



AUBURN UNIVERSITY



FINANCIAL REPORT 2009

Comprehensive Annual Financial Report for the year ended September 30, 2009



AUBURN UNIVERSITY

2009 FINANCIAL REPORT

TABLE OF CONTENTS

INTRODUCTORY SECTION

PRESIDENT'S LETTER.....	6
LETTER OF TRANSMITTAL.....	7

FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS.....	11
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	12

AUBURN UNIVERSITY FINANCIAL STATEMENTS

STATEMENTS OF NET ASSETS.....	20
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS.....	21
STATEMENTS OF CASH FLOWS.....	22

COMPONENT UNITS FINANCIAL STATEMENTS

AUBURN UNIVERSITY FOUNDATION AND AUBURN ALUMNI ASSOCIATION.....	24
TIGERS UNLIMITED FOUNDATION.....	26

NOTES TO FINANCIAL STATEMENTS.....

28

DIVISIONAL FINANCIAL STATEMENTS (UNAUDITED)

AUBURN UNIVERSITY MAIN CAMPUS.....	56
AUBURN UNIVERSITY AT MONTGOMERY.....	58
ALABAMA AGRICULTURAL EXPERIMENT STATION.....	60
ALABAMA COOPERATIVE EXTENSION SYSTEM.....	62

REQUIRED SUPPLEMENTAL INFORMATION.....

66

AUBURN UNIVERSITY BOARD OF TRUSTEES.....

69





AUBURN UNIVERSITY

2009
FINANCIAL REPORT

INTRODUCTORY SECTION

OFFICE OF
THE PRESIDENT



January 22, 2010

Dear Members of the Auburn Community and Alabama Citizens:

This annual Financial Report briefly summarizes Auburn University's financial position and activity for the fiscal year ended September 30, 2009.

Auburn has continued to progress as a land, sea and space grant institution, a place it holds among a distinctive body of institutions so designated, in spite of a severe economic recession.

Significant progress has been made on our strategic plan introduced a year ago, which represents the collective effort of the University, its stakeholders, state leaders, and others, and indicates our strong commitment to serve our state, our nation, and beyond. We have made progress on this plan while reducing costs, striving to be more efficient in business and administrative processes to curtail costs, and avoiding, so far, furloughs and lay-offs which many of our peers are experiencing.

Some highlights for Auburn in 2009 include:

Auburn continues to be ranked among the top 50 public institutions by *U.S. News & World Report*, this year placing 38th among the top 50 publics.

The John C.H. Miller Writing Center opened during the year to enhance the ability of students to write critically, a skill employers identify as the most important, and the most lacking, among today's graduates nationally.

The University mentored, through its Honors College, one of the nation's 32 Rhodes Scholars for the year.

The University approved its first accelerated master's degree, allowing students to combine undergraduate and graduate education together and graduate with both degrees at one time.

Auburn once again ranked in the top half of universities nationally in the National Survey of Student Engagement, identifying it as providing a highly supportive learning environment.

New residence halls have also created the opportunity for Living Learning Communities, where students can study core concepts together as part of their residence life involvement. Nationally, such communities are encouraging stronger preparedness upon graduation and more enriching campus involvement, as well as lifelong friendships.

Private giving remained strong. I am particularly proud of our creation of 98 new professorships funded by our alumni and friends.

The entering freshman class at Auburn once again surpassed previous records, with the highest ACT average scores in history at 26.2.

Please visit online at www.auburn.edu/rankings to see more achievements Auburn has reached as we continue our commitment to provide research, outreach and instruction for our citizens.

Sincerely,

Jay Gogue
President

Owing much to the past, Auburn's greater debt is ever to the future.

107 Samford Hall, Auburn, Alabama 36849; Telephone: 334-844-4650; FAX: 334-844-6179

www.auburn.edu



January 22, 2010

The Comprehensive Annual Financial Report for Auburn University for 2009 provides comparative financial statements for the years ended September 30, 2009, and September 30, 2008. The financial statements on the following pages have been prepared in accordance with the guidelines established by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants, and general conformance with College and University Business Administration, which sets forth generally accepted accounting principles for colleges and universities.

The management of Auburn University is responsible for the integrity and objectivity of the financial statements. Management believes that the University's highly developed system of internal accounting controls provides reasonable assurance that assets are protected and that transactions and events are properly recorded. The system of internal controls is maintained by establishment and communication of fiscal policies and procedures, careful selection of qualified financial staff, and an extensive program of internal audits and management reviews.

Sincerely,

A handwritten signature in black ink, appearing to read "Donald L. Large, Jr." with a stylized flourish at the end.

Donald L. Large, Jr.
Executive Vice President

Owing much to the past, Auburn's greater debt is ever to the future.

107 Samford Hall, Auburn, Alabama 36849; Telephone: 334-844-4650; FAX: 334-844-6179

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AUBURN UNIVERSITY

2009
FINANCIAL REPORT

FINANCIAL SECTION



Report of Independent Auditors

To the Board of Trustees of Auburn University and
the President of Auburn University:

In our opinion, based upon our audits and the reports of other auditors, the financial statements listed in the accompanying table of contents, which collectively comprise the financial statements of Auburn University (the "University"), a component unit of the State of Alabama, present fairly, in all material respects, the respective financial position of the University and its discretely presented component units at September 30, 2009 and 2008 (June 30, 2009 and 2008 for Tigers Unlimited Foundation), and the respective changes in financial position and cash flows (as applicable), of the University and its component units for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Auburn Alumni Association (the "Association") and the Auburn University Foundation (the "Foundation"), which represent 85 percent and 84 percent of assets, 85 percent and 84 percent of net assets and 60 percent and 56 percent of revenues of the discretely presented component units at September 30, 2009 and 2008 (at June 30, 2009 and 2008 for Tigers Unlimited Foundation) and for the years then ended (for the years ended June 30, 2009 and 2008 for Tigers Unlimited Foundation), respectively. Each of those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Association and the Foundation, is based solely on the reports of other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

The management's discussion and analysis and required supplemental information on pages 12 through 17 and pages 66 through 68 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The University has not presented the management's discussion and analysis for the year ended September 30, 2008, that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The introductory information on pages 6 through 7, the information presented on pages 18 through 19, and the supplemental divisional financial statements as set forth on pages 56 through 63 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

PricewaterhouseCoopers LLP

January 22, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The following discussion and analysis provides an overview of the financial position and activities of Auburn University (the University) for the year ended September 30, 2009, with a comparison to the year ended September 30, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements, footnotes, and this discussion are the responsibility of University management.

The University is a land grant institution and is classified by the Carnegie Foundation as "Doctoral/Research-Extensive," while Auburn University at Montgomery (AUM) is classified as "Master's I." Fall 2009 enrollment included 30,157 total students at the main campus at Auburn and at AUM. The University offers a diverse range of degree programs in 12 colleges and schools and has approximately 5,253 full-time employees, including approximately 1,383 faculty members, who contribute to the University's mission of serving the citizens of the State of Alabama through its instructional, research and outreach programs.

Using the Annual Report

The University's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on an entity-wide basis to focus on the University as a whole. All references to "2009," "2008," or another year refer to the fiscal year ended September 30, unless otherwise noted.

The University's financial statements are summarized as follows:

The Statement of Net Assets presents entity-wide assets, liabilities, and net assets (assets minus liabilities) on the last day of the fiscal year. Distinctions are made in current and noncurrent assets and liabilities. Net assets are segregated into unrestricted, restricted (expendable and nonexpendable), and invested in capital, net of related debt. The University's net assets are one indicator of the University's financial health. From the data presented, readers of the Statement of Net Assets have the information to determine the assets available to continue the operation of the University. They may also determine how much the University owes vendors, investors and lending institutions. Finally, the Statement of Net Assets outlines the net assets available to the University.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. Governmental accounting standards require state appropriations, gifts, and investment earnings to be classified as nonoperating revenues. As a result, the University will typically realize a significant operating loss. The utilization of capital assets is reflected in the Statement of Revenues, Expenses and Changes in Net Assets as depreciation expense, which reflects the amortization of the cost of an asset over its expected useful life.

The Statement of Cash Flows reports the major sources and uses of cash and reveals further information for assessing the University's ability to meet financial obligations as they become due. Inflows and outflows of cash are summarized by operating, noncapital financing, capital and related financing, and investing activities.

In addition to the University's financial statements, related component unit Statements of Financial Position and Statements of Activities and Changes in Net Assets have been included in this annual report. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, provides criteria for determining which related organizations should be reported as component units based on the nature and significance of their relationship with the primary government, which is the University. GASB Statement No. 39 also clarifies financial reporting requirements for those organizations as amendments to GASB Statement No. 14, *The Financial Reporting Entity*. The University has identified these significant related organizations that are required to be reported as component units. The component units are FASB entities and subject to standards under *Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* and record net assets in three classes: unrestricted, temporarily restricted, and permanently restricted. The three component units of the University reported herein are:

- (1) **Auburn University Foundation (AUF)** - AUF was organized on February 9, 1960, and is the fundraising foundation for the University. As of September 30, 2009, AUF holds endowments and distributes earnings from those endowments to the University. AUF is incorporated as a legally separate, tax-exempt nonprofit organization established to solicit individual and corporate donations for the direct benefit of the University. The Auburn University Real Estate Foundation, Inc. (AUREFI) has been consolidated into AUF's financial statements, as a blended component unit.
- (2) **Tigers Unlimited Foundation (TUF)** - TUF is a legally separate nonprofit organization incorporated in December 2002, which began operations on April 21, 2004. TUF was organized exclusively for charitable purposes, pursuant to Sections 501(a) and 501(c)(3) of the Internal Revenue Code to support athletic fund raising and athletic programs. TUF has a June 30 fiscal year end. TUF provides economic resources to the University for athletic scholarships, athletic building maintenance or new construction, and for athletic department programs.
- (3) **Auburn Alumni Association (the Association)** - The Association is a nonprofit corporation organized on April 14, 1945, which was created to promote mutually beneficial relationships between the University and its alumni, to encourage loyalty among alumni, and to undertake various other actions for the benefit of the University, its alumni, and the State of Alabama. Membership is comprised of alumni, friends, and students of the University. The Association provides monetary support to the University in the form of faculty awards and student scholarships.

The University has two other related foundations. Due to immateriality, the statements of the Auburn Research and Technology Foundation (ARTF) and the Auburn Spirit Foundation for Scholarships (ASFS) are not presented as component units in these financial statements.

Financial Highlights

Statement of Net Assets

A summary of assets, liabilities, and net assets as of September 30, 2009 and 2008, is as follows:

	2009	2008
Assets		
Current assets	\$ 240,967,072	\$ 211,411,952
Capital assets	1,044,435,194	865,261,061
Other noncurrent assets	<u>736,553,896</u>	<u>889,422,754</u>
Total assets	<u>2,021,956,162</u>	<u>1,966,095,767</u>
Liabilities		
Current liabilities	236,354,392	225,926,382
Noncurrent liabilities	<u>575,689,578</u>	<u>589,751,160</u>
Total liabilities	<u>812,043,970</u>	<u>815,677,542</u>
Net assets		
Invested in capital assets, net of related debt	553,281,602	515,706,670
Restricted-nonexpendable	23,886,049	23,630,616
Restricted-expendable	162,874,294	152,763,953
Unrestricted	<u>469,870,247</u>	<u>458,316,986</u>
Total net assets	<u>\$ 1,209,912,192</u>	<u>\$ 1,150,418,225</u>

The University's Assets

Current assets consist of cash and cash equivalents, operating investments (those investments that are expected to be liquidated during the course of normal operations), net accounts receivable (primarily amounts due from the federal and state governments and other agencies as reimbursements for sponsored programs), net student accounts receivable (including amounts due from third parties on behalf of the students), current portion of loans receivable, accrued interest receivable, inventories, and prepaid expenses. These assets increased \$30 million from 2008 to 2009. The University's total receivables remained constant. Although the net accounts receivable decreased approximately \$3 million, the net student accounts receivable increased roughly the same amount. This increase is primarily due to the board approved tuition increases. Accrued interest receivable decreased approximately \$2.5 million, due to decreases in investment distributions received from the component units. Prepaid expenses decreased approximately \$1.1 million, due to amortization of bond issuance costs. The increases in current assets occurred in cash and cash equivalents and operating investments. The University will have increased bond principal payments due in fiscal year 2010, so additional funds for those payments are being maintained in short term investments. The University is also maintaining additional funds in operating investments due to the uncertainty of future state funding.

Other noncurrent assets decreased due to spending of bond proceeds for construction, which were invested at September 30, 2008. Capital assets generally represent the historical cost of land improvements, buildings, construction in progress, infrastructure, equipment, library books, livestock, less any accumulated depreciation, with buildings comprising over 64% of the total capital asset value. Capital assets, net of depreciation, shown as "Investment in plant, net" on the Statement of Net Assets increased 21% from 2008 to 2009.

The increase, offset by disposal activity, depreciation and transfers, was the result of \$402 million of new additions to property, plant and equipment. The following construction projects were completed and placed into service totaling \$144 million:

Student Village Housing	\$118.6 million
West Campus Dining	\$ 14.1 million
Student Center	\$ 3.1 million
Cary Hall Renovations	\$ 1.9 million
AU Hotel Dixon Conference Center Guest Rooms	\$ 1.0 million
Athletic Facility Museum	\$ 1.0 million
Other Small Projects	\$ 4.3 million

The University's Liabilities

Current liabilities consist of accounts payable, the current portion of compensation related liabilities, accrued interest payable, student and other deposits (including Perkins and Health Professions loan liability), deferred revenues, the current portion of noncurrent liabilities, and other accrued liabilities. Current liabilities increased by \$10.4 million from 2008 to 2009 for deferred tuition revenue and contracts and grants revenues received prior to expenditures. For fall 2009, the Board of Trustees approved a 12% tuition increase. Sixty percent of fall tuition is reported as deferred revenue due to our fiscal year end of September 30. The University also had an increase in accrued interest payable due to the new bond issues in 2008. The University will have additional bond principal payments due in fiscal year 2010; therefore, the current portion of noncurrent liabilities increased approximately \$4 million relating to these payments. These increases were offset slightly by the payment of payroll liabilities at year end and less accrued payables as of September 30, 2009.

Noncurrent liabilities include principal amounts due on University bonds payable, accrued compensated absences and other compensation-related liabilities that are payable beyond September 30, 2010. Noncurrent liabilities decreased 2.4% from 2008 to 2009, primarily due to principal payments on the 2007A and 2008 bonds that become due in fiscal year 2010 being reclassified to current liabilities. Previously, there were only interest payments due on this debt, and no new debt was incurred in 2009.

The University's Net Assets

The three major net asset categories are discussed below:

Net assets invested in capital, net of related debt, represent unexpended capital debt proceeds, the University's capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. These net assets increased 7.3% from 2008 to 2009. This increase is due to capitalization of assets as described previously.

Restricted Net Assets are divided into two categories: Nonexpendable and Expendable.

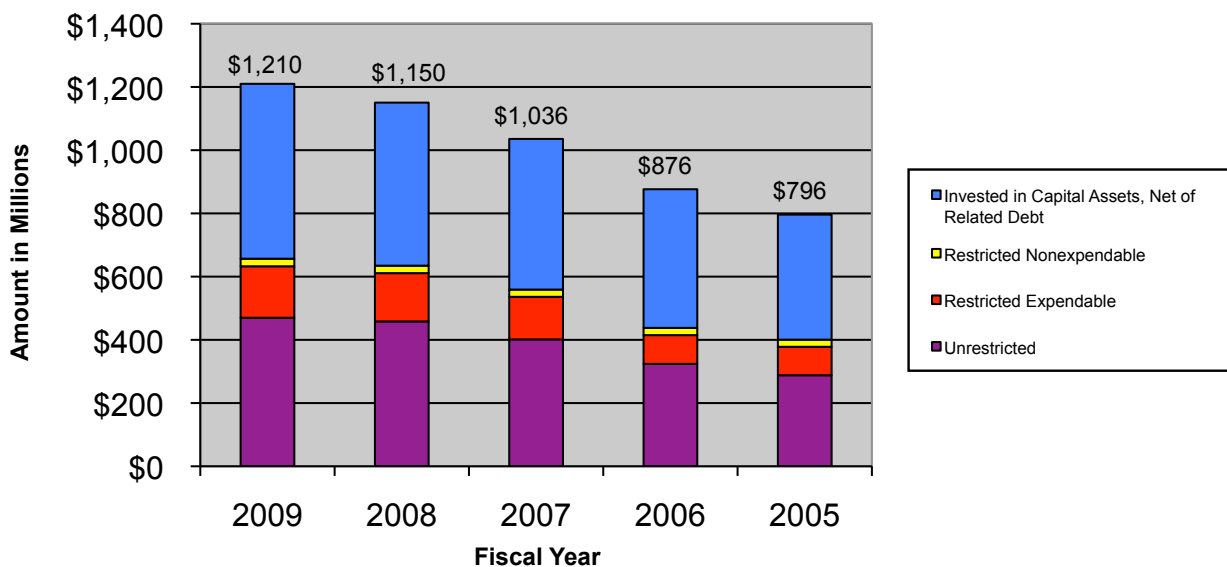
Restricted-nonexpendable net assets are subject to external restrictions governing their use and consist of the University's permanent endowment funds. These net assets increased \$255,433 from 2008 to 2009, primarily due to investment earnings added back to permanent endowments.

Restricted-expendable net assets are also subject to external restrictions governing their use. Such net assets include gifts and contracts and grants restricted by federal, state, or local governments and private

sources, which are restricted for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Restricted funds functioning as endowments, restricted funds available for student loans and funds restricted for construction purposes are also included in this category. These net assets increased by \$10.1 million from 2008 to 2009. Approximately half of the increase is due to restricted gift funds which are unspent at year-end. The other half of the increase is due to additional funds received for capital projects, which have not been spent at September 30, 2009.

Unrestricted net assets are the third major class of net assets, and they are not subject to externally imposed stipulations; however, the majority of the University's unrestricted net assets have been internally designated for various mission-related purposes. These assets include funds for general operations of the University, for auxiliary operations (including athletics, housing, and the bookstore), for unrestricted quasi-endowments, and for capital projects. Unrestricted net assets increased \$11.6 million from 2008 to 2009. The increase in unrestricted net assets is mainly due to holding unrestricted funds for future mission related priorities and deferred maintenance needs during this uncertain economic time.

TOTAL NET ASSETS



Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets are the result of activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of this statement is to present the revenues earned by the

University, both operating and nonoperating, and the expenses incurred by the University, operating and nonoperating, and any other revenues, expenses, gains, losses, and changes in net assets.

A condensed statement is provided below:

	2009	2008
Operating revenues	\$ 492,118,082	\$ 473,173,597
Operating expenses	<u>784,042,362</u>	<u>766,590,509</u>
Operating loss	(291,924,280)	(293,416,912)
Net nonoperating revenues and other changes in net assets	<u>351,418,247</u>	<u>408,295,511</u>
Increase in net assets	59,493,967	114,878,599
Net assets - beginning of year	<u>1,150,418,225</u>	<u>1,035,539,626</u>
Net assets - end of year	<u>\$ 1,209,912,192</u>	<u>\$ 1,150,418,225</u>

The 2009 Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in net assets at the end of the year of \$59.5 million. Operating revenues increased a modest 4% when comparing operating revenues from 2008 to 2009. Student tuition and fee revenue, net of discounts, increased \$22.3 million, which is primarily the result of Board-approved tuition increases of 12% in the 2008-2009 and 5% in the 2007-2008 academic years for the main campus and AUM. Because the University's fiscal year crosses fall semester, tuition revenues in the fiscal year ending September 30, 2009, include 60% of fall semester of 2008, spring semester of 2009, summer term of 2009, and 40% of fall semester of 2009. Student tuition and fees are presented net of scholarships and fellowships applied to student accounts.

During fiscal year 2009, contract and grant revenues decreased \$6.6 million. This is primarily due to the completion of a few large projects in fiscal year 2008. Although the University began receiving and expending federal funding under the American Recovery and Reinvestment Act (ARRA) in the form of sponsored research grants, significant ARRA funds were not expended during fiscal year 2009 and, therefore, have no material impact on the fiscal year 2009 financial statements. Based on awards received during fiscal year 2009 and at the beginning of fiscal year 2010, ARRA expenditures are expected to be significant in fiscal year 2010 and fiscal year 2011. The University began receiving State Fiscal Stabilization Funds in fiscal year 2010.

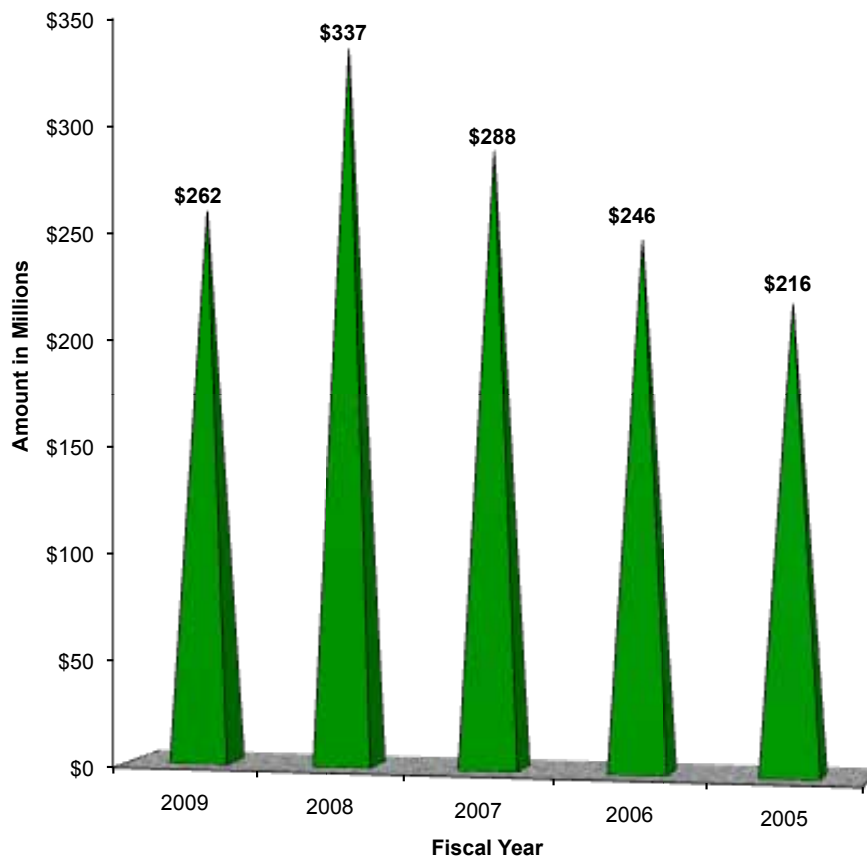
Operating expenses increased \$17.5 million from 2008 to 2009. Expenses for compensation and employee benefits increased \$18.3 million, which is attributable to increases in health insurance, teacher's retirement and other employee benefits. Other supplies and services expenses decreased \$3.5 million. This decrease reflects reductions

in spending due to reduced State appropriation budgets. Depreciation expense increased \$2.9 million, mainly due to depreciation being recorded beginning in fiscal year 2009 on new projects completed in 2008. Scholarship and fellowship expense decreased \$1 million and represents a decrease in stipends and other payments made directly to students, not applied to tuition or auxiliaries.

Net nonoperating revenues decreased \$49.2 million from 2008 to 2009, and this decrease is largely the result of a decrease in State appropriations. State appropriations went from \$336.9 million in fiscal year 2008 to \$261.7 million in fiscal year 2009. The \$75.2 million decrease is attributable to a combined 23% reduction in budget and proration from the State of Alabama. This \$75.2 million decrease was offset by \$26 million increases in gifts, grants, investment income, and interest expense, net. The University saw investments start to turn upward in fiscal year 2009. Although the University recognized a decrease of \$15 million related to endowment and investment income from fiscal year 2008 to 2009, the University saw an increase in unrealized gains/losses of \$37.2 million. In 2008, the University recognized \$23.8 million in unrealized losses, while 2009 experienced unrealized gains of \$13.4 million.

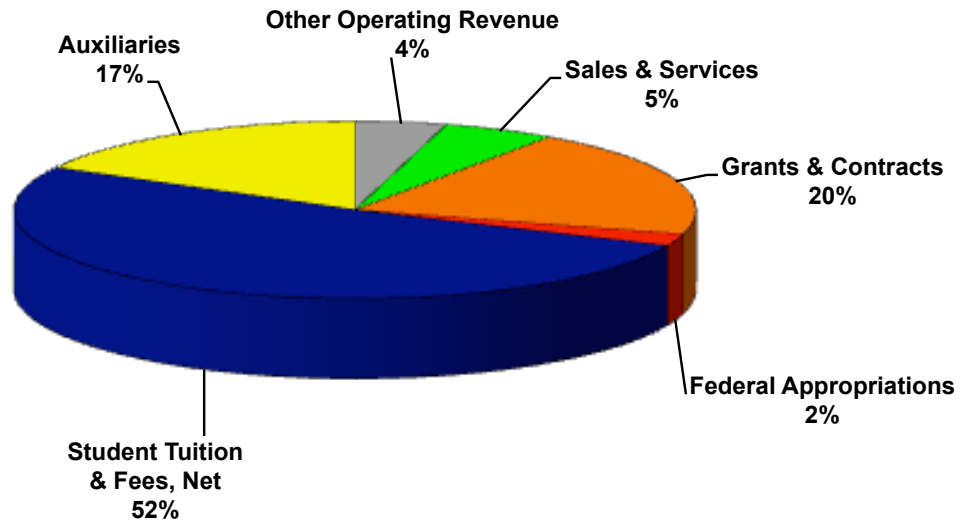
Capital appropriations, capital gifts and grants, additions to permanent endowments decreased \$7.7 million when comparing \$16.2 million recognized in 2009 to \$23.9 million recognized in 2008. In fiscal year 2008, the University received a gift of \$5 million for infrastructure improvements on University owned land from the City of Auburn. In addition, in fiscal year 2009, the University received \$2 million less in gifts for the Shelby Transportation Technology Center.

STATE APPROPRIATIONS



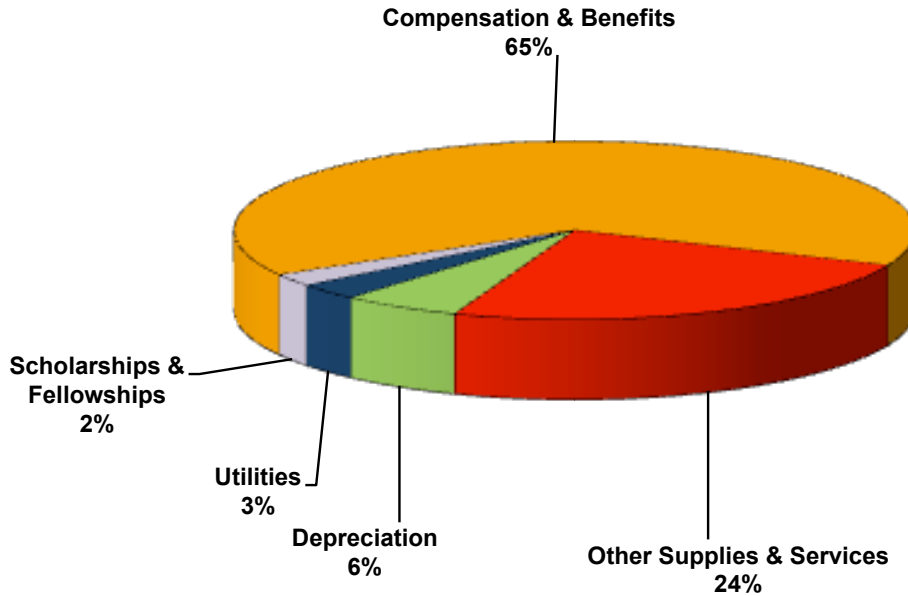
OPERATING REVENUES SUPPORTING CORE ACTIVITIES

For the year ended September 30, 2009



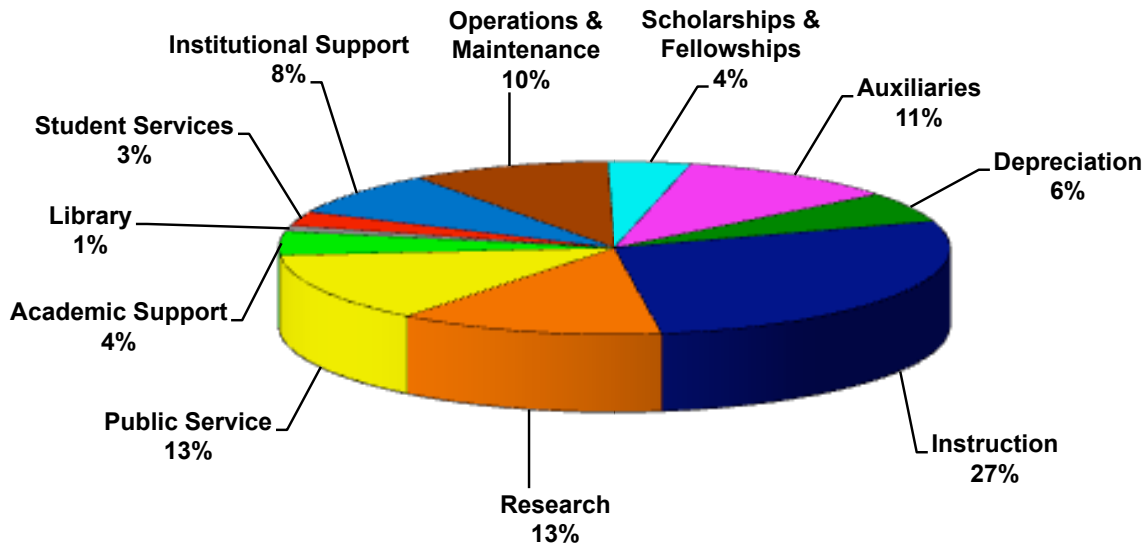
OPERATING EXPENSES BY NATURAL CLASSIFICATION

For the year ended September 30, 2009



OPERATING EXPENSES BY FUNCTION

For the year ended September 30, 2009



Statement of Cash Flows

The Statement of Cash Flows presents information about changes in the University's cash position using the direct method of reporting sources and uses of cash. The direct method reports all major gross cash inflows and outflows, differentiating these activities into operating activities; noncapital financing, such as nonexchange grants and contributions;

capital and related financing, including bond proceeds from debt issued to purchase or construct buildings; and investing activities. Operating activity uses of cash significantly exceed operating activity sources of cash due to classification of state appropriations and gifts as noncapital financing activity.

The University's cash flows are summarized below:

	2009	2008
Cash provided by (used in):		
Operating activities	\$ (246,180,837)	\$ (225,114,266)
Net noncapital financing activities	310,913,714	382,030,973
Net capital and related financing activities	(228,497,676)	127,481,994
Net investing activities	<u>171,637,841</u>	<u>(274,259,217)</u>
Net increase in cash	7,873,042	10,139,484
Cash and cash equivalents beginning of year	<u>49,223,563</u>	<u>39,084,079</u>
Cash and cash equivalents end of year	<u>\$ 57,096,605</u>	<u>\$ 49,223,563</u>

The University increased its use of cash for operating activities from 2008 to 2009 by 9.4%. However, the increase in cash used for operating activities was offset by cash provided by noncapital financing activities. Cash provided by noncapital financing activities decreased 18.6%, which was primarily due to the decrease in state appropriations. However, the University received gifts for other than capital purposes of \$49 million.

Cash used in capital and related financing activities increased \$356 million from 2008 to 2009, which is primarily attributable to expenditures relating to capital projects and other capital asset outlays with no corresponding increase in cash from proceeds of debt issuance in 2009 as there was in 2008.

Cash provided by investing activities was \$172 million in 2009. In fiscal year 2008, the University used approximately \$274 million in investment activities, largely related to the purchases of investments from bond proceeds. In the current year, these investments were sold to utilize the funds for construction projects. Although the University purchased approximately \$664 million in investments in fiscal year 2009, the proceeds from the current year sales plus investment income totaling \$836 million provided the \$172 million.

Economic factors that will affect the future

While the University is impacted by the general economic conditions, management believes the University will continue its high level of excellence in service to students, sponsors, the State of Alabama, and other constituents. In addition to legislative appropriation reductions for fiscal year 2010, the Governor announced the 7.5% proration of the Special Education Trust Fund, which effectively reduced the appropriations for Auburn University by an additional 9% in the fiscal year ending September 30, 2010. The University's strong financial position and internal financial planning process provides the University some protection against the funding reductions and adverse economic conditions. Nonetheless, a continuation of the economic downturn and future reductions in state support must be anticipated and managed carefully to maintain excellence. Neither external nor internal efforts to mitigate the impact, however, are intended to eliminate the effects of future prorations or decrease in state funding. As a labor intensive organization, the University faces competitive pressures related to

attracting and retaining faculty and staff. The rising cost of health care remains a concern, particularly in light of the post-retirement health care benefits offered to retirees.

The University continues to address aging facilities with significant new construction, as well as modernization and renovation of existing facilities. Although funding of these projects through gifts, federal and state funds, and deferred maintenance budget allocations continues, the costs of operating the new and renovated facilities will continue to place additional resource demands on the operating budget of the institution.

The University continues to take steps to enhance student recruitment, both in marketing efforts and in providing additional scholarship funding. Applications, acceptances and retention are monitored closely to assess the potential impact of general economic conditions on future enrollment. We are cautiously optimistic that demand will remain strong.

The University will continue to employ its long-term investment strategy to maximize total returns at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility. Preservation of capital is regarded as the highest priority in the investing of the cash pool. Diversification through asset allocation is utilized as a fundamental risk strategy for endowed funds.

Cautionary note regarding forward-looking statements

Certain information provided by the University, including written, as outlined above, or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, which address activities, events or developments that the University expects or anticipates will or may occur in the future, contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions.

UNDERGRADUATE TUITION FOR THE ACADEMIC YEAR

	2009-10	2008-09	2007-08	2006-07	2005-06
Auburn Main Campus/ Auburn University at Montgomery					
Full Time Students In-State	\$6,732/\$5,970	\$6,260/\$5,580	\$5,594/\$5,010	\$5,256/\$4,760	\$5,038/\$4,410
Full Time Students Out-of-State	\$19,212/\$17,250	\$18,020/\$16,200	\$16,094/\$14,490	\$15,256/\$13,760	\$14,638/\$13,230

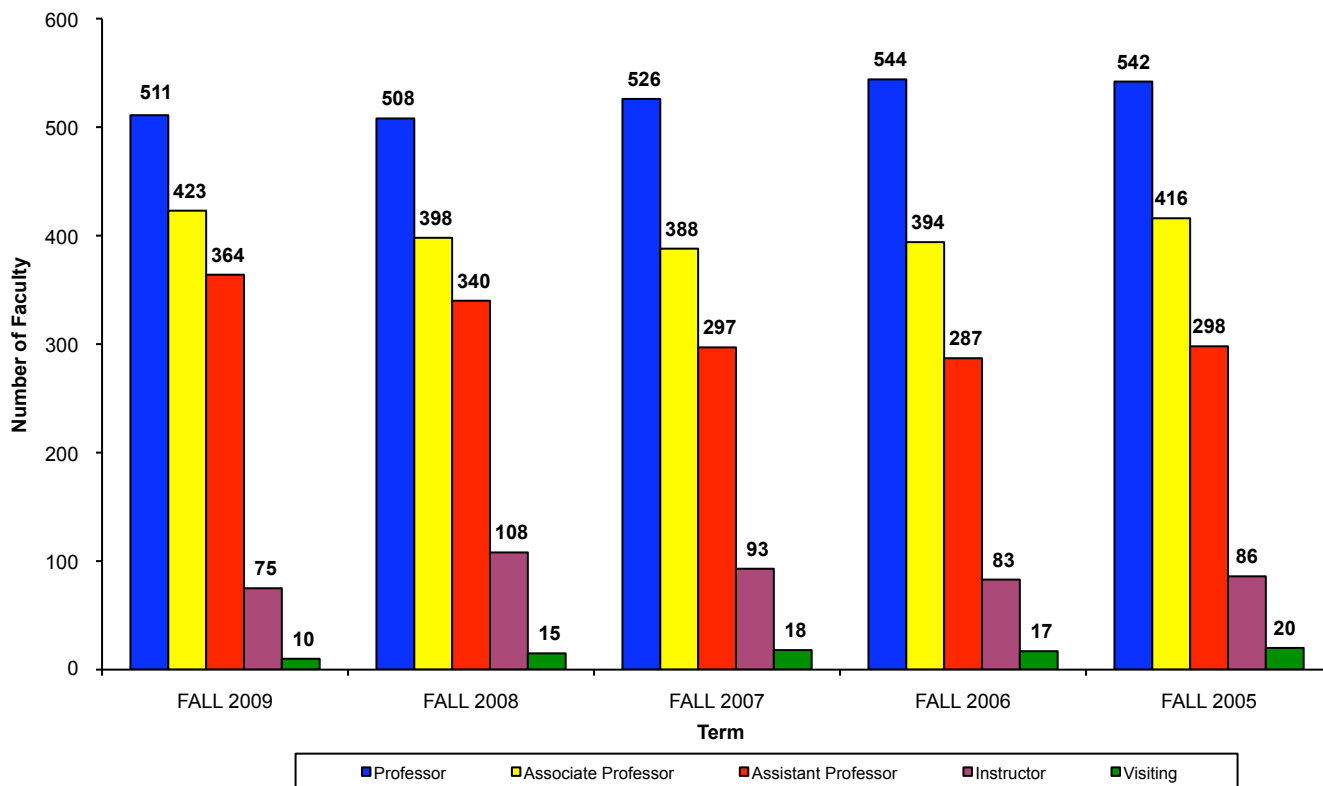
FALL STUDENT ENROLLMENT

	2009	2008	2007	2006	2005
Auburn Main Campus and Auburn University at Montgomery					
Undergraduate and Professional	25,599	25,471	25,115	24,602	24,464
Graduate	4,558	4,346	4,146	4,024	3,997

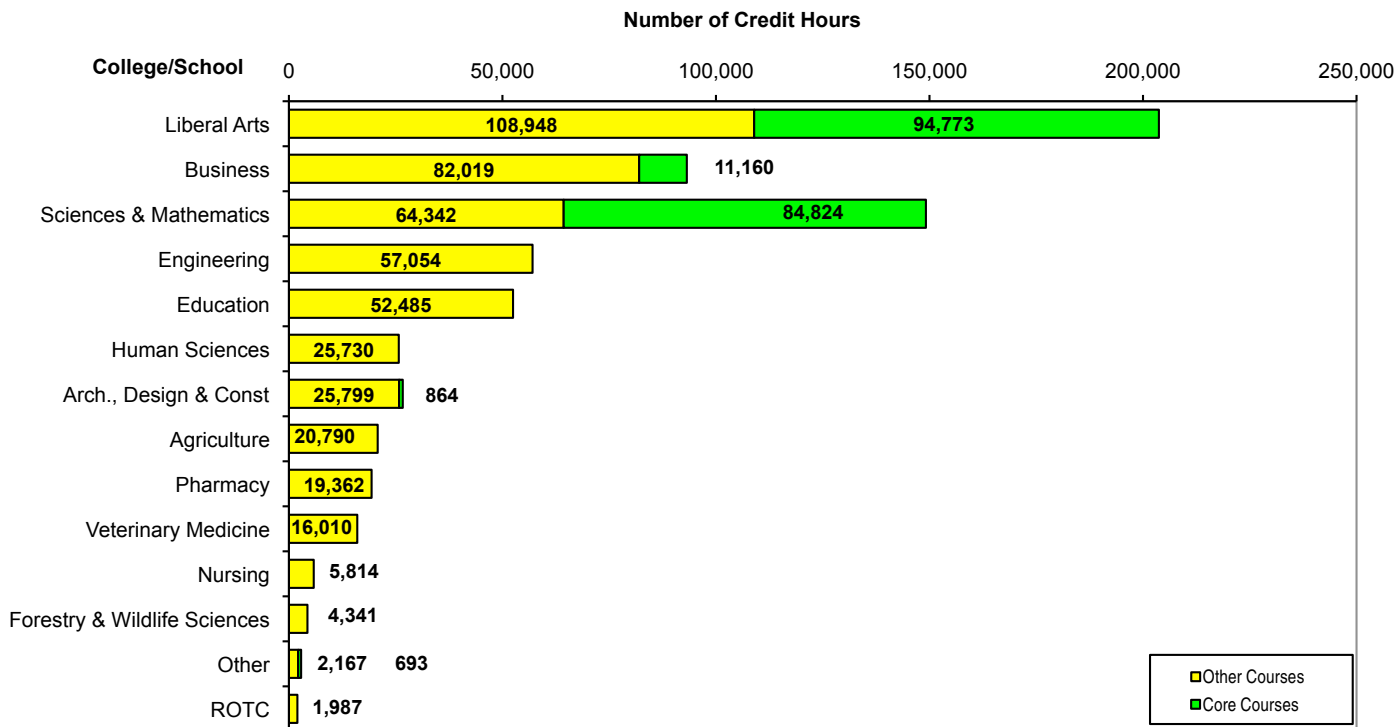
DEGREES AWARDED FOR THE ACADEMIC YEAR

	2008-09	2007-08	2006-07	2005-06	2004-05
Auburn Main Campus and Auburn University at Montgomery					
Bachelor	4,593	4,441	4,373	4,658	4,538
Advanced	1,561	1,520	1,465	1,493	1,394

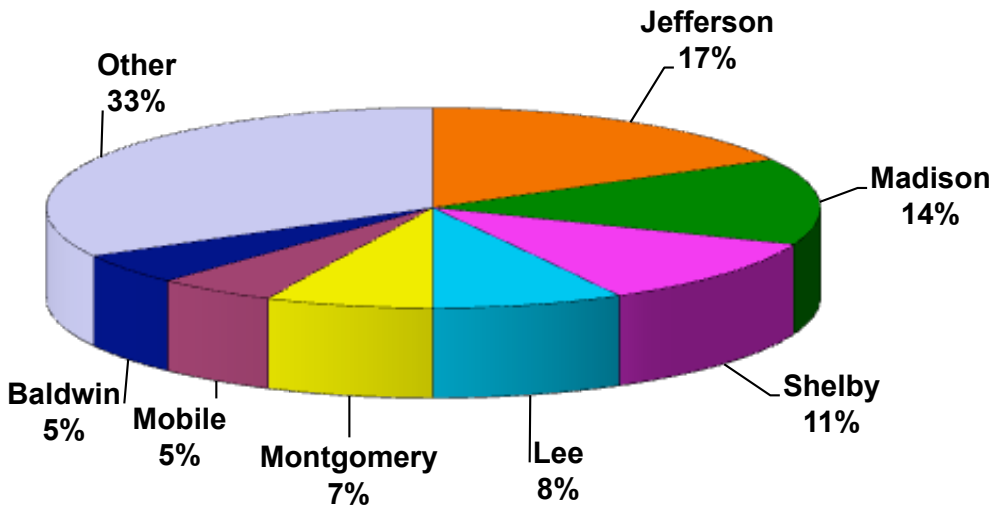
**AUBURN UNIVERSITY MAIN CAMPUS AND AUBURN UNIVERSITY AT MONTGOMERY
FULL-TIME FACULTY BY RANK**



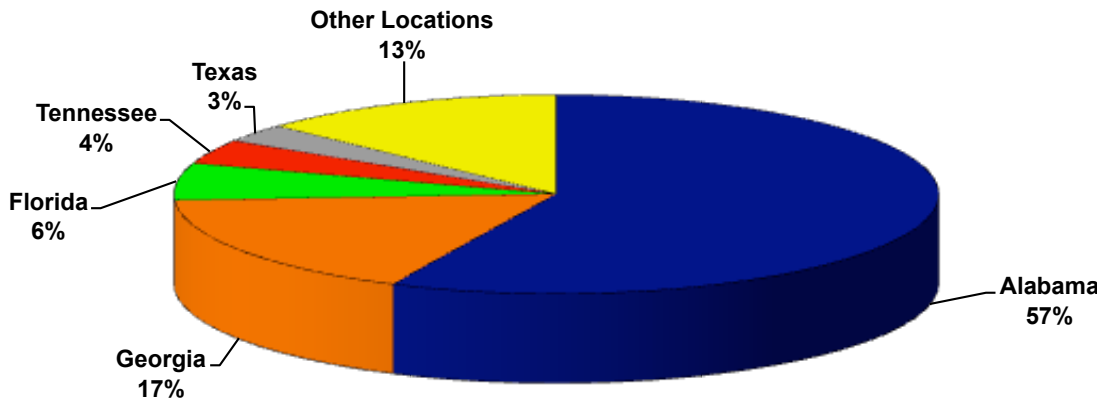
**AUBURN UNIVERSITY MAIN CAMPUS
TOTAL STUDENT CREDIT HOURS BY COLLEGE/SCHOOL 2008-09**



**AUBURN UNIVERSITY MAIN CAMPUS FRESHMEN
ENROLLMENT BY ALABAMA COUNTIES
SUMMER/FALL TERMS 2009**



**SOURCES OF ENTERING FRESHMEN BY STATE
MAIN CAMPUS SUMMER/FALL TERMS 2009**



AUBURN UNIVERSITY
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2009 AND 2008

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 57,096,605	\$ 49,223,563
Operating investments	100,197,782	74,913,022
Accounts receivable, net	40,127,137	43,074,194
Student accounts receivable, net	28,635,482	25,305,164
Loans receivable, net	2,895,997	3,239,360
Accrued interest receivable	3,488,574	5,950,208
Inventories	3,595,380	3,724,421
Prepaid expenses	4,930,115	5,982,020
Total current assets	240,967,072	211,411,952
Noncurrent assets		
Investments	719,525,726	872,550,112
Loans receivable, net	17,028,170	16,872,642
Investment in plant, net	1,044,435,194	865,261,061
Total noncurrent assets	1,780,989,090	1,754,683,815
Total assets	2,021,956,162	1,966,095,767
LIABILITIES		
Current liabilities		
Accounts payable	43,492,762	54,925,814
Accrued salaries and wages	5,077,503	4,817,509
Accrued compensated absences	17,029,736	16,624,393
Accrued interest payable	9,006,785	7,790,748
Other accrued liabilities	2,814,171	2,868,084
Student deposits	816,355	751,409
Deposits held in custody	19,848,095	19,532,659
Deferred revenues	117,424,351	102,759,552
Noncurrent liabilities-current portion	20,844,634	15,856,214
Total current liabilities	236,354,392	225,926,382
Noncurrent liabilities		
Accrued compensated absences	691,230	671,604
Bonds and notes payable	550,080,467	567,895,472
Lease obligations	1,540,660	2,009,286
Other noncurrent liabilities	23,377,221	19,174,798
Total noncurrent liabilities	575,689,578	589,751,160
Total liabilities	812,043,970	815,677,542
NET ASSETS		
Invested in capital assets, net of related debt	553,281,602	515,706,670
Restricted		
Nonexpendable	23,886,049	23,630,616
Expendable:		
Scholarships, research, instruction, other	139,000,957	135,955,184
Loans	5,023,192	4,943,568
Capital projects	18,850,145	11,865,201
Unrestricted	469,870,247	458,316,986
Total net assets	\$ 1,209,912,192	\$ 1,150,418,225

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
OPERATING REVENUES		
Tuition & fees, net of scholarship allowances of \$60,575,755 and \$46,236,982, respectively	\$ 257,628,293	\$ 235,307,172
Federal appropriations	10,946,114	15,709,270
Federal grants & contracts, net	69,512,621	72,370,376
State & local grants & contracts, net	18,187,145	23,662,282
Nongovernmental grants & contracts, net	11,516,685	9,812,888
Sales & services of educational departments	26,720,309	25,471,196
Auxiliary revenue, net of scholarship allowances of \$3,125,629 and \$2,030,040, respectively	80,754,997	75,495,395
Other operating revenues	<u>16,851,918</u>	<u>15,345,018</u>
Total operating revenues	<u>492,118,082</u>	<u>473,173,597</u>
OPERATING EXPENSES		
Compensation & benefits	507,894,296	489,624,707
Scholarships & fellowships	17,903,346	18,922,374
Utilities	23,708,155	22,880,676
Other supplies & services	190,348,713	193,892,295
Depreciation	<u>44,187,852</u>	<u>41,270,457</u>
Total operating expenses	<u>784,042,362</u>	<u>766,590,509</u>
Operating loss	<u>(291,924,280)</u>	<u>(293,416,912)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	261,691,096	336,941,382
Gifts	29,786,518	28,522,474
Grants	16,424,734	12,990,511
Net investment income	41,436,581	21,994,083
Interest expense on capital debt	<u>(14,150,603)</u>	<u>(16,071,668)</u>
Nonoperating revenues, net	<u>335,188,326</u>	<u>384,376,782</u>
Income before other changes in net assets	43,264,046	90,959,870
OTHER CHANGES IN NET ASSETS		
Capital appropriations	292,609	-
Capital gifts & grants	15,681,879	23,506,851
Additions to permanent endowments	<u>255,433</u>	<u>411,878</u>
Net increase in net assets	59,493,967	114,878,599
Net assets - beginning of year	<u>1,150,418,225</u>	<u>1,035,539,626</u>
Net assets - end of year	<u>\$ 1,209,912,192</u>	<u>\$ 1,150,418,225</u>

See accompanying notes to financial statements.

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

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition & fees	\$ 262,875,230	\$ 251,479,652
Federal appropriations	10,601,588	15,709,270
Grants & contracts	98,800,123	115,904,169
Sales & services of educational departments	25,562,933	19,545,447
Auxiliary enterprises	87,337,187	73,154,519
Other operating revenues	17,418,059	16,645,882
Payments to suppliers	(202,348,794)	(188,817,474)
Payments for utilities	(23,708,155)	(22,880,676)
Payments for employee compensation & benefits	(504,676,629)	(486,418,042)
Payments for scholarships & fellowships	(17,932,871)	(18,922,374)
Student loans issued	(2,558,526)	(3,281,931)
Student loans collected	2,449,018	2,767,292
Net cash used in operating activities	<u>(246,180,837)</u>	<u>(225,114,266)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	261,691,096	336,941,382
Gifts and grants for other than capital purposes	49,465,542	45,264,062
Federal Family Education Loan receipts	142,384,346	131,378,587
Federal Family Education Loan disbursements	<u>(142,627,270)</u>	<u>(131,553,058)</u>
Net cash provided by noncapital financing activities	<u>310,913,714</u>	<u>382,030,973</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt, net of issuance cost	-	272,333,120
Capital appropriations	292,608	-
Capital grants & gifts received	12,679,929	14,194,969
Purchases of capital assets	(221,493,168)	(133,338,157)
Proceeds received from sale of capital assets	6,769,654	68,992
Principal paid on debt & capital leases	(15,268,177)	(14,327,841)
Interest paid on debt & capital leases	<u>(11,478,522)</u>	<u>(11,449,089)</u>
Net cash (used in) provided by capital and related financing activities	<u>(228,497,676)</u>	<u>127,481,994</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments and reinvestments	804,344,342	971,952,317
Investment income	31,290,907	42,679,624
Purchases of investments	<u>(663,997,408)</u>	<u>(1,288,891,158)</u>
Net cash provided by (used in) investing activities	<u>171,637,841</u>	<u>(274,259,217)</u>
Net increase in cash and cash equivalents	7,873,042	10,139,484
Cash and cash equivalents, beginning of year	<u>49,223,563</u>	<u>39,084,079</u>
Cash and cash equivalents, end of year	<u>\$ 57,096,605</u>	<u>\$ 49,223,563</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (291,924,280)	\$ (293,416,912)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	43,542,274	40,636,487
Write-off of loans receivable	297,343	755,002
(Gain) loss on sale of net assets	(2,421,038)	385,234
Other	-	1,259,061
Changes in assets and liabilities:		
Accounts receivable	(1,517,742)	6,302,520
Student accounts receivable	(3,330,318)	2,582,460
Inventories	129,041	60,065
Deferred revenue	14,664,799	10,523,750
Accounts payable	(10,564,048)	6,037,512
Prepaid expenses	1,051,905	(2,403,902)
Accrued salaries, wages and compensated absences	684,963	1,271,499
Student deposits and deposits held in custody	623,306	(444,694)
Loans to students	(109,508)	(514,639)
Other accrued liabilities	(53,913)	68,384
Other noncurrent liabilities	2,746,379	1,783,907
Net cash used in operating activities	<u>\$ (246,180,837)</u>	<u>\$ (225,114,266)</u>

SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION

Capital assets acquired with a liability at year-end	\$ 19,735,848	\$ 17,986,309
Gifts of capital assets	4,467,893	8,639,686
Capital assets acquired through capital leases	-	25,200
Capitalized interest	14,228,375	8,533,667

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2009 AND 2008

	Auburn University Foundation		Auburn Alumni Association	
	2009	2008	2009	2008
ASSETS				
Cash and cash equivalents	\$ 615,925	\$ 1,020,903	\$ 61,520	\$ 20,966
Investments	250,294,773	250,717,765	3,772,017	3,741,494
Investment in Auburn University Foundation Securities Pool	-	-	6,412,561	6,534,704
Accrued interest receivable	891,323	809,590	16,230	34,964
Contributions receivable, net	31,411,275	29,360,343	401,240	483,427
Notes receivable	798,137	741,577	-	-
Other assets	42,733	37,954	-	4,548
Investment in real estate	2,240,356	1,219,696	674,799	674,799
Cash surrender value of life insurance	3,057,945	2,847,439	-	-
Beneficial interest in outside trusts	969,723	1,031,616	-	-
Property and equipment, net	1,916,801	2,559,498	2,087,765	2,086,847
Prepaid rent	-	-	30	31
Due from Auburn University Foundation	-	-	178	93,788
Total assets	<u>\$ 292,238,991</u>	<u>\$ 290,346,381</u>	<u>\$ 13,426,340</u>	<u>\$ 13,675,568</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 376,293	\$ 420,435	\$ 86,580	\$ 107,214
Annuities payable	6,820,790	7,460,283	-	-
Due to Auburn University	256,417	2,851,353	159,846	51,242
Due to Auburn University Foundation	-	-	1,555	-
Due to Auburn Alumni Association	6,411,182	6,627,852	-	-
Due to Tigers Unlimited Foundation	5,701,268	6,206,026	-	-
Deferred revenue	-	-	7,295,068	7,242,423
Total liabilities	<u>19,565,950</u>	<u>23,565,949</u>	<u>7,543,049</u>	<u>7,400,879</u>
NET ASSETS				
Unrestricted	19,982,749	21,065,627	5,883,291	6,274,689
Temporarily restricted	24,685,063	41,236,206	-	-
Permanently restricted	228,005,229	204,478,599	-	-
Total net assets	<u>272,673,041</u>	<u>266,780,432</u>	<u>5,883,291</u>	<u>6,274,689</u>
Total liabilities and net assets	<u>\$ 292,238,991</u>	<u>\$ 290,346,381</u>	<u>\$ 13,426,340</u>	<u>\$ 13,675,568</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	Auburn University Foundation		Auburn Alumni Association	
	2009	2008	2009	2008
REVENUES AND OTHER SUPPORT				
Public support - contributions	\$ 40,431,304	\$ 36,807,291	\$ 1,471,028	\$ 1,488,980
Investment income	3,651,701	4,509,394	347,211	490,178
Other revenues	1,922,900	699,105	830,451	659,386
Total operating revenues	<u>46,005,905</u>	<u>42,015,790</u>	<u>2,648,690</u>	<u>2,638,544</u>
EXPENSES AND LOSSES				
Program services				
Contributions to and support for Auburn University	24,871,876	24,318,937	-	-
Other program services	1,781,213	1,744,884	804,487	760,742
Total program services	<u>26,653,089</u>	<u>26,063,821</u>	<u>804,487</u>	<u>760,742</u>
Support services				
General and administrative	2,027,449	1,962,211	1,565,152	1,659,826
Fund raising	2,850,797	4,604,415	169,605	214,528
Total support services	<u>4,878,246</u>	<u>6,566,626</u>	<u>1,734,757</u>	<u>1,874,354</u>
Total expenses	31,531,335	32,630,447	2,539,244	2,635,096
Unrealized losses on investments	3,388,239	39,172,041	500,844	1,392,806
Realized losses (gains) on investments	3,619,719	(5,032,720)	-	-
Change in valuation of split-interest agreements	901,779	3,945,074	-	-
Impairment in real estate	672,224	-	-	-
Total expenses, (gains) and losses	<u>40,113,296</u>	<u>70,714,842</u>	<u>3,040,088</u>	<u>4,027,902</u>
*Change in net assets	5,892,609	(28,699,052)	(391,398)	(1,389,358)
Net assets - beginning of year	<u>266,780,432</u>	<u>295,479,484</u>	<u>6,274,689</u>	<u>7,664,047</u>
Net assets - end of year	<u>\$ 272,673,041</u>	<u>\$ 266,780,432</u>	<u>\$ 5,883,291</u>	<u>\$ 6,274,689</u>
*Change in net assets				
Unrestricted	\$ (1,082,878)	\$ (53,211)	\$ (391,398)	\$ (1,389,358)
Temporarily restricted	(16,551,143)	(39,189,384)	-	-
Permanently restricted	23,526,630	10,543,543	-	-
Total change in net assets	<u>\$ 5,892,609</u>	<u>\$ (28,699,052)</u>	<u>\$ (391,398)</u>	<u>\$ (1,389,358)</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

	Tigers Unlimited Foundation	
	2009	2008
ASSETS		
Cash and cash equivalents	\$ 543,077	\$ 1,291,444
Investments	32,086,163	35,276,250
Investment in Auburn University Foundation Securities Pool	5,106,545	6,106,026
Accrued interest receivable	134,472	260,402
Contributions receivable, net	14,606,450	14,055,067
Other receivables	314	8,911
Notes receivable	800,000	-
Other assets	248,792	51,306
Property and equipment, net	2,140	3,273
Due from Auburn University	-	50,082
Due from Auburn University Foundation	100,000	100,000
Total assets	<u>\$ 53,627,953</u>	<u>\$ 57,202,761</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,525,995	\$ 174,150
Deferred revenue	1,193,181	955,794
Due to Auburn University	<u>2,022,800</u>	<u>2,222,218</u>
Total liabilities	<u>5,741,976</u>	<u>3,352,162</u>
NET ASSETS		
Unrestricted	19,054,280	26,347,798
Temporarily restricted	21,236,224	19,950,494
Permanently restricted	<u>7,595,473</u>	<u>7,552,307</u>
Total net assets	<u>47,885,977</u>	<u>53,850,599</u>
Total liabilities and net assets	<u>\$ 53,627,953</u>	<u>\$ 57,202,761</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	Tigers Unlimited Foundation	
	2009	2008
REVENUES AND OTHER SUPPORT		
Public support - contributions	\$ 28,272,549	\$ 30,280,006
Investment income	1,386,722	1,433,359
Other revenues	3,348,179	3,954,790
Total operating revenues	33,007,450	35,668,155
 EXPENSES AND LOSSES		
Program services		
Contributions to and support for Auburn University	17,321,887	13,418,420
Other program services	10,527,120	6,041,620
Total program services	27,849,007	19,460,040
Support services		
General and administrative	1,225,214	1,221,525
Fund raising	8,165,443	5,659,055
Total support services	9,390,657	6,880,580
Total expenses	37,239,664	26,340,620
Unrealized losses on investments	1,730,351	379,388
Realized losses on investments	2,057	1,584
Total expenses and losses	38,972,072	26,721,592
 *Change in net assets	(5,964,622)	8,946,563
Net assets - beginning of year	53,850,599	44,904,036
Net assets - end of year	\$ 47,885,977	\$ 53,850,599
 *Change in net assets		
Unrestricted	\$ (7,293,518)	\$ 5,414,049
Temporarily restricted	1,285,730	3,417,345
Permanently restricted	43,166	115,169
Total change in net assets	\$ (5,964,622)	\$ 8,946,563

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) NATURE OF OPERATIONS

Auburn University (the University) is a land grant university originally chartered on February 1, 1856, as the East Alabama Male College. The Federal Land Grant Act of 1862, by which the University was established as a land grant university, donated public lands to several states and territories with the intent that the states would use these properties for the benefit of agriculture and the mechanical arts. Several pertinent laws dictate specific purposes for which the land may be used. In 1960, the Alabama State Legislature officially changed the name of the University to Auburn University. The University has two campuses, Auburn and Montgomery, with a combined enrollment of 30,157 students for Fall Semester 2009. It serves the State of Alabama, the nation and international business communities through instruction of students and the advancement of research and outreach programs. By statutory laws of the State of Alabama, the University is governed by the Board of Trustees (the Board) appointed by the Governor, a committee consisting of two trustees and two Alumni Association board members and approved by the Alabama State Senate.

The accompanying financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, unless FASB conflicts with GASB. The accompanying financial statements include the following four divisions of the University:

- Auburn University Main Campus
- Auburn University at Montgomery
- Alabama Agricultural Experiment Station
- Alabama Cooperative Extension System

Reporting Entity

The University, a publicly supported, state funded institution, is a component unit of the State of Alabama and is included in the Comprehensive Annual Financial Report of the State. However, the University is considered a separate reporting entity for financial statement purposes.

The University, as a public corporation and instrumentality of the State of Alabama, is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Certain transactions may be taxable as unrelated business income under Internal Revenue Code Sections 511 to 514.

The Auburn University Foundation and the Auburn Alumni Association are exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. Tigers Unlimited Foundation is exempt from federal taxes under section 501(a) as an organization described in section 501(c)(3). Therefore, no provision has been made for income taxes in their respective financial statements.

The Auburn Research and Technology Foundation and the Auburn Spirit Foundation for Scholarships, created in 2004 and 2006 respectively, were organized under Internal Revenue Code 509(a)(3) and Internal Revenue Code 509(a)(2), respectively. They are exempt from Federal income taxes under section 501(c)(3) of the Internal Revenue Code.

The Auburn University Real Estate Foundation, Inc. was organized in 2005 under Internal Revenue Code 170(b)(1)(A)(vi). This real estate holding corporation is a tax-exempt organization under 501(c)(3) of the Internal Revenue Code.

Contributions intended for the University's benefit are primarily received through Auburn University Foundation, Tigers Unlimited Foundation, Auburn Research and Technology Foundation, Auburn Spirit Foundation for Scholarships or Auburn University Real Estate Foundation, Inc. and are deductible by donors as provided under Section 170 of the Internal Revenue Code, consistent with the provisions under Section 501(c)(3) and corresponding state law.

Component Units

The University adheres to GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units-an amendment of GASB Statement No. 14*. This statement clarifies GASB Statement No. 14, *The Financial Reporting Entity*, which provides criteria for determining whether such organizations for which a government is not financially accountable should be reported as component units. Due to the fact that the exclusion of such organizations would render the entity's financial statements misleading or incomplete, the University has included statements for Auburn University Foundation, the Tigers Unlimited Foundation and the Auburn Alumni Association in these financial statements. The Auburn University Real Estate Foundation, Inc. has been consolidated into the Auburn University Foundation's financial statements, as a blended component unit. These three affiliated organization's financial statements are presented following the University's statements. The component units are not GASB entities; therefore, their respective financial statements adhere to accounting principles under the Accounting Standards Codification.

Due to the immateriality of the Auburn Research and Technology Foundation and the Auburn Spirit Foundation for Scholarships, presentation and disclosure of their statements are not included.

Auburn University Foundation (AUF) is a qualified charitable organization established in 1960, existing solely for the purpose of receiving and administering funds for the benefit of the University. AUF's activities are governed by its own Board of Directors.

Tigers Unlimited Foundation (TUF) is an independent corporation that began operations on April 21, 2004. It was formed for the sole purpose of obtaining and disbursing funds for the University's Intercollegiate Athletics Department. TUF's activities are governed by its own Board of Directors with transactions being maintained using a June 30 fiscal year end date.

The Auburn Alumni Association (the Association) is an independent corporation organized on April 14, 1945, which was created to promote mutually beneficial relationships between the University and its alumni, to encourage loyalty among alumni and to undertake various other actions for the benefit of the University, its alumni and the State of Alabama. Membership is comprised of alumni, friends and students of the University. The Association's activities are governed by its own Board of Directors.

The Auburn Research and Technology Foundation (ARTF) is an independent corporation organized on August 24, 2004, to facilitate the

acquisition, construction and equipping of a technology and research park on the Auburn University campus. ARTF activities are governed by its own Board of Directors.

The Auburn Spirit Foundation for Scholarships (ASFS) is a qualified charitable organization established on September 29, 2006, organized exclusively to assist the University with the attraction and funding of student scholarships. The ASFS activities are governed by its own Board of Directors.

The Auburn University Real Estate Foundation, Inc. (AUREFI) is a qualified charitable organization created on July 5, 2005, which is owned and controlled by the AUF solely for the purpose of receiving and administering real estate gifts. The AUREFI activities are governed by its own Board of Directors.

The Foundations are not-for-profit organizations that report financial results under principles prescribed by the FASB. In June 2009, the FASB issued FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. FASB Statement No. 168 establishes the FASB Accounting Standards Codification (ASC) as the single authoritative source for GAAP. The Codification is effective for financial statements that cover interim and annual periods ending after September 15, 2009. Authoritative accounting guidance for the Foundations' transactions is found under the ASC topic 958 Not-for-Profit Entities with more specific areas covered under subtopics, 20 Financially Interrelated Entities, 30 Split Interest Agreements, 205 Presentation, 210 Balance Sheet, 225 Income Statement, 230 Cash Flow Statement, 310 Receivables and 605 Revenue Recognition.

The financial statements of the Foundations have been prepared on the accrual basis of accounting. Net assets, revenues, expenses, gains and losses are classified on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundations and changes therein are classified and reported as unrestricted, temporarily restricted or permanently restricted.

Investments in debt securities, equity securities and mutual funds with readily determinable market values are reported at their fair market values based on published market prices.

Contributions received, including unconditional promises to give, are recognized as revenues at their fair values in the period received. For financial reporting purposes, Foundations distinguish between contributions of unrestricted assets, temporarily restricted assets and permanently restricted assets. Contributions for which donors have imposed restrictions, which limit the use of the donated assets, are reported as restricted support if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions when the purpose or time restrictions are met. Contributions of assets which donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as permanently restricted assets. Contributions for which donors have not stipulated restrictions are reported as unrestricted support.

Financial statements for AUF, TUF, the Association, ARTF and ASFS may be obtained by writing to the applicable entity at 317 South College Street, Auburn, Alabama 36849.

Financial Statement Presentation

For financial reporting purposes, the University adheres to the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis-for Public Colleges and Universities-an amendment of GASB Statement No. 34*. These statements establish standards for external financial reporting for public colleges and universities on an entity-wide perspective and require that resources be classified in three net asset categories.

- **Invested in capital assets, net of related debt:**
Unexpended debt proceeds, capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted net assets:**
Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.
Expendable – Net assets whose use by the University are subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations, or that expire by the passage of time.
- **Unrestricted net assets:** Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, capital programs, and auxiliary units.

GASB Statement No. 35 also requires three statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis of accounting and in accordance with accounting standards of the United States of America and all significant, interdivisional transactions between auxiliary units and other funds have been eliminated. The University reports as a Business Type Activity (BTA) as defined by GASB Statement No. 35. BTA's are those institutions that are financed in whole or in part by fees charged to external parties for goods or services. Under BTA reporting, it is required that statements be prepared using the economic resources measurement focus.

GASB Statement No. 35 requires the recording of depreciation on capital assets, accrual or deferral of revenue associated with certain grants and contracts, accrual of interest expense, accounting for certain scholarship allowances as a reduction of revenue, classification of federal refundable loans as a liability, and capitalization and depreciation of equipment with a sponsor reversionary interest.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

The University reclassified \$12,990,511 in 2008 of Pell grant revenue from operating revenues to nonoperating revenues within the accompanying statements of revenues, expenses, and changes in net assets and from net cash used in operating activities to net cash provided by noncapital financing activities within the statements of cash flows. The impact of this reclassification was not considered material to the University's 2008 financial statements.

(2) SIGNIFICANT ACCOUNTING POLICIES OF AUBURN UNIVERSITY

Cash & Cash Equivalents

Cash and cash equivalents are defined as highly liquid debt instruments readily convertible into cash and with maturities at date of acquisition of three months or less, whose use is not restricted for long term purposes.

Investments

Investments in equity securities, mutual funds, common trust funds, business trust funds, cash value of life insurance and debt securities are reported at fair value in the Statement of Net Assets, with all net realized and unrealized gains and losses reflected in the Statement of Revenues, Expenses and Changes in Net Assets. Fair value of these investments is based on quoted market prices or dealer quotes where available.

Under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the University records its initial investment and subsequent contributions in non-readily marketable investments at cost with no adjustments for its share of income/appreciation and losses/depreciation received from the investment (see Note 4). The University performs periodic evaluations in which these investments are monitored for impairment.

Under GASB Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3*, common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk are addressed. The Statement defines custodial risk for deposits as "the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party." As an element of rate risk, this statement requires certain disclosures of investments that have fair values which are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement are also required to be disclosed (see Note 4).

The University employs a custodian to hold, and external investment managers to administer, the majority of its endowed investments and reflects transactions related to these investments based upon the University's review of their records.

Operating investments consist of cash and investments designated for current operations. Investments for capital and student loan activities represent funds that are intended to be used for the related specific activities. Investments recorded as endowment and life income represent funds that are considered by management to be of long duration. Investments received by gift are recorded at fair market value or appraised value on the date of receipt. Investments in real estate are recorded at fair value. For investments other than non-readily marketable investments, investment income is recorded on the accrual basis of accounting.

Inventories

Units currently holding inventories include Facilities, Chemistry Supply Store, Animal Clinic Pharmacy, Alabama Agricultural Experiment Station, Bookstores, Museum Gift Shop, Copycat Duplicating Service, and Ralph Draughon and AUM Libraries. All inventories are valued at the lower of cost or market, on the first-in, first-out basis, and are considered to be current assets.

Capital Assets

Capital expenditures for and gifts of land, buildings and equipment are carried at cost at date of acquisition or, in the case of gifts, at fair market value at the date of donation. Depreciation is computed on a straight line basis over the estimated useful lives of buildings and building improvements (40 years), land improvements and infrastructure (10 – 40 years), library collection and software costs (10 years) and inventoried equipment (5 – 18 years). Land and construction in progress are not depreciated. The threshold for capitalizing buildings and infrastructure is \$25,000. Expenditures for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized if they meet the \$25,000 threshold. Equipment is capitalized if the cost exceeds \$2,500 and has a useful life of more than one year. All buildings are insured through the State of Alabama Property Insurance Fund.

Art collections, historical treasures and livestock are capitalized and valued at cost or fair market value at the date of purchase or gift, respectively, but not depreciated. Collections are preserved and held for public exhibition, education and research.

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the University continues to evaluate prominent events of changes in circumstance to determine whether an impairment loss should be recorded and whether any insurance recoveries should be offset against the impairment loss. The University did not incur any losses related to asset impairment during fiscal year 2009 or 2008.

Deferred Revenues

Deferred revenues include funds received in advance of an event, such as tuition and fees and advance ticket sales for athletic events. Net student tuition and fee revenues and housing revenues for the fall semester are recognized in the fiscal year in which the related revenues are earned. Ticket sale revenues for athletic events are recognized as the related games are played. Deferred revenues also consist of amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreements. All deferred revenue is classified as a current liability (see Note 12).

Classification of Revenues

The University has classified its revenues as either operating or nonoperating according to the following criteria:

- **Operating Revenues:** Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, private grants and contracts and federal appropriations, and (4) interest on institutional student loans.
- **Nonoperating Revenues:** Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues. In accordance with GASB Statement No. 35, certain significant revenues on which the University relies to support its operational mission are required by the GASB to be recorded as nonoperating revenues. These revenues include state appropriations, private gifts and investment income, including realized and unrealized gains and losses on investments.

Student Tuition, Fees and Scholarship Discounts and Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship discounts and allowances represent the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Scholarship allowance to students is reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is an algorithm that computes scholarship allowance on a university-wide basis rather than on an individual student basis.

Auxiliary Enterprises Revenues

Sales and services of auxiliary enterprises primarily consist of revenues generated by Athletics, Bookstore, Housing, Printing and Telecommunications, which are substantially self supporting activities that primarily provide services to students, faculty, administrative and professional employees and staff.

Compensated Absences

The University reports employees' accrued annual leave and sick leave at varying rates depending upon employee classification and length of service, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rates of pay up to a designated maximum number of days. GASB Statement No. 35 requires the amount of compensated absences that are due within one year of the fiscal year end to be classified as a current liability. Since this amount cannot be known precisely in advance, the current liability is estimated, based on a three year average cost of annual and sick leave taken by eligible employees.

Pledged Revenue

The University normally does not receive gift pledges. Pledged revenue representing unconditional promises to give is normally received by AUF or TUF and later disbursed in accordance with the donors' wishes

for the benefit of the University. Pledges are recorded at their gross, undiscounted amounts. In accordance with the recognition criteria of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the University recorded pledges of approximately \$409,000 and \$300,000 in fiscal years 2009 and 2008, respectively.

(3) CASH AND CASH EQUIVALENTS

Cash consists of petty cash funds and demand deposits held in the name of the University. The Board approves all banks or other institutions as depositories for University funds. GASB Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3*, defines custodial risk for deposits as "the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover securities which are in the possession of an outside party."

Effective January 1, 2001, any depository of University funds must provide annual evidence of its continuing designation as a qualified public depository under the Security for Alabama Fund Enhancement Act (SAFE). The enactment of the SAFE program changed the way all Alabama public deposits are collateralized. In the past, the bank pledged collateral directly to each individual public entity. Under the mandatory SAFE program, each qualified public depository (QPD) is required to hold collateral for all its public deposits on a pooled basis in a custody account established for the State Treasurer as SAFE administrator. In the unlikely event a public entity should suffer a loss due to QPD insolvency or default, a claim form would be filed with the State Treasurer who would use the SAFE pool collateral or other means to reimburse the loss. As a result, the University believes its custodial risk related to cash is remote. In addition, all funds in non-interest bearing accounts are fully guaranteed by the Federal Deposit Insurance Corporation (FDIC) through 2009, regardless of the amount.

Cash equivalents may consist of commercial paper, repurchase agreements, banker's acceptance, and money market accounts purchased with maturities at date of acquisition of three months or less.

(4) INVESTMENTS

The Board is authorized to invest all available cash and is responsible for the management of the University's investments. The endowment funds and the cash pool assets are invested in accordance with policies established by the Board. The Board has engaged professional investment managers to manage the investment of the endowment funds' assets while maintaining centralized management of the cash pool. The University periodically monitors these investments.

Preservation of capital is regarded as the highest priority in the investing of the cash pool. It is assumed that all investments will be suitable to be held to maturity. The University's investment portfolio is structured in such a manner to help ensure sufficient liquidity to pay obligations as they become due. The portfolio strives to provide a stable return consistent with investment policy. The Cash Pool Investment Policy authorizes investments in the following: money market accounts, repurchase and reverse repurchase agreements, bankers' acceptances, commercial paper, certificates of deposit, municipals, U. S. Treasury obligations, U. S. Agency securities and mortgage-backed securities.

Bond proceeds are invested in accordance with the underlying bond agreements. The University's bond agreements generally permit

bond proceeds and debt service funds to be invested in obligations in accordance with University policy in terms maturing on or before the date funds are expected to be required for expenditures or withdrawal. Certain bond indentures require the University to invest amounts held in certain construction funds, redemption funds and bond funds in federal securities or state, local and government series (SLGS) securities.

Diversification through asset allocation is utilized as a fundamental risk strategy for endowed funds. These strategic allocations represent a blend of assets best suited, over the long term, to achieve maximum returns without violating the risk parameters established by the Board. The Endowment Investment Policy, approved April 18, 2009, authorizes investment of the endowment portfolio to include the following: cash and cash equivalents; global fixed income; global equity securities; private capital; absolute return/hedge funds; and real estate assets, collectively referred to as the endowment pool.

The Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA) has been enacted by the Legislature of the State of Alabama and signed into law effective January 1, 2009. Among its changes, UPMIFA prescribes new guidelines for expenditure of a donor-restricted endowment fund (in the absence of overriding, explicit donor stipulations). Its predecessor, the Uniform Management of

Institutional Funds Act (UMIFA), focused on the prudent spending of the net appreciation of the fund. UPMIFA, instead, focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. UPMIFA eliminates UMIFA's historic-dollar-value threshold, an amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund.

The earnings distributions are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by UPMIFA. In order to conform to the standards for prudent fiduciary management of investments, the Board has adopted a spending plan whose long term objective is to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations. Under this policy, spending for a given year equals 80% of spending in the previous year, adjusted for inflation (Consumer Price Index (CPI) within a range of 1% and 6%), plus 20% of the long-term spending rate (4.5%) applied to the twelve month rolling average of the market values. Accumulated net realized and unrealized gains on endowments and funds functioning as endowments total \$24,078,534 and \$25,197,644 at September 30, 2009 and 2008, respectively, and are recorded as restricted expendable net assets.

The components of the accumulated net gains in fair value of investments for the years ended September 30, 2009 and 2008, are as follows:

	2009	2008
Accumulated net realized gains on sale of investments	\$ 25,278,210	\$ 33,865,584
Accumulated net unrealized losses	<u>(1,199,676)</u>	<u>(8,667,940)</u>
Net gains in fair value of investments	<u>\$ 24,078,534</u>	<u>\$ 25,197,644</u>

Investment Risks

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, concentration of credit risk, and foreign currency risk. The following describes those risks:

- Interest Rate Risk** – Interest rate or market risk is the potential for changes in the value of financial instruments due to interest rate changes in the market. Certain fixed maturity

investments contain call provisions that could result in shorter maturity periods. As previously stated, it is the University's intent to hold all investments in the Cash Pool until maturity. The Board understands that in order to achieve its objectives, investments can experience fluctuations in fair value. Both the Endowment Investment Policy and the Non-Endowment Cash Pool Investment Policy set forth allowable investments and allocations.



The following segmented time distribution tables provide information as of September 30, 2009 and 2008, covering the fair value of investments by investment type and related maturity:

Auburn University Investments					
Investment Maturities at Fair Value (in Years)					
September 30, 2009					
Type of Investments	< 1 year	1-5 years	6-10 years	> 10 years	Total Fair Value
Fixed Maturity					
Certificates of Deposit	\$ 1,000,000	\$ 3,711,371	\$ -	\$ -	\$ 4,711,371
U. S. Treasury Obligations	71,758,275	42,374,604	-	-	114,132,879
U. S. Agency Securities	78,487,273	303,376,593	54,586,667	38,847,075	475,297,608
Mortgage Backed Securities	-	7,616,034	2,841,120	35,347,022	45,804,176
Municipals	-	1,016,530	-	-	1,016,530
	<u>\$ 151,245,548</u>	<u>\$ 358,095,132</u>	<u>\$ 57,427,787</u>	<u>\$ 74,194,097</u>	<u>\$ 640,962,564</u>
Domestic Equities					731,148
Alternative Investments – at cost:					
Hedge Funds					42,599,365
Private Capital					10,302,627
Real Assets					13,863,981
Mutual Funds					84,541,223
Other					3,811,708
Money Market					72,510,892
Total investments					<u>869,323,508</u>
Less cash equivalents held in cash pool					(49,600,000)
Operating and noncurrent investments					<u>\$ 819,723,508</u>

Auburn University Investments					
Investment Maturities at Fair Value (in Years)					
September 30, 2008					
Type of Investments	< 1 year	1-5 years	6-10 years	> 10 years	Total Fair Value
Fixed Maturity					
Repurchase Agreements	\$ 2,400,000	\$ -	\$ -	\$ -	\$ 2,400,000
Commercial Paper	4,951,250	-	-	-	4,951,250
Certificates of Deposit	3,000,000	1,689,877	-	-	4,689,877
U. S. Treasury Obligations	59,734,156	39,986,696	-	-	99,720,852
U. S. Agency Securities	129,698,700	376,140,468	78,654,464	27,048,575	611,542,207
Mortgage Backed Securities	-	9,251,366	2,306,889	25,302,708	36,860,963
Asset Backed Securities	-	3,941,295	239,917	270,725	4,451,937
Corporate Bonds	794,788	2,693,927	4,337,581	2,795,375	10,621,671
	<u>\$ 200,578,894</u>	<u>\$ 433,703,629</u>	<u>\$ 85,538,851</u>	<u>\$ 55,417,383</u>	<u>\$ 775,238,757</u>
Domestic Equities					759,537
Alternative Investments – at cost:					
Hedge Funds					40,700,000
Private Capital					6,524,792
Real Assets					16,553,066
Mutual Funds					73,957,678
Other					3,756,279
Money Market					74,824,275
Total investments					<u>992,314,384</u>
Less cash equivalents held in cash pool					(44,851,250)
Operating and noncurrent investments					<u>\$ 947,463,134</u>

- Custodial Credit Risk** – GASB Statement No. 40 defines investment custodial risk as “the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.” Although no formal policy has been adopted, the University requires its safekeeping agents to hold all securities in the University’s name for both the Cash Pool and the Endowment Pool. Certain limited partnership investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.
- Credit Quality Risk** – GASB Statement No. 40 defines credit quality risk as “the risk that an issuer or other counterparty to an investment will not fulfill its obligations” as they become due. The University Non-Endowment Cash Pool Investment Policy stipulates that commercial paper be rated P1 by Moody’s or A1 by Standard & Poor’s or a comparable rating by another nationally recognized rating agency. Bankers’ acceptances should hold a long term debt rating of at least AA or short term debt rating of AAA (or comparable ratings) as provided by one of the nationally recognized rating agencies.

The following table provides information as of September 30, 2009 and 2008, concerning credit quality risk:

Auburn University Investments Ratings of Fixed Maturities				
Moody’s Rating	Fair Value	Fair Value as a % of Total Fixed Maturity		Fair value as a % of Total Fixed Maturity
		Fair Value	Fair Value	
		2009		2008
US Treasury	\$ 114,132,879	17.80%	\$ 99,720,852	12.86%
Aaa	521,101,784	81.30%	653,279,622	84.27%
Aa	1,016,530	0.16%	2,446,767	0.32%
A	-	-	7,414,444	0.96%
Baa	-	-	335,945	0.04%
P1	-	-	4,951,250	0.64%
Not rated*	4,711,371	.74%	7,089,877	0.91%
	<u>\$ 640,962,564</u>	<u>100.00%</u>	<u>\$ 775,238,757</u>	<u>100.00%</u>

*Certificates of deposit and repurchase agreements are included in the “Not rated” category.

- Concentration of Credit Risk** – GASB Statement No. 40 defines concentration of credit risk as “the risk of loss attributed to the magnitude of a government’s investment in a single issuer.” The University Non-Endowment Cash Pool Investment Policy does not limit the aggregate amounts that can be invested in U. S. Treasury securities with the explicit guarantee of the U. S. Government or U. S. Agency securities that carry the implicit guarantee of the U. S. Government.

The University Endowment Investment Policy provides for diversification by identifying asset allocation classes and ranges to provide reasonable assurance that no single security, or class of securities, will have a disproportionate impact on the performance of the total Endowment Pool.

- Foreign Currency Risk** – GASB Statement No. 40 defines foreign currency risk as “the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.” No formal University policy has been adopted addressing foreign currency risk. As of September 30, 2009 and 2008, the University held no investments in foreign currency.

Securities Lending Program

The University’s investment policies allow participation in securities lending, such as Reverse Repurchase Agreements, as authorized

by the State Street Index Fund held by the University Endowment Pool. Effective June 2008, the State Street Index Fund held by the Endowment Pool terminated participation in securities lending. As of September 30, 2009 and 2008, there was no participation in any securities lending program.

Interest Sensitive Securities

As of September 30, 2009 and 2008, the University held \$45,804,176 and \$36,860,963, representing 5.27% and 3.72%, respectively, of its total investments in mortgage-backed securities. As of September 30, 2009, the University held no investments in asset backed securities compared to September 30, 2008, when the University held \$4,451,937 in asset backed securities representing 0.45% of its total investments. The mortgage-backed and asset-backed investments have embedded prepayment options that are expected to fluctuate with interest rate changes. Generally, this variance presents itself in variable repayment amounts, uncertain early or extended payments, or the possibility of no repayments.

Certain fixed maturity investments have call provisions that could result in shorter maturity periods. However, it is the intent that the University’s Cash Pool fixed maturity investments be held to maturity; therefore, the fixed maturity investments are classified in the above table as if they were held to maturity. As of September 30, 2009 and 2008, the University Cash Pool held \$12,496,715 and \$36,109,377, representing

1.44% and 3.64%, respectively, of total investments in continuously callable fixed maturity investments. The University investment policies do not restrict the purchase of mortgage-backed securities, asset-backed securities, or bonds with call provisions.

The University owns shares in eleven mutual funds, three common trust funds and four business trust funds. These funds are invested in global marketable securities, commodities and global debt securities. The University owns an interest in a corporation and limited partnership interests in several non-registered investment partnerships. The goal of the corporation and limited partnerships is to invest in readily

marketable securities, privately held companies and properties within different industry sectors. At investment inception, the University enters into a separate subscription agreement with a capital commitment to each corporation or limited partnership.

The University has entered into separate subscription agreements with a capital commitment to each alternative investment that expire periodically in the future. The following information pertains to alternative investment capital commitments at September 30, 2009 and 2008:

2009								
Unfunded Commitment by Commitment Expiration								
Type of Alternative Investment	Number of Commitments	Original Commitments	Capital Contributions	< 1 Year	1-5 years	6-10 years	>10 years	Total Unfunded Commitment
Hedge Funds	7	\$ 42,599,365	\$ 42,599,365	\$ -	\$ -	\$ -	\$ -	\$ -
Private Capital	8	17,250,000	10,302,627	-	1,130,009	4,840,045	977,319	6,947,373
Real Assets	6	25,500,000	15,871,528	-	-	6,280,654	3,347,818	9,628,472
	<u>21</u>	<u>\$ 85,349,365</u>	<u>\$ 68,773,520</u>	<u>\$ -</u>	<u>\$ 1,130,009</u>	<u>\$ 11,120,699</u>	<u>\$ 4,325,137</u>	<u>\$ 16,575,845</u>

2008								
Unfunded Commitment by Commitment Expiration								
Type of Alternative Investment	Number of Commitments	Original Commitments	Capital Contributions	< 1 Year	1-5 years	6-10 years	>10 years	Total Unfunded Commitment
Hedge Funds	6	\$ 40,700,000	\$ 40,700,000	\$ -	\$ -	\$ -	\$ -	\$ -
Private Capital	7	16,000,000	7,755,623	-	-	7,244,378	1,000,000	8,244,378
Real Assets	5	23,500,000	15,322,235	-	-	2,677,765	5,500,000	8,177,765
	<u>18</u>	<u>\$ 80,200,000</u>	<u>\$ 63,777,858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,922,143</u>	<u>\$ 6,500,000</u>	<u>\$ 16,422,143</u>

Unfunded commitments presented in the tables above are intended to reflect the time of expiration of the commitment, not the timing of future capital calls by the investment. The hedge funds are primarily invested in long/short term equities, fixed income arbitrage, merger arbitrage and other event driven strategies through various investment managers, investment partnerships and offshore funds. The private capital fund commitments are investments in privately held companies in various industries, including alternative fuel technology. The real asset funds include investments in commercial real estate, residential real estate and oil and gas production.

As of September 30, 2009 and 2008, the University's limited partnership investments are carried at cost. As required by GASB Statement No. 31, no adjustment was recorded to recognize net unrealized gains and losses. Limited partnership investments are made in accordance with the University's investment policy, which approves the allocation of funds to various assets classes (i.e., global equity, private capital, hedge funds, real assets, fixed income and cash) in order to ensure the proper level of diversification within the endowment pool. The limited partnerships (private equity, hedge funds, and real assets) enhance diversification and provide reductions in overall portfolio volatility.

On September 30, 2009 and 2008, the University was not a party to any swap contracts or other derivative instruments.

The table entitled, "Auburn University Investments, Investment Maturities at Fair Value (in Years)", includes funds held for pending capital expenditures at September 30, 2009: \$20,255,785, 2004 General Fee Bond proceeds; \$18,137,045, 2006 General Fee Bond Proceeds; \$33,941,338, 2007A General Fee Bonds Proceeds; \$45,144,557, 2008 General Fee Bond proceeds; and \$36,576,647, Deferred Maintenance Building Fund. The General Liability Account holds investments of \$5,650,670.

At September 30, 2008, funds held for pending capital expenditures were as follows: \$19,937,552, 2004 General Fee Bond proceeds; \$27,889,675, 2006 General Fee Bond Proceeds; \$117,128,306, 2007A General Fee Bonds Proceeds and \$30,274,318, Deferred Maintenance Building Fund. The General Liability Account held investments of \$5,707,690.

AUF investments at September 30, 2009 and 2008, include the following:

	2009		2008	
	Fair Value	Cost	Fair Value	Cost
Cash and pooled investments	\$ 10,580,219	\$ 10,575,371	\$ 7,396,151	\$ 7,389,915
Government bonds, notes and other securities	29,327,318	28,509,883	18,327,644	18,343,655
Municipal bonds	24,296	23,753	-	-
Corporate bonds and debentures	10,272,455	9,074,982	17,631,412	19,620,736
Corporate stocks	1,138,849	835,087	1,448,429	1,097,876
Mutual funds, business trust funds and common trust funds	100,664,111	103,568,997	118,631,811	129,333,340
Hedge funds	64,561,933	60,875,000	42,522,291	37,875,000
Private equity funds	14,628,159	17,088,446	13,282,101	13,901,284
Real asset investment funds	19,097,433	28,586,318	31,477,926	28,449,743
Total investments	\$ 250,294,773	\$ 259,137,837	\$ 250,717,765	\$ 256,011,549

AUF owns shares in seven mutual funds, three business trust funds and three common trust funds. These funds are invested in global marketable securities, commodities and global debt securities. AUF owns an interest in a corporation and limited partnership interests of which the goal is to invest in readily marketable securities, privately held companies and properties within different industry sectors. At investment inception, AUF enters into a separate subscription agreement with a capital commitment to each corporation or limited partnership.

As of September 30, 2009, AUF had entered into subscription agreements with one corporate and twenty-five limited partnership investments. The aggregate amount of capital committed to these investments is \$125,475,000 of which capital contributions of \$98,547,049 have been invested. A net unrealized loss of \$6,665,220 has been recorded on these investments. Of these twenty-six commitments, nine subscriptions relate to hedge funds, ten subscriptions relate to private equity funds, and seven subscriptions relate to real estate asset funds. The hedge funds are primarily invested in long/short equities, fixed income arbitrage, merger arbitrage and other event driven strategies through various investment managers, investment partnerships and offshore funds. The private equity fund commitments are for investments in privately held companies in various industries, including alternative fuel technology. The real assets funds include investments in commercial real estate, residential real estate, and oil and gas production.

Investment income, realized gains and losses, unrealized gains and losses, and changes in values of split-interest agreements are reported on the Consolidated Statements of Activities and Changes in Net Assets net of estimated investment expenses of \$2,347,000 and \$2,361,000 for the fiscal years ended September 30, 2009 and 2008, respectively.

AUF carries its limited partnership investments at fair value. This differs from how the University carries these investments, which is at cost, in accordance with GASB requirements. AUF believes that the carrying amount of its limited partnership investments is a reasonable estimate of fair value as of September 30, 2009. Because limited partnership investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such

difference could be material. Limited partnership investments are made in accordance with AUF's investment policy that approves the allocation of funds to various assets classes (i.e., global equity, private capital, hedge funds, real assets, global fixed income and cash) in order to ensure the proper level of diversification within the endowment pool. Investments in limited partnerships (private equity, hedge funds, and real assets) are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated by the general partner of each limited partnership using various valuation techniques. The fair values of these investments at September 30, 2009 and 2008, were \$91,900,500 and \$102,632,120, respectively.

The Financial Accounting Standards Board (FASB) has provided guidance in the Accounting Standards Codification (ASC) relevant to endowments of not-for-profit organizations net asset classification of funds subject to an enacted version of UPMIFA, and enhanced disclosures for all endowment funds. The ASC requires new endowment disclosures, effective for the fiscal year ending September 30, 2009.

The combination of the adoption of new ASC disclosure requirements and the enactment of UPMIFA by the State of Alabama, AUF recognized a decrease in unrestricted net assets and increase in temporarily restricted net assets in the amount of \$17,303,474 for the years ended September 30, 2009 and 2008, related to donor-restricted endowment fund deficits in existence at the time of the enactment of UPMIFA.

(5) FUNDS HELD IN TRUST

In addition to permanently restricted net assets carried on the University's financial statements, the University is the beneficiary of income earned on a number of AUF endowments. The cost of these funds was \$219,752,906 and \$214,258,429 and the market value was \$211,045,198 and \$209,491,438 at September 30, 2009 and 2008, respectively. The portion of endowment income received by the University from these funds was \$8,640,852 and \$7,833,735 for the fiscal years ended September 30, 2009 and 2008, respectively. Endowment earnings are distributed annually in January, based on the AUF endowment distribution spending rate. These amounts are reported as investment income on the Statement of Revenues, Expenses and Changes in Net Assets.

In addition, the University has been named as a beneficiary of a foundation with investments having a cost of \$2,414,034 and \$2,615,838 and a market value of \$2,481,781 and \$2,469,212 at September 30, 2009 and 2008, respectively.

The University is the beneficiary of the income earned on two additional trusts. The cost of investments held by these trusts was \$753,000 as of September 30, 2009 and 2008. The income received from the two trusts was \$62,615 and \$64,056 for the years ended September 30, 2009 and 2008, respectively.

(6) ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for doubtful accounts at September 30, 2009 and 2008, are summarized as follows:

	2009	2008
NONSTUDENT ACCOUNTS RECEIVABLE		
Federal, state & local government, and other restricted expendable	\$ 27,849,191	\$ 26,985,943
Less allowance for doubtful accounts	(3,130,301)	(1,764,000)
Pledged receivables	4,401,231	5,069,221
General	9,214,566	8,739,684
Less allowance for doubtful accounts	(8,628,021)	(7,292,958)
Auxiliary	9,128,314	8,578,203
Capital gifts and grants	1,292,157	2,758,101
Total	<u>\$ 40,127,137</u>	<u>\$ 43,074,194</u>

	2009	2008
STUDENT ACCOUNTS RECEIVABLE		
Unrestricted general	\$ 30,366,605	\$ 27,076,284
Less allowance for doubtful accounts	(3,235,058)	(2,813,100)
Unrestricted auxiliary	1,528,828	1,113,451
Less allowance for doubtful accounts	(24,893)	(71,471)
Total	<u>\$ 28,635,482</u>	<u>\$ 25,305,164</u>



(7) CAPITAL ASSETS

Capital assets at September 30, 2009 and 2008, are summarized as follows (dollars in thousands):

	September 30, 2008	Additions	Deletions/Transfers	September 30, 2009
Capital assets not being depreciated				
Land	\$ 15,890	\$ -	\$ -	\$ 15,890
Art & collectibles	7,203	535	-	7,738
Construction in progress	86,538	203,810	(175,174)	115,174
Livestock	1,361	142	(273)	1,230
Total capital assets not being depreciated	<u>110,992</u>	<u>204,487</u>	<u>(175,447)</u>	<u>140,032</u>
Capital assets being depreciated				
Land improvements	42,944	2,982	-	45,926
Buildings	831,611	147,836	-	979,447
Equipment	187,948	22,849	(19,387)	191,410
Infrastructure	125,285	18,009	-	143,294
Library books	138,188	6,503	(78)	144,613
Banner system implementation	11,212	219	-	11,431
Total capital assets being depreciated	<u>1,337,188</u>	<u>198,398</u>	<u>(19,465)</u>	<u>1,516,121</u>
Less accumulated depreciation for				
Land improvements	15,799	2,755	-	18,554
Buildings	290,453	17,684	-	308,137
Equipment	125,679	13,007	(15,333)	123,353
Infrastructure	36,908	4,166	-	41,074
Library books	111,409	5,433	(56)	116,786
Banner system implementation	2,671	1,143	-	3,814
Total accumulated depreciation	<u>582,919</u>	<u>44,188</u>	<u>(15,389)</u>	<u>611,718</u>
Total capital assets being depreciated, net	<u>754,269</u>	<u>154,210</u>	<u>(4,076)</u>	<u>904,403</u>
Capital assets, net	<u>\$ 865,261</u>	<u>\$ 358,697</u>	<u>\$ (179,523)</u>	<u>\$ 1,044,435</u>

Capital assets at September 30, 2008 and 2007, are summarized as follows (dollars in thousands):

	September 30, 2007	Additions	Deletions/Transfers	September 30, 2008
Capital assets not being depreciated				
Land	\$ 17,150	\$ -	\$ (1,260)	\$ 15,890
Art & collectibles	7,057	146	-	7,203
Construction in progress	52,542	120,937	(86,941)	86,538
Livestock	1,277	160	(76)	1,361
Total capital assets not being depreciated	<u>78,026</u>	<u>121,243</u>	<u>(88,277)</u>	<u>110,992</u>
Capital assets being depreciated				
Land improvements	41,276	1,668	-	42,944
Buildings	764,303	68,966	(1,658)	831,611
Equipment	168,945	22,726	(3,723)	187,948
Infrastructure	111,402	13,883	-	125,285
Library books	131,216	7,306	(334)	138,188
Banner system implementation	9,101	2,111	-	11,212
Total capital assets being depreciated	<u>1,226,243</u>	<u>116,660</u>	<u>(5,715)</u>	<u>1,337,188</u>
Less accumulated depreciation for				
Land improvements	13,111	2,688	-	15,799
Buildings	275,900	16,179	(1,626)	290,453
Equipment	116,896	12,083	(3,300)	125,679
Infrastructure	33,335	3,573	-	36,908
Library books	106,117	5,626	(334)	111,409
Banner system implementation	1,550	1,121	-	2,671
Total accumulated depreciation	<u>546,909</u>	<u>41,270</u>	<u>(5,260)</u>	<u>582,919</u>
Total capital assets being depreciated, net	<u>679,334</u>	<u>75,390</u>	<u>(455)</u>	<u>754,269</u>
Capital assets, net	<u>\$ 757,360</u>	<u>\$ 196,633</u>	<u>\$ (88,732)</u>	<u>\$ 865,261</u>

During the fiscal year ended September 30, 2009, approximately \$293,000, was received from the State of Alabama to fund construction. The University received no funding from the State for construction during

fiscal year 2008. These revenues are classified as capital appropriations on the Statement of Revenues, Expenses and Changes in Net Assets.

(8) LONG-TERM DEBT

Bonds, notes and lease obligations are collateralized by certain real estate, equipment and pledged revenues (see Note 9).

Bonds and notes payable	Balance at September 30, 2008	Principal New Debt	Repayment	Balance at September 30, 2009
1978 Auburn University at Montgomery Dormitory Revenue Bonds, \$3,279,000 face value, 3.0%, due annually through 2018, a reserve of \$146,047 and a \$137,926 contingency fund.	\$ 1,350,000	\$ -	\$ (105,000)	\$ 1,245,000
2001 General Fee Revenue Bonds, \$19,460,000 face value, 3.25% to 5.0%, due annually through 2011.	6,880,000	-	(2,180,000)	4,700,000
2001A General Fee Revenue Bonds, \$74,750,000 face value, 5.0% to 6.0%, due annually from 2012 through 2026.	74,750,000	-	-	74,750,000
2001A Athletic Revenue Bonds, \$24,412,607 face value, 2.125% to 5.49%, due annually through 2021.	21,774,086	-	(398,294)	21,375,792
2003 General Fee Revenue Bonds, \$49,460,000 face value, 1.45% to 5.25%, due annually through 2016.	33,860,000	-	(3,810,000)	30,050,000
2003 Athletic Revenue Bonds, \$21,900,000 face value, 2.25% to 5.0%, due annually through 2010.	5,970,000	-	(2,910,000)	3,060,000
2003 Housing and Dining Revenue Bonds, \$15,645,000 face value, 1.4% to 5.0%, due annually through 2012.	7,145,000	-	(1,700,000)	5,445,000
2004 General Fee Revenue Bonds, \$76,875,000 face value, 3.0% to 5.25%, due annually through 2034.	70,690,000	-	(1,470,000)	69,220,000
2004A Athletic Revenue Bonds, \$24,860,000 face value, 2.0% to 5.0%, due annually from 2006 through 2021 and annually from 2025 through 2034.	23,235,000	-	(575,000)	22,660,000
2004B Athletic Revenue Bonds, \$3,050,000 face value, 5.75%, due annually from 2022 through 2024.	3,050,000	-	-	3,050,000
2006A General Fee Revenue Bonds, \$60,000,000 face value, 3.5% to 5.0% due annually from 2008 through 2037.	59,005,000	-	(1,035,000)	57,970,000
2007A General Fee Revenue Bonds, \$162,530,000 face value, 3.5% to 5.0%, due annually from 2008 through 2038.	162,530,000	-	(620,000)	161,910,000
2007B General Fee Revenue Bonds, \$14,465,000 face value, 4.625% to 5.125%, due annually from 2010 through 2014.	14,465,000	-	-	14,465,000
2008 General Fee Revenue Bonds, \$82,500,000 face value, 3.0% to 5.0%, due annually from 2010 through 2038.	92,500,000	-	-	92,500,000
Notes payable	-	2,618,544	-	2,618,544
Total bonds and notes payable	577,204,086	2,618,544	(14,803,294)	565,019,336
Plus unamortized bond premium	7,724,319	-	(904,368)	6,819,951
Less unamortized bond discount	(1,071,045)	-	80,231	(990,814)
Less unamortized loss on refunding	(576,972)	-	178,559	(398,413)
	<u>583,280,388</u>	<u>\$ 2,618,544</u>	<u>\$ (15,448,872)</u>	<u>570,450,060</u>
Less: current portion				
Bonds payable	(14,803,294)			(19,747,020)
Unamortized bond premium	(840,412)			(832,798)
Unamortized bond discount	80,231			76,988
Unamortized loss on refunding	178,559			133,237
Total noncurrent bonds and notes payable	\$ 567,895,472			\$ 550,080,467

Bonds and notes payable	Balance at September 30, 2007	Principal New Debt	Repayment	Balance at September 30, 2008
1978 Auburn University at Montgomery Dormitory Revenue Bonds, \$3,279,000 face value, 3.0%, due annually through 2018, a reserve of \$187,731 and a \$144,603 contingency fund.	\$ 1,455,000	\$ -	\$ (105,000)	\$ 1,350,000
2001 General Fee Revenue Bonds, \$19,460,000 face value, 3.25% to 5.0%, due annually through 2011.	8,955,000	-	(2,075,000)	6,880,000
2001A General Fee Revenue Bonds, \$74,750,000 face value, 5.0% to 6.0%, due annually from 2012 through 2026.	74,750,000	-	-	74,750,000
2001A Athletic Revenue Bonds, \$24,412,607 face value, 2.125% to 5.49%, due annually through 2021.	22,156,526	-	(382,440)	21,774,086
2003 General Fee Revenue Bonds, \$49,460,000 face value, 1.45% to 5.25%, due annually through 2016.	37,535,000	-	(3,675,000)	33,860,000
2003 Athletic Revenue Bonds, \$21,900,000 face value, 2.25% to 5.0%, due annually through 2010.	8,850,000	-	(2,880,000)	5,970,000
2003 Housing and Dining Revenue Bonds, \$15,645,000 face value, 1.4% to 5.0%, due annually through 2012.	8,800,000	-	(1,655,000)	7,145,000
2004 General Fee Revenue Bonds, \$76,875,000 face value, 3.0% to 5.25%, due annually through 2034.	72,105,000	-	(1,415,000)	70,690,000
2004A Athletic Revenue Bonds, \$24,860,000 face value, 2.0% to 5.0%, due annually from 2006 through 2021 and annually from 2025 through 2034.	23,790,000	-	(555,000)	23,235,000
2004B Athletic Revenue Bonds, \$3,050,000 face value, 5.75%, due annually from 2022 through 2024.	3,050,000	-	-	3,050,000
2006A General Fee Revenue Bonds, \$60,000,000 face value, 3.5% to 5.0% due annually from 2008 through 2037.	60,000,000	-	(995,000)	59,005,000
2007A General Fee Revenue Bonds, \$162,530,000 face value, 3.5% to 5.0% due annually from 2009 through 2038.	-	162,530,000	-	162,530,000
2007B General Fee Revenue Bonds, \$14,465,000 face value, 4.625% to 5.125%, due annually from 2010 through 2014.	-	14,465,000	-	14,465,000
2008 General Fee Revenue Bonds, \$92,500,000 face value, 3.0% to 5.0%, due annually from 2010 through 2038.	-	92,500,000	-	92,500,000
Total bonds and notes payable	321,446,526	269,495,000	(13,737,440)	577,204,086
Plus unamortized bond premium	5,806,399	2,862,647	(944,727)	7,724,319
Less unamortized bond discount	(1,127,098)	(24,527)	80,580	(1,071,045)
Less unamortized loss on refunding	(807,149)	-	230,177	(576,972)
	<u>325,318,678</u>	<u>\$ 272,333,120</u>	<u>\$ (14,371,410)</u>	<u>583,280,388</u>
Less: current portion				
Bonds payable	(13,737,440)			(14,803,294)
Unamortized bond premium	(807,402)			(840,412)
Unamortized bond discount	76,186			80,231
Unamortized loss on refunding	230,177			178,559
Total noncurrent bonds and notes payable	\$ 311,080,199			\$ 567,895,472

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to September 30, 2009, and thereafter, are as follows:

Year Ending September 30	Bonds Payable Principal	Interest
2010	\$ 19,747,020	\$ 26,129,625
2011	19,494,610	26,589,910
2012	20,079,833	26,015,555
2013	18,700,538	25,398,025
2014	19,092,349	24,728,539
2015-2019	92,312,258	113,207,028
2020-2024	98,859,184	87,171,487
2025-2029	97,080,000	57,585,584
2030-2034	105,115,000	33,918,131
2035-2039	<u>71,920,000</u>	<u>8,819,875</u>
Total future debt service	\$ <u>562,400,792</u>	\$ <u>429,563,759</u>

The University has not issued any variable interest rate demand bonds.

Capital Lease Obligations

AUM is acquiring a building under a capital lease agreement which provides for the University to purchase the building over a period of 25 years. The University also leases certain items of equipment which are classified as capital leases.

Lease Obligations	Balance at September 30, 2008	New Debt	Principal Repayment	Balance at September 30, 2009
Building	\$ 1,235,000	\$ -	\$ (155,000)	\$ 1,080,000
Equipment	<u>1,245,584</u>	<u>-</u>	<u>(309,883)</u>	<u>935,701</u>
Total lease obligations	\$ <u>2,480,584</u>	\$ <u>-</u>	\$ <u>(464,883)</u>	\$ <u>2,015,701</u>

Minimum lease payments under capital leases together with the present value of the net minimum lease payments are shown in the table below:

	Building	Equipment	Total
2009-2010	\$ 212,572	\$ 375,312	\$ 587,884
2010-2011	210,053	349,542	559,595
2011-2012	212,215	332,242	544,457
2012-2013	213,815	-	213,815
2013-2014	214,750	-	214,750
2014-2017	<u>210,000</u>	<u>-</u>	<u>210,000</u>
Minimum lease payments	1,273,405	1,057,096	2,330,501
Less interest	<u>(193,405)</u>	<u>(121,395)</u>	<u>(314,800)</u>
Present value of minimum lease payments	1,080,000	935,701	2,015,701
Less current portion	<u>(160,000)</u>	<u>(315,041)</u>	<u>(475,041)</u>
Noncurrent obligations	\$ <u>920,000</u>	\$ <u>620,660</u>	\$ <u>1,540,660</u>

The University has entered into various operating leases for equipment. It is expected that, in the normal course of business, such leases will continue to be required. Net expenditures for rentals under operating

leases for the years ended September 30, 2009 and 2008, amounted to approximately \$4.4 million and \$4.2 million, respectively.

(9) PLEDGED REVENUES

Pledged revenue for 2009 and 2008 as defined by the **Series 2001, 2001A, 2003, 2004, 2006A, 2007A, 2007B and 2008 General Fee Revenue Trust Indentures** is as follows:

	2009	2008
Student fees collected	\$ 281,903,435	\$ 250,307,172
Less AUM fees	(27,198,672)	(23,206,416)
Less fees pledged for specific purposes:		
Athletic fees (\$96 per student per semester)	(5,227,908)	(4,689,807)
Transit fees (\$100/\$106 as of Fall 2009 per student per semester)	(5,427,004)	(4,861,487)
Student activities fees (\$15 per student per semester)	(807,440)	(801,890)
Total general fees pledged	<u>\$ 243,242,411</u>	<u>\$ 216,747,572</u>

The pledge of Athletic program revenues has been added to the General Fee Trust Indenture contemporaneously with the issuance of the Series 2008 bonds and collateralizes, on a parity basis, all bonds now or hereafter issued under the General Fee Revenue Indenture. Athletic

program revenues pledged to the 2008 General Fee Revenue bonds are subordinate to the Athletic program revenues previously pledged to the Athletic revenue bonds as described below.

Pledged revenue for 2009 and 2008 as defined by the **Series 2001A, 2003, and 2004 Athletic A & B Revenue Trust Indentures** is as follows:

	2009	2008
Jordan Hare and other revenues:		
Television and broadcast revenues	\$ 4,900,000	\$ 4,650,000
Conference and NCAA distributions	13,202,753	13,924,900
Sales and services revenues	23,207,553	25,632,907
Student fees	5,227,908	4,689,807
Royalties, advertisements and sponsorships	3,396,585	6,079,271
Other income	5,777,724	1,445,959
Total athletic revenues pledged	<u>\$ 55,712,523</u>	<u>\$ 56,422,844</u>

The Series 2004 Athletic Revenue bonds, Series 2003 Athletic Revenue bonds and Series 2001A Athletic Revenue bonds are collateralized by a first-priority pledge of the Athletic program revenues that is senior to, and has priority in all respects over, the subordinate pledge of the Athletic program revenues that has been added to the General Fee Trust Indenture concurrently with the issuance of the Series 2008 bonds.

The pledge of Housing and Dining revenues was added to the General Fee Trust Indenture, contemporaneously with the issuance of the University's General Fee Revenue bonds, Series 2007A and 2007B (taxable) and collateralizes, on a parity basis now or hereafter issued under the General Fee Revenue Indenture.

Pledged revenue for 2009 and 2008 as defined by the **Series 2003 Housing and Dining Revenue Trust Indenture** is as follows:

	2009	2008
Housing revenues:		
Room rental	\$ 11,312,345	\$ 9,551,728
Other income	595,114	880,071
Total housing	11,907,459	10,431,799
Food services revenue	-	199,320
Total housing and food services revenues pledged	<u>\$ 11,907,459</u>	<u>\$ 10,631,119</u>

The Housing and Dining Revenue Bonds, Series 2003 are collateralized by a pledge of the University's Housing and Dining Revenues. The Housing and Dining Revenue Indenture permits the University to issue additional bonds collateralized by the Housing and Dining Revenues on a parity basis with the Housing and Dining Revenue Bonds Series 2003.

The Auburn University dormitory occupancy rate for Fall semester 2009 and Fall semester 2008 was 98.3% and 96.7%, respectively (unaudited).

Pledged revenues and related expenses for 2009 and 2008 as defined by the **1978 Auburn University at Montgomery Trust Indenture** are as follows:

The following summary shows the revenues, expenses and transfers from operations of the dormitories of AUM for the years ended September 30, 2009 and 2008.

	2009	2008
Revenues:		
Room rental	\$ 623,357	\$ 901,517
Other income	57,560	63,143
Total revenues	<u>680,917</u>	<u>964,660</u>
Expenses and transfers:		
Personnel costs	538,544	519,827
Operating expenses	254,919	290,460
Transfers	<u>123,686</u>	<u>147,870</u>
Total expenses and transfers	<u>917,149</u>	<u>958,157</u>
(Deficit) surplus of revenues over expenses and transfers	(236,232)	6,503
AUM Student Housing net deficit at beginning of year	<u>(1,315,741)</u>	<u>(1,322,244)</u>
AUM Student Housing net deficit at end of year	<u>\$ (1,551,973)</u>	<u>\$ (1,315,741)</u>

The AUM dormitory occupancy rate for Fall semester 2009 and Fall semester 2008 was 89.42% and 81.5%, respectively (unaudited).

During fiscal year 2009 West Courtyard Dormitory facility, whose revenues were pledged for the 1978 Auburn University at Montgomery Bond Indenture, was closed for renovation during the summer semester and did not generate room rental revenue during that term.

(10) RETIREMENT PROGRAMS

The employees of the University are participants in two defined benefit plans, a 403(b) defined contribution plan and a 457(b) deferred compensation plan as follows:

A. Teachers' Retirement System of Alabama

The University contributes to the Teachers' Retirement System of Alabama (TRS), a cost sharing, multiple-employer, public employee retirement system for the various state-supported educational agencies and institutions. This plan is administered by the Retirement Systems of Alabama.

Substantially all non-student employees are members of the Teachers' Retirement System. Membership is mandatory for eligible employees. Benefits vest after ten years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by the formula method by which retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits are provided to plan members.

The Teachers' Retirement System was established as of October 1, 1941, under the provisions of Act Number 419, of the Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the *Code of Alabama* 1975, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

The ten year historical trend information showing TRS's progress in accumulating sufficient assets to pay benefits when due and the significant actuarial assumptions used to compute the pension benefit obligation, including the discount rate, projected salary increases and post-retirement benefit increases, are presented in the September 30, 2008, annual financial report of the Teachers' Retirement System of Alabama. The Retirement System of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to the Retirement System of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

Funding Policy

Employees are required by statute to contribute five percent of their salary to the Teachers' Retirement System. The University is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Alabama State Legislature the contribution rate for the following fiscal year, with the Alabama State Legislature setting this rate in the annual appropriations bill. The percentages of the contributions and the amount of contributions made by the University and the University's employees equal the required contributions for each year as follows:

Fiscal year ended September 30,	2009	2008	2007
Total percentage of covered payroll	17.07%	16.75%	14.36%
Contributions:			
Percentage contributed by the employer	12.07%	11.75%	9.36%
Percentage contributed by the employees	5.00%	5.00%	5.00%
Contributed by the employer	\$ 38,697,899	\$ 36,742,052	\$ 27,514,629
Contributed by the employees	<u>16,036,739</u>	<u>15,639,571</u>	<u>14,701,877</u>
Total contributions	<u>\$ 54,734,638</u>	<u>\$ 52,381,623</u>	<u>\$ 42,216,506</u>

B. Employees' Retirement System of Alabama

Federally appointed employees of the Alabama Cooperative Extension System are covered by the Employees' Retirement System of Alabama (ERS). This program is a multi-employer defined benefit plan. Benefits of the ERS plan are similar to those of the TRS plan with the exception that they are based on half of the employee's average final salary. Upon retirement these employees will also receive pension benefits under the Federal Civil Service Retirement System. ERS is part of the Retirement Systems of Alabama.

Funding Policy

Employees are required by statute to contribute 2.5 percent of their salary to the Employees' Retirement System. The University is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Employees' Retirement System recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the University and the University's employees equal the required contributions for each year as follows:

Fiscal year ended September 30,	2009	2008	2007
Total percentage of covered payroll	38.48%	33.05%	27.11%
Contributions:			
Percentage contributed by the employer	35.98%	30.55%	24.61%
Percentage contributed by the employees	2.50%	2.50%	2.50%
Contributed by the employer	\$ 2,216,747	\$ 1,954,795	\$ 1,626,391
Contributed by the employees	<u>154,026</u>	<u>163,172</u>	<u>165,224</u>
Total contributions	<u>\$ 2,370,773</u>	<u>\$ 2,117,967</u>	<u>\$ 1,791,615</u>

C. Tax Deferred Annuity Plans

This plan is a defined contribution plan under section 403(b) of the Internal Revenue Code. Accordingly, benefits depend solely on amounts contributed to the plan plus investment earnings. This is provided as a supplement to the aforementioned programs. All full-time regular or probationary employees are eligible to participate. Full-time temporary employees are also eligible if their employment period is for a minimum of one year. The University will match up to \$1,650 per year of a qualifying employee's contribution. This equates to five percent of gross salary with a maximum covered salary of \$33,000 per year. An employee enrolling in one of the University's tax deferred annuity plans will not vest in the University's matching portion until he/she has completed five years of full-time continuous service. Upon the employee's completion of the five year requirement, the University's matching contribution and interest earned will be vested to the participant. Nonparticipating employees with continuous service will be given credit toward the five year requirement upon joining the tax deferred annuity program. The total investment in the annuities is determined by Section 403(b). There are several investment options including fixed and variable annuities and mutual funds. The University approved investment firms employees may select are AIG Retirement, TIAA-CREF, Vanguard Fidelity Investments, Lincoln Financial and The Hartford. At September 30, 2009 and 2008, 3,482

employees and 3,313 employees, respectively, participated in the tax deferred annuity program. The contribution for 2009 was \$16,591,893, which includes \$4,753,976 from the University and \$11,837,917 from its employees. The contribution for 2008 was \$16,819,506, which includes \$4,647,335 from the University and \$12,172,171 from its employees. Total salaries and wages during the fiscal year for covered employees participating in the plan were approximately \$208,722,000 and \$211,576,000 for the fiscal years ended September 30, 2009 and 2008, respectively.

D. Deferred Compensation Plans

The University follows the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—a rescission of GASB Statement No. 2 and an amendment of GASB Statement No. 31*. As of September 30, 2009 and 2008, 218 and 211 employees, respectively, participated in the plans. Contributions of \$2,047,116 and \$2,133,758 for fiscal years 2009 and 2008, respectively, were funded by employees and no employer contribution was funded. The 457(b) plans include AIG Retirement, TIAA-CREF, Fidelity Investments, Lincoln Financial and The Hartford.

(11) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The University offers postemployment health care benefits to all employees who officially retire from the University. Health care benefits are offered through the State of Alabama Public Education Employees Health Insurance Plan (PEEHIP) with TRS or Auburn University's self insured Retiree Medical Plan (the Plan), which is available for select employees who are not eligible for PEEHIP or those who were grandfathered in as Civil Service employees. Eligibility for benefits for either option begins at age 60 with at least 10 years of service or at any age with 25 years of service. Retirees must have been enrolled in the active employees' health care plan for the last six of those years in order to be eligible for coverage under the plan.

The University applies GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other than Pensions*. This statement requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services.

A. State of Alabama Public Education Employees Health Insurance Plan (PEEHIP)

Alabama Retired Education Employees' Health Care Trust is a cost-sharing multiple-employer defined benefit health care plan administered by the Public Education Employee Health Insurance Board. PEEHIP offers a basic hospital/medical plan that provides basic medical coverage for up to 365 days of care during each hospital confinement. The basic hospital/medical plan also provides for physicians' benefits, outpatient care, prescription drugs, and mental health benefits.

Major medical benefits under the basic hospital/medical plan are subject to a lifetime contract maximum of \$1,000,000 for each covered individual. The *Code of Alabama 1975*, Section 16-25A-8 provides the authority to set the contribution for retirees and employers.

The required contribution rate of the employer was \$382 and \$367 per employee per month in the year ended September 30, 2009 and 2008, respectively. The University paid \$8,719,443 and \$7,976,794 for 1,925 and 1,862 retirees for the years ended September 30, 2009 and 2008, respectively. The required contribution rate is determined by PEEHIP in accordance with state statute.

The required monthly contribution rates for fiscal year 2009 are as follows:

Retired Member Rates

- Individual Coverage/Non-Medicare Eligible - \$97.54
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$284.94
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$188.54
- Individual Coverage/Medicare Eligible Retired Member - \$1.14
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$188.54
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$92.14
- For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium.
- Tobacco surcharge - \$23.00 per month

- PEEHIP Supplemental Plan - \$0
- Optional Plans (Hospital Indemnity, Cancer, Dental, Vision) - up to two optional plans can be taken by retirees at no cost if the retiree is not also taking one of the Hospital Medical Plans or combining allocations. Otherwise, these plans can be purchased for \$38.00 per month per plan.

Surviving Spouse Rates

- Surviving Spouse Non-Medicare Eligible - \$585.00
- Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible - \$717.00
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible - \$676.00
- Surviving Spouse Medicare Eligible - \$290.00
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible - \$422.00
- Surviving Spouse Medicare Eligible and Dependent Medicare Eligible \$381.00

The complete financial report for PEEHIP can be obtained on the PEEHIP website at <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Financials tab.

B. Retiree Medical Plan (the Plan)

The Plan is considered a single-employer plan and consists of hospital benefits, major medical benefits, a prescription drug program and a preferred care program. The health care benefits cover medical and hospitalization costs for retirees and their dependents. If the retiree is eligible for Medicare, University coverage is secondary. The authority under which the Plan's benefit provisions are established or amended is the University President. Recommendations for modifications are brought to the President by the Insurance and Benefits Committee. Any amendments to the obligations of the plan members or employer(s) to contribute to the plan are brought forth by the Insurance and Benefits Committee and approved by the President.

Employees included in the actuarial valuation include retirees and survivors, active Civil Service employees who are eligible to participate in the Plan upon retirement and those employees the University pays a subsidy for who elected the PEEHIP plan on or prior to October 1, 1997. Expenditures for postretirement health care benefits are recognized monthly and financed on a pay-as-you-go basis. The University funds approximately 60% of the postretirement healthcare premiums, which totaled \$930,648 and \$960,600 for fiscal years ended September 30, 2009 and 2008, respectively. The retirees are responsible for funding approximately 40% of the healthcare premiums.

In compliance with the provisions of GASB Statement No. 45, the University accrued an additional \$2,608,604 and \$2,013,900 in retiree healthcare expense during fiscal years 2009 and 2008, respectively.

The Plan does not issue a stand-alone financial report. For inquiries relating to the Plan, please contact Auburn University Payroll and Employee Benefits, 212 Ingram Hall, Auburn University, Alabama 36849.

The required schedule of funding progress contained in the Required Supplemental Information immediately following the divisional financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Determination of Annual Required Contribution (ARC) and End of Year Accrual

Cost Element	Fiscal Year Ended Sept. 30, 2009	
	Amount	Percent of Payroll ¹
1. Unfunded actuarial accrued liability at Oct. 1, 2008	\$ 69,108,021	1,140.9%
Annual Required Contribution (ARC)		
2. Normal cost	\$ 107,803	
3. Amortization of the unfunded actuarial accrued liability over 15 years using level dollar amortization	<u>5,321,767</u>	
4. Annual Required Contribution (ARC = 2 + 3)	<u>\$ 5,429,570</u>	89.6%
Annual OPEB Cost (Expense)		
5. ARC	\$ 5,429,570	
6. Interest on beginning of year accrual	95,020	
7. Adjustment to ARC	<u>362,499</u>	
8. Fiscal year 2009 OPEB cost (5 + 6 - 7)	<u>\$ 5,162,091</u>	85.2%
End of Year Accrual (Net OPEB Obligation)²		
9. Beginning of year accrual ¹	\$ 4,751,600	
10. Annual OPEB cost	5,162,091	
11. Employer contribution (benefit payments) ²	<u>2,553,487</u>	
12. End of year CAFR accrual (9 + 10 - 11) ²	<u>\$ 7,360,204</u>	121.5%

¹ Annual payroll for 77 participants as of October 1, 2008, \$6,057,128.

² Actual amounts paid in fiscal year 2009 include claim costs, administrative fees, and PEEHIP subsidy less participant contributions.

Three Year Schedule of Percentage of OPEB Cost Contributed

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed ³	Net OPEB Obligation
Sept. 30, 2007	\$ 5,394,900	49.3%	\$ 2,737,700
Sept. 30, 2008	\$ 4,258,900	52.7%	\$ 4,751,600
Sept. 30, 2009	\$ 5,162,091	49.4%	\$ 7,360,204

³ Cost Contributed is shown in the "Determination of Annual Required contribution and End of Year Accrual."

Summary of Key Actuarial Methods and Assumptions

Valuation year	October 1, 2008 – September 30, 2009
Actuarial cost method	Unit Credit, Actuarial Cost Method
Amortization method	15 years, level dollar open amortization ⁴
Asset valuation method	Not applicable
Discount rate	2.0%
Projected payroll growth rate	Not applicable

⁴ Open amortization means a fresh-start each year for the cumulative unrecognized amount.

Health care cost trend rate for medical and prescription drugs 9.0% in fiscal year 2010, decreasing by one-half percentage point per year to an ultimate of 5.0% in fiscal year 2018 and later.

Valuation Date October 1, 2008

Monthly Per Capita Claim Costs

<u>Age</u>	<u>Medical</u>
55	\$601
60	721
65	292
70	324
75	346

Claim costs are based on 2007 and 2008 calendar year experience. Future claim costs are increased by health care cost trend.

Retiree Premiums

Retirees contribute 40% and surviving spouses pay 100% of the monthly premiums shown below:

	<u>As of 1/1/09</u>	<u>As of 1/1/08</u>
Pre-65 Single	\$413	\$386
Pre-65 Family	855	806
Post-65 Single	125	113
Post-65 Family	575	266

Note: There are several other categories of premiums.

Administrative Expenses

The per capita costs for 2009 include \$20.50 per contract per month.

Annual Health Care Trend Rate

<u>Fiscal Year</u>	<u>Medical and Rx Combined Rate</u>
2010	10.0%
2011	9.5%
2012	9.0%
2013	8.5%
2014	8.0%
2015	7.5%
2016	7.0%
2017	6.5%
2018	6.0%
2019+	5.5%

Spouse Age Difference

Husbands are assumed to be three years older than wives for current and future retirees who are married.

Mortality

RP-2000 Combined Mortality Projected to 2015 using Projection Scale AA.

Participation Rates

100% of active employees are assumed to elect postretirement health insurance coverage upon retirement.

Retirement Rates

Employees are assumed to retire according to the following schedule:

<u>Age</u>	<u>Retirement Rate</u>
45 or less	0%
46 - 49	1%
50 - 51	2%
52 - 54	3%
55	10%
56 - 59	8%
60	20%
61	15%
62	25%
63 - 64	20%
65	40%
66 - 69	30%
70 - 74	75%
75+	100%

Withdrawal Rates

None assumed since all are long service Civil Service employees.

Disability Rates

Sample rates are shown below

Percent assumed to terminate within one year

<u>Age</u>	<u>Male</u>	<u>Female</u>
25	0.06%	0.09%
30	0.08%	0.12%
35	0.17%	0.24%
40	0.30%	0.41%
45	0.54%	0.65%
50	0.98%	0.98%
55	1.50%	1.50%

(12) SELF INSURANCE PROGRAMS AND OTHER LIABILITIES

Self Insurance

An actuarially determined rate is used to provide funding for retained risk in the University's self-insurance program. The self-insurance reserves, liabilities and related assets are included in the accompanying financial statements. The estimated liability for general liability and on-the-job injury self-insurance is actuarially determined. These self-insured programs are supplemented with commercial excess insurance.

The Comprehensive General Liability Trust Fund is a self-insured retention program that protects the University, its faculty, staff and volunteers against claims brought by third parties arising from bodily injury, property damage and personal liability (libel, slander, etc.) Funds are held in a separate trust account with a financial institution to be used to pay claims for which the University may become legally liable. The liability at September 30, 2009 and 2008, was \$651,288 and \$474,484, respectively.

The On-The-Job-Injury program provides benefits for job-related injuries or death related from work at the University. This program is designed to cover out-of-pocket expenses of any employee who is not covered by insurance. The program will also pay for medically evidenced disability claims and provide death benefits arising from a job-related death of an employee. This self-funded program is provided to employees since the University is not subject to the workers' compensation laws of the State of Alabama. The liability at September 30, 2009 and 2008, was \$1,903,007 and \$1,925,594, respectively.

The University self-insures its health insurance program for all eligible employees. Assets have been set aside to fund the related claims of this program. Should the assets be insufficient to pay the insurance claims, the University would be liable for such claims. The accompanying Statement of Net Assets includes a self-insurance reserve for health insurance as of September 30, 2009 and 2008, of \$2,814,100 and \$2,867,200, respectively.

Other Liabilities

Other liabilities include compensated absences, deposits held in custody and deferred revenues. The University allows employees to accrue and carryover annual and sick leave up to certain maximum amounts depending on years of service. Employees will be compensated for accrued annual leave at time of separation from University employment (termination or retirement) up to a maximum of one month's additional compensation. All eligible employees hired before October 1, 1990, may be compensated for unused sick leave at the rate of 25% of their respective balances, subject to a maximum of one month's additional compensation. The liability for compensated absences was \$17,720,966 and \$17,295,997 at September 30, 2009 and 2008, respectively.

Deposits held in custody include the portion of the Federal Perkins Student Loan funds and Health Professional Student Loans which would be refunded in the event the University's operations ceased. The refundable amounts were \$16,307,677 and \$15,715,942 at September 30, 2009 and 2008, respectively. Also included in deposits held in custody of others are the agency funds. These amounts totaled \$3,620,840 and \$3,843,492 for September 30, 2009 and 2008, respectively.

Deferred revenue includes tuition revenue related to the portion of fall semester subsequent to September 30, funding received for contracts

and grants which has not been expended as of September 30, as well as athletic revenue related to games played subsequent to September 30.

Deferred revenues at September 30, 2009 and 2008, are as follows:

	2009	2008
Tuition and fees	\$ 83,119,621	\$ 75,973,302
Federal, state and local government grants and contracts	12,087,456	11,391,952
Auxiliary	21,631,653	14,676,833
Loan	-	116,016
Plant	585,621	601,449
Total deferred revenue	<u>\$ 117,424,351</u>	<u>\$ 102,759,552</u>

(13) CONTRACTS AND GRANTS

The University has been awarded approximately \$8,438,000 (unaudited) and \$7,100,000 (unaudited) in contracts and grants that have not been received or expended as of September 30, 2009 and 2008, respectively. These awards, which represent commitments of sponsors to provide funds for research and training projects, have not been reflected in the financial statements.

(14) RECOVERY OF FACILITIES AND ADMINISTRATIVE COST FOR SPONSORED PROGRAMS

The portion of revenue recognized for all grants and contracts that represents facilities and administrative cost recovery is recognized on the Statement of Revenues, Expenses and Changes in Net Assets with contract and grant operating revenues. The University recognized \$14,680,214 and \$15,383,759 in facilities and administrative cost recovery for the years ended September 30, 2009 and 2008, respectively.

(15) CONSTRUCTION COMMITMENTS AND FINANCING

The University has entered into projects for the construction and renovation of various facilities that are estimated to cost approximately \$598,000,000 (unaudited). At September 30, 2009, the estimated remaining cost to complete the projects is approximately \$216,000,000 (unaudited) which will be funded from University funds and bond proceeds.

(16) OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended September 30, 2009 and 2008, are listed below. In preparing the financial statements, all significant transactions and balances between auxiliary units and other funds have been eliminated. Some scholarships and fellowships are provided by the instruction or research function and are broken out in the charts below. In addition, the graduate waivers are shown as compensation; however, they are shown functionally as scholarship and fellowship expense. The University is able to capture auxiliary utility expenditures; therefore, those expenditures are shown separately by function.

September 30, 2009

	Compensation and Benefits	Scholarships and Fellowships	Utilities	Other Supplies and Services	Depreciation	Total
Instruction	\$ 188,264,640	\$ 1,247,313	-	\$ 25,789,469	-	\$ 215,301,422
Research	66,612,514	589,783	-	32,413,461	-	99,615,758
Public Service	61,569,279	-	-	39,719,654	-	101,288,933
Academic Support	30,239,964	-	-	4,243,267	-	34,483,231
Library	7,427,274	-	-	1,155,967	-	8,583,241
Student Services	14,661,961	-	-	5,776,332	-	20,438,293
Institutional Support	64,506,152	-	-	7,314,735	-	71,820,887
Operation and Maintenance	24,663,759	-	20,077,040	29,876,802	-	74,617,601
Scholarships and Fellowships	14,605,046	15,927,613	-	696,062	-	31,228,721
Auxiliaries	35,343,707	138,637	3,631,115	43,362,964	-	82,476,423
Depreciation	-	-	-	-	44,187,852	44,187,852
	<u>\$ 507,894,296</u>	<u>\$ 17,903,346</u>	<u>\$ 23,708,155</u>	<u>\$ 190,348,713</u>	<u>\$ 44,187,852</u>	<u>\$ 784,042,362</u>

September 30, 2008

	Compensation and Benefits	Scholarships and Fellowships	Utilities	Other Supplies and Services	Depreciation	Total
Instruction	\$ 183,056,641	\$ 1,112,492	\$ -	\$ 28,395,440	\$ -	\$ 212,564,573
Research	67,025,511	717,186	-	33,393,747	-	101,136,444
Public Service	60,486,179	-	-	47,541,609	-	108,027,788
Academic Support	27,908,305	-	-	4,048,547	-	31,956,852
Library	7,608,106	-	-	1,824,534	-	9,432,640
Student Services	12,585,757	-	-	6,838,024	-	19,423,781
Institutional Support	61,453,133	-	-	721,110	-	62,174,243
Operation and Maintenance	25,018,479	-	19,282,837	26,621,597	-	70,922,913
Scholarships and Fellowships	12,999,758	16,922,323	-	938,872	-	30,860,953
Auxiliaries	31,482,838	170,373	3,597,839	43,568,815	-	78,819,865
Depreciation	-	-	-	-	41,270,457	41,270,457
	<u>\$ 489,624,707</u>	<u>\$ 18,922,374</u>	<u>\$ 22,880,676</u>	<u>\$ 193,892,295</u>	<u>\$ 41,270,457</u>	<u>\$ 766,590,509</u>

(17) CONTINGENT LIABILITIES

The University is a party in various legal actions and administrative proceedings arising in the normal course of its operations. Management does not believe that the outcome of these actions will have a material adverse effect on the University's financial position.

(18) RELATED PARTY TRANSACTIONS

Auburn University Foundation

The majority of funds that the AUF raises are donor restricted for specific schools, colleges or programs of the University. These may be transferred to the University for its use, expended by AUF for the benefit of University schools, colleges or programs, or in the case of endowments, invested with only the earnings transferred to or expended on behalf of the University. Amounts transferred to the University or expended on behalf of its programs totaled \$26,653,089 and \$26,063,821 during the years ended September 30, 2009 and 2008, respectively. Of the \$256,417 and \$2,851,353 due to the University at September 30, 2009 and 2008, respectively, cumulative undistributed earnings on endowed funds were \$0 and \$2,291,671 at September 30, 2009 and 2008, respectively. In addition to the net undistributed earnings due to the University, other net amounts due to the University were \$256,417 and \$559,682 at September 30, 2009 and 2008, respectively.

The President of the University serves as an ex officio non-voting member of AUF's Board of Directors. The University is the primary recipient of AUF expenditures and maintains AUF's accounting records as a subsystem within the University's accounting system.

AUF and the University entered into an operating agreement (the Agreement), which addresses the general and administrative and development financial relationships between these two entities. In summary, the Agreement states that in return for raising and administering gifts for the benefit of the University, the University will provide certain services and facilities to AUF, which primarily consist of personnel and other administrative support and that AUF will make a quarterly determination of their allocable share of these costs and transfer funds as necessary. AUF and the University review the agreement annually and to provide an estimate of the maximum consideration to be paid for the upcoming year for approval by the

respective boards. The actual reimbursement is determined based on the actual costs incurred and is as follows.

- For the years ended September 30, 2009 and 2008, all personnel costs were incurred by the University and AUF reimbursed the University \$1,637,538 and \$2,223,707, respectively, for its share of these central development services in accordance with the Agreement.
- Nonsalary development costs were incurred and paid primarily by AUF. The University provided for its share of Development nonpersonnel operating costs by establishing budgets within the University's budgetary system whereby it paid a portion of the costs, and reimbursed AUF for the balance. The amount directly incurred by the University or reimbursed to AUF was \$2,023,814 and \$1,546,516 for the years ended September 30, 2009 and 2008, respectively.
- Constituency development operations, which are fund raising programs restricted to one school, college or program of the University, are funded jointly by AUF and the University unit involved. While essentially all of the non-salary expenses are paid by AUF from restricted funds, the salaries are incurred by the University and reimbursed by AUF upon request by the head of the related university unit. During the years ended September 30, 2009 and 2008, the constituency salaries reimbursed to the University totaled \$402,116 and \$925,245, respectively.

During 2009 and 2008, AUF granted AUREFI \$2,514,373 and \$615,000, respectively, for operations and projects. In 2009, AUREFI reimbursed AUF \$35,923 for operating expenses paid on behalf of AUREFI. These inter-entity transactions are eliminated in consolidation.

For the year ended September 30, 2008, AUREFI and the University entered into a services and facilities agreement which addressed the construction services and facilities. The University provided certain construction services and facilities to AUREFI, which primarily consisted of personnel and other administrative support. For the year ended September 30, 2009, AUREFI reimbursed the University \$16,000

under that agreement upon the completion of the project. AUREFI also reimbursed the University \$148,428 for administrative support services. The personnel costs for the year ended September 30, 2008, were considered immaterial. Both reimbursements are accrued and reflected in the payable due to the University on the Consolidated Statements of Financial Position.

For the year ended September 30, 2009, AUREFI granted to the University \$200,000 in cash for professorships, real estate appraised at a value of \$300,000 for a University program and a constructed asset.

The amount due from AUF to the Association consists of funds from the Association's Life Membership program which are invested with AUF's pooled endowment. AUF remits income from the investments directly to the Association on an annual basis. For the years ended September 30, 2009 and 2008, AUF was committed to the Association for \$6,411,182 and \$6,627,852, respectively. Of the amount for the year ended September 30, 2009 and 2008, \$1,377 and \$641 relates to receivables from the Association to AUF for reimbursement of miscellaneous general and administrative expenses, respectively.

The amount due from AUF to TUF consists of funds which are invested with AUF's pooled endowment. AUF remits income from the investments which are designated by donor restriction for spending directly to the University on behalf of TUF on an annual basis. AUF remits income from investments which are designated by donor restriction for additions to endowment corpus directly to the TUF on an annual basis. As of September 30, 2009 and 2008, AUF was committed to TUF for \$5,701,268 and \$6,206,026, respectively. Of these amounts for both fiscal years, \$100,000 relates to a payable by AUF to TUF upon the termination of a trust. In 2009, AUF owed TUF \$500 for a routine operating transaction.

Tigers Unlimited Foundation

The funds that TUF raises are restricted for athletic-related programs of the University. These may be transferred to the University for its use, expended for the benefit of athletic programs or, in the case of endowments, invested according to donor restriction and the earnings transferred to, or expended for, the University's benefit. Amounts transferred to the University, or expended on behalf of its programs, totaled \$27,849,007 and \$19,460,040 during the years ended June 30, 2009 and 2008, respectively.

Effective July 1, 2007, TUF and the University entered into an operating agreement (the Agreement), which addresses the general and administrative and development financial relationships between these two entities. In summary, the Agreement states that the University will provide certain services and facilities to TUF, which primarily consist of personnel and other administrative support. TUF will pay to the University an amount equal to the compensation of Auburn University employees for services performed and reimbursement for space and property utilized by such employees, in an amount to be specifically approved by TUF's Board of Directors each year. The Agreement commenced on July 1, 2007, and expired on July 1, 2008, but remains in force in subsequent years unless cancelled in writing by one of the parties.

For the years ended June 30, 2009 and 2008, TUF reimbursed the University \$267,857 and \$265,000, respectively, for TUF personnel costs incurred by the University.

During the years ended June 30, 2009 and 2008, the University contributed \$515,588 and \$584,800, respectively, to TUF for the use of executive suites at University athletic events. This amount is recorded as public support-contribution revenue on the Statements of Activities and Changes in Net Assets.

During the years ended June 30, 2009 and 2008, TUF paid the University for normal, recurring expense transactions including, but not limited to, purchasing athletic event tickets, reimbursing athletic staff salaries, sponsoring student scholarships, and funding the debt, repair, maintenance and operations of athletic facilities. At June 30, 2009 and 2008, obligations of \$2,022,800 and \$2,222,218 related to these transactions, respectively, were outstanding. These obligations were paid during the subsequent fiscal year.

At June 30, 2009 and 2008, amounts payable from AUF to TUF were \$100,000. At June 30, 2008, \$50,082 was payable from the University to TUF.

As indicated, the above TUF balances are as of June 30, 2009 and 2008; however, the University believes these figures are not materially different than September 30, 2009 and 2008, respectively.

Auburn Alumni Association

The Association, AUF, Auburn University Offices of Alumni and Development and their related support units jointly utilize operational facilities, personnel and other assets in order to effectively and efficiently carry out their required activities. All personnel are employed by the University and their services are provided to the other organizations under contractual agreements. Other operational costs are paid from budgets of each organization. The combined expenditures are analyzed periodically and, based on each entity's utilization of the facilities, supplies and services, any necessary reimbursements are made among the organizations. In the Statements of Activities and Changes in Net Assets, amounts received by the Operating Fund from other organizations are used to offset the related expenses. The Executive Director of the Association is an employee of the University, providing services to the Association under a services and facilities contract. She also serves as the Vice President for Alumni Affairs for the University. A portion of the Association's investments have been pooled with AUF investments and are invested and managed by AUF. Cash receipts and disbursements records of the Association are maintained within the University accounting system. During the years ended September 30, 2009 and 2008, the Association had a salary reimbursement expense of \$885,693 and \$797,991, respectively, to the University under the service and facilities agreement. Of this amount, \$725,847 and \$746,749 had been paid and \$159,846 and \$51,242 was accrued as an amount payable at September 30, 2009 and 2008, respectively.

Rental income recorded by the Association from the University totaled \$210,878 and \$206,481, respectively for the years ended September 30, 2009 and 2008. Rental income recorded by the Association from AUF totaled \$111,374 and \$107,386 for the years ended September 30, 2009 and 2008, respectively.

During the year ended September 30, 2009, the University provided for its share of alumni affairs activities costs by establishing a budget within the University's budgetary system; whereby, the University pays a portion of the costs, and reimburses the Association for the balance. The alumni affairs activities costs for the years ended September 30, 2009 and 2008, were \$740,000.

During the years ended September 30, 2009 and 2008, the Association contributed \$347,338 and 585,347, respectively, to the Auburn Alumni Association Endowment for Scholarships held with the AUF.

(19) THE FEDERAL FAMILY EDUCATION LOAN PROGRAM (FFELP)

The Federal Family Education Loan Program (FFELP) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FFELP enables an eligible student or parent to obtain a loan directly through FFELP lenders. Alabama's designated state guarantor for FFELP loans is Kentucky Higher Education Assistance Authority (KHEAA). KHEAA is responsible for handling the complete loan process, including funds management as well as promissory note functions. Other guarantors are also involved in the process depending on the lender's guarantor of choice. Files are transmitted via the ELM-Electronic Loan Maintenance System which routes loan information to the appropriate lender or guarantor and then routes the response files back to the University. The FFELP lenders, and not the University, are responsible for the collection of these loans. The University's Main Campus disbursed approximately \$111,900,000 and \$109,700,000 under the FFELP during the fiscal years ended September 30, 2009 and 2008, respectively. AUM disbursed approximately \$30,700,000 and \$21,900,000 under the FFELP during the fiscal years ended September 30, 2009 and 2008, respectively.

(20) SUBSEQUENT EVENTS

Change in Capitalization Threshold for Equipment

Effective October 1, 2009, the threshold for capitalization of equipment was changed from \$2,500 to \$5,000. Beginning in fiscal year 2010, equipment having a cost greater than or equal to \$5,000 and a useful life of more than one year will be capitalized.

Bond Refunding

On December 29, 2009, the University issued \$79,500,000 of Auburn University General Fee Revenue Bonds, series 2009. A portion of the proceeds of the Bonds will be used to purchase United States Treasury Notes which will be placed in an irrevocable trust together with an initial cash deposit to be used solely to refund that portion of the General Fee Revenue Bonds, Series 2001 and General Fee Revenue Bonds, Series 2001A. The 2009 Bonds will mature, subject to mandatory and optional redemption, from June 1, 2010 to December 1, 2020. The 2009 Bonds have an interest rate range of 3% to 5%.

(21) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was issued by the GASB in November 2006. This Statement requires that governments provide more detailed information regarding the effect of environmental cleanups is effective for financial periods beginning after December 15, 2007. There was no impact on the University's financial statements from the adoption of this Statement.

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, was issued in June 2007. Statement No. 51 provides guidelines for the capitalization and amortization of intangible assets to include internally generated intangible assets and to reduce the inconsistencies existing due to the absence of sufficiently specific authoritative guidance that has resulted in inconsistencies in the accounting and financial reporting of intangible assets among states and local governments,

particularly in the areas of recognition, initial measurement, and amortization. Implementation of this standard should enhance the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement is effective for periods beginning after June 15, 2009, and is required to be applied retroactively by Phase I and Phase II governments for intangible assets acquired or generated in fiscal years ending after June 30, 1980. The University is currently evaluating the financial statement impact of the adoption of this Statement.

Statement No. 52, *Land and Other Real Estate Held as Investments By Endowments*, was issued in November 2007. This Statement, effective for periods beginning after June 15, 2008, will require public institutions holding land and any other real estate investments in their endowment portfolios to report these assets at fair value. This Statement establishes consistent standards for the reporting of these assets held as investments by essentially similar entities. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. There was no material impact on the University's financial statements from the adoption of this Statement.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, was issued in June 2008. This Statement, which will be effective for periods beginning after June 15, 2009, dictates guidelines for the recognition, measurement and disclosure of financial transactions involving derivative instruments. Although the University does not currently hold any derivative instruments, an evaluation of the impact of this Statement will be completed upon the purchase of such instruments.

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was issued in March 2009. This Statement, which will be effective for periods beginning after June 15, 2010, provides clearer fund balance classifications which can be consistently applied. These new classifications will enhance usefulness of financial statements by specifying which funds are considered non-spendable as well as detailing which funds are restricted, committed, assigned and unassigned based on constraints which control how funds may be spent. The University is currently evaluating the financial statement impact of the adoption of this Statement.

Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued in March 2009 and is effective on issuance. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The GASB is responsible for establishing GAAP for state and local governments. However, the current GAAP hierarchy is set forth in the American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*, rather than in the authoritative literature of the GASB. There was no impact on the University's financial statements from the adoption of this Statement.

Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, was issued in March 2009 and is effective on issuance. The objective of Statement No. 56 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting

principles—related party transactions, going concern considerations, and subsequent events. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. The University adopted this Statement effective March 2009. There was no impact on the University's financial statements from the adoption of this Statement.





AUBURN UNIVERSITY

2009
FINANCIAL REPORT

UNAUDITED DIVISIONAL
FINANCIAL STATEMENTS

AUBURN UNIVERSITY MAIN CAMPUS
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2009 AND 2008
(UNAUDITED)

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 52,754,520	\$ 45,745,565
Operating investments	92,577,937	69,619,880
Accounts receivable, net	28,212,646	30,253,082
Student accounts receivable, net	25,417,671	22,638,302
Loans receivable, net	2,434,010	2,612,701
Accrued interest receivable	3,387,852	5,950,208
Inventories	3,184,747	3,065,423
Prepaid expenses	4,925,312	5,978,938
Due from other funds	420,066	420,066
Total current assets	213,314,761	186,284,165
Noncurrent assets		
Investments	664,807,207	810,898,189
Loans receivable, net	14,443,096	14,571,533
Investment in plant, net	1,009,432,264	828,799,195
Due from other funds	18,984,243	18,987,096
Total noncurrent assets	1,707,666,810	1,673,256,013
Total assets	1,920,981,571	1,859,540,178
LIABILITIES		
Current liabilities		
Accounts payable	38,782,693	49,448,751
Accrued salaries and wages	3,831,228	3,578,498
Accrued compensated absences	11,770,081	11,438,361
Accrued interest payable	8,994,885	7,777,773
Other accrued liabilities	2,814,171	2,868,084
Student deposits	816,355	751,409
Deposits held in custody	16,580,514	16,600,487
Deferred revenues	104,195,541	90,715,294
Noncurrent liabilities-current portion	20,574,634	15,596,214
Total current liabilities	208,360,102	198,774,871
Noncurrent liabilities		
Accrued compensated absences	477,563	462,095
Bonds and notes payable	548,945,467	566,650,472
Lease obligations	620,660	929,286
Other noncurrent liabilities	16,843,909	14,423,198
Due to other funds	25,448,741	24,603,371
Total noncurrent liabilities	592,336,340	607,068,422
Total liabilities	800,696,442	805,843,293
NET ASSETS		
Invested in capital assets, net of related debt	539,771,949	500,987,015
Restricted		
Nonexpendable	18,930,145	18,714,893
Expendable:		
Scholarships, research, instruction, other	108,444,956	105,653,590
Loans	4,669,230	4,604,910
Capital projects	18,683,861	11,691,938
Unrestricted	429,784,988	412,044,539
Total net assets	\$ 1,120,285,129	\$ 1,053,696,885

AUBURN UNIVERSITY MAIN CAMPUS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(UNAUDITED)

	2009	2008
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of \$54,782,963 and \$41,808,022, respectively	\$ 236,222,413	\$ 216,529,716
Federal appropriations	83,283	76,674
Federal grants & contracts, net	47,676,163	48,864,133
State & local grants & contracts, net	6,447,282	6,144,225
Nongovernmental grants & contracts, net	8,387,973	7,733,208
Sales & services of educational departments	22,707,595	21,577,106
Auxiliary revenue, net of scholarship allowances of \$2,607,736 and \$1,603,085, respectively	75,075,749	70,803,562
Other operating revenues	9,919,231	10,381,017
Total operating revenues	<u>406,519,689</u>	<u>382,109,641</u>
OPERATING EXPENSES		
Compensation & benefits	381,636,878	363,357,141
Scholarships & fellowships	14,276,140	15,874,890
Utilities	19,645,909	18,860,556
Other supplies & services	134,571,289	122,156,314
Depreciation	41,617,369	38,693,636
Total operating expenses	<u>591,747,585</u>	<u>558,942,537</u>
Operating loss	(185,227,896)	(176,832,896)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	170,961,681	220,114,566
Gifts	28,353,948	27,377,197
Grants	10,752,794	8,588,776
Net investment income	38,456,242	19,065,291
Interest expense on capital debt	(12,861,043)	(14,775,224)
Nonoperating revenues, net	<u>235,663,622</u>	<u>260,370,606</u>
Income before other changes in net assets	50,435,726	83,537,710
OTHER CHANGES IN NET ASSETS		
Capital appropriations	292,609	-
Capital gifts & grants	15,644,657	23,479,866
Additions to permanent endowments	215,252	349,361
Net increase in net assets	<u>66,588,244</u>	<u>107,366,937</u>
Net assets - beginning of year	<u>1,053,696,885</u>	<u>946,329,948</u>
Net assets - end of year	<u>\$ 1,120,285,129</u>	<u>\$ 1,053,696,885</u>

AUBURN UNIVERSITY AT MONTGOMERY
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2009 AND 2008
(UNAUDITED)

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,004,455	\$ 724,937
Operating investments	1,762,699	1,103,277
Accounts receivable, net	6,409,883	6,949,756
Student accounts receivable, net	3,217,811	2,666,862
Loans receivable, net	461,987	626,659
Accrued interest receivable	100,722	-
Inventories	410,633	658,998
Prepaid expenses	4,803	3,082
Total current assets	13,372,993	12,733,571
Noncurrent assets		
Investments	12,658,037	12,850,426
Loans receivable, net	2,585,074	2,301,109
Investment in plant, net	35,002,930	36,461,866
Due from other funds	25,448,741	24,603,370
Total noncurrent assets	75,694,782	76,216,771
Total assets	89,067,775	88,950,342
LIABILITIES		
Current liabilities		
Accounts payable	1,678,795	2,340,678
Accrued salaries and wages	471,007	467,448
Accrued compensated absences	1,373,521	1,318,803
Accrued interest payable	11,900	12,975
Deposits held in custody	3,267,181	2,930,972
Deferred revenues	8,441,371	7,783,917
Noncurrent liabilities-current portion	270,000	260,000
Due to other funds	420,066	420,066
Total current liabilities	15,933,841	15,534,859
Noncurrent liabilities		
Accrued compensated absences	55,730	53,278
Bonds and notes payable	1,135,000	1,245,000
Lease obligations	920,000	1,080,000
Other noncurrent liabilities	35,571	-
Due to other funds	18,984,243	18,987,095
Total noncurrent liabilities	21,130,544	21,365,373
Total liabilities	37,064,385	36,900,232
NET ASSETS		
Invested in capital assets, net of related debt	13,509,653	14,719,655
Restricted		
Nonexpendable	4,955,904	4,915,723
Expendable:		
Scholarships, research, instruction, other	24,183,097	23,994,496
Loans	353,962	338,658
Capital projects	136,650	145,699
Unrestricted	8,864,124	7,935,879
Total net assets	\$ 52,003,390	\$ 52,050,110

AUBURN UNIVERSITY AT MONTGOMERY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(UNAUDITED)

	2009	2008
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of \$5,792,792 and \$4,428,960, respectively	\$ 21,405,880	\$ 18,777,456
Federal grants & contracts, net	2,263,642	2,056,172
State & local grants & contracts, net	7,252,208	13,244,448
Nongovernmental grants & contracts, net	296,828	244,413
Sales & services of educational departments	1,104,682	1,047,707
Auxiliary revenue, net of scholarship allowances of \$517,893 and \$426,955, respectively	5,679,248	4,691,833
Other operating revenues	4,479,873	2,569,021
Total operating revenues	<u>42,482,361</u>	<u>42,631,050</u>
OPERATING EXPENSES		
Compensation & benefits	45,330,283	44,849,541
Scholarships & fellowships	3,627,206	3,047,484
Utilities	2,745,982	2,799,255
Other supplies & services	20,164,924	24,504,049
Depreciation	2,570,483	2,576,821
Total operating expenses	<u>74,438,878</u>	<u>77,777,150</u>
Operating loss	<u>(31,956,517)</u>	<u>(35,146,100)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	24,830,698	31,026,696
Gifts	426,054	(239,424)
Grants	5,671,940	4,401,735
Net investment income	2,195,332	1,731,574
Interest expense on capital debt	(1,289,560)	(1,296,444)
Nonoperating revenues, net	<u>31,834,464</u>	<u>35,624,137</u>
(Loss) income before other changes in net assets	(122,053)	478,037
OTHER CHANGES IN NET ASSETS		
Capital gifts & grants	35,152	23,677
Additions to permanent endowments	40,181	62,517
Net (decrease) increase in net assets	<u>(46,720)</u>	<u>564,231</u>
Net assets - beginning of year	<u>52,050,110</u>	<u>51,485,879</u>
Net assets - end of year	<u>\$ 52,003,390</u>	<u>\$ 52,050,110</u>

ALABAMA AGRICULTURAL EXPERIMENT STATION
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2009 AND 2008
(UNAUDITED)

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,646,223	\$ 1,327,917
Operating investments	2,888,927	2,020,948
Accounts receivable, net	<u>3,455,375</u>	<u>3,411,618</u>
Total current assets	<u>7,990,525</u>	<u>6,760,483</u>
Noncurrent assets		
Investments	<u>20,745,541</u>	<u>23,539,009</u>
Total noncurrent assets	<u>20,745,541</u>	<u>23,539,009</u>
Total assets	<u>28,736,066</u>	<u>30,299,492</u>
LIABILITIES		
Current liabilities		
Accounts payable	1,054,647	975,329
Accrued salaries and wages	347,692	349,073
Accrued compensated absences	1,813,895	1,746,931
Deposits held in custody	400	1,200
Deferred revenues	<u>4,120,521</u>	<u>3,553,490</u>
Total current liabilities	<u>7,337,155</u>	<u>6,626,023</u>
Noncurrent liabilities		
Accrued compensated absences	73,598	70,574
Other noncurrent liabilities	<u>76,153</u>	<u>-</u>
Total noncurrent liabilities	<u>149,751</u>	<u>70,574</u>
Total liabilities	<u>7,486,906</u>	<u>6,696,597</u>
NET ASSETS		
Restricted		
Expendable:		
Scholarships, research, instruction, other	1,529,003	1,554,571
Unrestricted	<u>19,720,157</u>	<u>22,048,324</u>
Total net assets	<u>\$ 21,249,160</u>	<u>\$ 23,602,895</u>

ALABAMA AGRICULTURAL EXPERIMENT STATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(UNAUDITED)

	2009	2008
OPERATING REVENUES		
Federal appropriations	\$ 3,642,554	\$ 7,143,688
Federal grants & contracts	13,866,093	14,292,241
State & local grants & contracts	896,184	1,187,909
Nongovernmental grants & contracts	2,142,838	1,547,593
Sales & services of educational departments	2,768,305	2,717,280
Other operating revenues	339,669	388,517
Total operating revenues	23,655,643	27,277,228
OPERATING EXPENSES		
Compensation & benefits	38,652,297	38,834,619
Utilities	1,060,776	974,236
Other supplies & services	19,121,245	26,779,187
Total operating expenses	58,834,318	66,588,042
Operating loss	(35,178,675)	(39,310,814)
NONOPERATING REVENUES		
State appropriations	31,768,933	41,192,184
Gifts	778,917	1,248,013
Net investment income	277,090	510,748
Nonoperating revenues, net	32,824,940	42,950,945
Net (decrease) increase in net assets	(2,353,735)	3,640,131
Net assets - beginning of year	23,602,895	19,962,764
Net assets - end of year	\$ 21,249,160	\$ 23,602,895

ALABAMA COOPERATIVE EXTENSION SYSTEM
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2009 AND 2008
(UNAUDITED)

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,691,407	\$ 1,425,144
Operating investments	2,968,219	2,168,917
Accounts receivable, net	<u>2,049,233</u>	<u>2,459,738</u>
Total current assets	<u>6,708,859</u>	<u>6,053,799</u>
Noncurrent assets		
Investments	<u>21,314,941</u>	<u>25,262,488</u>
Total noncurrent assets	<u>21,314,941</u>	<u>25,262,488</u>
Total assets	<u>28,023,800</u>	<u>31,316,287</u>
LIABILITIES		
Current liabilities		
Accounts payable	1,976,627	2,161,056
Accrued salaries and wages	427,576	422,490
Accrued compensated absences	2,072,239	2,120,298
Deferred revenues	<u>666,918</u>	<u>706,851</u>
Total current liabilities	<u>5,143,360</u>	<u>5,410,695</u>
Noncurrent liabilities		
Accrued compensated absences	84,339	85,657
Other noncurrent liabilities	<u>6,421,588</u>	<u>4,751,600</u>
Total noncurrent liabilities	<u>6,505,927</u>	<u>4,837,257</u>
Total liabilities	<u>11,649,287</u>	<u>10,247,952</u>
NET ASSETS		
Restricted		
Expendable:		
Scholarships, research, instruction, other	4,843,901	4,752,527
Capital projects	29,634	27,564
Unrestricted	<u>11,500,978</u>	<u>16,288,244</u>
Total net assets	<u>\$ 16,374,513</u>	<u>\$ 21,068,335</u>

ALABAMA COOPERATIVE EXTENSION SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(UNAUDITED)

	2009	2008
OPERATING REVENUES		
Federal appropriations	\$ 7,220,277	\$ 8,488,908
Federal grants & contracts	5,706,723	7,157,830
State & local grants & contracts	3,591,471	3,085,700
Nongovernmental grants & contracts	689,046	287,674
Sales & services of educational departments	139,727	129,103
Other operating revenue	<u>2,113,145</u>	<u>2,006,463</u>
Total operating revenues	<u>19,460,389</u>	<u>21,155,678</u>
OPERATING EXPENSES		
Compensation & benefits	42,274,838	42,583,406
Utilities	255,488	246,629
Other supplies & services	<u>16,491,255</u>	<u>20,452,745</u>
Total operating expenses	<u>59,021,581</u>	<u>63,282,780</u>
Operating loss	<u>(39,561,192)</u>	<u>(42,127,102)</u>
NONOPERATING REVENUES		
State appropriations	34,129,784	44,607,936
Gifts	227,599	136,688
Net investment income	<u>507,917</u>	<u>686,470</u>
Nonoperating revenues, net	<u>34,865,300</u>	<u>45,431,094</u>
(Loss) income before other changes in net assets	(4,695,892)	3,303,992
OTHER CHANGES IN NET ASSETS		
Capital gifts and grants	<u>2,070</u>	<u>3,308</u>
Net (decrease) increase in net assets	(4,693,822)	3,307,300
Net assets - beginning of year	<u>21,068,335</u>	<u>17,761,035</u>
Net assets - end of year	<u>\$ 16,374,513</u>	<u>\$ 21,068,335</u>





AUBURN UNIVERSITY

2009
FINANCIAL REPORT

REQUIRED SUPPLEMENTAL INFORMATION

REQUIRED SUPPLEMENTAL INFORMATION

Determination of Annual Required Contribution (ARC) and End of Year Accrual

Cost Element	Fiscal Year Ended Sept. 30, 2009	
	Amount	Percent of Payroll ¹
1. Unfunded actuarial accrued liability at Oct. 1, 2008	\$ 69,108,021	1,140.9%
Annual Required Contribution (ARC)		
2. Normal cost	\$ 107,803	
3. Amortization of the unfunded actuarial accrued liability over 15 years using level dollar amortization	<u>5,321,767</u>	
4. Annual Required Contribution (ARC = 2 + 3)	<u>\$ 5,429,570</u>	89.6%
Annual OPEB Cost (Expense)		
5. ARC	\$ 5,429,570	
6. Interest on beginning of year accrual	95,020	
7. Adjustment to ARC	<u>362,499</u>	
8. Fiscal year 2009 OPEB cost (5 + 6 - 7)	<u>\$ 5,162,091</u>	85.2%
End of Year Accrual (Net OPEB Obligation)²		
9. Beginning of year accrual ¹	\$ 4,751,600	
10. Annual OPEB cost	5,162,091	
11. Employer contribution (benefit payments) ²	<u>2,553,487</u>	
12. End of year CAFR accrual (9 + 10 - 11) ²	<u>\$ 7,360,204</u>	121.5%

¹ Annual payroll for 77 participants as of October 1, 2008, \$6,057,128.

² Actual amounts paid in fiscal year 2009 include claim costs, administrative fees, and PEEHIP subsidy less participant contributions.

Three Year Schedule of Percentage of OPEB Cost Contributed

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed ³	Net OPEB Obligation
Sept. 30, 2007	\$ 5,394,900	49.3%	\$ 2,737,700
Sept. 30, 2008	\$ 4,258,900	52.7%	\$ 4,751,600
Sept. 30, 2009	\$ 5,162,091	49.4%	\$ 7,360,204

³ Cost Contributed is shown in the "Determination of Annual Required contribution and End of Year Accrual."

Summary of Key Actuarial Methods and Assumptions

Valuation year	October 1, 2008 – September 30, 2009
Actuarial cost method	Unit Credit, Actuarial Cost Method
Amortization method	15 years, level dollar open amortization ⁴
Asset valuation method	Not applicable
Discount rate	2.0%
Projected payroll growth rate	Not applicable

⁴ Open amortization means a fresh-start each year for the cumulative unrecognized amount.

Health care cost trend rate for medical and prescription drugs

9.0% in fiscal year 2010, decreasing by one-half percentage point per year to an ultimate of 5.0% in fiscal year 2018 and later.

Valuation Date

October 1, 2008

Monthly Per Capita Claim Costs

<u>Age</u>	<u>Medical</u>
55	\$601
60	721
65	292
70	324
75	346

Claim costs are based on 2007 and 2008 calendar year experience. Future claim costs are increased by health care cost trend.

Retiree Premiums

Retirees contribute 40% and surviving spouses pay 100% of the monthly premiums shown below:

	<u>As of 1/1/09</u>	<u>As of 1/1/08</u>
Pre-65 Single	\$413	\$386
Pre-65 Family	855	806
Post-65 Single	125	113
Post-65 Family	575	266

Note: There are several other categories of premiums.

Administrative Expenses

The per capita costs for 2009 include \$20.50 per contract per month.

Annual Health Care Trend Rate

<u>Fiscal Year</u>	<u>Medical and Rx Combined Rate</u>
2010	10.0%
2011	9.5%
2012	9.0%
2013	8.5%
2014	8.0%
2015	7.5%
2016	7.0%
2017	6.5%
2018	6.0%
2019+	5.5%

Spouse Age Difference

Husbands are assumed to be three years older than wives for current and future retirees who are married.

Mortality

RP-2000 Combined Mortality Projected to 2015 using Projection Scale AA.

Participation Rates

100% of active employees are assumed to elect postretirement health insurance coverage upon retirement.

Retirement Rates

Employees are assumed to retire according to the following schedule:

<u>Age</u>	<u>Retirement Rate</u>
45 or less	0%
46 - 49	1%
50 - 51	2%
52 - 54	3%
55	10%
56 - 59	8%
60	20%
61	15%
62	25%
63 - 64	20%
65	40%
66 - 69	30%
70 - 74	75%
75+	100%

Withdrawal Rates

None assumed since all are long service Civil Service employees.

Disability Rates

Sample rates are shown below

Percent assumed to terminate within one year

<u>Age</u>	<u>Male</u>	<u>Female</u>
25	0.06%	0.09%
30	0.08%	0.12%
35	0.17%	0.24%
40	0.30%	0.41%
45	0.54%	0.65%
50	0.98%	0.98%
55	1.50%	1.50%

AUBURN UNIVERSITY BOARD OF TRUSTEES

Auburn University is governed by a Board of Trustees consisting of one member from each congressional district, as these districts were constituted on January 1, 1961, one member from Lee County, three at-large members, all of whom shall be residents of the continental United States, and the Governor, who is ex-officio. The Governor is the President of the Board of Trustees. Prior to 2003, trustees were appointed by the Governor, by and with the consent of the State Senate, for a term of 12 years. Any new trustees will be appointed by a committee, by and with the consent of the State Senate, for a term of seven years and may serve no more than two full seven year terms. A member may continue to serve until a successor is confirmed, but in no case for more than one year after the completion of a term. Members of the board receive no compensation. By executive order of the Governor in 1971, two non-voting student representatives selected by the student body serve as members ex-officio, one from the Auburn campus and one from the Montgomery campus.



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