

June 5, 2007

Dear Members of the University Community:

Attached for your information is the final budget for the University's fiscal year 2007-08. The budget totals \$853.7 million, which represents a 3.5% increase over the current year's third quarter forecast.

FY08 represents the second year of recovery, with continuing challenges and opportunities. In spite of fiscal constraints, the schools are moving ahead with their priorities, briefly outlined in the pages of this document. It is anticipated that the new senior leadership team will prompt discussions aimed at focusing on objectives to position the University for the future.

We anticipate that Undergraduate Tuition will be up 12.4%, which reflects both an increase in enrollment and an increase in the tuition rate. The budget is based on an incoming class of 1,050. Professional Tuition is being impacted by rate increases, and student growth projected in Management and Medicine. The change in Graduate Tuition is almost entirely attributable to the rate increase.

Increased Endowment income is a result of raising the payout rate 4.7% per unit from \$2.03 to \$2.1255, and does not assume new endowments being added to the pool. The final year of using an extra 50 basis points is also included in the total.

Research and Training and the associated Overhead Recovery, are flat for FY08, with most schools reporting a decrease in activity except for Medicine and Nursing. Restricted gifts, which frequently go to support research, are only slightly higher than the third quarter forecast for FY07.

Unrestricted Gifts are up 9.7%, but given the small size of the base, this amounts to only \$400K in revenue coming primarily from the schools' annual funds.

The reduction in Organized Activities stems from moving income generated in the dental clinic to Other Income. Other Income is expected to grow by 31.5% from this year's forecast as a result of the dental clinic activity, and expected payments from University Hospitals to Medicine.

Direct Expense is up a modest 2.7%. The Restricted increase is balanced by increases in restricted income (restricted endowment/research and training/restricted gifts). Unrestricted expense has grown by \$12.4M over the FY07 forecast, which is accounted for by a \$6M increase in unfunded financial aid, a \$5M reserve, and \$1.5M for planning in the School of Medicine. All of these expenses are reflected in University General.

Indirect Expense has risen 6.4%, and includes a 2% base increase after the reductions of FY07, plus enhancements to Student Services and Information Services. The allocation rules for distribution of the various expenses were revised during the FY08 budget process and are defined in Appendix C.

In order to move from a \$10.5M deficit in FY08 toward a balanced budget the senior leadership is committed to articulating a recovery plan this summer on how it intends to focus on University's strengths, and direct its resources, actions, and performance objectives to achieve financial stability while sustaining a leadership position in the community of major research universities.



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Provost and University Vice President



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