

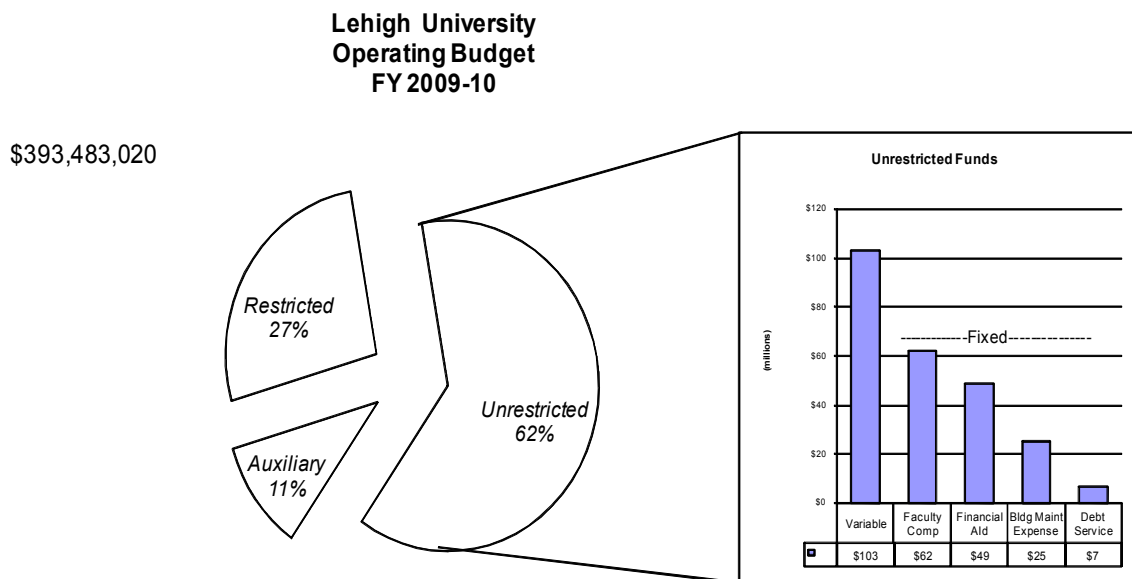
To the Board of Trustees
Lehigh University

BUDGET COMMENTARY

During this time of unprecedented financial upheaval in the US and global economies, it is essential for organizations to execute their annual and multi-year planning in the context of a clear mission, vision and goals for the future. The following information describes the savings opportunities, investments to be made, and assumptions that are incorporated in Lehigh’s operating budget for the next fiscal year. Specific assumptions are described in more detail at the end of the commentary.

While the focus of this document is the FY10 budget, cost-cutting started in FY09 with the savings going into a reserve for financial aid and enrollment where we believe we will have increased need over the next several years. For FY09 we anticipate that we will be able to add approximately \$8 to \$10 million to this reserve by the end of the fiscal year, which includes undergraduate income revenue over budget, as well as anticipated operating savings.

Context – Lehigh’s overall budget picture



Like most institutions of higher education, Lehigh University benefits from endowment earnings, gifts, and contracts that are restricted in their use. Of Lehigh's \$394 million budget, \$106 million is restricted, \$42 million is dedicated to auxiliary services that are "self balancing" with expenses required to be fully covered by revenues, and \$246 million is unrestricted.

Restricted budgets can be scrutinized to ensure that they are being optimally spent for the purposes for which they were intended. We are doing that and looking for ways to alleviate calls on unrestricted budgets by moving to restricted funding sources where appropriate. Auxiliary Services are being called upon to reduce their expenditures so that we can reduce costs as much as possible.

The unrestricted budget of \$246 million is where we focused our savings and cuts. As shown in Lehigh's overall budget graph above, of the unrestricted budget, \$143 million is "fixed" as costs for tenured faculty salaries, debt service, financial aid, and plant operations. Thus we worked with the "variable" unrestricted budget of Lehigh to identify savings opportunities. The variable component is budgeted at \$103 million for FY10.

FY10 BUDGET OVERVIEW

Investments to maintain/enhance key areas

In these times of financial exigency, it is nonetheless vital to continue investing in our most important areas, so as to be well-positioned when the economy does improve. In addition to the financial aid area, where we anticipate significantly increased expenditures, funded both from the University's permanent budget as well as from one-time reserves, we also are planning targeted additional investment in a few areas which are key for support of the University's mission.

Personnel

Continued investment in high performing personnel remains a priority. In this spirit, we have incorporated the funding for a small merit increase for faculty and staff, in order to be able to continue to reward truly meritorious performance. The merit allocation pools, described further below, have zero increases for the senior leadership, a small increase for faculty and staff, and a slightly larger percent increase for positions with lower salaries. The merit increases that result from this allocation pool were set through our performance review and merit increase process this spring; however they will be withheld pending assessment of the budget situation in the fall of 2009.

In addition, we are continuing the multi-year market adjustments for faculty and for teaching assistants, but at a slower pace than had been projected earlier, in order to ensure that our compensation becomes competitive with our peer institutions. Market adjustments for the Campus Police are being done over the next three years.

Strategic Investments

Our strategic investments have been identified after an extensive vetting process, which included presentations of budget priorities to the president, provost, vice president for finance and administration, and budget director. We also instituted budget discussions among the senior leadership team. The highest priority investments identified here represent approximately 25% of the total of the highest priority permanent and one time requests from each area.

The investments in FY10 include:

- support for key areas related to major revenue streams (incremental staffing in Advancement)
- investment in Lehigh's Global initiatives (support for the new Vice President for International Affairs)
- resources for the research endeavor (making some additional funds available to address the increases in journal prices for the Library; staffing requests for the VP for Research; faculty innovation grants) and the first phase of operating costs for the new STEPS building
- infrastructure investment (increases in costs for administrative computing maintenance and utilities)

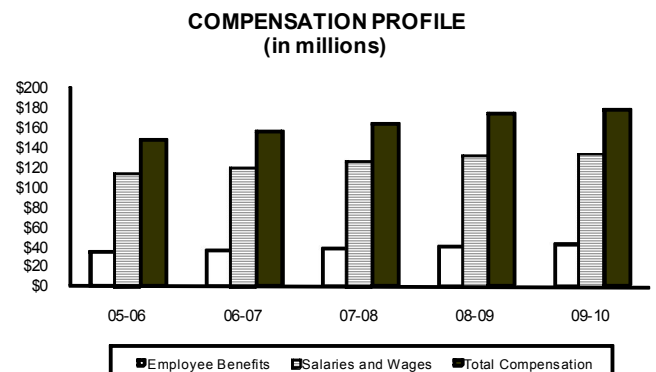
We have found ways to address some staffing needs at lower cost through the use of graduate interns in our Counseling Center to support the demand for counseling services.

Finally, we are providing funding for support of two new initiatives on campus: (1) incremental budget funding for the Council on Equity and Community in order to ensure that our important diversity initiative work continues to be successful, and (2) one-time funds set aside to support a sustainability coordinator position to work with the Lehigh Environmental Advisory Group in our institutional focus on environmental stewardship.

We believe that the combination of small increases in some revenue sources and savings through reduction of current expenses described herein will enable Lehigh to make crucial investments in financial aid, faculty and staff, and key programmatic areas so that as we face the current and future financial uncertainties we are positioned to be as strong as possible.

FY10 KEY PARAMETERS

COMPENSATION GROWTH -The salary increase allocation for faculty and staff is 1.5% for the annual merit evaluation process with Senior Leadership receiving a 0% increase. In addition to the standard merit pool allocation, an additional 1% will be made available for merit pool allocations to positions with lower pay ranges. All university salary increases are awarded on the basis of merit. The merit



increases that result from this pool have been set through our performance review and merit increase process this spring; however they will be withheld pending assessment of the budget situation in the fall of 2009. Additional dollars are also being set aside for faculty promotion/tenure and market merit adjustments administered through the Provost's Office. Benefits growth is determined by those items driven by salary (pension and FICA), 2.9% for tuition growth, and 5% for the flexible benefit plan. The primary cost in the flexible benefit plan is medical costs. The composite growth in total University compensation (salary and employee benefits) is 2%.

FINANCIAL AID – The total institutional undergraduate financial aid budget is increased to \$58,791,080, a 4.1% increase. This growth reflects the increase to aid all returning students in proportion to the increased costs of attendance and to fund the projected needs of the entering class. With Government sources of financial aid budgeted at \$3,684,100, a projected 6.7% decrease, the total combined undergraduate financial aid budget is \$62,475,180. As mentioned above, additional one time funds are also being set aside in a reserve to guard against any unforeseen temporary increases to undergraduate financial aid needs as a result of the economic downturn. Graduate financial aid for 2009-10 is budgeted at \$9,464,550 and awards and prizes at \$131,430. The total financial budget is increased to \$72,071,160 covering both undergraduate and graduate students.

BUDGET SAVINGS - All areas of expense have been reviewed for reduction. As anticipated, the largest savings come from personnel costs. We are holding all staff positions that become vacant and making replacement of positions subject to review by senior management, with an assumption that positions will not be filled or staffing efforts changed to provide salary savings. We are also making significant reductions in the use of overtime and wage employees and some reduction in adjunct faculty positions.

During the budget process administrative areas identified a 10% reduction in non-personnel costs funded by unrestricted funds, such as travel, use of consultants, special events/catering, etc; as well as decreasing expenditures on custodial and grounds by 10%.

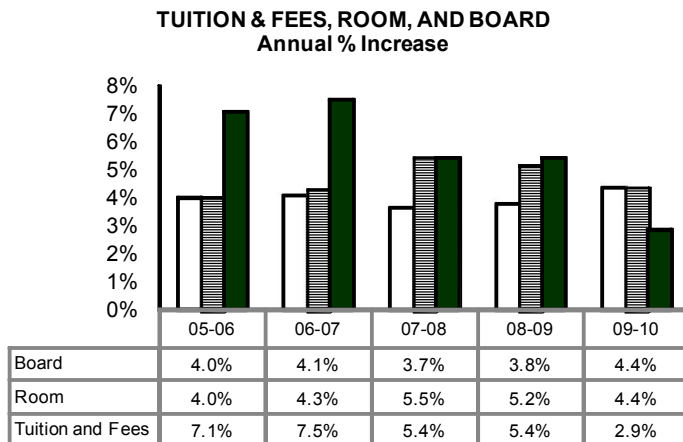
The total impact of the anticipated savings is over \$6 million in the FY10 operating budget, or approximately 6% of the unrestricted variable costs.

ENROLLMENT (Fall/Spring) - Undergraduate enrollment is budgeted at 4,585 students, based upon a budgeted first year class of 1,165 and 65 transfers. Graduate on-campus enrollment is budgeted at 19,500 credit hours.

NEW INVESTMENTS - Although significant savings are included in the FY10 budget, there are also some important new investments that are necessary, in order to advance our mission-critical strategic efforts in key areas, as described above. Out of the approximately \$13.5 million of permanent (ongoing) funds requested by the vice presidential stems, \$4.4 million dollars has been identified for funding in FY10. The majority of the allocations are targeted to a few areas. These include an additional \$1,500,000 allocated for increased University utility and new building maintenance costs, and an additional amount of \$730,000 to pay for new debt service associated with the STEPS building, which represent support for fixed costs. Variable cost

allocations include \$847,000 to the newly created Office of International Affairs for staffing, programs, and office expenses, and \$121,000 to cover a portion of the library journal inflation increases. Additional funds will also be allocated for market adjustments for faculty, teaching assistants stipends, and University police; staffing in the Office of Research and Technology Transfer; research innovation grants; staffing and associated expenses in Advancement; pre doctoral interns in the Counseling Center; and expense support for the Council on Equity and Community.

Although one-time funding is not a large part of our budget planning, we plan to identify available one-time dollars of approximately \$928,000 of the \$8,600,000 of requested funds for use in FY10. The allocation includes \$200,000 for faculty summer support in the College of Business and Economics, \$121,000 to cover a portion of the library journal inflation increases, \$100,000 for cost sharing on research grants, \$75,000 for fly-in programs to assist in the recruiting of multicultural and first generation students, and \$32,000 of salary and operating expense support for the Health, Medicine, and Society program. Additional one time funding is also being provided to Office of Research for faculty innovation grants, the Council on Equity and Community and the Lehigh Environmental Advisory Group focusing on environmental stewardship.



UNDERGRADUATE TUITION

RATE - Increase \$1,080 (2.9%) from \$37,250 to \$38,330.

ROOM - Increase (a range) \$250 to \$290 (4.4%) to establish the charges of \$5,910, \$6,330, \$6,580, and \$6,890 for category I, II, III, and IV residence/Greek rooms respectively.

BOARD - Increase \$180 (4.4%) from \$4,110 to \$4,290 for the 19+ meal plan.

COST OF ATTENDANCE - All full-time undergraduate students are also required to pay a technology fee of \$300 per year. A typical undergraduate student living in a category I room, and selecting 19+ meals, would have a total charge of \$48,830. An additional engineering/science fee of \$430 is charged to all students in engineering and upper-class students with a declared major in a natural science. A student might expect to expend an additional \$2,220 on books and personal items.

ENDOWMENT SPENDING - Endowment earnings and other investment returns makes up 16.8% of Lehigh’s operating budget. While the downturn in the economy has impacted our endowment, our reliance on endowment earnings, at 14.3% of Lehigh’s operating budget, has not had as significant an impact on operations as at some other institutions, where nearly half of

their operating budget is supported through endowment earnings. Nonetheless, we have assumed a 5% reduction in the spending rate per share calculation for FY10, in order to minimize the impact on the endowment corpus during these difficult times.

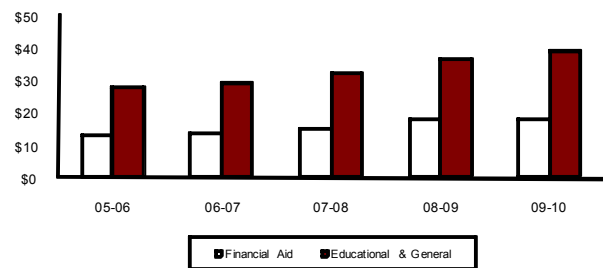
SUMMARY

COMPOSITE BUDGET The comprehensive University operating budget, including Educational and General, Financial Aid, and Auxiliary Enterprises, totals \$394,683,020 in revenues and appropriations. Expenditures and appropriations total \$393,483,020. The amount of \$1,200,000 is projected as the unrestricted unappropriated balance. Because of Lehigh's makeup of revenue sources, our economic position can vary significantly from other institutions. At 52.5% of the operating budget, tuition and fees remain the single largest revenue. As mentioned above, Lehigh's endowment supports approximately 14.3% of the total operating budget, with approximately one third of that amount dedicated to financial aid. On the expense side compensation remains the largest expenditure component at 45.3% of the budget. Financial aid expenditures continues as the second largest expense component at 18.3% of the budget.

EDUCATIONAL AND GENERAL The Educational and General budget is the heart of the institution. It records the major sources of unrestricted funds - tuition, gifts, indirect cost recovery on research, endowment earnings, and miscellaneous revenues. It also records the major sources of restricted funds - gifts, research grants, and endowment earnings. The major functional areas of University expenditures (academic, student services, advancement, finance and administration, university communications, and facilities services) are all included here. Revenues of \$324,593,870 and appropriations of \$1,311,430 are anticipated. Expenditures of \$266,450,890, transfer of \$45,626,030 to the Financial Aid Budget, and appropriations of \$12,628,380 are projected.

FINANCIAL AID The Financial Aid budget is segregated from the Educational and General Budget to highlight financial aid from general operating costs. The unrestricted revenue to this budget consists primarily of gifts through the Lehigh Fund and the transfer from the Educational and General Budget. The restricted revenue is from endowment earnings, gifts, and government support. Expenditures are categorized by undergraduate, graduate, and awards and prizes. Revenues of \$26,445,130 and the transfer of \$45,626,030 will produce total resources of \$72,071,160. Expenditures are expected to be \$62,475,180 for undergraduates, \$9,464,550 for graduates, and \$131,430 for awards and prizes. The total is \$72,071,160.

**ENDOWMENT EARNINGS
Budget Support
Financial Aid and E&G
(in millions)**



AUXILIARY ENTERPRISES The Auxiliary Enterprise budget represents those functions at the University that provide ancillary support to the University's mission and are expected to maintain their own financial viability. The auxiliary enterprises reimburse the Educational and General Budget for the cost of employee benefits, administrative service costs, and facilities service costs. The Bookstore, Food Services, and Residential Services also make appropriations totaling \$987,430 to the University. The other auxiliary enterprises are Stabler Arena, Child Care Center, and Debit Card Services. Revenue from all auxiliary areas combined is projected at \$42,332,590. Expenditures and commitments to reserves are budgeted at the same total.

PLANT FUND The Plant Fund budget is the final component of the composite budget. This budget identifies capital expenditures, rather than operating items, for the fiscal year. A total plant fund budget of \$51,850,690 is projected. Resources will include \$7,964,250 from current fund transfers, and \$43,886,440 from gift and plant fund sources.

RELATED ORGANIZATIONS In addition to the University operating budget the wholly owned subsidiaries of the University project activity totaling \$40,684,000. The affiliated organizations include the Ben Franklin Partners of Northeastern PA (BFTPNE), Manufacturers Resource Center (MRC), and Northampton County Revolving Loan Fund (RLF).

CONCLUSION

We hope that this overview has given you a sense of the size and scope of the 2009-10 budget. On the following pages, we provide summary budget information for an operating budget totaling \$394 million and a capital (plant fund) budget totaling \$52 million.

We are pleased to present this Lehigh University 2009-10 Budget to the Board of Trustees and hope you will benefit by the financial data offered.

Respectfully submitted,

Margaret F. Plympton
Vice President for Finance and Administration

Stephen J. Guttman
Director of Budget

