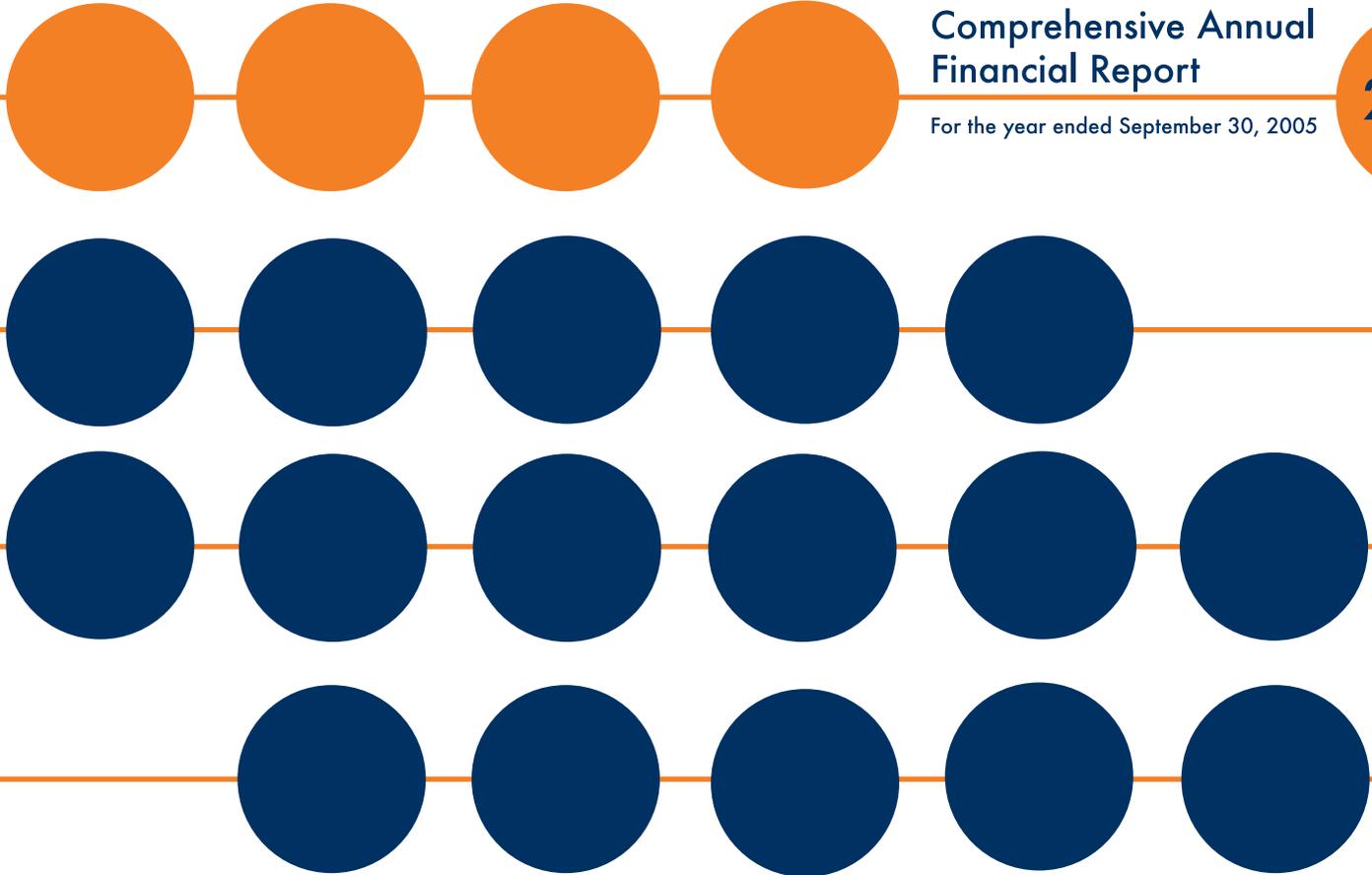


Auburn University

Comprehensive Annual
Financial Report

For the year ended September 30, 2005

2005



Financial Report

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2005

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INTRODUCTORY SECTION





OFFICE OF
THE PRESIDENT

AUBURN UNIVERSITY
Sesquicentennial

March 24, 2006

Dear Members of the Auburn Community and Alabama Citizens:

This Annual Financial Report presented on the following pages briefly summarizes the University's financial position at September 30, 2005, and financial activity for the year then ended. Through the commitment of faculty, administration, students, and the Board of Trustees, I am pleased to note that the University has again finished the year in strong financial condition.

This has also been a very successful year for Auburn University in many critical areas:

- Recently, Auburn University celebrated its 150th birthday - its Sesquicentennial. This represents an important milestone in Auburn University's history and is celebrated at a time when, by most any measure of quality and productivity, Auburn University continues to move up the ranks of the nation's top public universities, ranking 38th among the top 50 public universities in the *U. S. News and World Report's* issue of America's Best Colleges, 2006. Auburn University is also ranked a "Best Value" by the latest 2005 *Princeton Review*.
- We have recently kicked off the public phase of our "It Begins at Auburn" comprehensive campaign. This campaign comes on the heels of Auburn's best fund-raising year ever, and I am confident we will reach our campaign goal of \$500 million.
- We have broken ground on a Research Park that marks a new era of collaboration among our faculty and students, and the private sector. This park will establish Auburn as a widely recognized research force, broaden and strengthen the research industry in east Alabama, produce an economic development engine for the state and region, and create new revenue resources for the University.
- The quality of our research efforts was recently recognized by the U. S. Department of Homeland Security when they selected Auburn University as one of six universities to provide experts for a homeland security "think tank."
- Our outreach efforts continue to reach across the state with more than 1,000 outreach programs, involving an average of 50,000 participants annually being offered through some 100 facilities across the state.
- Our athletics program also posted impressive multi-year progress rates as part of the NCAA's Division I Academic Progress Rate (APR) report with football leading the way with rankings in the upper 90th percentile nationally. Auburn's football program was one of only four BCS schools to earn such recognition, joining Boston College, Duke, and Stanford.
- Other areas of success include enrolling our largest freshman class ever this fall, near record state funding increases for the current year, and a significant investment in upgrading and replacing many of our campus facilities.

While enjoying these successes, we remain committed to moving the university to even greater heights and to serving the State of Alabama toward economic growth and to its citizens by way of our quality programs and emphasis on access and diversity.

Sincerely,

Ed Richardson
Interim 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



OFFICE OF
THE PRESIDENT

AUBURN UNIVERSITY
Sesquicentennial

March 24, 2006

The comprehensive annual financial report for Auburn University for 2005 provides comparative financial statements for the years ended September 30, 2005 and September 30, 2004. Governmental Accounting Standards Board Statement No. 39 requires the presentation of audited financial information for component units. Consequently, the statements of financial position and statements of activities are presented for Auburn University Foundation, Auburn Alumni Association, and Tigers Unlimited Foundation. Management's Discussion and Analysis and the Notes to Financial Statements provide additional discussion and detail regarding the inclusion of these component units.

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,

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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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, 2005 with a comparison to the year ended September 30, 2004. 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.

Auburn 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 2005 enrollment included 28,461 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 4,938 full-time employees, including 1,362 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.

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 non-current 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. An increase or decrease in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.

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 non-operating. GASB requires state appropriations, gifts and investment earnings to be classified as non-operating 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. All references to the years 2005 and 2004 refer to the fiscal years ended September 30, 2005 and 2004, respectively.

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, non-capital financing, capital and related financing, and investing activities.

In addition to the University's financial statements, related component units' Statements of Financial Position and Statements of Activities have been included in this annual report. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (GASB 39), 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 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 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 Auburn University. As of September 30, 2005, AUF holds approximately \$173 million in University 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. AUF financial reports are presented according to the Financial Accounting Standards Board (FASB) Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. FASB 117 requires three classes of net assets to be reported: unrestricted, temporarily restricted and permanently restricted.

(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 presents its financial statements in accordance with FASB 117. The component unit statements shown for 2004 include approximately two months of activity for this organization, which has a June 30 fiscal year end. Prior to beginning operations in this fundraising, support foundation, the activities of Tigers Unlimited were consolidated into the AUF financial statements. 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 to promote mutually beneficial relationships between Auburn University and its alumni, to encourage loyalty among alumni, and to undertake various other actions for the benefit of Auburn University, its alumni and the State of Alabama. Membership is comprised of alumni, friends and students of Auburn University. The Association's financial statements are presented in accordance with FASB 117. The Association provides monetary support to the University in the form of faculty awards, and student scholarships.

The organizations identified above as component units have been discretely presented on separate pages in the financial statements included herein.

FINANCIAL HIGHLIGHTS

Statement of Net Assets

The University's financial position is strong at September 30, 2005 and 2004 with assets of \$1.3 billion and liabilities of \$480 million and assets of \$1.2 billion and liabilities of \$466 million, respectively. The University experienced an increase in net assets of \$58.8 million in 2005. A summary of assets, liabilities and net assets as of September 30, 2005 and 2004 is as follows:

	2005	2004
Current assets	\$ 122,200,322	175,543,308
Capital assets	622,374,818	539,026,448
Other non-current assets	531,564,167	488,497,553
Total assets	<u>\$ 1,276,139,307</u>	<u>1,203,067,309</u>
Current liabilities	\$ 185,837,900	168,058,945
Non-current liabilities	294,131,296	297,598,268
Total liabilities	<u>\$ 479,969,196</u>	<u>465,657,213</u>
Net assets		
Invested in capital assets, net of related debt	\$ 395,565,424	352,560,185
Restricted-Nonexpendable	22,637,567	19,573,378
Restricted-Expendable	89,919,799	86,435,161
Unrestricted	288,047,321	278,841,372
Total net assets	<u>\$ 796,170,111</u>	<u>737,410,096</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), loans receivable, accrued interest receivable, inventories, and prepaid expenses. These assets decreased \$53.3 million from September 30, 2004 to September 30, 2005. This decrease was primarily attributable to a shift in investment strategy from investments categorized as cash and cash equivalents and operating investments, (a decrease of \$44.8 million), to long

term investments, as evidenced by the corresponding increase in other non-current assets which includes an increase in nonoperating investments of \$43.1 million. While the ratio of current assets to current liabilities decreased from 104% at September 30, 2004 to 66% at September 30, 2005, the University does not expect this decrease to have any impact on liquidity.

Capital assets represent the historical cost, less any accumulated depreciation, of land improvements, buildings, construction in progress, infrastructure, equipment, library books, and livestock, with buildings constituting over 61% of the total capital asset value. Capital assets, net of depreciation, shown as Investment in Plant, Net on the Statement of Net Assets increased \$83.3 million, or 15.5% from September 30, 2004 to September 30, 2005. The increase was mainly due to the completion and capitalization of the following construction projects totaling \$77.8 million:

School of Forestry and Wildlife Sciences	\$22.0 million
Science Lab Center	\$20.2 million
Large Animal Teaching Hospital	\$18.1 million
Jordan-Hare Stadium Concourse Improvements	\$ 5.6 million
AU Health Center	\$ 2.7 million
Ross Hall Renovations	\$ 2.0 million
Hotel Renovations	\$ 1.4 million
Small Projects Totaled	\$ 5.8 million

The University's Liabilities

Current liabilities consist of accounts payable, the current portion of compensation related liabilities, advances, accrued interest payable, student and other deposits (including Perkins and Health Professions loan liability,) deferred revenues, the current portion of non-current liabilities, outstanding checks in excess of bank balance, and other accrued liabilities. Current liabilities increased by \$17.8 million, or 10.6% from September 30, 2004 to September 30, 2005. This increase was primarily due to increases in operating accounts payable.

Non-current liabilities include principal amounts due on University bonds and notes payable, accrued compensated absences and other compensation-related liabilities that are payable beyond September 30, 2006. Non-current liabilities decreased by \$3.5 million, or 1.2% from September 30, 2004 to September 30, 2005, primarily due to principal payments on the bonds. Other non-current liabilities increased due to an increase in accrued interest payable on the 2001A Athletic Capital Appreciation Bonds.

During 2004, the University issued \$76,875,000 in General Fee Revenue bonds, and \$27,910,000 in Athletic Revenue bonds. Proceeds from the 2004 General Fee Revenue bonds are to be used for financing the cost of certain capital improvements to the Auburn main campus, specifically for the construction of a transportation technology building, central utility plant, building to house the Office of Information Technology, the renovation of Ross Hall and various infrastructure projects. Proceeds from the 2004 Athletic Revenue bonds have been used for financing a portion of the cost of the renovation and expansion of Jordan-Hare Stadium and the expansion of the James T. Tatum, Jr. Strength & Conditioning Center.

The University's Net Assets

The three major net asset categories are discussed below:

Net assets invested in capital, net of related debt, represent 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 \$43 million, or 12.2% from September 30, 2004 to September 30, 2005. This increase is due to capitalization of assets as described previously.

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

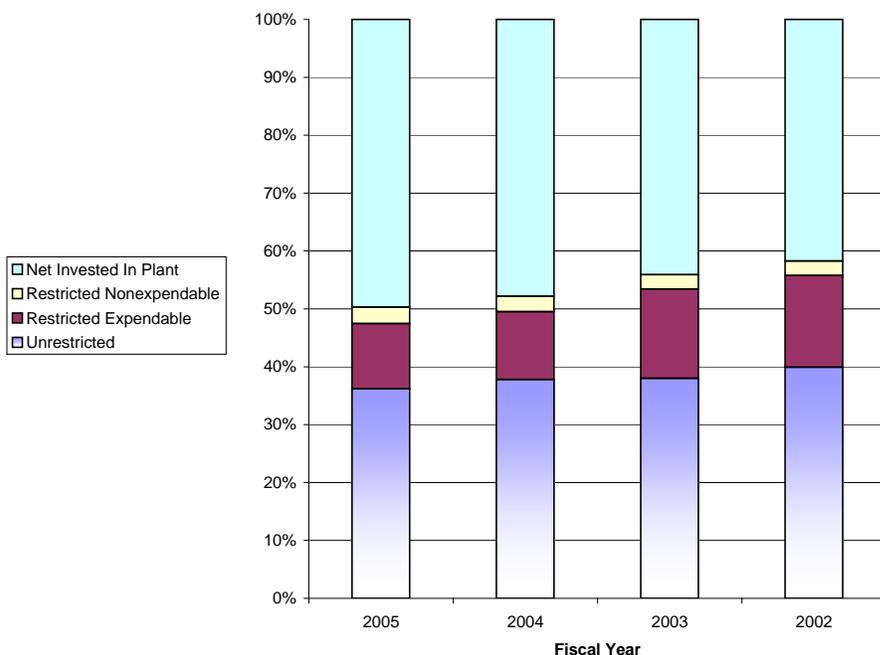
Restricted-nonexpendable net assets are subject to external restrictions governing their use and primarily include the University's permanent endowment funds. These net assets increased \$3.1 million, or 15.7% from September 30, 2004 to September 30, 2005, primarily due to new endowments received by the University in addition 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 acting like endowments, restricted funds available for student loans and funds restricted for construction purposes are also included in this category. These net assets increased by \$3.5 million or 4.0% from September 30, 2004 to September 30, 2005. The majority of the increase is due to restricted gift funds which are unspent at year-end.

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 \$9.2 million, or 3.3%, to \$288 million from \$278.8 million at September 30, 2004, primarily due to increases in unrestricted general funds, primarily designated for mission-related purposes.

TOTAL NET ASSETS



Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are the results 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:

	2005	2004
Operating revenues	\$ 404,560,991	391,616,209
Operating expenses	619,497,689	601,278,396
Operating loss	\$ (214,936,698)	(209,662,187)
Net non-operating revenues and other changes in net assets	\$ 273,696,713	277,161,719
Increase in net assets	\$ 58,760,015	67,499,532
Net assets:		
Beginning of year	\$ 737,410,096	669,910,564
End of year	\$ 796,170,111	737,410,096

The 2005 Statement of Revenues, Expenses and Changes in Net Assets reflect an increase in net assets at the end of the year of \$58.8 million. Operating revenues increased \$12.9 million from 2004 to 2005. Student tuition and fee revenue, net of discounts, increased \$18.5 million, as a result of Board-approved tuition increases of 4% and 9% in the 2004-2005 and 2003-2004 academic years, respectively. Because the University's fiscal year crosses fall semester, tuition revenues in the fiscal year ending September 30, 2005 include 60% of fall semester of 2004, spring semester of 2005 and summer term of 2005, as well as 40% of fall semester of 2005. A decrease in auxiliary revenues of \$11 million was incurred because of a change in reporting during 2004 to record athletic department operations on a September 30 year end rather than the June 30 year end as previously reported. Therefore, 2004 included 15 months of revenue due to this change in reporting.

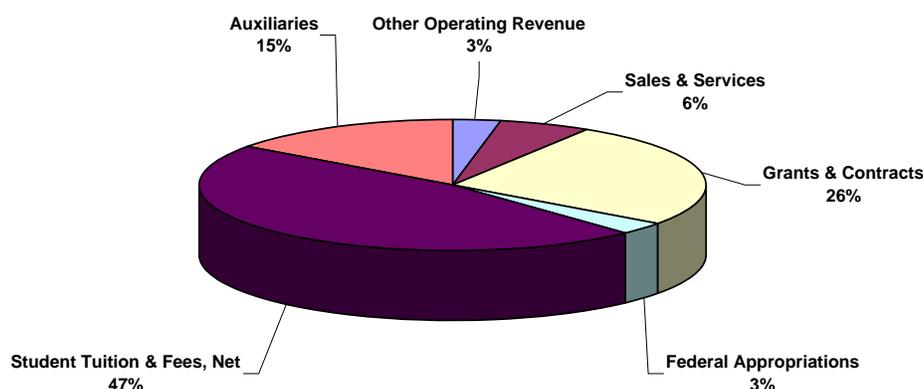
Operating expenses increased \$18.2 million, or 3% from 2004 to 2005. Expenses for compensation and employee benefits increased only \$.6 million, as compensation expense in the form of a one-time distribution in 2004, was incorporated into personnel costs on a continuing basis in the year ended September 30, 2005. Other supplies and services expense increased \$15.4 million as a result of increased payments to vendors for supplies and professional services, as well as, non-capital building and infrastructure maintenance resulting from the new buildings placed in service during 2005. Also a result of the new buildings and other new depreciable assets of \$92.7 million, depreciation expense increased \$2.2 million from the previous year.

Net non-operating revenues increased \$14.8 million, or 6% from 2004 to 2005 and this increase is primarily attributable to an increase in State appropriations of \$7.8 million. Gifts increased \$14.8 million to \$30.7 million in 2005 from \$15.9 million in 2004, during this silent phase of our \$500 million capital campaign. Interest expense on capital debt increased \$11.2 million mainly due to accrued interest of \$7.8 million being recorded for athletic capital appreciation bonds in 2005. In addition, net investment income increased by \$3.3 million, primarily as a result of the endowment investment spending rate increasing from 3.75% in 2004 to 3.9% in 2005. Capital gifts, grants, appropriations, and additions to permanent endowments decreased \$18.2 million when comparing \$18.8 million recognized in 2005 to \$37 million recognized in 2004. The University received capital appropriations of \$8 million in 2005, as compared to \$15.1 million in 2004. The building projects that received these funds are:

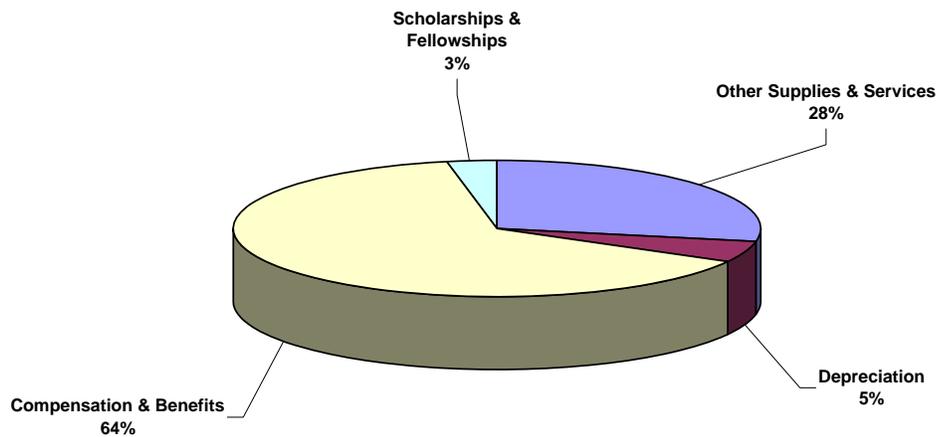
	2005	2004
The Science Lab Center	\$ 4.4 million	7.3 million
The Forestry Building	\$ 2.0 million	2.8 million
Swine Research and Education Complex	\$ 1.4 million	-
Wiregrass Research & Extension Center	\$.2 million	1.3 million
AUM Dormitory	\$ -	2.0 million
Poultry Science Building	\$ -	1.0 million
Beef Teaching & Meat Lab Building	\$ -	.7 million

Capital gifts and grants decreased \$11.5 million from 2004 to 2005. Several large capital projects, including the Jule Collins Smith Art Museum and the Athletic Development Center, were fully funded in 2004.

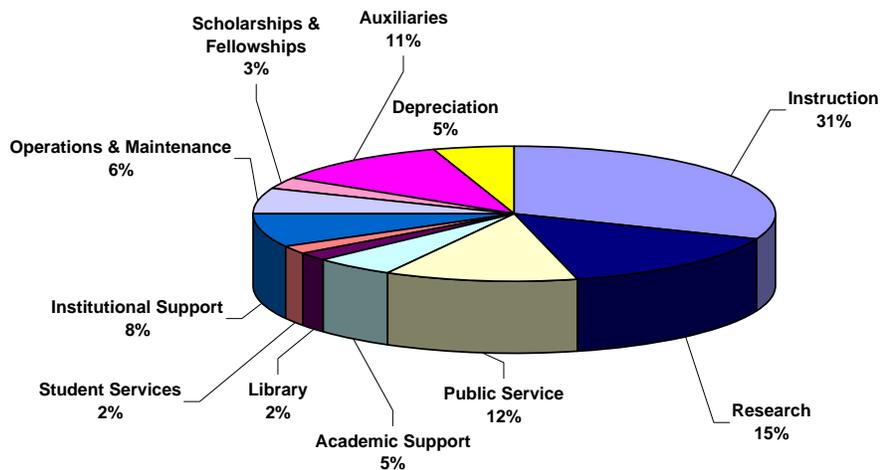
OPERATING REVENUES SUPPORTING CORE ACTIVITIES CHART
For the year ended September 30, 2005



OPERATING EXPENSES BY NATURAL CLASSIFICATION CHART
For the year ended September 30, 2005



OPERATING EXPENSES BY FUNCTION CHART
For the year ended September 30, 2005



Statement of Cash Flows

The final combined statement presented is the Statement of Cash Flows, which 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; non-capital financing, such as non-exchange grants and contributions; capital and related financing, including bond proceeds from debt issued to purchase or construct buildings; and investing activities.

The University's cash flows are summarized below:

	2005	2004
Cash provided by (used in):		
Operating activities	\$ (172,220,203)	(181,539,946)
Net non-capital financing activities	258,211,516	225,307,458
Net capital and related financing activities	(115,652,789)	186,258
Net investing activities	<u>8,980,543</u>	<u>(56,909,652)</u>
Net decrease in cash	(20,680,933)	(12,955,882)
Cash and cash equivalents beginning of year	\$ <u>44,095,306</u>	<u>57,051,188</u>
Cash and cash equivalents end of year	<u>\$ 23,414,373</u>	<u>44,095,306</u>

Economic factors that will affect the future

Looking toward the future, management believes that the University is well positioned to continue its strong financial condition and level of excellence in service to students, sponsors, the State of Alabama and other constituents. The University's strong financial position and internal financial planning process provide the University some protection against adverse economic conditions. Nonetheless, as a labor intensive organization, the University faces competitive pressures related to attracting and retaining faculty and staff. With dramatic increases in health care costs, the University's health benefits are of particular concern. In addition, the University's cost of providing retirement benefits is expected to increase significantly in future fiscal years. The University is also undergoing a large construction program and the costs of operating the new facilities will place additional resource demands on the institution.

Student demand and enrollment levels will require proactive management to ensure that the University can serve the needs of all accepted students, given the expected level of funding from state appropriations. The economic outlook of the State of Alabama will impact the University's financial status, though internal and external efforts have been made in prior years to minimize the volatile nature of state funding on the University's budget. The University is pursuing state funding with a more cohesive and proactive approach than in past years, partnering with other entities funded by the Special Education Trust Fund. By state constitutional amendment, the Education Trust Fund Rainy Day Account provides some measure of protection against proration of state appropriations, as this account is designed to mitigate the impact of proration by providing supplemental funding should tax revenues not be sufficient to provide the legislatively appropriated support from the State. Internal budgeting strategies have also provided for protection against proration. Tuition growth to regional averages provides opportunity to decrease some of the reliance on state funding. Also, the University has begun a capital campaign to provide for operating funds for scholarships and faculty support. Neither external nor internal efforts, however, are intended to eliminate the effects of future prorations or decreases in state funding.

The University continues to execute its long-range plan to modernize and expand its complement of older teaching and research facilities with a balance of new construction. Leveraging federal and state funds with gift and bond funds has provided the opportunity to expand capital assets in certain instances with relatively minimal debt.

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.

In November of 2005, construction began on a Research Park on University property. The Research Park will be open for tenants in early 2007. It is expected that the Research Park will be the stimulus for additional research activities and funding for the University as well as strengthen the research presence and industry for the region and the state.

On December 7, 2004, the University received notice that the Southern Association of Colleges and Schools (SACS) had lifted probation, which had resulted from issues primarily related to university governance. There were no negative financial consequences realized during probation, and the University does not expect that the probation will have any future financial impact.

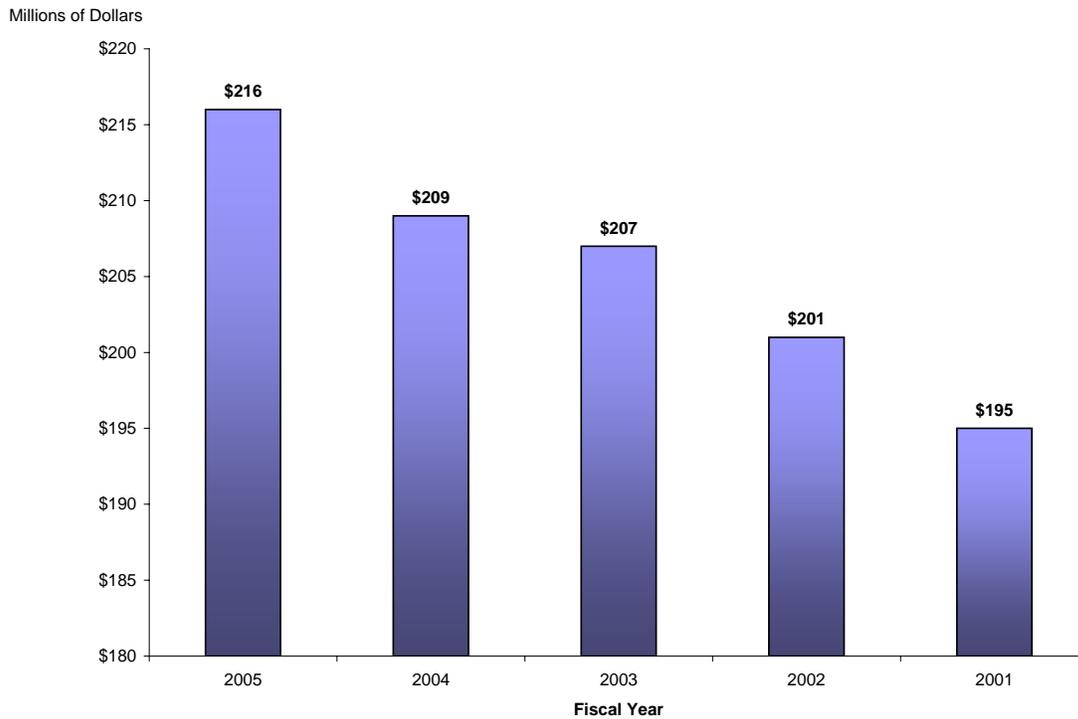
Cautionary note regarding forward-looking statements

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. The University does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

STATE APPROPRIATIONS



UNDERGRADUATE TUITION FOR THE ACADEMIC YEAR

	2005-06	2004-05	2003-04	2002-03	2001-02
Auburn Main Campus and Auburn University at Montgomery					
Full-Time Students					
In-State	\$ 5,038/4,410	\$ 4,828/4,230	\$ 4,426/3,900	\$ 3,784/3,390	\$ 3,380/3,210
Out-of-State	\$ 14,638/13,230	\$ 14,048/12,690	\$ 12,866/11,170	\$ 11,084/10,170	\$ 9,900/9,630

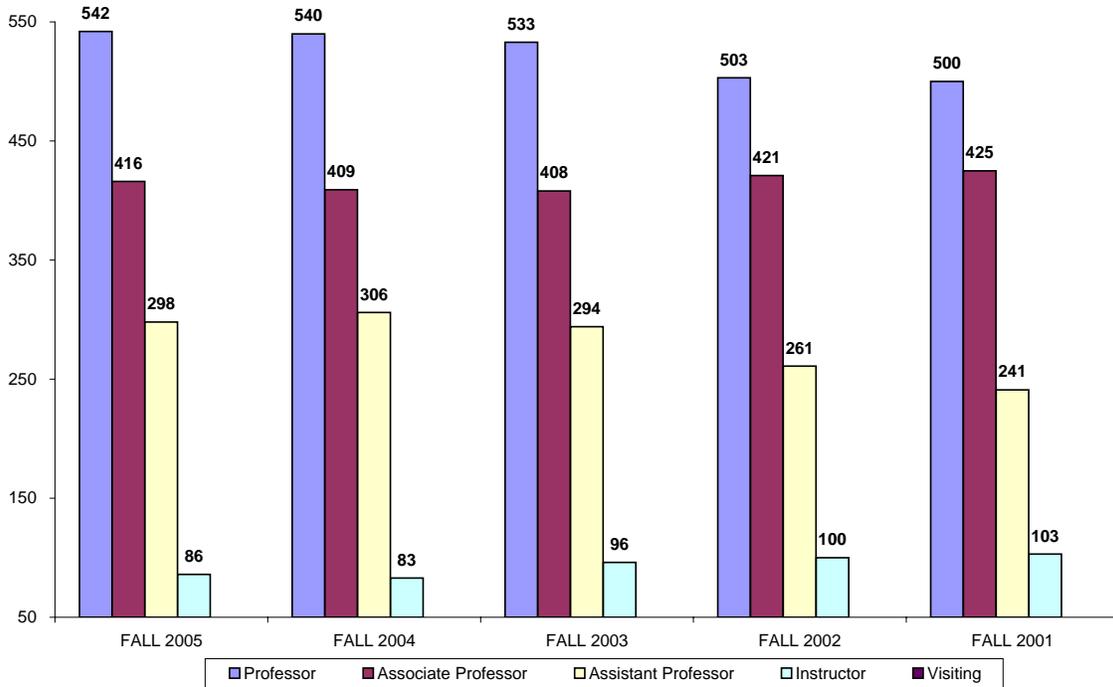
FALL STUDENT ENROLLMENT

	2005	2004	2003	2002	2001
Auburn Main Campus and Auburn University at Montgomery					
Undergraduate/Professional	24,464	24,120	24,540	24,675	24,512
Graduate	3,997	3,931	3,910	3,705	3,746

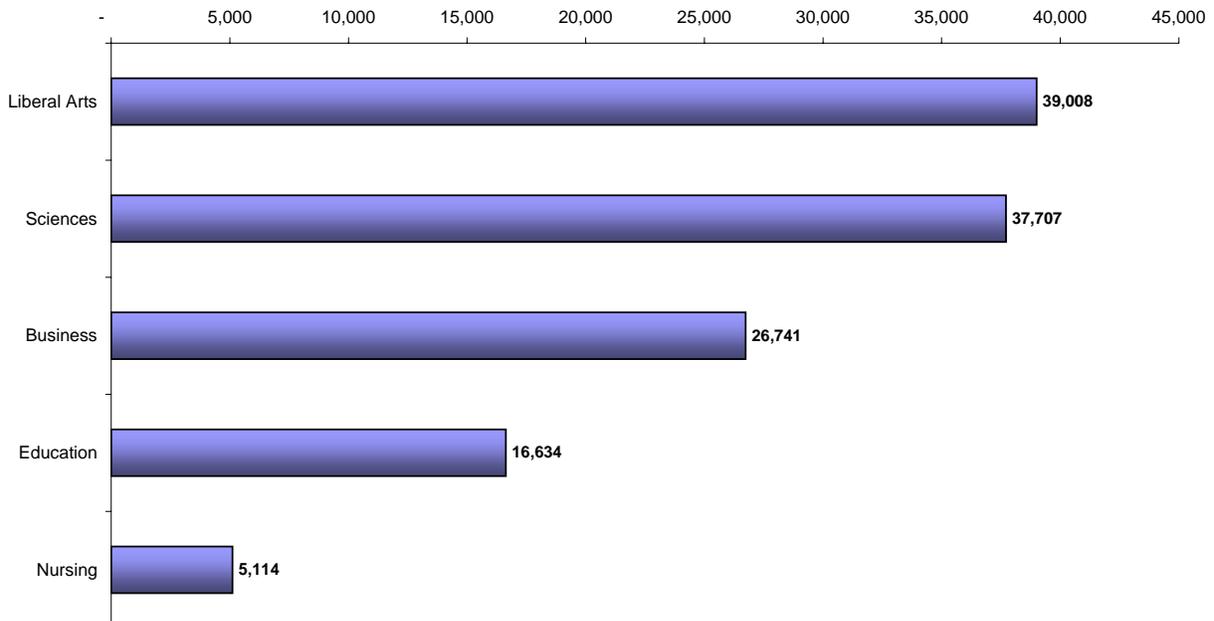
DEGREES AWARDED FOR THE ACADEMIC YEAR

	2004-05	2003-04	2002-03	2001-02	2000-01
Auburn Main Campus and Auburn University at Montgomery					
Bachelor	4,538	4,525	4,304	4,269	4,582
Advanced	1,394	1,359	1,271	1,305	1,322

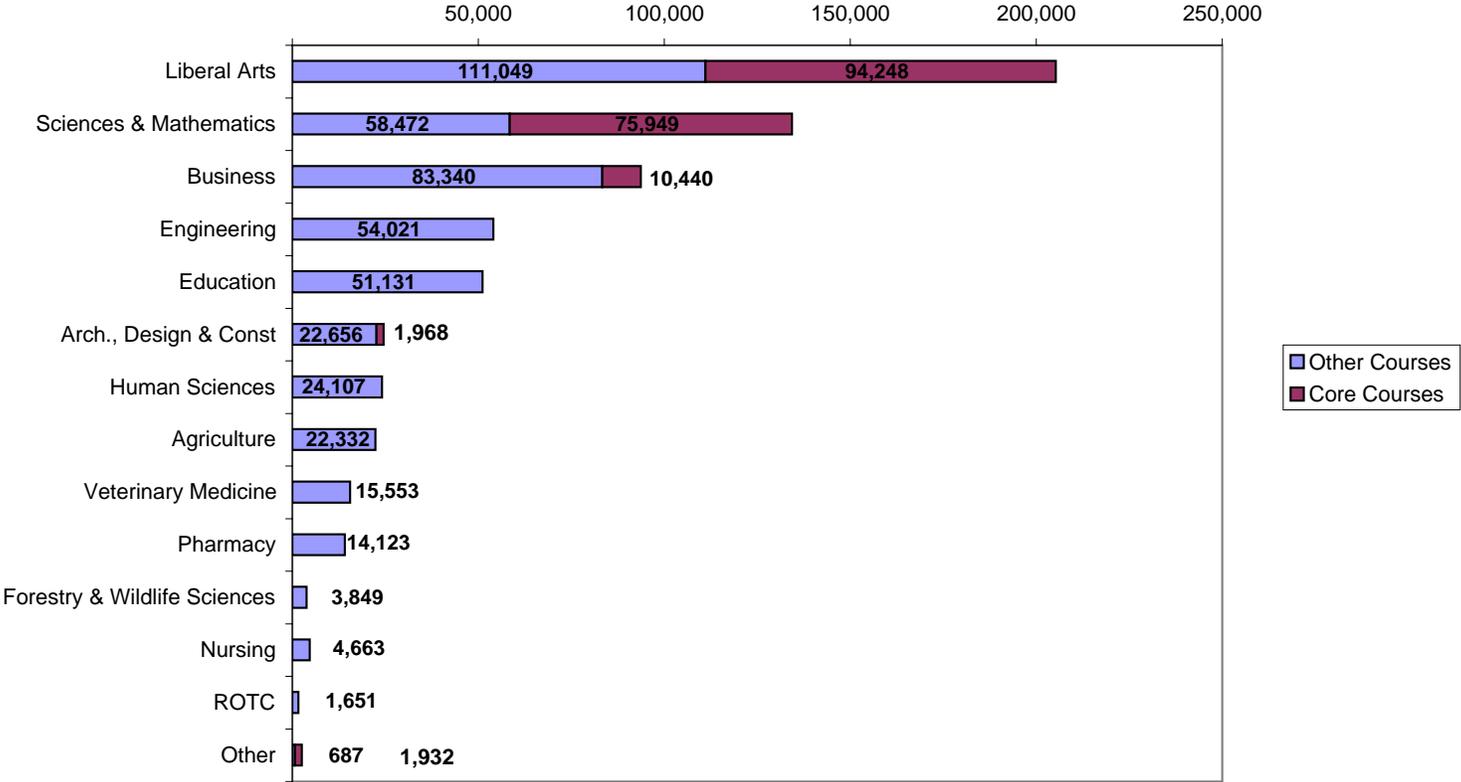
AUBURN UNIVERSITY MAIN CAMPUS AND AUBURN UNIVERSITY AT MONTGOMERY FULL-TIME FACULTY BY RANK

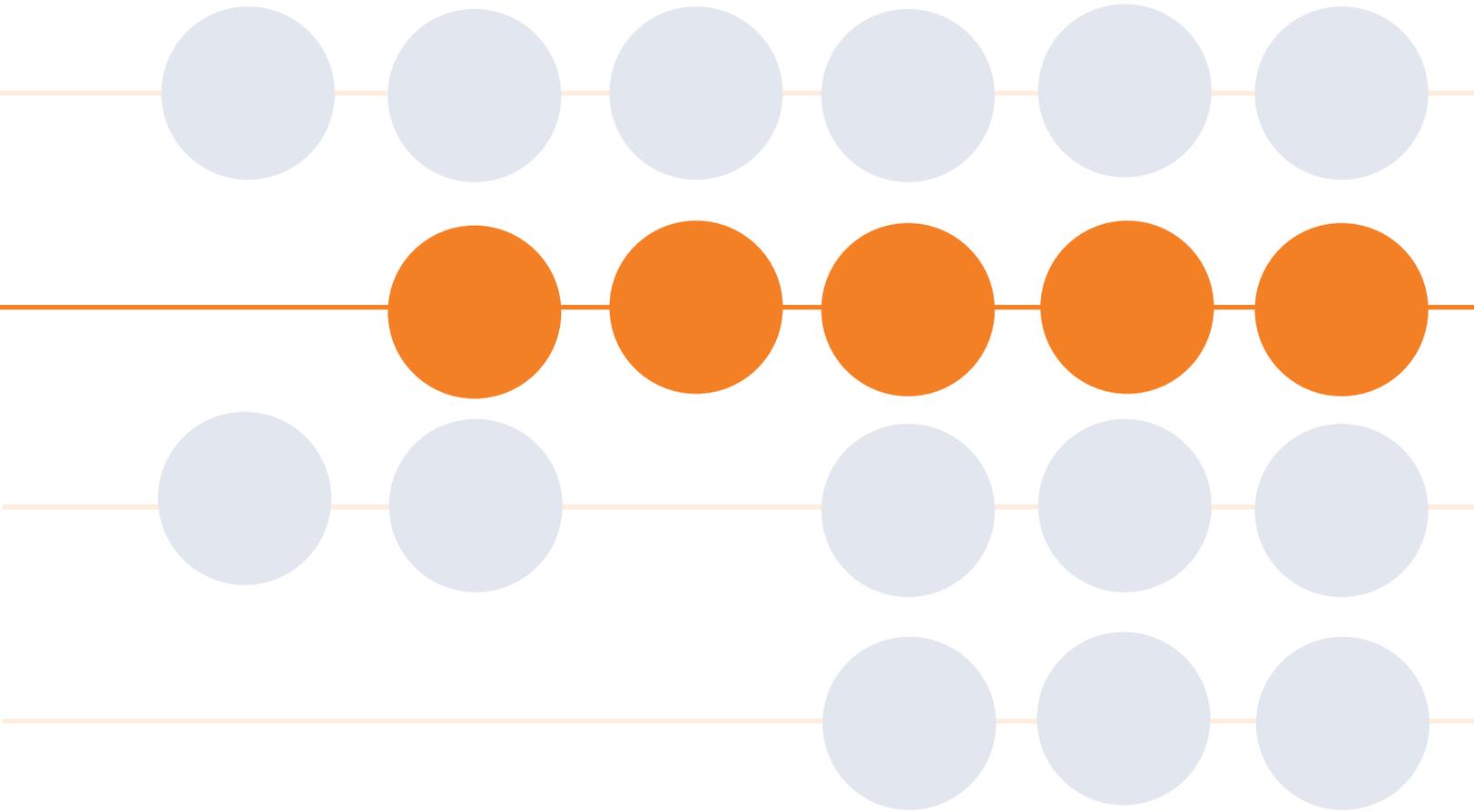


AUBURN UNIVERSITY AT MONTGOMERY TOTAL STUDENT CREDIT HOURS BY COLLEGE/SCHOOL 2004-05



AUBURN UNIVERSITY MAIN CAMPUS TOTAL STUDENT CREDIT HOURS BY COLLEGE/SCHOOL 2004-05





A decorative graphic consisting of a grid of circles and horizontal lines. The top row has six light blue circles. The second row has three orange circles on the left, the text 'FINANCIAL SECTION' in the center, and one orange circle on the right. The third row has six light blue circles. The bottom row has five light blue circles. All circles are connected by thin horizontal lines.

**FINANCIAL
SECTION**



1856 2006

AUBURN

UNIVERSITY

Sesquicentennial

Report of Independent Auditors

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

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses, and changes in net assets, and of cash flows present fairly, in all material respects, the respective financial position of Auburn University (the "University"), a component unit of the State of Alabama, and its discretely presented component units at September 30, 2005 and 2004, and the respective changes in net assets and cash flows 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 an opinion on these financial statements based on our audits. We did not audit the financial statements of the Auburn Alumni Association (the "Association"). Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, expressed herein, insofar as it relates to the amounts included for the Association, is based solely on the report 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 opinion.

The management's discussion and analysis on pages 6 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The supplemental divisional financial statements as set forth on pages 52 through 59 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental divisional financial statements have 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

March 24, 2006

AUBURN UNIVERSITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004

	2005	2004
ASSETS		
Current assets		
Cash and cash equivalents	\$ 23,414,373	\$ 44,095,306
Operating investments	35,500,045	59,607,845
Accounts receivable, net	22,842,362	29,787,918
Student accounts receivable, net	26,995,580	28,529,536
Loans receivable, net	3,242,596	3,024,019
Accrued interest receivable	3,166,554	3,029,308
Inventories	3,717,719	3,674,232
Prepaid expenses	3,321,093	3,795,144
Total current assets	<u>122,200,322</u>	<u>175,543,308</u>
Noncurrent assets		
Investments	515,050,537	471,957,058
Loans receivable, net	16,513,630	16,540,495
Investment in plant, net	622,374,818	539,026,448
Total noncurrent assets	<u>1,153,938,985</u>	<u>1,027,524,001</u>
Total assets	<u>1,276,139,307</u>	<u>1,203,067,309</u>
LIABILITIES		
Current liabilities		
Outstanding checks in excess of bank balance	24,263,179	16,742,044
Advances	84,776	467,704
Accounts payable	29,168,920	17,396,492
Accrued salaries and wages	2,767,512	3,669,796
Accrued compensated absences	15,149,271	14,405,091
Accrued interest payable	4,505,390	3,804,863
Other accrued liabilities	1,610,834	2,474,948
Student deposits	1,096,605	2,363,407
Deposits held in custody	18,164,650	18,633,788
Deferred revenues	76,377,964	76,461,992
Noncurrent liabilities-current portion	12,648,799	11,638,820
Total current liabilities	<u>185,837,900</u>	<u>168,058,945</u>
Noncurrent liabilities		
Accrued compensated absences	6,107,968	5,723,565
Bonds and notes payable	275,657,293	287,986,246
Lease obligations	1,643,767	1,931,534
Other noncurrent liabilities	10,722,268	1,956,923
Total noncurrent liabilities	<u>294,131,296</u>	<u>297,598,268</u>
Total liabilities	<u>479,969,196</u>	<u>465,657,213</u>
NET ASSETS		
Invested in capital assets, net of related debt	395,565,424	352,560,185
Restricted		
Nonexpendable	22,637,567	19,573,378
Expendable:		
Scholarships, research, instruction, other	83,108,136	77,565,641
Loans	4,887,781	4,734,262
Capital projects	1,923,882	4,135,258
Unrestricted	288,047,321	278,841,372
Total net assets	<u>\$ 796,170,111</u>	<u>\$ 737,410,096</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES		
Tuition & fees, net of scholarship allowances of \$35,822,786 and \$36,683,251, respectively	\$ 192,315,259	\$ 173,780,931
Federal appropriations	13,444,176	15,719,079
Federal grants & contracts	77,677,600	79,502,360
State & local grants & contracts	16,000,419	9,266,798
Nongovernmental grants & contracts	10,011,805	9,155,791
Sales & services of educational departments	22,497,756	20,549,884
Auxiliary revenue, net of scholarship allowances of \$1,798,448 and \$1,834,235, respectively	60,915,466	71,854,263
Other operating revenue	11,698,510	11,787,103
Total operating revenues	<u>404,560,991</u>	<u>391,616,209</u>
OPERATING EXPENSES		
Compensation & benefits	395,948,610	395,377,752
Scholarships & fellowships	16,522,538	16,439,940
Other supplies & services	176,385,931	161,024,068
Depreciation	<u>30,640,610</u>	<u>28,436,636</u>
Total operating expenses	<u>619,497,689</u>	<u>601,278,396</u>
Operating loss	<u>(214,936,698)</u>	<u>(209,662,187)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	216,395,074	208,584,178
Gifts	30,695,864	15,885,620
Net investment income	28,103,468	24,781,301
Interest expense on capital debt	<u>(20,270,554)</u>	<u>(9,104,736)</u>
Nonoperating revenues, net	<u>254,923,852</u>	<u>240,146,363</u>
Income before other changes in net assets	39,987,154	30,484,176
OTHER CHANGES IN NET ASSETS		
Capital appropriations	7,959,830	15,082,744
Capital gifts & grants	7,170,556	18,661,188
Additions to permanent endowments	<u>3,642,475</u>	<u>3,271,424</u>
Net increase in net assets	<u>58,760,015</u>	<u>67,499,532</u>
Net assets - beginning of year	<u>737,410,096</u>	<u>669,910,564</u>
Net assets - end of year	<u>\$ 796,170,111</u>	<u>\$ 737,410,096</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition & fees	\$ 197,190,140	\$ 174,697,044
Federal appropriations	13,444,176	17,944,668
Grants & contracts	106,035,321	94,251,184
Sales & services of educational departments	22,536,813	20,439,543
Auxiliary enterprises	60,856,831	64,765,433
Other operating revenues	10,429,210	12,868,062
Payments to suppliers	(169,922,379)	(155,966,475)
Payments for employee compensation & benefits	(395,729,662)	(393,128,570)
Payments for scholarships & fellowships	(16,522,538)	(16,439,940)
Student loans issued	(4,120,537)	(4,302,779)
Student loans collected	<u>3,582,422</u>	<u>3,331,884</u>
Net cash used in operating activities	<u>(172,220,203)</u>	<u>(181,539,946)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	216,395,074	208,584,178
Gifts for other than capital purposes	34,295,307	15,438,463
Increase in outstanding checks in excess of bank balance	<u>7,521,135</u>	<u>1,284,817</u>
Net cash provided by noncapital financing activities	<u>258,211,516</u>	<u>225,307,458</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt, net of cost of issuance	-	103,296,000
Capital appropriations	7,959,830	15,082,744
Capital grants & gifts received	5,928,988	14,831,980
Purchases of capital assets	(106,762,585)	(116,603,136)
Proceeds received from sale of capital assets	333,150	190,281
Principal paid on debt & capital leases	(11,299,920)	(7,428,979)
Interest paid on debt & capital leases	<u>(11,812,252)</u>	<u>(9,182,632)</u>
Net cash (used in) provided by capital and related financing activities	<u>(115,652,789)</u>	<u>186,258</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments and reinvestments	296,543,433	408,279,676
Investment income	18,429,390	15,674,555
Purchases of investments	<u>(305,992,280)</u>	<u>(480,863,883)</u>
Net cash provided by (used in) investing activities	<u>8,980,543</u>	<u>(56,909,652)</u>
Net decrease in cash and cash equivalents	(20,680,933)	(12,955,882)
Cash and cash equivalents, beginning of year	<u>44,095,306</u>	<u>57,051,188</u>
Cash and cash equivalents, end of year	<u>\$ 23,414,373</u>	<u>\$ 44,095,306</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (214,936,698)	\$ (209,662,187)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	30,243,617	28,660,133
Write-off (reinstatement) of loans receivable	346,403	(297,853)
Changes in assets and liabilities:		
Accounts receivable	6,121,305	(506,545)
Student accounts receivable	1,533,956	(5,449,870)
Advances	(382,928)	(1,570,345)
Inventories	(43,487)	174,049
Deferred revenue	(84,028)	(7,578,199)
Accounts payable	8,241,604	2,695,375
Prepaid expenses	474,051	7,853,169
Accrued salaries, wages and compensated absences	226,299	1,387,777
Student deposits and deposits held in custody	(1,735,940)	2,501,888
Loans to students	(538,115)	(970,895)
Other accrued liabilities	(864,114)	885,122
Noncurrent liabilities - current portion	-	111,037
Loss on sale of net assets	373,462	-
Capitalization of 2004 Banner costs	(2,203,160)	-
Other noncurrent liabilities	1,007,570	227,398
Net cash used in operating activities	<u>\$ (172,220,203)</u>	<u>\$ (181,539,946)</u>

SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION

Capital assets acquired with a liability at year-end	6,750,592	3,219,136
Gifts of capital assets	2,108,851	2,337,348
Capital assets acquired through capital leases	90,172	145,682

See accompanying notes to financial statements.

**AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2005 AND 2004**

	Auburn University Foundation		Auburn Alumni Association	
	2005	2004	2005	2004
ASSETS				
Cash and cash equivalents	\$ 392,503	\$ 418,592	\$ 21,311	\$ 15,321
Investments	206,714,795	175,379,440	9,453,171	8,889,177
Accrued interest receivable	673,660	588,545	30,265	32,148
Contributions receivable, net	17,276,719	18,362,743	414,788	462,070
Notes receivable	898,968	7,031	-	-
Other receivables	48,317	85,923	-	-
Other assets	4,921	15,974	-	-
Investment in real estate	561,683	5,334,954	674,799	674,799
Property and equipment, net	1,706,767	1,866,290	2,320,885	2,392,225
Prepaid rent	-	-	34	35
Due from Auburn University	-	-	66,610	18,394
Due from Auburn University Foundation	-	-	72,566	71,833
Total assets	<u>228,278,333</u>	<u>202,059,492</u>	<u>13,054,429</u>	<u>12,556,002</u>
LIABILITIES				
Accounts payable and accrued liabilities	148,262	707,335	63,546	31,887
Notes payable	326,314	617,547	-	-
Annuities payable	6,763,172	6,209,032	-	-
Due to Auburn University	1,623,744	1,599,203	174,144	671,664
Due to Auburn Alumni Association	6,675,667	5,890,212	-	-
Due to Tigers Unlimited Foundation	5,364,252	4,920,575	-	-
Deferred revenue	-	-	6,666,723	6,576,584
Total liabilities	<u>20,901,411</u>	<u>19,943,904</u>	<u>6,904,413</u>	<u>7,280,135</u>
NET ASSETS				
Unrestricted	19,256,991	19,131,019	6,150,016	5,275,867
Temporarily restricted	43,052,006	32,404,050	-	-
Permanently restricted	145,067,925	130,580,519	-	-
Total net assets	<u>207,376,922</u>	<u>182,115,588</u>	<u>6,150,016</u>	<u>5,275,867</u>
Total liabilities and net assets	<u>\$ 228,278,333</u>	<u>\$ 202,059,492</u>	<u>\$ 13,054,429</u>	<u>\$ 12,556,002</u>

See accompanying notes to financial statements.

**AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	Auburn University Foundation		Auburn Alumni Association	
	2005	2004	2005	2004
REVENUES AND OTHER SUPPORT				
Public support - contributions	\$ 25,228,170	\$ 41,175,003	\$ 678,242	\$ 697,179
Investment income	3,758,775	2,908,755	306,575	265,188
Other revenues	536,715	949,107	1,575,527	1,664,797
Total operating revenues	<u>29,523,660</u>	<u>45,032,865</u>	<u>2,560,344</u>	<u>2,627,164</u>
EXPENSES AND LOSSES				
Program services				
Contributions to and support for Auburn University	15,989,101	15,168,097	-	-
Other program services	1,778,833	5,396,322	819,734	1,105,533
Total program services	<u>17,767,934</u>	<u>20,564,419</u>	<u>819,734</u>	<u>1,105,533</u>
Support services				
General and administrative	1,792,030	1,352,999	1,188,476	1,369,773
Fund raising	3,303,473	2,758,401	139,981	176,365
Total support services	<u>5,095,503</u>	<u>4,111,400</u>	<u>1,328,457</u>	<u>1,546,138</u>
Total expenses	22,863,437	24,675,819	2,148,191	2,651,671
Unrealized (gains) on investments	(7,903,021)	(3,462,559)	(461,996)	(373,305)
Realized (gains) on investments	(8,804,113)	(9,751,801)	-	-
Impairment on real estate	50,000	-	-	-
Change in valuation of split-interest agreements	(1,943,977)	(355,870)	-	-
Total expenses and losses	<u>4,262,326</u>	<u>11,105,589</u>	<u>1,686,195</u>	<u>2,278,366</u>
Transfer to Tigers Unlimited Foundation	-	(34,326,830)	-	-
Change in net assets	<u>25,261,334</u>	<u>(399,554)</u>	<u>874,149</u>	<u>348,798</u>
NET ASSETS				
Beginning of the year	<u>182,115,588</u>	<u>182,515,142</u>	<u>5,275,867</u>	<u>4,927,069</u>
End of the year	<u>\$ 207,376,922</u>	<u>\$ 182,115,588</u>	<u>\$ 6,150,016</u>	<u>\$ 5,275,867</u>

See accompanying notes to financial statements.

**AUBURN UNIVERSITY COMPONENT UNITS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004**

	Tigers Unlimited Foundation	
	2005	2004
ASSETS		
Cash and cash equivalents	\$ 767,091	\$ 387,052
Investments	20,140,250	25,610,783
Accrued interest receivable	111,556	129,148
Contributions receivable, net	11,963,055	10,404,778
Other assets	56,148	-
Property and equipment, net	4,650	3,034
Due from Auburn University	101,633	-
Total assets	<u>33,144,383</u>	<u>36,534,795</u>
LIABILITIES		
Accounts payable and accrued liabilities	3,198,056	1,495,065
Notes payable	186,600	978,318
Due to Auburn University	1,711,753	4,806,066
Deferred revenue	920,521	1,310,917
Total liabilities	<u>6,016,930</u>	<u>8,590,366</u>
NET ASSETS		
Unrestricted	8,461,538	12,651,418
Temporarily restricted	13,743,967	10,852,252
Permanently restricted	4,921,948	4,440,759
Total net assets	<u>27,127,453</u>	<u>27,944,429</u>
Total liabilities and net assets	<u>\$ 33,144,383</u>	<u>\$ 36,534,795</u>

See accompanying notes to financial statements.

**AUBURN UNIVERSITY COMPONENT UNITS
STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005
AND THE PERIOD FROM APRIL 21, 2004 (DATE OF INCEPTION) TO JUNE 30, 2004**

	Tigers Unlimited Foundation	
	2005	2004
REVENUES AND OTHER SUPPORT		
Public support - contributions	\$ 21,059,539	\$ 2,356,206
Investment income	1,022,328	251,835
Other revenues	<u>583,365</u>	<u>407,408</u>
Total operating revenues	<u>22,665,232</u>	<u>3,015,449</u>
EXPENSES AND LOSSES		
Program services		
Contributions to and support for Auburn University	14,848,709	7,345,325
Other program services	<u>4,975,647</u>	<u>860,484</u>
Total program services	<u>19,824,356</u>	<u>8,205,809</u>
Support services		
General and administrative	454,957	137,544
Fund raising	<u>3,091,936</u>	<u>913,627</u>
Total support services	<u>3,546,893</u>	<u>1,051,171</u>
Total expenses	<u>23,371,249</u>	<u>9,256,980</u>
Unrealized losses on investments	35,114	140,795
Realized losses on investments	7,594	75
Total expenses and losses	<u>23,413,957</u>	<u>9,397,850</u>
Transfer (to) from Auburn University Foundation	<u>(68,251)</u>	<u>34,326,830</u>
Change in net assets	(816,976)	27,944,429
NET ASSETS		
Beginning of the year	<u>27,944,429</u>	<u>-</u>
End of the year	<u>\$ 27,127,453</u>	<u>\$ 27,944,429</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

(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 28,461 students for Fall Semester, 2005. 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 a committee consisting of the Governor, 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. Therefore, no provision has been made for income taxes in their respective financial statements. The Tigers Unlimited Foundation is a newly created organization and is exempt from federal taxes under section 501(a) as an organization described in section 501(c)(3).

Contributions to the University are primarily received through Auburn University Foundation or Tigers Unlimited Foundation and are deductible by donors as provided under Section 170 of the Internal Revenue Code, consistent with the provisions under Section 501(c)(3).

Component Units

During the year ended September 30, 2004, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement 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, Tigers Unlimited Foundation and Auburn Alumni Association in these financial statements. These three affiliated organization's financial statements are presented following the University's statements. The component units are not GASB entities and, therefore, their respective financial statements adhere to FASB accounting principles.

Auburn University Foundation (AUF) is a qualified charitable organization established in 1960, existing solely for the purpose of receiving and administering funds for the use 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, 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.

Financial statements for AUF, TUF and the Association may be obtained by writing to Auburn University Foundation, Tigers Unlimited Foundation or Auburn Alumni Association 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*. 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:** Capital assets, net of accumulated depreciation, unexpended bond proceeds, 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 is 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 may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, capital programs, and auxiliary units.
 - When an expense is incurred for purposes for which both unrestricted and restricted net assets are available, it is the University's policy to consider each transaction individually in making a decision about whether the expense will be paid from unrestricted or restricted net assets.
 - 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 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 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. The basis of accounting and presentation as well as other significant accounting policies of AUF, TUF and the Association are discussed in Note 2.

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.

Reclassifications

Certain reclassifications have been made to the 2004 financial statements in order to conform them to the 2005 financial statement presentation. The reclassifications had no impact on total net assets.

(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.

Investments

Investments in equity securities, mutual funds, common 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 Reporting for Certain Investments and for External Investment Pools*, the University records its initial investment and subsequent contributions in limited partnerships at cost with no adjustments for its share of income/appreciation, losses/depreciation and distributions received from the investment (see note 4).

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 is 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 interest 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.

The University employs a custodian to hold, and external investment managers to administer, the majority of its investments and reflects transactions related to these investments based upon 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 stated at cost except those received by gift, which are stated at appraised value on date of receipt. Investment income is recorded on the accrual basis of accounting.

Inventories

Departments currently holding inventories include Facilities, Chemistry Supply Store, Animal Clinic Pharmacy, Bookstores, Campus Mall, Copycat Duplicating Service, and Ralph Draughon and AUM Libraries. All inventories are valued at the lower of cost or market 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 (10 years) and inventoried equipment (5 – 18 years). 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 and historical treasures are capitalized and valued at cost or fair market value at the date of purchase or gift, respectively, but not depreciated. These collections are preserved and held for public exhibition, education and research.

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.

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 and local 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 and 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.

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 provide services to students, faculty and staff.

Change in Intercollegiate Athletic Department Fiscal Year End

During fiscal 2004, management made the decision to report Athletic Department revenues and expenditures on the Statement of Revenues, Expenses and Changes in Net Assets, on a September 30 year end reversing a policy dating back to 1994 to report Athletics on a June 30 year end. The result of this decision is an increase in Athletic revenues and expenditures reported on the Statement of Revenues, Expenses and Changes in Net Assets due to reporting transactions for the fifteen month period from July 1, 2003 to September 30, 2004. Conversely, there is a decrease in the reported prepaid expenditures and deferred revenues due to recognizing transactions for the July 1 through September 30, 2004 period that would have been deferred under the previous policy. The increase in Athletic revenues with corresponding decrease in deferred Athletic revenues is \$15,631,720 at September 30, 2004. The increase in Athletic expenditures and decrease in prepaid expenses is \$9,622,142 at September 30, 2004. This change had no impact on revenues, expenses, or changes in net assets during fiscal 2005.

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. Because this amount cannot be known reliably 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. All pledged revenue representing unconditional promises to give is received by AUF or TUF and later disbursed in accordance with the donors' wishes for the benefit of the University.

(3) CASH

Cash consists of demand deposits held in the name of Auburn University. The Board approves all banks or other institutions as depositories for University funds. GASB 40 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.”

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.

(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 delegated the authority for investment of the endowment funds’ assets to professional investment managers while maintaining centralized management of the cash pool.

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 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 securities (SLGS).

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. A new Endowment Investment Policy approved February 4, 2005, authorizes the investment of the endowment portfolio to include the following: cash and cash equivalents; fixed income; equity securities, both domestic and foreign; private capital; hedge funds/absolute return; and real estate assets, collectively referred to as the Endowment Pool.

Earnings distributions are made annually from endowed funds. Consistent with the Uniform Management of Institutional Funds Act, which was enacted by the Legislature of the State of Alabama and signed into law effective August 31, 1993, the Board has adopted the total return concept that allows for the expenditure of “net appreciation, realized and unrealized, in the fair value of the assets of endowment funds over the historical dollar value of the funds.” In order to conform to the standards for fiduciary management of investments, the Board has also adopted a spending plan that limits the distribution of endowment income and net appreciation to not less than 3% nor more than 5% of the average fair value of endowment assets over the previous three years. The distribution rate approved by the Board for the September 30, 2005 and 2004 fiscal years is 3.90% and 3.75%, respectively. In addition, the Board approved the utilization, if necessary, of realized endowment gains to meet the spending rate with all remaining endowment gains reinvested in the Endowment Pool. Accumulated realized and unrealized gains, net, on endowments and funds functioning as endowments total \$36,445,694 and \$27,887,977 at September 30, 2005 and 2004, respectively, and are recorded as restricted expendable net assets.

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 table provides information as of September 30, 2005 and 2004, and presents the fair value of investments by investment type and related maturity:

Auburn University Investments
Investment Maturities at Fair Value (in Years)
September 30, 2005 and 2004

Type of Investments	< 1 year		1-5 years		6-10 years		> 10 years		Total Fair Value	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Fixed Maturity										
Repurchase Agreements	\$ 1,500,000	\$ 9,300,000	-	-	-	-	-	-	\$ 1,500,000	\$ 9,300,000
Commercial Paper	2,995,613	27,944,698	-	-	-	-	-	-	2,995,613	27,944,698
Certificates of Deposit	1,000,000	6,000,000	570,192	1,566,666	-	-	-	-	1,570,192	7,566,666
U. S. Treasury Obligations	13,171,716	47,454,621	51,101,308	27,688,748	19,875	1,276,657	1,886,683	4,598,005	66,179,582	81,018,031
U. S. Agency Securities	44,439,460	28,876,432	153,873,335	132,968,095	92,890,498	113,619,493	12,656,722	19,678,178	303,860,016	295,142,198
Mortgage Backed Securitie	-	352,643	997,330	25,619	-	87,432	18,297,367	25,414,820	19,294,697	25,880,514
Asset Backed Securities	-	404,552	2,424,150	-	829,938	-	-	-	3,254,088	404,552
Corporate Bonds	-	-	2,227,134	3,684,059	391,114	9,071,055	-	2,745,031	2,618,247	15,500,145
Municipals	-	-	-	-	-	-	1,113,219	-	1,113,219	-
Total Fixed	\$ 63,106,789	\$ 120,332,946	211,193,449	165,933,187	94,131,425	124,054,637	33,953,991	52,436,034	402,385,654	462,756,804
Domestic Equities									924,580	21,613,962
Alternative Inv (Ltd Ptnrship)										
Hedge Funds									11,000,000	-
Private Capital									280,000	-
Real Assets									8,000,000	-
Real Estate									740,750	740,750
Mutual Funds									106,770,103	61,935,385
Other									3,279,542	3,102,733
Money Market									39,669,953	24,669,882
Total Investments									\$ 573,050,582	\$ 574,819,516

Custodial Credit Risk – GASB 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 40 defines credit risk as “the risk that an issuer or other counterparty to an investment will not fulfill its obligations” as they become due. Auburn University Non-Endowment Cash Pool Investment Policy stipulates that commercial paper be rated P1 by Moody’s or A1 by Standard & Poors 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, 2005 and 2004, concerning credit quality risk:

**Auburn University Investments
Ratings of Fixed Maturities**

Moody's Rating	2005		2004	
	Fair Value	Fair Value as a % of Total Fixed Maturity Fair Value	Fair Value	Fair Value as a % of Total Fixed Maturity Fair Value
US Treasury	\$ 66,179,582	16.45%	\$ 81,018,030	17.51%
Aaa	327,868,960	81.48%	319,585,449	69.06%
Aa	683,220	0.17%	3,684,059	0.80%
A	1,588,087	0.40%	13,657,902	2.95%
P1	2,995,613	0.74%	27,944,698	6.04%
Not Rated*	3,070,192	0.76%	16,866,666	3.64%
	<u>\$ 402,385,654</u>	<u>100.00%</u>	<u>\$ 462,756,804</u>	<u>100.00%</u>

*Certificates of Deposit and Repurchase Agreements are included in the "Not Rated" Category.

Concentration of Credit Risk – GASB Statement 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-Endowed 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. As of September 30, 2005 and 2004, the Auburn University Cash Pool and the Auburn University Endowment Pool were in compliance with their respective policies.

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 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, 2005 and 2004, Auburn University held no investments that are directly impacted by fluctuations in foreign currency exchange rates.

Securities Lending Program

The University's investment policies allow participation in securities lending such as Reverse Repurchase Agreements and as authorized by the State Street Index fund held by the Auburn University Endowment Pool. As of September 30, 2005 and 2004, there was no participation in any securities lending program.

Interest Sensitive Securities

As of September 30, 2005 and 2004, the University held \$19,294,697 and \$23,685,370 representing 3.37% and 4.13% respectively, of its total investments in mortgage-backed securities. As of September 30, 2005 and 2004, the University held \$3,254,088 and \$404,552 representing 0.57% and 0.07%, respectively, of its total investments in asset-backed securities. 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, 2005 and 2004, the Auburn University Cash Pool held \$27,001,759 and \$12,273,089 representing 4.71% and 2.14%, respectively, of total investments in continuously callable fixed maturity investments.

The University's investment policies do not restrict the purchase of mortgage-backed securities, asset-backed securities, or bonds with call provisions.

The University owns shares in eight mutual funds and two common trust funds. These funds are invested in domestic marketable securities, international marketable securities and debt securities. The University owns limited partnership interests in several non-registered investment partnerships. The goal of the 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 limited partnership.

During fiscal 2005, the University entered into subscription agreements with eight limited partnership investments. As of September 30, 2005, the aggregate amount of capital committed to these investment partnerships is \$31,000,000 of which capital contributions of \$19,280,000 have been made. Of these seven commitments, three subscriptions relate to hedge funds, two subscriptions relate to private equity funds, and two 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 investments in privately held companies in various industries, including alternative fuel technology. The real estate assets funds include an investment in commercial real estate and a commitment to timber investment fund.

As of September 30, 2005, the University's limited partnership investments are carried at cost. As required by GASB 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., domestic equity, international 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.

Pending Capital Expenditures

The charts provided include funds held for pending capital expenditures as follows at September 30, 2005: \$62,714,004, 2004 General Fee Bond Proceeds; \$10,410,667, 2004 Athletic Bond Proceeds; \$21,613,700, Deferred Maintenance Building Fund. The General Liability Trust holds investments of \$5,866,809.

At September 30, 2004 funds held for pending capital expenditures were as follows: \$4,929,688, Forestry Building; \$8,981,756, 2001A General Fee Bond Proceeds; \$1,997,292, 2001A Athletic Bond Proceeds; \$2,987,086, 2003 General Fee Bond Proceeds; \$69,868,730, 2004 General Fee Bond Proceeds; \$16,821,613, 2004 Athletic Bond Proceeds; \$28,329,979, Deferred Maintenance Building Fund. The General Liability Trust holds investments of \$7,940,807.

AUF investments at September 30, 2005 and 2004 include the following:

	2005		2004	
	Fair Value	Cost	Fair Value	Cost
Cash and pooled investments	\$ 3,956,619	\$ 3,942,152	\$ 20,757,595	\$ 20,757,595
Government bonds, notes and other securities	22,273,815	22,120,931	17,888,530	17,533,379
Corporate bonds and debentures	6,749,985	6,879,836	6,880,822	6,866,605
Corporate stocks	3,968,314	3,988,066	3,721,217	3,961,724
Mutual funds and common trust funds	134,656,964	121,008,125	125,875,477	120,298,529
Hedge investment funds	24,117,199	23,500,000	-	-
Limited partnership investment funds	350,000	350,000	-	-
Real estate asset investment funds	10,238,208	10,000,000	-	-
Cash value of life insurance	403,691	403,691	255,799	255,799
Total investments	<u>\$ 206,714,795</u>	<u>\$ 192,192,801</u>	<u>\$ 175,379,440</u>	<u>\$ 169,673,631</u>

AUF owns shares in seven mutual funds and three common trust funds. These funds are invested in domestic marketable securities, international marketable securities and debt securities. AUF also owns limited partnership interests in several non-registered investment partnerships. The goal of the limited partnerships 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 limited partnership.

During fiscal year 2005, AUF entered into subscription agreements with eight limited partnership investments. As of September 30, 2005, the aggregate amount of capital committed to these investment partnerships is \$49,500,000 of which capital contributions of \$33,850,000 have been invested. Of these eight commitments, four subscriptions relate to hedge funds, two subscriptions relate to private equity funds, and two 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 alternate fuel technology. The real assets funds include an investment in commercial real estate and a commitment to a timber investment fund. During fiscal 2005, AUF recorded approximately \$855,000 in net unrealized gains from limited partnership investments in the statement of activities and changes in net assets.

AUF believes that the carrying amount of its limited partnership investments is a reasonable estimate of fair value as of September 30, 2005. 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 differences 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., domestic equity, international equity, private capital, hedge funds, real assets, 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.

(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 \$159,597,709 and \$144,731,830 and the market value was \$173,263,501 and \$149,982,014 at September 30, 2005 and September 30, 2004, respectively. The portion of endowment income received by the University from these funds was \$4,455,458 and \$3,727,433 for the fiscal years ended September 30, 2005 and 2004, respectively. Endowment earnings are distributed annually in January, based on the AUF endowment distribution spending rate.

In addition, the University has been named as a beneficiary of a foundation with investments having a cost of \$2,773,402 and \$2,804,244 and a market value of \$3,017,140 and \$2,893,520 at September 30, 2005 and 2004, 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, 2005 and 2004. The income received from the two trusts was \$95,563 and \$20,280 for the years ended September 30, 2005 and 2004, respectively.

(6) ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for doubtful accounts at September 30, 2005 and 2004 are summarized as follows:

	2005	2004
NON - STUDENT ACCOUNTS RECEIVABLE		
Federal, State & Local Government	\$ 21,030,584	\$ 19,223,766
Less Allowance for Doubtful Accounts	(825,000)	(825,000)
General	1,564,294	5,054,339
Less Allowance for Doubtful Accounts	(238,518)	(145,327)
Auxiliary	408,854	4,710,709
Capital	902,148	1,769,431
Total	<u>\$ 22,842,362</u>	<u>\$ 29,787,918</u>
STUDENT ACCOUNTS RECEIVABLE		
Unrestricted General	\$ 23,431,079	\$ 24,789,973
Less Allowance for Doubtful Accounts	(753,790)	(868,985)
Unrestricted Auxiliary	4,356,279	4,649,592
Less Allowance for Doubtful Accounts	(37,988)	(41,044)
Total	<u>\$ 26,995,580</u>	<u>\$ 28,529,536</u>

(7) CAPITAL ASSETS

Capital assets at September 30, 2005 and 2004 are summarized as follows (dollars in thousands):

	Sept. 30, 2004	Additions	Deletions	Sept. 30, 2005
Capital assets not being depreciated				
Land	\$ 15,194	\$ -	\$ -	\$ 15,194
Art & Collectibles	4,640	1,581	-	6,221
Construction in Progress	73,913	41,633	(44,820)	70,726
Livestock	<u>1,319</u>	<u>83</u>	<u>(151)</u>	<u>1,251</u>
Total capital assets not being depreciated	<u>95,066</u>	<u>43,297</u>	<u>(44,971)</u>	<u>93,392</u>
Capital assets being depreciated				
Land Improvements	22,778	4,931	-	27,709
Buildings	564,737	77,784	(5,777)	636,744
Equipment	145,043	14,063	(8,126)	150,980
Infrastructure	79,841	10,888	(11,255)	79,474
Library Books	113,432	6,279	(305)	119,406
Banner Implementation	<u>-</u>	<u>3,649</u>	<u>-</u>	<u>3,649</u>
Total capital assets being depreciated	<u>925,831</u>	<u>117,594</u>	<u>(25,463)</u>	<u>1,017,962</u>
Less accumulated depreciation for				
Land Improvements	7,657	1,468	-	9,125
Buildings	247,253	11,526	(5,234)	253,545
Equipment	97,105	10,932	(6,737)	101,300
Infrastructure	36,851	2,036	(11,255)	27,632
Library Books	93,005	4,678	(306)	97,377
Banner Implementation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation	<u>481,871</u>	<u>30,640</u>	<u>(23,532)</u>	<u>488,979</u>
Total capital assets being depreciated, net	<u>443,960</u>	<u>86,954</u>	<u>(1,931)</u>	<u>528,983</u>
Capital assets, net	\$ <u>539,026</u>	\$ <u>130,251</u>	\$ <u>(46,902)</u>	\$ <u>622,375</u>

Capital assets at September 30, 2004 and 2003 are summarized as follows (dollars in thousands):

	Sept. 30, 2003	Additions	Deletions	Sept. 30, 2004
Capital assets not being depreciated				
Land	\$ 15,196	\$ -	\$ (2)	\$ 15,194
Art & Collectibles	2,536	2,104	-	4,640
Construction in Progress	40,369	62,114	(28,570)	73,913
Livestock	<u>1,443</u>	<u>495</u>	<u>(619)</u>	<u>1,319</u>
Total capital assets not being depreciated	<u>59,544</u>	<u>64,713</u>	<u>(29,191)</u>	<u>95,066</u>
Capital assets being depreciated				
Land Improvements	20,663	2,115	-	22,778
Buildings	512,424	52,940	(627)	564,737
Equipment	141,907	12,838	(9,702)	145,043
Infrastructure	69,391	10,450	-	79,841
Library Books	<u>107,556</u>	<u>5,991</u>	<u>(115)</u>	<u>113,432</u>
Total capital assets being depreciated	<u>851,941</u>	<u>84,334</u>	<u>(10,444)</u>	<u>925,831</u>

	Sept. 30, 2003	Additions	Deletions	Sept. 30, 2004
Less accumulated depreciation for				
Land Improvements	6,365	1,292	-	7,657
Buildings	237,508	10,309	(564)	247,253
Equipment	94,940	10,883	(8,718)	97,105
Infrastructure	34,978	1,873	-	36,851
Library Books	89,039	4,080	(114)	93,005
Total accumulated depreciation	<u>462,830</u>	<u>28,437</u>	<u>(9,396)</u>	<u>481,871</u>
Total capital assets being depreciated, net	<u>389,111</u>	<u>55,897</u>	<u>(1,048)</u>	<u>443,960</u>
Capital assets, net	\$ <u>448,655</u>	\$ <u>120,610</u>	\$ <u>(30,239)</u>	\$ <u>539,026</u>

During the fiscal years ended September 30, 2005 and 2004, the University received \$8.0 million and \$15.1 million, respectively, from the State of Alabama to fund construction. These revenues are classified as capital appropriations on the Statement of Revenues, Expenses and Changes in Net Assets.

In fiscal 2005 the University purchased SunGard Higher Education's Banner software, a complex integrated system for Finance, Human Resources, Student and Financial Aid. Costs were capitalized on September 30, 2005 for the software, technical consultants and other related implementation costs. The system's finance module was implemented on October 1, 2005 with Human Resources, Student and Financial Aid modules being implemented at a later date. Depreciation expense for Banner Implementation will be calculated and recorded beginning October 1, 2005.

(8) LONG-TERM DEBT

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

Bonds Payable	Balance at September 30, 2004	Principal New Debt	Repayment	Balance at September 30, 2005
1971 Auburn University at Montgomery Student Facilities bonds, \$950,000 face value, 7.0%, due annually through 2005, A reserve of \$64,615 and an annual Housing and Urban Development debt service grant of \$20,536.	\$ 40,000	\$ -	\$ (40,000)	\$ -
1978 Auburn University at Montgomery Dormitory Revenue bonds, \$3,279,000 face value, 3.0%, due annually through 2018, a reserve of \$176,412 and a \$126,428 contingency fund.	1,745,000	-	(95,000)	1,650,000
2001 General Fee Revenue bonds, \$19,460,00 face value, 3.25% to 5.0%, due annually through 2011.	14,615,000	-	(1,800,000)	12,815,000
2001A General Fee Revenue bonds, \$74,750,000 face value, 5.0% to 6.0%, due annually 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.	23,257,515	-	(356,144)	22,901,371

Bonds Payable	Balance at September 30, 2004	Principal New Debt	Repayment	Balance at September 30, 2005
2003 General Fee Revenue bonds, \$49,460,000 face value, 1.45% to 5.25%, due annually through 2016.	47,060,000	-	(2,425,000)	44,635,000
2003 Athletic Revenue bonds, \$21,900,000 face value, 2.25% to 5.0%, due annually through 2010.	16,825,000	-	(2,545,000)	14,280,000
2003 Housing and Dining Revenue bonds, \$15,645,000 face value, 1.4% to 5.0%, due annually through 2012.	13,470,000	-	(1,515,000)	11,955,000
2004 General Fee Revenue bonds, \$76,875,000 face value, 3.0% to 5.25%, due annually through 2034.	76,875,000	-	(2,100,000)	74,775,000
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.	24,860,000	-	-	24,860,000
2004B Athletic Revenue bonds, \$3,050,000 face value, 5.75%, due annually from 2022 through 2024.	<u>3,050,000</u>	<u>-</u>	<u>-</u>	<u>3,050,000</u>
Total Bonds Payable	<u>296,547,515</u>	<u>-</u>	<u>(10,876,144)</u>	<u>285,671,371</u>
Plus unamortized bond premium	5,978,865	-	(922,230)	5,056,635
Less unamortized bond discount	(1,360,733)	-	79,178	(1,281,555)
Less unamortized loss on refunding	<u>(1,906,261)</u>	<u>-</u>	<u>446,059</u>	<u>(1,460,202)</u>
	<u>299,259,386</u>	<u>-</u>	<u>(11,273,137)</u>	<u>287,986,249</u>
Less: Current Portion				
Bonds Payable	(10,876,144)			(11,936,942)
Bond Premium	(922,230)			(833,210)
Bond Discount	79,178			78,270
Loss on Refunding	<u>446,056</u>			<u>362,926</u>
Total Noncurrent Bonds and Notes Payable	<u>\$ 287,986,246</u>			<u>\$ 275,657,293</u>

Bonds Payable	Balance at September 30, 2003	Principal New Debt	Repayment	Balance at September 30, 2004
1972 Student Facilities bonds, \$2,560,000 face value, 5.5%, due annually through 2004.	\$ 180,000	\$ -	\$ (180,000)	\$ -

Bonds Payable	Balance at September 30, 2003	Principal New Debt	Repayment	Balance at September 30, 2004
1971 Auburn University at Montgomery Student Facilities bonds, \$950,000 face value, 7.0%, due annually through 2005, a reserve of \$64,615 and an annual Housing and Urban Development debt service grant of \$20,536.	80,000	-	(40,000)	40,000
1978 Auburn University at Montgomery Dormitory Revenue bonds, \$3,279,000 face value, 3.0%, due annually through 2018, a reserve of \$176,412 and a \$126,428 contingency fund.	1,835,000	-	(90,000)	1,745,000
2001 General Fee Revenue bonds, \$19,460,00 face value, 3.25% to 5.0%, due annually through 2011.	16,340,000	-	(1,725,000)	14,615,000
2001A General Fee Revenue bonds, \$74,750,000 face value, 5.0% to 6.0%, due annually 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.	23,629,347	-	(371,832)	23,257,515
2003 General Fee Revenue bonds, \$49,460,000 face value, 1.45% to 5.25%, due annually through 2016.	47,060,000	-	-	47,060,000
2003 Athletic Revenue bonds, \$21,900,000 face value, 2.25% to 5.0%, due annually through 2010.	19,285,000	-	(2,460,000)	16,825,000
2003 Housing and Dining Revenue bonds, \$15,645,000 face value, 1.4% to 5.0%, due annually through 2012.	14,960,000	-	(1,490,000)	13,470,000
2004 General Fee Revenue bonds, \$16,875,000 face value, 3.0% to 5.25%, due annually through 2034.	-	76,875,000	-	76,875,000
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.	-	24,860,000	-	24,860,000
2004B Athletic Revenue bonds, \$3,050,000 face value, 5.75%, due annually from 2022 through 2024.	-	3,050,000	-	3,050,000

	Balance at September 30, 2003	Principal New Debt	Repayment	Balance at September 30, 2004
Bonds Payable				
Total Bonds Payable	<u>198,119,347</u>	<u>104,785,000</u>	<u>(6,356,832)</u>	<u>296,547,515</u>
Plus unamortized bond premium	5,405,991	1,538,082	(965,208)	5,978,865
Less unamortized bond discount	(1,027,124)	(412,789)	79,180	(1,360,733)
Less unamortized loss on refunding	<u>(2,435,590)</u>	<u>-</u>	<u>529,329</u>	<u>(1,906,261)</u>
	<u>200,062,624</u>	<u>105,910,293</u>	<u>(6,713,531)</u>	<u>299,259,386</u>
Notes Payable				
1998 Alabama Higher Education Equipment Loan Authority notes, \$2,500,000 face value, 3.67% to 4.18%.	<u>684,378</u>	<u>-</u>	<u>(684,378)</u>	<u>-</u>
Total Notes Payable	<u>684,378</u>	<u>-</u>	<u>(684,378)</u>	<u>-</u>
Less: Current Portion				
Bonds Payable	(6,356,832)			(10,876,144)
Notes Payable	(316,039)			-
Bond Premium	(800,693)			(922,230)
Bond Discount	56,877			79,178
Loss on Refunding	<u>529,329</u>			<u>446,056</u>
Total Noncurrent Bonds and Notes Payable	<u>\$ 193,859,644</u>			<u>\$ 287,986,246</u>

During fiscal 2005, the University recorded additional interest expense for its 2001A Athletic Revenue Bonds that had been under accrued each period since December 2001, the date of issuance. The amount of the cumulative error at September 30, 2004 of \$4.9 million, which includes the fiscal 2004 expense of \$1.6 million, was recorded in fiscal 2005. The 2005 interest expense related to these bonds is \$1.7 million and it is similarly recorded in 2005 interest expense.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to September 30, 2005, and thereafter, are as follows:

Year Ending Sept. 30,	Bonds Payable Principal	Interest
2006	\$ 11,936,942	\$ 12,509,259
2007	12,287,903	12,128,008
2008	12,742,440	11,744,577
2009	13,148,294	11,275,471
2010	13,682,020	10,805,770
2011-2015	62,860,691	53,497,314
2016-2020	51,821,606	44,116,524
2021-2025	52,296,475	24,156,941
2026-2030	31,230,000	9,929,125
2031-2035	<u>23,665,000</u>	<u>3,000,838</u>
Total Future Debt Service	<u>\$ 285,671,371</u>	<u>\$ 193,163,827</u>

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 Sept. 30, 2004	New Debt	Principal Repayment	Balance at Sept. 30, 2005
Building	\$ 1,790,000	\$ -	\$ (130,000)	\$ 1,660,000
Equipment	507,214	90,171	(293,775)	303,610
Total lease obligations	<u>\$ 2,297,214</u>	<u>\$ 90,171</u>	<u>\$ (423,775)</u>	<u>\$ 1,963,610</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
2005-06	\$ 214,122	\$ 195,573	\$ 409,695
2006-07	218,048	110,235	328,283
2007-08	211,450	13,671	225,121
2008-09	214,780	-	214,780
2009-10	212,572	-	212,572
2010-2015	<u>1,060,834</u>	<u>-</u>	<u>1,060,834</u>
Minimum lease payments	2,131,806	319,479	2,451,285
Less interest	<u>(471,806)</u>	<u>(15,869)</u>	<u>(487,675)</u>
Present value of minimum lease payments	1,660,000	303,610	1,963,610
Less current portion	<u>(135,000)</u>	<u>(184,843)</u>	<u>(319,843)</u>
Noncurrent obligations	<u>\$ 1,525,000</u>	<u>\$ 118,767</u>	<u>\$ 1,643,767</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, 2005 and 2004, amounted to approximately \$2.9 million and \$3.3 million, respectively.

(9) PLEDGED REVENUES

Pledged revenue for 2005 and 2004 as defined by the Series 2001, 2001A, 2003, and 2004 General Fee Revenue Trust Indentures is as follows:

	2005	2004
Student fees collected	\$ 202,346,802	\$ 182,042,524
Less AUM fees	(19,995,037)	(16,008,133)
Less fees pledged for specific purposes:		
Student Union Building (\$10.50 per student per semester)	(549,392)	(557,844)
Athletic fees (\$18 per student per semester)	<u>(1,157,021)</u>	<u>(941,958)</u>
Total general fees pledged	<u>\$ 180,645,352</u>	<u>\$ 164,534,589</u>

Pledged revenue for 2005 and 2004 as defined by the Series 2001A, 2003, and 2004 Athletic A & B Revenue Trust Indentures is as follows:

	2005	2004
Jordan Hare and Other Revenues:		
Television and broadcast revenues	\$ 1,213,312	\$ 6,704,658
Conference and NCAA distributions	9,158,331	8,204,510
Sales and services revenues	20,246,414	25,556,951
Student fees	1,157,021	1,343,340
Game settlements	625,000	1,250,000
Other income	<u>726,347</u>	<u>3,379,544</u>
Total Athletic revenues pledged	\$ <u>33,126,425</u>	\$ <u>46,439,003</u>

See footnote #2 regarding change in Intercollegiate Athletic Department fiscal year end to further explain current year revenues.

Pledged revenue for 2005 and 2004 as defined by the Series 2003 Housing and Dining Revenue Trust Indenture is as follows:

	2005	2004
Housing Revenues:		
Room rental	\$ 9,648,931	\$ 8,402,098
Other income	<u>362,637</u>	<u>225,902</u>
Total Housing revenues pledged	\$ <u>10,011,568</u>	\$ <u>8,628,000</u>

The Auburn University dormitory occupancy rate for Fall Semester, 2005 and Fall Semester, 2004 was 98.9% and 98.7%, respectively (unaudited).

	2005	2004
Food Services Revenues:		
Other income	\$ <u>550,000</u>	\$ <u>544,406</u>
Total Food Services revenues pledged	\$ <u>550,000</u>	\$ <u>544,406</u>

Pledged revenues and related expenses for 2005 and 2004 as defined by the Series 1972A Auburn University Student Facilities Trust Resolution are as follows:

Student fees noted below represent pledged fees and are commingled with revenues from other sources. All expenditures and transfers are made from total revenues of combined sources; therefore, the following statement of revenues, transfers and expenditures of the combined sources is presented for the years ended September 30, 2005 and September 30, 2004.

	2005	2004
Revenues:		
Student fees (\$10.50 per student per semester)	\$ 549,392	\$ 557,844
Sales and services	309,821	307,774
Other revenue	<u>7,061</u>	<u>8,765</u>
Total revenues	<u>866,274</u>	<u>874,383</u>
Expenses and Transfers:		
Personnel cost	860,459	820,453
Operating expenses	14,130	5,174
Transfers	<u>(152,500)</u>	<u>(80,072)</u>
Total expenses and transfers	<u>722,089</u>	<u>745,555</u>
Excess of revenues over expenses and transfers	144,185	128,828
Net assets at beginning of year	<u>1,068,225</u>	<u>939,397</u>
Net assets at end of year	\$ <u>1,212,410</u>	\$ <u>1,068,225</u>

Pledged revenues and related expenses for 2005 and 2004 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 Auburn University at Montgomery (AUM) for the years ended September 30, 2005 and September 30, 2004.

	2005	2004
Revenues:		
Room rental	\$ 697,840	\$ 541,430
Other income	79,710	4,571
Total revenues	<u>777,550</u>	<u>546,001</u>
Expenses and Transfers:		
Personnel cost	398,454	330,850
Operating expenses	457,148	433,015
Transfers	<u>107,664</u>	<u>145,210</u>
Total expenses and transfers	<u>963,266</u>	<u>909,075</u>
Deficit of revenues over expenses and transfers	(185,716)	(363,074)
AUM Student Housing deficit at beginning of year	<u>(442,665)</u>	<u>(79,591)</u>
AUM Student Housing net deficit at end of year	<u>\$ (628,381)</u>	<u>\$ (442,665)</u>

The AUM dormitory occupancy rate for Fall Semester, 2005 and Fall Semester, 2004 was 90.43% and 80.52%, respectively (unaudited).

The University levies a \$20 fee against all students enrolled at AUM as a pledge for payments of principal and interest on the Student Facilities Bonds of 1971. A separate statement of the pledged fees is not available as these fees are commingled with revenues from other sources including an additional fee of \$7 per student levied for additional construction costs. Funds are transferred from the combined revenues to the Student Facilities Bond Fund for servicing debt as considered necessary. During 2005, principal and interest payments of \$41,400 were made from the 1971 AUM Student Facilities Bond Reserve.

(10) RETIREMENT PROGRAMS

The employees of the University are participants in two defined benefit plans, a 457(b) defined contribution plan and a 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 employees are members of the Teachers' Retirement System. Membership is mandatory for covered or 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 three methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) minimum guaranteed, (2) money purchase or (3) formula, of which the formula method usually produces the highest monthly benefit. Under the formula method, 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, 2004 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,	2005	2004	2003
Total percentage of covered payroll	12.03%	11.56%	10.02%
Contributions:			
Percentage contributed by the employer	7.03%	6.56%	5.02%
Percentage contributed by the employees	5.00%	5.00%	5.00%
Contributed by the employer	\$ 18,596,735	\$ 17,165,528	\$ 12,108,451
Contributed by the employees	<u>13,230,851</u>	<u>13,095,207</u>	<u>12,074,427</u>
Total contributions	\$ <u>31,827,586</u>	\$ <u>30,260,735</u>	\$ <u>24,182,878</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,	2005	2004	2003
Total percentage of covered payroll	25.57%	25.57%	25.57%
Contributions:			
Percentage contributed by the employer	23.07%	23.07%	23.07%
Percentage contributed by the employees	2.50%	2.50%	2.50%
Contributed by the employer	\$ 1,519,927	\$ 1,774,424	\$ 2,241,796
Contributed by the employees	<u>164,709</u>	<u>192,287</u>	<u>242,934</u>
Total contributions	\$ <u>1,684,636</u>	\$ <u>1,966,711</u>	\$ <u>2,484,730</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. Auburn University will match up to \$1,200 per year of a qualifying employee's contribution. This equates to five percent of gross salary with a maximum covered salary of \$24,000 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 VALIC, TIAA-CREF and Johnson, Sterling, Paul and Company. At September 30, 2005, 3,238 employees participated in the tax deferred annuity program. The contribution for 2005 was \$13,975,808, which includes \$3,407,826 from the University and \$10,567,982 from its employees. Total salaries and wages during the fiscal year for covered employees participating in the plan were approximately \$202,396,000.

D. Deferred Compensation Plan

The University follows the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457(b) Deferred Compensation Plan*. In accordance with the provisions of this pronouncement, the RSA-1 deferred compensation plan is a separate trust and, therefore, not reflected in the University's financial statements. As of September 30, 2005, 217 employees participated in the RSA-1. Contributions of \$1,986,537 were funded by employees and no employer contribution was funded. Other 457(b) plans are Valic, TIAA-CREF, and Johnson, Sterling, Paul and Company.

(11) OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 10, the University provides postemployment health care benefits to all employees who officially retire from the University. Retirees must have had ten years of continuous service and must have been enrolled in the plan for the last six of those years. The health insurance plan is self-insured. As of September 30, 2005, 367 retirees have health care protection. The University's health care plan 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.

Eligible retired employees may elect to participate in the Public Education Employees Health Insurance Plan with TRS, in which case the retirees pay their premiums directly to TRS. Expenditures for postretirement health care benefits are recognized monthly. During the fiscal year ended September 30, 2005, the University funded approximately 60% of the postretirement healthcare premium expenditures, which totaled \$932,410. The retirees are responsible for funding approximately 40% of the healthcare premium expenditures with the exception of a few retirees who were eligible but elected not to enroll in the University's healthcare program. Auburn University paid the employer portion of premium directly to TRS in the amount of \$6,350,465 for 2005.

(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 Compass Bank to be used to pay claims for which the University may become legally liable. The liability at September 30, 2005 and 2004 was \$1,175,011 and \$1,049,204, 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 worker's compensation laws of the State of Alabama. The liability at September 30, 2005 and 2004 was \$1,506,287 and \$215,996, 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, 2005 and 2004 of \$1,610,834 and \$2,474,948, respectively.

Other Liabilities

Other liabilities include compensated absences and Federal Perkins Student Loan Funds. 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 \$21,257,239 and \$20,128,656 at September 30, 2005 and 2004, respectively.

The Federal Perkins Student Loan Funds and Health Professional Student Loans are included in deposits held in custody. The refundable amounts were \$15,019,426 and \$14,851,669, at September 30, 2005 and 2004, respectively.

(13) CONTRACTS AND GRANTS

The University has been awarded approximately \$4,376,318 in contracts and grants that have not been received or expended as of September 30, 2005. These awards, which represent commitments of sponsors to provide funds for research and training projects, have not been reflected in the financial statements. Advances include amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreements and, therefore, have not yet been included in net assets.

(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. The University recognized \$13,363,079 and \$12,268,438 in facilities and administrative cost recovery for the years ended September 30, 2005 and 2004, 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 \$319,400,000. At September 30, 2005, the estimated remaining cost to complete the projects is approximately \$97,444,000 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, 2005 and 2004 are listed below. In preparing the financial statements, all significant transactions and balances between auxiliary units and other funds have been eliminated.

	2005	2004
Instruction	\$ 190,548,047	\$ 183,527,428
Research	95,270,544	91,706,996
Public Service	76,297,156	72,183,017
Academic Support	28,559,846	29,124,337
Library	14,626,425	13,763,760
Student Services	15,178,772	15,896,697
Institutional Support	46,530,624	46,236,441
Operation and Maintenance	35,083,483	32,723,991
Scholarships and Fellowships	16,522,538	16,439,940
Auxiliaries	70,239,644	71,239,153
Total all functions	588,857,079	572,841,760
Add: depreciation expense	30,640,610	28,436,636
Total operating expenses	\$ <u>619,497,689</u>	\$ <u>601,278,396</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 restricted for specific schools, colleges or programs of the University. These may be transferred to the University for its use, expended for the benefit of University schools, colleges or programs, or in the case of endowments, invested 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 \$17,767,934 and \$20,564,419 during the years ended September 30, 2005 and 2004, respectively. Cumulative undistributed earnings on endowed funds were \$1,639,744 and \$1,596,623 at September 30, 2005 and 2004, respectively.

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

Effective October 1, 2004, AUF and the University entered into a Services and Facilities Agreement (the Agreement), which contemplates 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 AUF, which primarily consist of personnel and other administrative support and that AUF will make a quarterly determination of their allocable costs share of these costs. The Agreement commenced on October 1, 2003 and expired on September 30, 2004, but remains in force in subsequent years unless cancelled in writing by one of the parties. AUF and the University are to review the services and facilities to be provided at least annually, and to provide an estimate of the consideration to be paid for the upcoming year for approval of the respective boards, but the actual reimbursement is determined based on the actual costs incurred.

For the year ended September 30, 2005, the University provided for its share of University non-personnel operating costs by establishing budgets within the University budgetary system. However, all personnel costs were incurred by the University, and AUF reimbursed the University \$1,463,422 for its share of these services and facilities in accordance with the Agreement.

For the year ended September 30, 2004 all personnel costs were incurred by the University and all operating expenses were incurred by AUF. The estimated costs for general and administrative services and facilities received by AUF but paid for by the University approximated \$2.8 million, which was also approximately the portion of the operating expenses incurred by AUF and reimbursable by the University. There was no net impact to fiscal 2004 general and administrative expense and no actual reimbursements were made.

The amount due from AUF to the Association consists of funds from the Association's Life Membership program which are pooled with AUF's pooled endowment. AUF remits income from the investments directly to the Association on an annual basis.

The amount due from AUF to TUF consists of funds which are pooled 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, 2005, AUF was committed to TUF for \$5,364,252. Of this amount, \$100,000 relates to a payable by AUF to TUF upon the termination of a trust.

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 \$19,603,605 and \$8,205,809 during the year ended September 30, 2005 and during the period from April 21, 2004 (date of TUF inception) to June 30, 2004.

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, 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 year ended September 30, 2005, the Association had a salary reimbursement expense of \$656,357 to the University under the service and facilities agreement. Of this amount, \$486,489 had been paid and \$169,868 was accrued as an amount payable at September 30, 2005. Rental income recorded by the Association from the University and AUF totaled \$133,220 and \$100,120, respectively. Of the \$133,220 rental income from the University, \$66,610 had been received and \$66,610 had been accrued as a receivable, Due from Auburn University. Additionally, the Association received \$5,400 from the University as payment for parking in the gravel lot behind the Alumni Center Building.

Allocated Costs

AUF, TUF, the Association and the 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. The growth of these organizations in recent years has resulted in a complex interrelationship of asset and cost allocation.

(19) DIRECT LOAN PROGRAMS

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. The FFELP lenders, and not the University, are responsible for the collection of these loans. The University disbursed approximately \$81,455,000 and \$75,835,000 under the FFELP during the fiscal years ended September 30, 2005 and September 30, 2004, respectively.

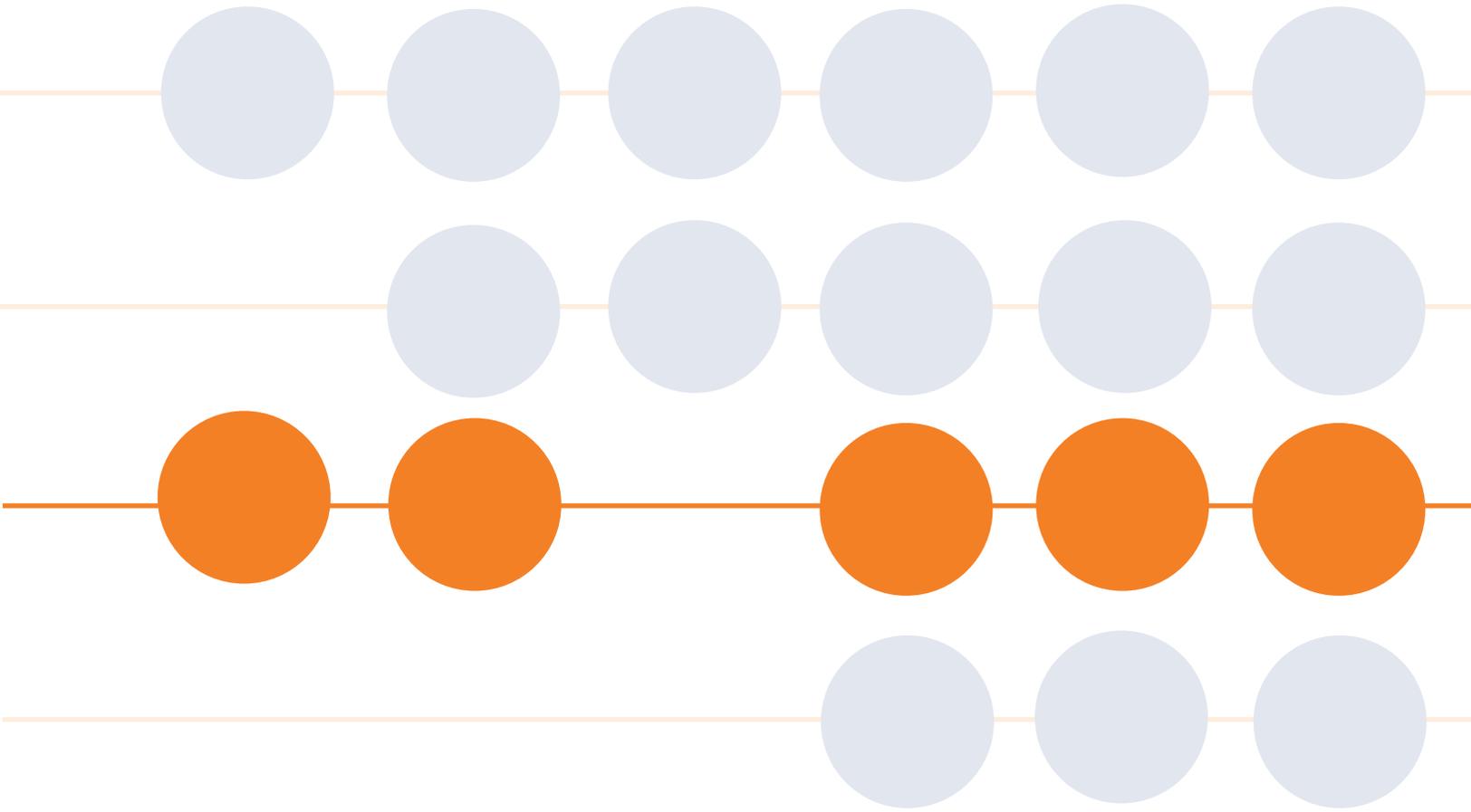
(20) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

The GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, in November 2003. GASB 42 requires governments to evaluate and report capital asset impairment loss in their financial statements on an annual basis. Any related insurance recoveries will be required to be netted with the impairment loss. This statement is effective for fiscal year periods beginning after December 15, 2004. The University is currently evaluating the impact that GASB 42 will have on the September 30, 2006 financial statements.

Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*, was issued by the GASB in June 2004. This statement requires governmental entities to recognize and match other post retirement benefit costs, for example health and life insurance expense, with related services received and also to provide information regarding the actuarial accrued liability and funding level of the benefits associated with past services. GASB 45 will be effective for financial statement periods beginning after December 15, 2006. The impact of GASB 45 will have on the University's financial statements is currently being evaluated.

The GASB issued statement No. 46, *Net Assets Restricted by Enabling Legislation*, in December of 2004 and effecting periods beginning after June 15, 2005. GASB 46 is an amendment to GASB 34, which states that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB No. 46 clarifies confusion over the requirement that those restrictions be legally enforceable, stating that enforceable enabling legislation restriction is one that a party external to a government can compel a government to honor. This restriction should be reevaluated if any restricted resources are used for a purpose not intended by enabling legislation. GASB 46 also summarizes the accounting and financial reporting standards if new enabling legislation replaces the existing enabling legislation. The impact of GASB 46 on the September 30, 2006 financial statements is currently being evaluated.

In addition, GASB issued statement No. 47, *Accounting for Termination Benefits*, in June of 2005, which establishes accounting standards for termination benefits. As it applies to those entities issuing financial statements on the accrual basis of accounting, GASB 47 states that a liability and expense should be recognized for voluntary termination benefits when they can be estimated. For involuntary termination, the liabilities and expenditures are to be recognized when a plan of termination has been approved, the plan has been properly communicated, and the amount can be estimated. When the financial statements are issued on the modified accrual basis of accounting, liabilities and expenditures are to be recognized to the extent that those liabilities are generally expected to be liquidated with expendable available resources. GASB 47 is not expected to have a significant impact on the September 30, 2006 financial statements.





**DIVISIONAL FINANCIAL
STATEMENTS**

**AUBURN UNIVERSITY MAIN CAMPUS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004**

	2005	2004
ASSETS		
Current assets		
Cash and cash equivalents	\$ 21,380,424	\$ 41,573,415
Operating investments	24,274,473	46,175,098
Accounts receivable, net	15,132,224	23,287,853
Student accounts receivable, net	24,248,810	25,245,037
Loans receivable, net	2,779,028	2,564,827
Accrued interest receivable	3,165,281	3,028,482
Inventories	3,109,051	3,191,732
Prepaid expenses	3,321,093	3,795,144
Due from other funds	312,950	320,481
Total current assets	<u>97,723,334</u>	<u>149,182,069</u>
Noncurrent assets		
Investments	486,749,807	448,425,756
Loans receivable, net	14,065,447	14,319,277
Investment in plant, net	583,691,476	499,434,117
Due from other funds	1,353,728	1,668,933
Total noncurrent assets	<u>1,085,860,458</u>	<u>963,848,083</u>
Total assets	<u>1,183,583,792</u>	<u>1,113,030,152</u>
LIABILITIES		
Current liabilities		
Outstanding checks in excess of bank balance	24,263,179	16,742,044
Advances	84,726	187,721
Accounts payable	24,706,807	16,431,421
Accrued salaries and wages	2,092,768	2,817,437
Accrued compensated absences	11,973,549	11,423,237
Accrued interest payable	4,488,890	3,787,181
Other accrued liabilities	1,610,834	2,474,948
Student deposits	1,096,604	2,249,871
Deposits held in custody	15,006,299	15,462,066
Deferred revenues	67,461,201	69,480,700
Noncurrent liabilities-current portion	12,418,799	11,373,820
Due to other funds	11,005,600	-
Total current liabilities	<u>176,209,256</u>	<u>152,430,446</u>
Noncurrent liabilities		
Accrued compensated absences	4,827,562	4,538,754
Bonds and notes payable	274,102,293	286,336,246
Lease obligations	118,767	271,534
Other noncurrent liabilities	10,722,268	1,956,923
Due to other funds	-	10,669,369
Total noncurrent liabilities	<u>289,770,890</u>	<u>303,772,826</u>
Total liabilities	<u>465,980,146</u>	<u>456,203,272</u>
NET ASSETS		
Invested in capital assets, net of related debt	359,977,381	316,242,810
Restricted		
Nonexpendable	17,516,412	14,504,182
Expendable:		
Scholarships, research, instruction, other	73,198,299	68,168,712
Loans	4,527,493	4,386,792
Capital projects	1,783,685	4,008,830
Unrestricted	260,600,376	249,515,554
Total net assets	<u>\$ 717,603,646</u>	<u>\$ 656,826,880</u>

**AUBURN UNIVERSITY MAIN CAMPUS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	2005	2004
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of \$32,505,140 and \$33,261,857, respectively	\$ 175,637,868	\$ 158,155,906
Federal appropriations	45,640	39,238
Federal grants & contracts	48,164,507	50,929,061
State & local grants & contracts	4,002,047	1,813,592
Nongovernmental grants & contracts	7,809,883	7,197,578
Sales & services of educational departments	17,160,420	16,303,318
Auxiliary revenue, net of scholarship allowances of \$1,431,020 and \$1,476,597, respectively	56,659,935	67,865,607
Other operating revenue	9,276,000	8,927,068
Total operating revenues	<u>318,756,300</u>	<u>311,231,368</u>
OPERATING EXPENSES		
Compensation & benefits	296,037,165	293,121,876
Scholarships & fellowships	13,466,553	13,150,540
Other supplies & services	115,634,930	117,734,595
Depreciation	28,262,895	25,845,493
Total operating expenses	<u>453,401,543</u>	<u>449,852,504</u>
Operating loss	<u>(134,645,243)</u>	<u>(138,621,136)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	140,789,622	137,034,075
Gifts	29,636,746	15,044,155
Net investment income	26,617,298	23,491,011
Interest expense on capital debt	(20,219,179)	(9,047,968)
Nonoperating revenues, net	<u>176,824,487</u>	<u>166,521,273</u>
Income before other changes in net assets	42,179,244	27,900,137
OTHER CHANGES IN NET ASSETS		
Capital appropriations	7,890,639	13,071,484
Capital gifts & grants	7,117,176	18,638,910
Additions to permanent endowments	3,589,707	696,092
Net increase in net assets	<u>60,776,766</u>	<u>60,306,623</u>
Net assets - beginning of year	<u>656,826,880</u>	<u>596,520,257</u>
Net assets - end of year	<u>\$ 717,603,646</u>	<u>\$ 656,826,880</u>

AUBURN UNIVERSITY AT MONTGOMERY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004

	2005	2004
ASSETS		
Current assets		
Cash and cash equivalents	\$ 402,793	\$ 1,089,609
Operating investments	582,978	1,472,928
Accounts receivable, net	2,834,766	997,307
Student accounts receivable, net	2,746,770	3,284,499
Loans receivable, net	463,568	459,192
Accrued interest receivable	1,273	826
Inventories	608,668	482,500
Total current assets	<u>7,640,816</u>	<u>7,786,861</u>
Noncurrent assets		
Investments	8,467,727	11,363,294
Loans receivable, net	2,448,183	2,221,218
Investment in plant, net	38,683,342	39,592,331
Due from other funds	11,005,600	10,669,369
Total noncurrent assets	<u>60,604,852</u>	<u>63,846,212</u>
Total assets	<u>68,245,668</u>	<u>71,633,073</u>
LIABILITIES		
Current liabilities		
Advances	50	189,664
Accounts payable	2,361,341	341,304
Accrued salaries and wages	266,728	445,132
Accrued compensated absences	1,296,004	1,224,433
Accrued interest payable	16,500	17,682
Student deposits	-	113,536
Deposits held in custody	3,158,352	3,171,722
Deferred revenues	6,031,340	5,631,186
Noncurrent liabilities-current portion	230,000	265,000
Due to other funds	51,967	49,861
Total current liabilities	<u>13,412,282</u>	<u>11,449,520</u>
Noncurrent liabilities		
Accrued compensated absences	522,530	485,670
Bonds and notes payable	1,555,000	1,650,000
Lease obligations	1,525,000	1,660,000
Due to other funds	54,162	106,129
Total noncurrent liabilities	<u>3,656,692</u>	<u>3,901,799</u>
Total liabilities	<u>17,068,974</u>	<u>15,351,319</u>
NET ASSETS		
Invested in capital assets, net of related debt	35,588,042	36,317,375
Restricted		
Nonexpendable	5,121,155	5,069,196
Expendable:		
Scholarships, research, instruction, other	4,547,267	4,167,583
Loans	360,288	347,470
Capital projects	129,164	126,428
Unrestricted	5,430,778	10,253,702
Total net assets	<u>\$ 51,176,694</u>	<u>\$ 56,281,754</u>

AUBURN UNIVERSITY AT MONTGOMERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of \$3,317,646 and \$3,421,394, respectively	\$ 16,677,391	\$ 15,625,025
Federal grants & contracts	6,998,735	8,004,145
State & local grants & contracts	8,448,441	3,842,416
Nongovernmental grants & contracts	146,886	150,851
Sales & services of educational departments	2,611,741	1,870,633
Auxiliary revenue, net of scholarship allowances of \$357,638 and \$285,244, respectively	4,255,531	3,988,656
Other operating revenue	<u>792,682</u>	<u>825,873</u>
Total operating revenues	<u>39,931,407</u>	<u>34,307,599</u>
OPERATING EXPENSES		
Compensation & benefits	36,316,751	35,508,902
Scholarships & fellowships	3,027,622	3,259,769
Other supplies & services	24,894,790	16,080,527
Depreciation	<u>2,377,715</u>	<u>2,591,143</u>
Total operating expenses	<u>66,616,878</u>	<u>57,440,341</u>
Operating loss	<u>(26,685,471)</u>	<u>(23,132,742)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	20,149,157	19,569,737
Gifts	266,121	228,055
Net investment income	1,041,169	1,013,591
Interest expense on capital debt	<u>(51,375)</u>	<u>(56,768)</u>
Nonoperating revenues, net	<u>21,405,072</u>	<u>20,754,615</u>
Loss before other changes in net assets	(5,280,399)	(2,378,127)
OTHER CHANGES IN NET ASSETS		
Capital appropriations	69,191	2,011,260
Capital gifts & grants	53,380	22,278
Additions to permanent endowments	<u>52,768</u>	<u>2,575,332</u>
Net (decrease) increase in net assets	(5,105,060)	2,230,743
Net assets - beginning of year	<u>56,281,754</u>	<u>54,051,011</u>
Net assets - end of year	<u>\$ 51,176,694</u>	<u>\$ 56,281,754</u>

ALABAMA AGRICULTURAL EXPERIMENT STATION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004

	2005	2004
ASSETS		
Current assets		
Cash and cash equivalents	\$ 458,815	\$ 737,419
Operating investments	4,425,130	5,648,584
Accounts receivable, net	<u>3,358,535</u>	<u>3,087,830</u>
Total current assets	<u>8,242,480</u>	<u>9,473,833</u>
Noncurrent assets		
Investments	<u>9,781,377</u>	<u>7,810,359</u>
Total noncurrent assets	<u>9,781,377</u>	<u>7,810,359</u>
Total assets	<u>18,023,857</u>	<u>17,284,192</u>
LIABILITIES		
Current liabilities		
Advances	-	56,074
Accounts payable	1,098,658	275,955
Accrued salaries and wages	181,307	154,436
Accrued compensated absences	944,748	893,116
Deferred revenues	1,335,761	1,229,252
Due to other funds	<u>261,167</u>	<u>270,620</u>
Total current liabilities	<u>3,821,641</u>	<u>2,879,453</u>
Noncurrent liabilities		
Accrued compensated absences	380,909	346,853
Due to other funds	<u>1,299,382</u>	<u>1,562,804</u>
Total noncurrent liabilities	<u>1,680,291</u>	<u>1,909,657</u>
Total liabilities	<u>5,501,932</u>	<u>4,789,110</u>
NET ASSETS		
Restricted		
Expendable:		
Scholarships, research, instruction, other	403,475	404,157
Unrestricted	<u>12,118,450</u>	<u>12,090,925</u>
Total net assets	<u>\$ 12,521,925</u>	<u>\$ 12,495,082</u>

ALABAMA AGRICULTURAL EXPERIMENT STATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES		
Federal appropriations	\$ 4,582,733	\$ 4,445,150
Federal grants & contracts	16,415,331	13,003,215
State & local grants & contracts	800,239	765,090
Nongovernmental grants & contracts	1,740,210	1,550,087
Sales & services of educational departments	2,621,772	2,316,284
Other operating revenue	<u>100</u>	<u>-</u>
Total operating revenues	<u>26,160,385</u>	<u>22,079,826</u>
OPERATING EXPENSES		
Compensation & benefits	30,821,484	29,553,935
Scholarships & fellowships	23,917	7,215
Other supplies & services	<u>22,584,339</u>	<u>16,321,897</u>
Total operating expenses	<u>53,429,740</u>	<u>45,883,047</u>
Operating loss	(27,269,355)	(23,803,221)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	26,651,658	24,896,841
Gifts	409,135	393,296
Net investment income	<u>235,405</u>	<u>203,667</u>
Nonoperating revenues, net	<u>27,296,198</u>	<u>25,493,804</u>
Net increase in net assets	26,843	1,690,583
Net assets - beginning of year	<u>12,495,082</u>	<u>10,804,499</u>
Net assets - end of year	<u>\$ 12,521,925</u>	<u>\$ 12,495,082</u>

ALABAMA COOPERATIVE EXTENSION SYSTEM
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004

	2005	2004
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,172,341	\$ 694,864
Operating investments	6,217,464	6,311,234
Accounts receivable, net	<u>1,516,837</u>	<u>2,414,928</u>
Total current assets	<u>8,906,642</u>	<u>9,421,026</u>
Noncurrent assets		
Investments	<u>10,051,626</u>	<u>4,357,649</u>
Total noncurrent assets	<u>10,051,626</u>	<u>4,357,649</u>
Total assets	<u>18,958,268</u>	<u>13,778,675</u>
LIABILITIES		
Current liabilities		
Advances	-	34,245
Accounts payable	1,002,114	347,812
Accrued salaries and wages	226,709	252,791
Accrued compensated absences	934,970	864,305
Deferred revenues	<u>1,549,662</u>	<u>120,854</u>
Total current liabilities	<u>3,713,455</u>	<u>1,620,007</u>
Noncurrent liabilities		
Accrued compensated absences	<u>376,967</u>	<u>352,288</u>
Total noncurrent liabilities	<u>376,967</u>	<u>352,288</u>
Total liabilities	<u>4,090,422</u>	<u>1,972,295</u>
NET ASSETS		
Restricted		
Expendable:		
Scholarships, research, instruction, other	4,959,095	4,825,189
Capital Projects	11,033	-
Unrestricted	<u>9,897,718</u>	<u>6,981,191</u>
Total net assets	<u>\$ 14,867,846</u>	<u>\$ 11,806,380</u>

**ALABAMA COOPERATIVE EXTENSION SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	2005	2004
OPERATING REVENUES		
Federal appropriations	\$ 8,815,803	\$ 11,234,691
Federal grants & contracts	6,099,027	7,565,939
State & local grants & contracts	2,749,692	2,845,700
Nongovernmental grants & contracts	314,826	257,275
Sales & services of educational departments	103,823	59,649
Other operating revenue	<u>1,629,728</u>	<u>2,034,162</u>
Total operating revenues	<u>19,712,899</u>	<u>23,997,416</u>
OPERATING EXPENSES		
Compensation & benefits	32,773,210	37,193,039
Scholarships & fellowships	4,446	22,416
Other supplies & services	<u>13,271,872</u>	<u>10,887,049</u>
Total operating expenses	<u>46,049,528</u>	<u>48,102,504</u>
Operating loss	<u>(26,336,629)</u>	<u>(24,105,088)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	28,804,637	27,083,525
Gifts	383,862	220,114
Net investment income	<u>209,596</u>	<u>73,032</u>
Nonoperating revenues, net	<u>29,398,095</u>	<u>27,376,671</u>
Net increase in net assets	3,061,466	3,271,583
Net assets - beginning of year	<u>11,806,380</u>	<u>8,534,797</u>
Net assets - end of year	<u>\$ 14,867,846</u>	<u>\$ 11,806,380</u>

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. 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 nonvoting student representatives selected by the student body serve as members ex-officio, one from the Auburn campus and one from the Montgomery campus.



Bob Riley
Governor of Alabama
President, Montgomery



Earlon C. McWhorter
Anniston, At-Large Member
President Pro Tempore



Paul J. Spina, Jr.
Hoover, Sixth
Congressional District
Vice President Pro Tempore



John C.H. Miller, Jr.
Mobile, First
Congressional District



Robert E. Lowder
Montgomery, Second
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James W. Rane
Abbeville, Third
Congressional District



Virginia N. Thompson
Opelika, Third
Congressional District



Dwight L. Carlisle
Tallasse, Fourth
Congressional District



Charles E. Ball
Gadsden, Fifth
Congressional District



Sarah B. Newton
Fayette, Seventh
Congressional District



John G. Blackwell
Huntsville, Eighth
Congressional District



Byron P. Franklin, Sr.
Birmingham, Ninth
Congressional District



Charles D. McCrary
At-Large Member



Samuel L. Ginn
At-Large Member

