in entering budget data to the system.

3. Timing

The SAP budget preparation module recognizes six phases in budget planning, beginning with phase 5 and ending with phase 0 (the approved budget). The phase sequence is organized as follows:

(5) Submission of Department/Unit plan
(4) Review/modification by Deans (for relevant areas where an intermediate level of management exists)
(3) Review by Area Heads
(2) Review by the President and the Budget Committee
(1) Budget adopted by the administration
(0) Budget adopted by the Board of Trustees

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1 An inquiry-only license can be purchased for $2,500. In each case please note that annual maintenance runs at 17% of the initial license purchase.
As each phase is finalized it is rolled to the next phase. It is vital to understand that once this rollover has taken place it is not possible to make any modifications to the previous phase. This means that any department or unit failing to submit its budget request by the deadline set for phase 5 will have to have its budget submitted at the next level with consequent inconvenience to those authorized to access the system at this phase level (they will need to enter the budget on behalf of the defaulting department or unit).

The deadlines for each phase are as follows for the FY 2008 budget:

(5) October 31, 2006  
(4) November 22, 2006  
(3) December 21, 2006  
(2) January 15, 2007  
(1) April 2, 2007  
(0) May 31, 2007

The deadline for phase (5) is particularly important, as late entry of data at phase (4) level is likely to be more time consuming than at higher levels.

4. SAP and the Personnel Budget for FY 2008

Personnel planning for FY 2008 has to be undertaken manually. This means that any department or unit that requests new positions, extension of temporary positions and part-time or seasonal services must submit such requests to Human Resources via the respective Dean or Area Head to be received prior to October 31, 2006 (i.e. the close of phase (5)). Human Resources will review these submittals, and will submit appropriate recommendations to the Budget Office. Recommended positions and/or part-time and seasonal services will be entered to the system by the Budget Office in phase (3).

For the avoidance of doubt, any department or unit not planning for new positions, extension of temporary positions, or part-time labor does not need to communicate any personnel data to Human Resources. Regular positions on AUC’s payroll or that of the personal services contractor will be automatically rolled from FY 2007 to FY 2008 absent any written communication to Human Resources that a regular position is to be canceled and not replaced in FY 2008.

Recommendations made by Human Resources to the President’s Budget Committee should not be considered final and binding. Final approval is normally given in the May Board of Trustees meeting when the Board adopts the budget.

5. Budget Guidelines

The Budget Guidelines can be accessed at any time through access to the Website http://budget.aucegypt.edu/. Please ensure that all those reporting to you with responsibility for budget preparation have read the guidelines carefully, should they not already be fully conversant with them.

6. Economic Background

The University’s operating finances are primarily affected by the performance of the Egyptian economy and to a lesser extent by that of the US and other leading economies. We summarize below our expectations for the Egyptian and US economies:
6.1. Egypt

Despite dismay in the West over the hard line against dissidents taken by the Government after the Presidential elections, business confidence does not appear to have been dented and tourism has recovered relatively well from the latest round of Sinai bombings. The economy is benefiting from higher rates of growth and increasing flows of foreign direct investment. The collapse of many emerging stock markets earlier this spring led to a sell-off of foreign portfolio positions and a retreat in February from the record levels scaled by Egyptian quoted securities. The Egyptian pound held up very well under this pressure, although there has been tightening of monetary policy in recent months (short-term treasury bill yields are again hovering around 9%) which will have helped to soak up excess liquidity and stabilize the pound. Significant hikes in energy prices (gasoline, natural gas, diesel fuel etc.) in July is likely to increase inflationary pressures, although for the time being inflation at around 5 – 6% continues to be reasonably well contained. In the absence of geopolitical shocks we remain optimistic that the dollar-pound exchange rate should remain stable well into FY 2008.

6.2 The United States

Developments within the U.S. economy continue to be of most immediate significance to the performance of the University’s long-term investments. We may now have reached the end of a cycle of rising interest rates, which, based on historical precedents, should provide a favorable environment for both equities and bonds. However many commentators remain concerned at inflation levels which remain relatively high (almost 3% p.a.) despite recent falls in the price of oil and gold. While many believe the US dollar will continue to exhibit weakness against other leading currencies because of the well-publicized balance of payments deficit, it is worth noting that both the Euro and the Japanese Yen have their own problems. We do not foresee any major collapse of the dollar against the Euro, but further slight weakening looks very possible.

7. Transition to the New Campus

The University continues to plan for a move to the New Campus during the summer of 2008. We are therefore in the same position today that we thought we were in this time a year ago, and it is therefore appropriate to repeat what was then said with respect to budget planning.

The cost of transporting furniture and equipment will be funded from the project budget and should not be included in operating requests. However, requirements for new positions to be filled during FY 2008 in order to train incremental personnel needed to operate the new facility and to carry out functions that will be expanded in New Cairo, should be communicated to the Human Resources Office as quickly as possible.

From a departmental standpoint we do not envisage that the move to the New Campus will have any impact on requirements to upgrade and replace office computing and related equipment (for example PC’s, printers, scanners, photocopiers etc.). The New Campus project budget will only be funding the investment required to provide the basic computing infrastructure and network.

FY 2008 budgets should minimize requests to replace existing office furniture. At the time of writing no detailed plans have been established to specify what furniture will be moved to the New Campus and what will remain in place. As a general guideline for budgeting purposes please assume that the New Campus project budget will fund any classroom or office furniture needed to replace items that will be left in existing locations.
8. Expectations for AUC’s Operating Budget (Non-Capital)

8.1 Academic Tuition & Enrollment

FY 2006 was another good year for student recruitment, particularly that of year-abroad students the actual income from whom well exceeded budget. Recruitment of Egyptian students was also highly satisfactory and this positive trend has continued, with a record intake of 915 new undergraduate students recorded for the fall semester. AUC continues to be critically dependent on academic tuition revenues, and this strong showing already suggests that FY 2007 financial performance on the revenue side should exceed budget.

Given the relatively good economic background we believe we should be successful in recruiting in FY 2008 the numbers of Egyptian students we need to keep our long-range enrollment planning on target. However, we have virtually reached capacity in our ability to absorb more year-abroad students, and accordingly tuition revenues next year may rise at a slightly slower pace than for the past couple of years.

8.2 Endowment Earnings

This time last year we commented that “the 18% total return earned by AUC’s long-term investments in FY 2005 is unlikely to be repeated in the current fiscal year”. That has indeed been the case, with our preliminary financials for FY 2006 indicating a total return of around 10%. Performance was again boosted by exposure to the Egyptian stock market, which continued to experience extraordinary price increases during the first half of the fiscal year. The University has systematically reduced its Egyptian investments during FY 2006, and aggregate endowment performance for this year and next year will depend almost entirely developments in the U.S. stock markets (and to a much lesser degree those of other major, developed economies). While we are optimistic that changes we plan to make in our asset allocation strategy and manager selection and review process will be positive factors in the future performance of our endowments, we would expect FY 2008 total return to remain in single digits.

8.3 Contributions

Boosting current contributions remains one of our foremost goals. FY 2006 results took a major hit from the decision to reserve against a pledge of $ 2.5 million to create a new Center for Peace and Democracy and Social Development. This development underscores our dependency on a small number of major gifts from wealthy individuals and foundations, rather than on broad-based alumni support. Our goal is to generate $ 3 – 4 million in current operating support in FY 2008.

8.4 Adult & Continuing Education

All of our continuing education programs performed strongly in FY 2006. Even CACE, which had been suffering from slow growth and decreasing margins, managed to reverse the negative trend and surged ahead in both revenues and net contribution levels. Under the leadership of Dr. Ed Simpson we are optimistic that restructured and re-focused continuing education and outreach programs can deliver major benefits both to the people of Egypt and can generate sufficient revenue to cover both direct and indirect expenses.
8.5 Research Centers

The Social Research Center should continue to perform steadily, and we are hopeful that grant revenues, including overhead recoveries, will be sufficient to cover all direct expenses in FY 2008. Similarly, the Desert Center has been able to deliver improved operating results in FY 2006 and we believe this trend should continue in the current fiscal year and beyond, buoyed also by the contracted work being performed for the New Campus.

8.6 Auxiliary Enterprises

The AUC Press area had another slightly disappointing year in FY 2006, with total revenues running well beneath the budgeted levels. Fortunately, operating expenses could be well contained, and the net outcome was only a modest direct loss before attribution of indirect expenses. In light of last year’s experience the Press has revised downwards its sale expectations for FY 2007 and it would be prudent to expect at best a break-even position on slightly increased sales in FY 2008.

Student Housing continues to reap the benefits of the expanding numbers of LEAD scholarship students and year-abroad students needing accommodation. Growth in student numbers housed has increased to a point where the University is now renting additional space in two buildings. High rental expenses will have a negative impact on reported margins, but we are nevertheless optimistic that good bottom-line results will be delivered, with a solid contribution towards indirect costs.

8.7 General & Administrative Expenses

We again plan to cap annual growth in instructional expenditures for the degree programs and institutional support expenditures at rates of 6% and 3% which approximate to the expected rate of inflation in Egyptian pounds and dollars respectively. THIS DOES NOT MEAN THAT ALL BUDGET CENTERS HAVE TO MOVE IN LOCK-STEP, BUT IT DOES MEAN THAT HIGHER RATES OF GROWTH FOR BUDGET CENTERS OR FUNCTIONS THAT HAVE BEEN IDENTIFIED AS PRIORITY AREAS IN OUR LONG-RANGE PLANNING MUST BE COMPENSATED BY CORRESPONDING SAVINGS ELSEWHERE. These aggregate spending caps do not apply to continuing education and Auxiliary Enterprise activities, where special opportunities for above-average growth may obtain and particular attention will therefore be paid to the anticipated relationship between operating revenues and expenses.

8.8 Staffing Levels

We are meeting with stiffening resistance from the Board of Trustees to the steady accretion in our workforce numbers. While in some areas very modest additions to personnel may be necessary because of attractive opportunities to increase activities (e.g. continuing education and outreach programs that do not place increased strains on limited campus space), or because of the steady increase in the size of the degree-seeking student body, we continue to request, however, that every effort be exerted to review existing staffing levels in order to determine whether an expanded workload can be accommodated with present resources as a result of restructuring and changes in work practices and procedures. Should you nevertheless be convinced that new positions are critically needed to serve certain overloaded functions, requests and justifications should be submitted to the Human Resources Office for initial evaluation (see also section 4 above).
8.9 Personnel Compensation

For a number of years now we have been increasing both faculty and support staff compensation at rates in excess of inflation. While we remain committed to ensuring that faculty, management and support staff compensation is truly competitive, we have also to be mindful of concerns expressed by the Board that we cannot continue indefinitely to grow our operating expenses at a higher rate than our operating revenues. Just as tuition fees are the biggest revenue driver, so personnel compensation is the biggest driver on the expense side. Egyptian students are lobbying hard against tuition increases, and while it is not reasonable to suppose that we would freeze tuition rates in FY 2008, the prospect is very real that we may be obliged to hold tuition increases to a lower level than has been the case in recent years. In such an event there will surely be a dampening impact on compensation adjustments, and double-digit salary raises will likely be a phenomenon of the past.

8.10 Supplies & Services

During the budget preparation cycle the Budget Office will be paying particular attention to ensure that unavoidable expenses (such as utilities, rents, audit fees, medical expenses etc.) are not under-estimated in order to increment discretionary outlays of less vital importance to the University’s operations.

9. Capital Budget

Capital expenditures result in depreciation charges over the useful life (for accounting purposes) of the assets acquired. After personnel costs, depreciation expense is the largest single component of our operating expense structure, and it is therefore particularly important that every single capital expenditure request be rigorously scrutinized to determine whether it can be financially justified.

Capital items of furniture may be requested during the budget process (but pay particular attention to section 7. above). Supply Chain Management will not proceed with the acquisition of furniture without first having secured the approval of the Office of Facilities Planning. One of the roles of this office in the procurement process is to improve the level of standardization of furniture design throughout the University and to ensure that adequate space exists for the new acquisitions.

Under SAP the following procedure will be used for the request of capital items:

1. The Budget Office will circularize to all budget centers an online form to list all capital requests.
2. Budget centers will return the completed form to the Budget Office (hmalek@aucegypt.edu) and the Budget Office will assign to each capital request a fixed asset reference number – a so-called WBS element in SAP.
3. Budget centers will access the SAP Project Builder table to obtain the WBS elements provided by the Budget Office, and will proceed to enter their capital requests in the Capital Planning Budget tables.
4. Steps 1. through 3. above must be completed by the October 31st deadline for phase (5).

The University’s obligation is to supply those capital items that have been requested and approved during the budget review process. Any savings realized in the procurement of such items will be allocated to the General Contingency fund, and subsequent use of these funds
will be permitted only in exceptional circumstances with the approval of the appropriate Area Head.

**10. Currency of Budget Requests**

Please do not request dollar budgets for supplies or capital equipment unless you have reason to believe that the item you seek cannot be found in the local market. As a general guideline, all requests for computing equipment must be entered in Egyptian pounds.

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