



AUBURN

UNIVERSITY

2006

Financial Report

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Auburn University





AUBURN

UNIVERSITY

2006

Financial Report

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INTRODUCTORY SECTION

OFFICE OF
THE PRESIDENT

January 29, 2007

Dear Members of the Auburn Community and Alabama Citizens:

This Comprehensive Annual Financial Report presented on the following pages briefly summarizes the University's financial position at September 30, 2006, 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.

The successes of Auburn University continue in all areas of our missions. A few examples are:

- Auburn University continues to enjoy its prominence as the primary source of instruction and research for Alabama's emerging aerospace, automotive, microelectronics, biotech, and wireless technology industries.
- Our world-renowned Rural Studio has continued to be a leader in providing inspiring, innovative and practicable architecture to benefit desperately poor citizens in west Alabama.
- An Auburn-invented microscope technology was ranked by R&D Magazine among the top 100 most technologically significant products introduced in 2005.
- Auburn University was recently recognized by Forbes magazine as producing more chief executive officers with the nation's best small companies than any other college or university in the south.
- U.S. News and World Report ranked Auburn University during this past year 39th among public universities nationwide. Auburn University was ranked the best value by the Princeton Review. Money Magazine and Kiplinger's Personal Finance continue to rank Auburn as tops in the state and among the highest in the nation for educational value.
- The University dedicated \$3 million dollars in 2006 to a renewable Alternative Energy Initiative and is strongly committed to developing alternative fuels from renewable energy sources such as switchgrass and other agricultural produce.
- We also invested significantly in additional scholarships in 2006 including \$2 million dollars in Spirit of Auburn scholarships for top Alabama students and are committed to increasing such funding in the years ahead.

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

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

www.auburn.edu



January 29, 2007

The Comprehensive Annual Financial Report for Auburn University for 2006 provides comparative financial statements for the years ended September 30, 2006 and September 30, 2005. Governmental Accounting Standards Board Statement (GASB) No. 39 provides criteria for determining which related organizations should be reported as component units. The statement also clarifies financial reporting requirements for those organizations as amendments to GASB Statement No. 14. 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.





AUBURN

UNIVERSITY

2006

Financial Report

FINANCIAL SECTION



Report of Independent Auditors

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

In our opinion, based upon our audits and the report of other auditors, 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, 2006 and 2005 (June 30, 2006 and 2005 for Tigers Unlimited Foundation), and the respective changes in financial position and cash flows, as applicable, of the University and its component units for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Auburn Alumni Association (the "Association"). 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 opinions.

The management's discussion and analysis on pages 12 through 21 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The University has not presented the management's discussion and analysis for the year ended September 30, 2005, that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The supplemental divisional financial statements as set forth on pages 54 through 61 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

January 29, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2006, with a comparison to the year ended September 30, 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements, footnotes and this discussion are the responsibility of University management.

The University is a land grant institution and is classified by the Carnegie Foundation as "Doctoral/Research-Extensive," while Auburn University at Montgomery (AUM) is classified as "Master's I." Fall 2006 enrollment included 28,626 total students at the main campus at Auburn and at AUM. The University offers a diverse range of degree programs in 12 colleges and schools and has approximately 5,036 full-time employees, including approximately 1,322 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 Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements 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 between current and noncurrent assets and liabilities. Net assets are segregated into unrestricted, restricted (expendable and nonexpendable), and invested in capital, net of related debt. The University's net assets are one indicator of the University's financial health. 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 nonoperating. GASB requires state appropriations, gifts and investment earnings to be classified as nonoperating revenues. As a result, the University will typically report 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 2006 and 2005 refer to the fiscal years ended September 30, 2006, and 2005, 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 unit 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*, provides criteria for determining which related organizations should be reported as component units based on the nature and significance of their relationship with the primary government, which is the University. GASB Statement No. 39 also clarifies financial reporting requirements for those organizations as amendments to GASB Statement No. 14, *The Financial Reporting Entity*. The University has identified these significant related organizations that are required to be reported as component units. The three component units of the University reported herein are:

- (1) Auburn University Foundation (AUF) - AUF was organized on February 9, 1960, and is the fundraising foundation for the University. As of September 30, 2006, AUF holds approximately \$192 million in 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 statements are presented according to the Financial Accounting Standards Board (FASB) Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. FASB Statement No. 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 Statement No. 117 with a June 30 fiscal year end. TUF provides economic resources to the University for athletic scholarships, athletic building maintenance or new construction, and for athletic department programs.

(3) **Auburn Alumni Association (the Association)** - The Association is a nonprofit corporation organized on April 14, 1945, 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 financial statements are presented in accordance with FASB Statement No. 117. The Association provides monetary support to the University in the form of faculty awards and student scholarships.

FINANCIAL HIGHLIGHTS

Statement of Net Assets

The University's financial position is strong at September 30, 2006, and 2005, with assets of \$1.3 billion and liabilities of \$458 million and assets of \$1.3 billion and liabilities of \$480 million, respectively. The University experienced an increase in net assets of \$80.3 million in 2006. A summary of assets, liabilities and net assets as of September 30, 2006, and 2005, is as follows:

	2006	2005
Current assets	\$ 164,376,716	\$ 122,200,322
Capital assets	688,311,759	622,374,818
Other noncurrent assets	481,736,433	531,564,167
Total assets	<u>1,334,424,908</u>	<u>1,276,139,307</u>
Current liabilities	176,886,922	185,488,109
Noncurrent liabilities	281,081,129	294,481,087
Total liabilities	<u>457,968,051</u>	<u>479,969,196</u>
Net assets		
Invested in capital assets, net of related debt	438,559,234	395,565,424
Restricted-Nonexpendable	22,927,448	22,637,567
Restricted-Expendable	90,984,289	89,919,799
Unrestricted	323,985,886	288,047,321
Total net assets	<u>\$ 876,456,857</u>	<u>\$ 796,170,111</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 increased \$42.2 million from September 30, 2005, to September 30, 2006. This change was primarily due to the need to hold more cash in readily available investment vehicles to meet current cash flow needs. The increase in liquidity is evidenced by an increase in the current ratio (current assets to current liabilities) from 65.9% at September 30, 2005, to 92.9% at September 30, 2006.

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 \$65.9 million, or 10.6% from September 30, 2005, to September 30, 2006. The increase was mainly due to the completion and capitalization of the following construction projects in fiscal year 2006 totaling \$54.8 million:

Jordan-Hare Stadium Expansion	\$11.0 million
William Walker Pharmacy Building	\$10.1 million
Ross Hall Renovation	\$ 8.6 million
Jordan-Hare Stadium Concourse Improvements	\$ 8.1 million
Building Science New Classroom Building	\$ 7.5 million
Swine Research and Education Complex	\$ 2.4 million
Small Projects Totaled	\$ 7.1 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 noncurrent liabilities, and other accrued liabilities. Current liabilities decreased by \$8.6 million, or 4.6% from September 30, 2005, to September 30, 2006. This decrease was primarily due to a change in the management of funds at year end.

Noncurrent liabilities primarily include principal amounts due on University bonds payable, accrued compensated absences and other compensation-related liabilities that are payable beyond September 30, 2007. Noncurrent liabilities decreased by \$13.4 million, or 4.6% from September 30, 2005, to September 30, 2006, primarily due to principal payments on the bonds.

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 10.9% from September 30, 2005, to September 30, 2006. This increase is due to capitalization of assets as described previously.

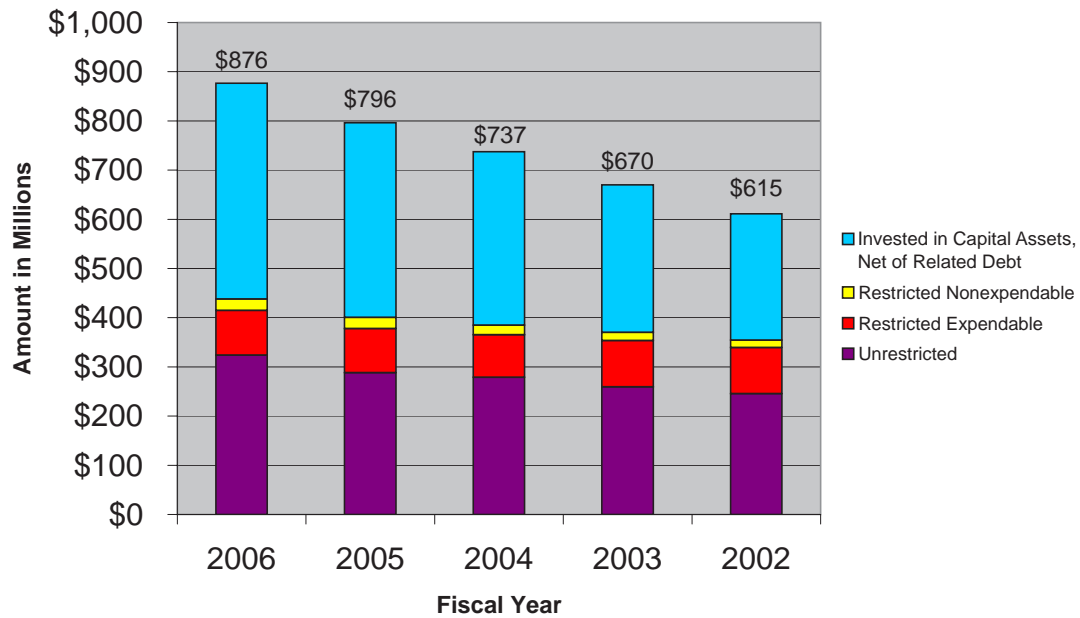
Restricted net assets are divided into two categories: Nonexpendable and Expendable.

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 \$290,000, or 1.3% from September 30, 2005, to September 30, 2006, primarily due to investment earnings added back to permanent endowments.

Restricted-expendable net assets are also subject to external restrictions governing their use. Such net assets include gifts and contracts and grants restricted by federal, state, or local governments and private sources, which are restricted for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Restricted funds functioning as endowments, restricted funds available for student loans and funds restricted for construction purposes are also included in this category. These net assets increased by \$1.1 million or 1.2% from September 30, 2005, to September 30, 2006. 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 \$35.9 million, or 12.5%, to \$324 million from \$288 million at September 30, 2005. The increase in unrestricted net assets is mainly due to holding unrestricted funds for future mission related priorities, proration reserve, and deferred maintenance needs.

TOTAL NET ASSETS



Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets are the result of activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of this statement is to present the revenues earned by the University, both operating and nonoperating, and the expenses incurred by the University, operating and nonoperating, and any other revenues, expenses, gains, losses, and changes in net assets.

A condensed statement is provided below:

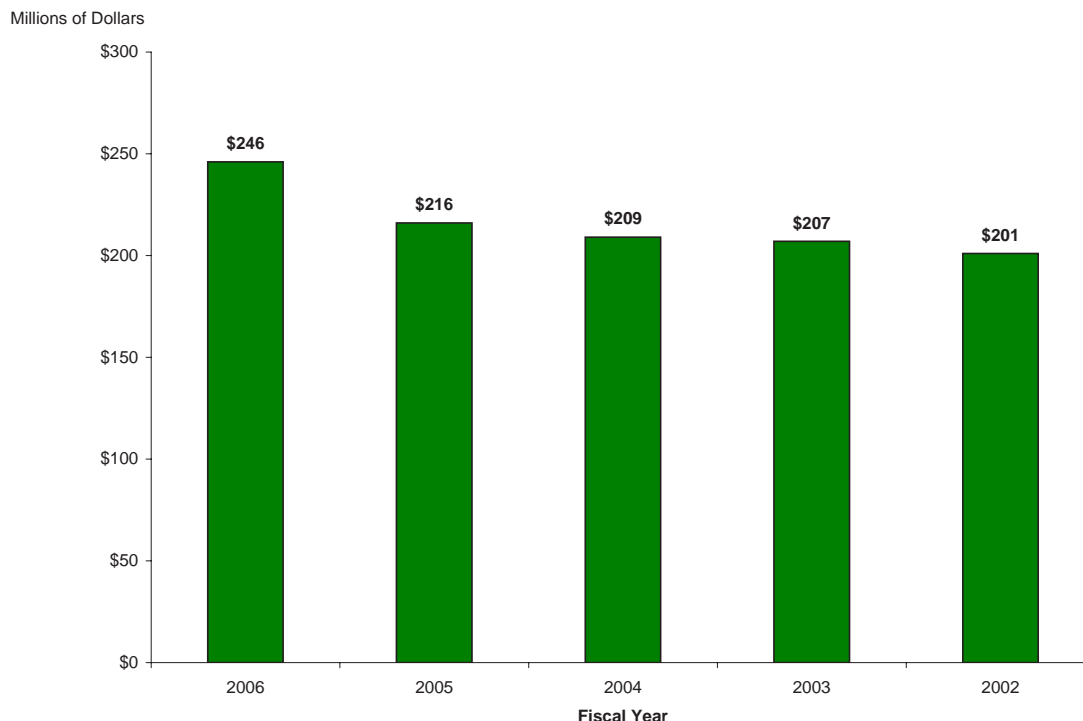
	2006	2005
Operating revenues	\$ 421,955,733	\$ 404,560,991
Operating expenses	<u>644,377,002</u>	<u>619,497,689</u>
Operating loss	(222,421,269)	(214,936,698)
Net nonoperating revenues and other changes in net assets	<u>302,708,015</u>	<u>273,696,713</u>
Increase in net assets	80,286,746	58,760,015
Net assets:		
Beginning of year	<u>796,170,111</u>	<u>737,410,096</u>
End of year	<u>\$ 876,456,857</u>	<u>\$ 796,170,111</u>

The 2006 Statement of Revenues, Expenses and Changes in Net Assets reflect an increase in net assets at the end of the year of \$80.3 million. Operating revenues increased \$17.4 million from 2005 to 2006. Student tuition and fee revenue, net of discounts, increased \$12.2 million, which is primarily the result of Board-approved tuition increases of 4% and 9% for 2005-2006 and 2004-2005 academic years, respectively, for the main campus and 4.0% and 8% for 2005-2006 and 2004-2005 academic years, respectively, for the Montgomery campus. Because the University's fiscal year crosses fall semester, tuition revenues in the fiscal year ending September 30, 2006, include 60% of fall semester of 2005, spring semester of 2006 and summer term of 2006, as well as 40% of fall semester of 2006.

Operating expenses increased \$24.9 million from 2005 to 2006. Expenses for compensation and employee benefits increased \$23.2 million, which was primarily attributable to the 2006 compensation increases of approximately 6%. Depreciation expense increased \$3.5 million, mainly due to depreciation beginning on newly completed projects in 2006.

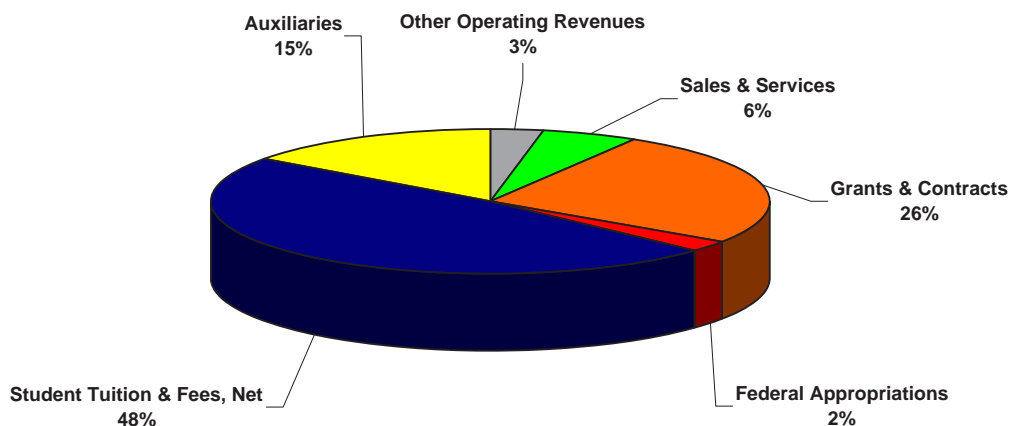
Net nonoperating revenues increased \$39.1 million from 2005 to 2006, and this increase is primarily attributable to an increase in state appropriated funding and due to a decrease in interest expense. Interest expense on capital debt decreased \$10.3 million mainly due to cumulative accrued interest being recognized for athletic capital appreciation bonds in 2005. Gifts decreased \$8.1 million in 2006 compared to 2005. In 2005, gifts approximately of \$5,000,000 were received by the University for the operations of the museum. Although the University is nearing the end of a capital campaign, the majority of these gifts are received directly by AUF. In addition, net investment income increased \$7.6 million, as a result of realized and unrealized gains. Capital gifts, grants, appropriations, and additions to permanent endowments decreased \$10.1 million when comparing \$8.7 million recognized in 2006 to \$18.8 million recognized in 2005. The University received capital appropriations of \$1.2 million in 2006, as compared to \$8.0 million in 2005. Capital appropriations decreased due to the completion of many projects funded with capital appropriations in 2005.

STATE APPROPRIATIONS



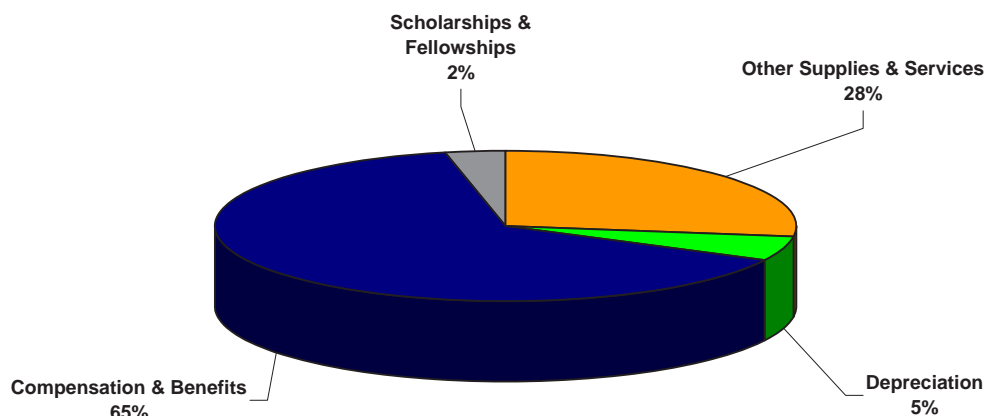
OPERATING REVENUES SUPPORTING CORE ACTIVITIES

For the year ended September 30, 2006



OPERATING EXPENSES BY NATURAL CLASSIFICATION

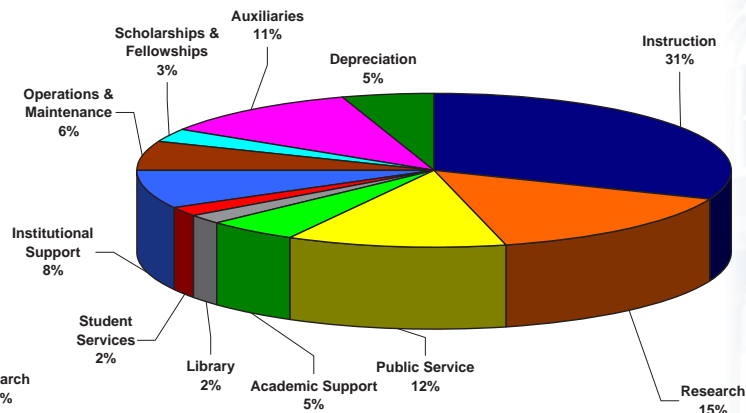
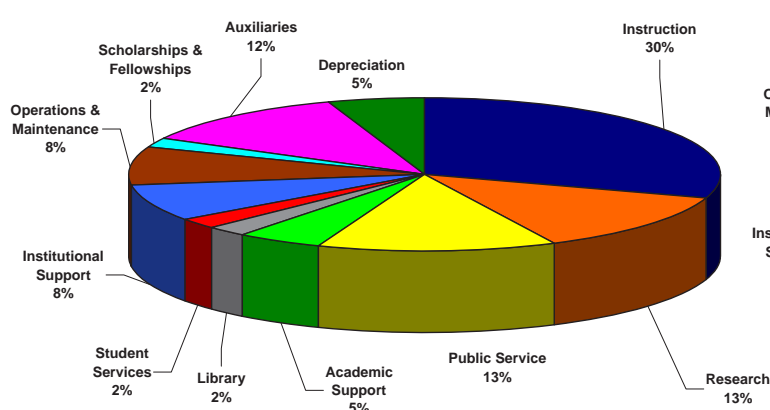
For the year ended September 30, 2006



OPERATING EXPENSES BY FUNCTION

For the year ended September 30, 2006

For the year ended September 30, 2005



Statement of Cash Flows

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

	2006	2005
Cash (used in) provided by:		
Operating activities	\$ (187,289,390)	\$ (172,220,203)
Net non-capital financing activities	244,174,655	258,211,516
Net capital and related financing activities	(113,158,455)	(115,652,789)
Net investing activities	<u>55,341,532</u>	<u>8,980,543</u>
Net decrease in cash	(931,658)	(20,680,933)
Cash and cash equivalents beginning of year	<u>23,414,373</u>	<u>44,095,306</u>
Cash and cash equivalents end of year	<u>\$ 22,482,715</u>	<u>\$ 23,414,373</u>

The University used over \$187 million of cash for operating activities in 2006, which was offset by \$244 million of cash provided by non-capital financing activities. This resulted in \$57 million available for capital financing or investing activities. In 2005, \$172 million of cash was used for operating activities, offset by \$258 million of cash provided by noncapital financing activities, resulting in \$86 million available for capital financing and investing uses.

Cash of \$113 million and \$116 million in 2006 and 2005, respectively, was used for capital and related financing activities, which primarily included purchases of capital assets and payment of principal and interest on debt and capital leases. Cash used during 2006 was consistent with 2005.

Cash provided by investing activities was \$55 million in 2006, which represents an increase of \$46.4 million over 2005. This increase is attributable to a decrease in purchases of investments and an increase in investment income.

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. The rising cost of health care remains a concern, particularly in light of the post-retirement health care benefits offered to retirees. The cost assessed to the University for retiree health care has experienced a significant increase and, in addition, accounting standards will eventually require the proper recognition of the cost of the future benefit provided to those present and future retirees who are participants in the self-funded University health insurance plan.

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

The University has recently taken steps to enhance student recruitment, both in marketing efforts and in providing additional scholarship funding. Demand and increased enrollment 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 positive economic outlook of the State of Alabama is providing the opportunity to maintain modest tuition increases, though the University must continue to maintain internal and external efforts to minimize the volatile nature of state funding on the University's budget. Neither external nor internal efforts, however, are intended to eliminate the effects of future proration or decreases in state funding.

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.

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.

UNDERGRADUATE TUITION FOR THE ACADEMIC YEAR

	2006-07	2005-06	2004-05	2003-04	2002-03
Auburn Main Campus/ Auburn University at Montgomery					
Full-Time Students					
In-State	\$ 5,256/4,760	\$ 5,038/4,410	\$ 4,828/4,230	\$ 4,426/3,900	\$ 3,784/3,390
Out-of-State	\$ 15,256/13,760	\$ 14,638/13,230	\$ 14,048/12,690	\$ 12,866/11,170	\$ 11,084/10,170

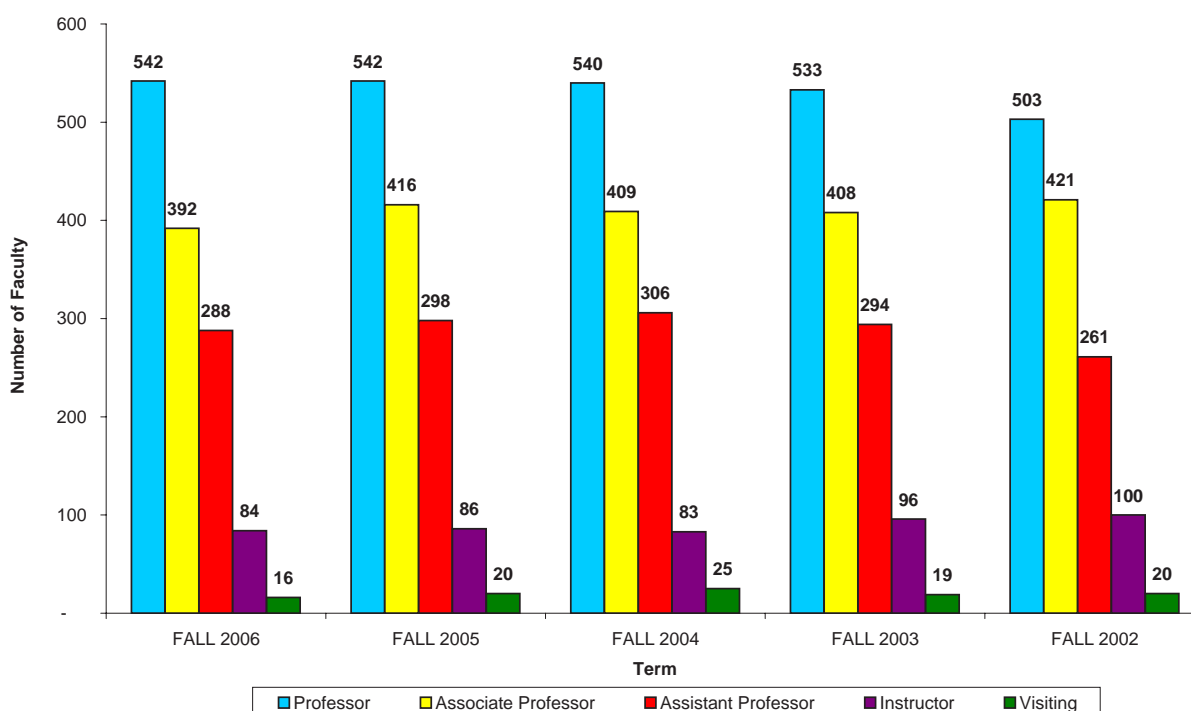
FALL STUDENT ENROLLMENT

	2006	2005	2004	2003	2002
Auburn Main Campus and Auburn University at Montgomery					
Undergraduate/Professional	24,602	24,464	24,120	24,540	24,675
Graduate	4,024	3,997	3,931	3,910	3,705

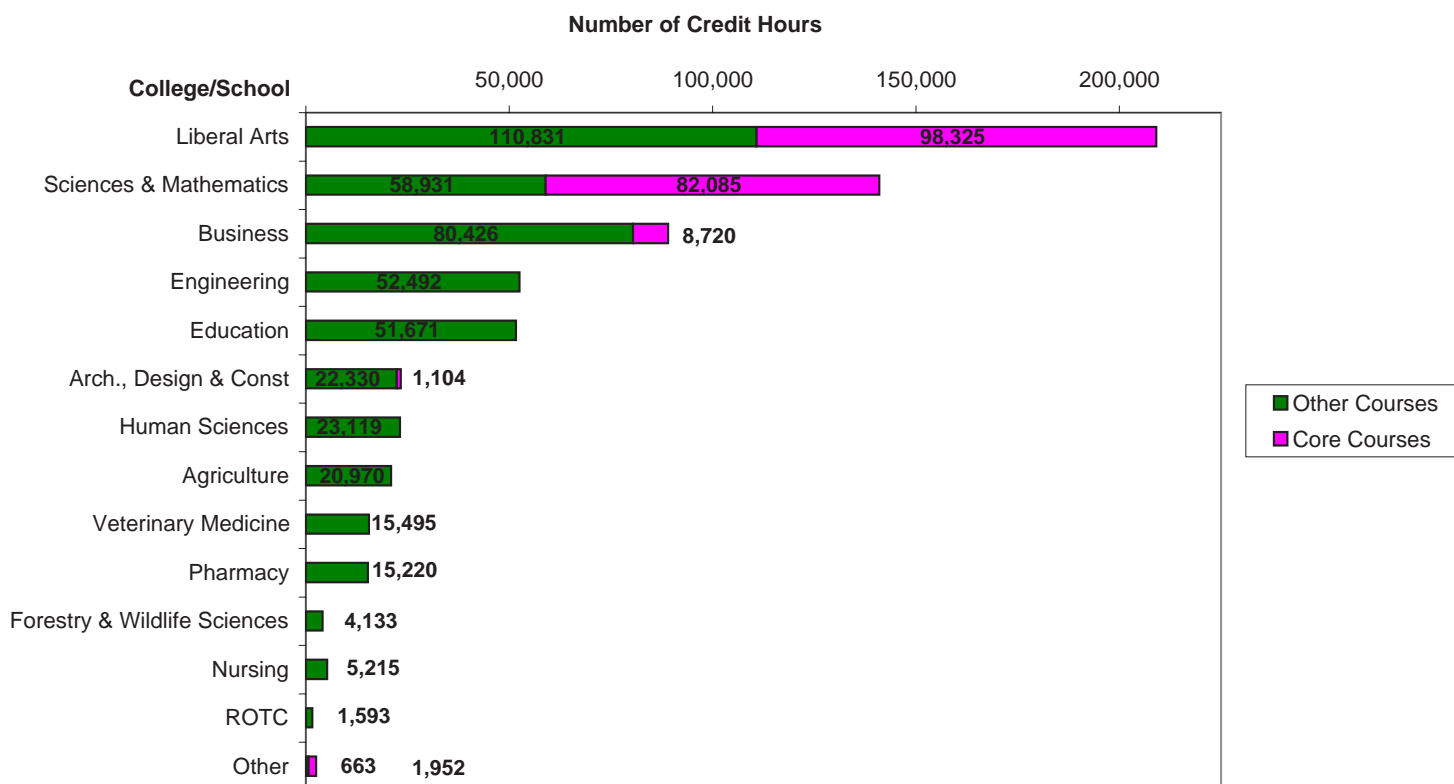
DEGREES AWARDED FOR THE ACADEMIC YEAR

	2005-06	2004-05	2003-04	2002-03	2001-02
Auburn Main Campus and Auburn University at Montgomery					
Bachelor	4,658	4,538	4,525	4,304	4,269
Advanced	1,493	1,394	1,359	1,271	1,305

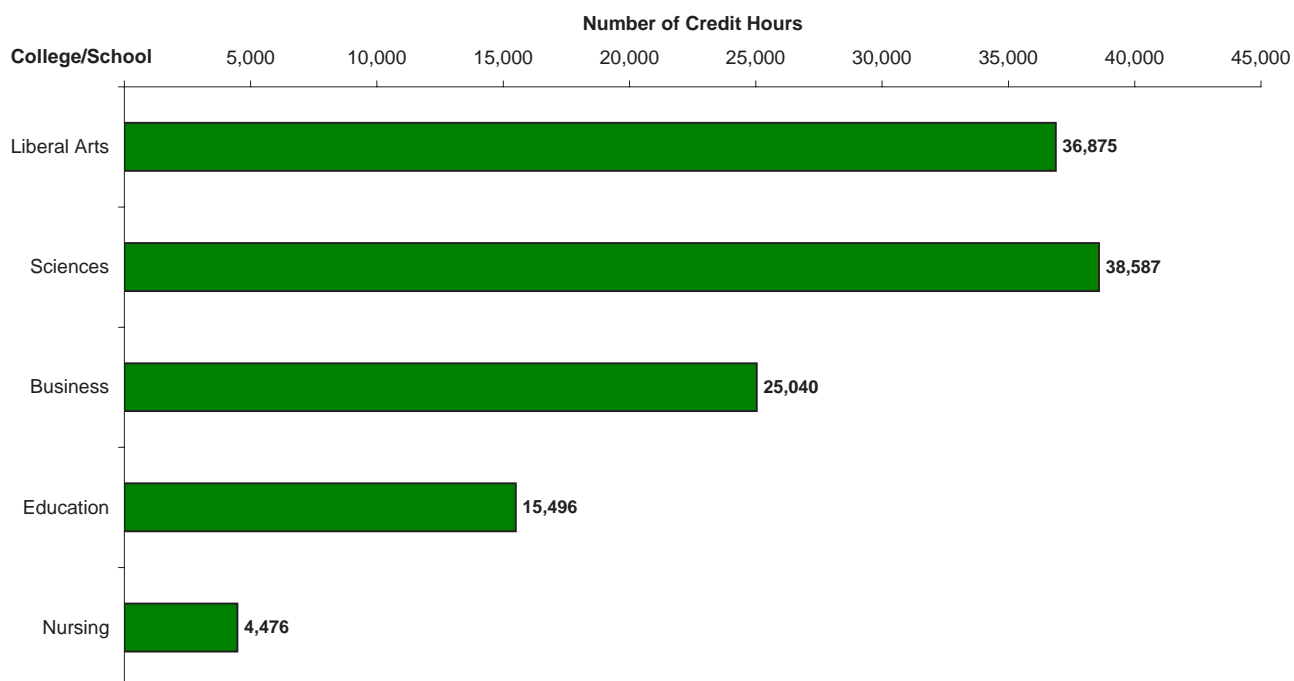
AUBURN UNIVERSITY MAIN CAMPUS AND AUBURN UNIVERSITY AT MONTGOMERY FULL-TIME FACULTY BY RANK



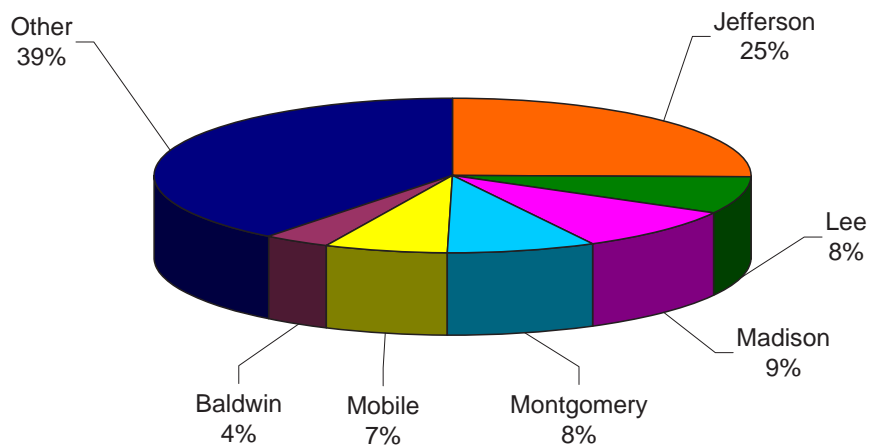
AUBURN UNIVERSITY MAIN CAMPUS TOTAL STUDENT CREDIT HOURS BY COLLEGE/SCHOOL 2005-06



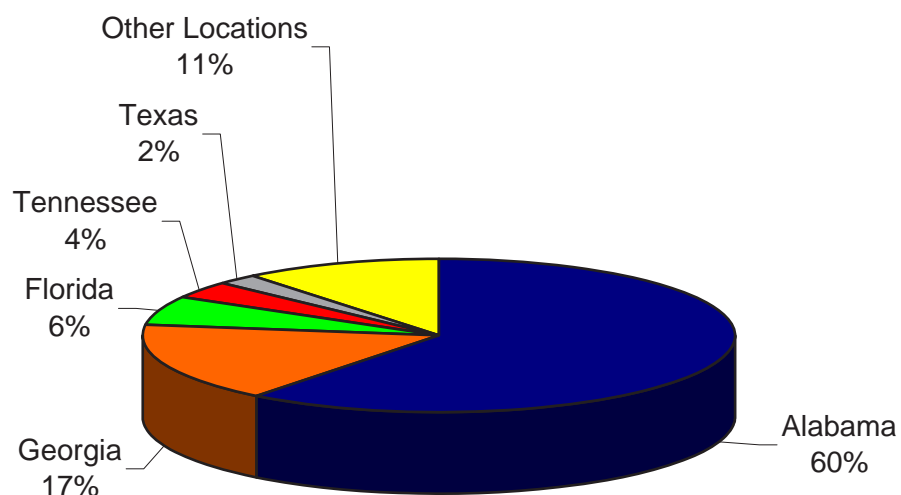
AUBURN UNIVERSITY AT MONTGOMERY TOTAL STUDENT CREDIT HOURS BY COLLEGE/SCHOOL 2005-06



AUBURN UNIVERSITY MAIN CAMPUS FRESHMAN ENROLLMENT BY ALABAMA COUNTIES SUMMER/FALL TERMS 2006



SOURCES OF ENTERING FRESHMAN BY STATE MAIN CAMPUS SUMMER/FALL TERMS 2006



AUBURN UNIVERSITY
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 22,482,715	\$ 23,414,373
Operating investments	65,363,502	35,500,045
Accounts receivable, net	37,927,582	22,842,362
Student accounts receivable, net	24,801,906	26,995,580
Loans receivable, net	2,931,909	3,242,596
Accrued interest receivable	3,783,205	3,166,554
Inventories	3,861,584	3,717,719
Prepaid expenses	3,224,313	3,321,093
Total current assets	<u>164,376,716</u>	<u>122,200,322</u>
Noncurrent assets		
Investments	464,900,568	515,050,537
Loans receivable, net	16,835,865	16,513,630
Investment in plant, net	688,311,759	622,374,818
Total noncurrent assets	<u>1,170,048,192</u>	<u>1,153,938,985</u>
Total assets	<u>1,334,424,908</u>	<u>1,276,139,307</u>
LIABILITIES		
Current liabilities		
Outstanding checks in excess of bank balance	-	24,263,179
Advances	-	84,776
Accounts payable	28,559,121	28,819,129
Accrued salaries and wages	3,346,922	2,767,512
Accrued compensated absences	17,450,410	15,149,271
Accrued interest payable	4,157,113	4,505,390
Other accrued liabilities	2,138,300	1,610,834
Student deposits	1,063,975	1,096,605
Deposits held in custody	19,617,816	18,164,650
Deferred revenues	87,595,756	76,377,964
Noncurrent liabilities-current portion	12,957,509	12,648,799
Total current liabilities	<u>176,886,922</u>	<u>185,488,109</u>
Noncurrent liabilities		
Accrued compensated absences	5,985,312	6,107,968
Bonds payable	263,002,388	275,657,293
Lease obligations	1,450,871	1,643,767
Other noncurrent liabilities	10,642,558	11,072,059
Total noncurrent liabilities	<u>281,081,129</u>	<u>294,481,087</u>
Total liabilities	<u>457,968,051</u>	<u>479,969,196</u>
NET ASSETS		
Invested in capital assets, net of related debt	438,559,234	395,565,424
Restricted		
Nonexpendable	22,927,448	22,637,567
Expendable:		
Scholarships, research, instruction, other	85,194,116	83,108,136
Loans	5,049,996	4,887,781
Capital projects	740,177	1,923,882
Unrestricted	323,985,886	288,047,321
Total net assets	<u>\$ 876,456,857</u>	<u>\$ 796,170,111</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES		
Tuition & fees, net of scholarship allowances of \$36,784,106 and \$35,822,786, respectively	\$ 204,501,267	\$ 192,315,259
Federal appropriations	10,224,608	13,444,176
Federal grants & contracts	73,535,070	77,677,600
State & local grants & contracts	22,167,518	16,000,419
Nongovernmental grants & contracts	10,739,860	10,011,805
Sales & services of educational departments	23,381,047	22,497,756
Auxiliary revenue, net of scholarship allowances of \$1,833,799 and \$1,798,448, respectively	64,123,811	60,915,466
Other operating revenues	13,282,552	11,698,510
Total operating revenues	<u>421,955,733</u>	<u>404,560,991</u>
OPERATING EXPENSES		
Compensation & benefits	419,134,595	395,948,610
Scholarships & fellowships	14,207,166	16,522,538
Other supplies & services	176,848,884	176,385,931
Depreciation	34,186,357	30,640,610
Total operating expenses	<u>644,377,002</u>	<u>619,497,689</u>
Operating loss	<u>(222,421,269)</u>	<u>(214,936,698)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	245,740,695	216,395,074
Gifts	22,547,034	30,695,864
Net investment income	35,671,671	28,103,468
Interest expense on capital debt	(9,967,957)	(20,270,554)
Nonoperating revenues, net	<u>293,991,443</u>	<u>254,923,852</u>
Income before other changes in net assets	71,570,174	39,987,154
OTHER CHANGES IN NET ASSETS		
Capital appropriations	1,151,334	7,959,830
Capital gifts & grants	7,415,133	7,170,556
Additions to permanent endowments	150,105	3,642,475
Net increase in net assets	<u>80,286,746</u>	<u>58,760,015</u>
Net assets - beginning of year	<u>796,170,111</u>	<u>737,410,096</u>
Net assets - end of year	<u>\$ 876,456,857</u>	<u>\$ 796,170,111</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition & fees	\$ 206,711,561	\$ 197,190,140
Federal appropriations	10,224,608	13,444,176
Grants & contracts	100,467,971	106,035,321
Sales & services of educational departments	23,194,348	22,536,813
Auxiliary enterprises	66,136,944	60,856,831
Other operating revenues	13,693,776	10,429,210
Payments to suppliers	(175,903,328)	(169,922,379)
Payments for employee compensation & benefits	(417,194,462)	(395,729,662)
Payments for scholarships & fellowships	(14,207,166)	(16,522,538)
Student loans issued	(3,956,432)	(4,120,537)
Student loans collected	3,542,790	3,582,422
Net cash used in operating activities	<u>(187,289,390)</u>	<u>(172,220,203)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	245,740,695	216,395,074
Gifts for other than capital purposes	22,697,139	34,295,307
(Decrease) increase in outstanding checks in excess of bank balance	<u>(24,263,179)</u>	<u>7,521,135</u>
Net cash provided by noncapital financing activities	<u>244,174,655</u>	<u>258,211,516</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	1,151,334	7,959,830
Capital grants & gifts received	5,472,990	5,928,988
Purchases of capital assets	(97,441,498)	(106,762,585)
Proceeds received from sale of capital assets	87,562	333,150
Principal paid on debt & capital leases	(12,293,196)	(11,299,920)
Interest paid on debt & capital leases	<u>(10,135,647)</u>	<u>(11,812,252)</u>
Net cash used in capital and related financing activities	<u>(113,158,455)</u>	<u>(115,652,789)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments and reinvestments	204,477,529	296,543,433
Investment income	23,604,155	18,429,390
Purchases of investments	<u>(172,740,152)</u>	<u>(305,992,280)</u>
Net cash provided by investing activities	<u>55,341,532</u>	<u>8,980,543</u>
Net decrease in cash and cash equivalents	(931,658)	(20,680,933)
Cash and cash equivalents, beginning of year	<u>23,414,373</u>	<u>44,095,306</u>
Cash and cash equivalents, end of year	<u>\$ 22,482,715</u>	<u>\$ 23,414,373</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (222,421,269)	\$ (214,936,698)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	33,794,341	30,243,617
Write-off of loans receivable	402,094	346,403
(Gain) Loss on sale of net assets	(24,415)	373,462
Capitalization of prior year expenses	(155,109)	(2,203,160)
Changes in assets and liabilities:		
Accounts receivable	(14,645,587)	6,121,305
Student accounts receivable	2,193,674	1,533,956
Advances	(84,776)	(382,928)
Inventories	(143,865)	(43,487)
Deferred revenue	11,217,792	(84,028)
Accounts payable	(1,201,217)	8,241,604
Prepaid expenses	96,780	474,051
Accrued salaries, wages and compensated absences	2,757,893	226,299
Student deposits and deposits held in custody	1,420,537	(1,735,940)
Loans to students	(413,642)	(538,115)
Other accrued liabilities	527,467	(864,114)
Other noncurrent liabilities	(610,088)	1,007,570
Net cash used in operating activities	<u>\$ (187,289,390)</u>	<u>\$ (172,220,203)</u>

SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION

Capital assets acquired with a liability at year-end	\$ 7,691,800	\$ 6,750,592
Gifts of capital assets	1,502,510	2,108,851
Capital assets acquired through capital leases	146,116	90,172
Capitalized interest	2,388,088	-

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2006 AND 2005

	Auburn University Foundation		Auburn Alumni Association	
	2006	2005	2006	2005
ASSETS				
Cash and cash equivalents	\$ 331,046	\$ 392,503	\$ 6,539	\$ 21,311
Investments	233,064,207	206,714,795	3,411,970	2,848,360
Investment in Auburn University Foundation securities pool	-	-	6,932,602	6,604,811
Accrued interest receivable	1,048,615	673,660	71,971	30,265
Contributions receivable, net	22,490,579	17,276,719	467,567	414,788
Notes receivable	953,029	898,968	-	-
Other receivables	24,094	20,737	-	-
Other assets	51,857	4,921	-	-
Investment in real estate	579,683	561,683	674,799	674,799
Property and equipment, net	815,421	1,706,767	2,221,364	2,320,885
Prepaid rent	-	-	33	34
Due from Auburn University	-	-	-	66,610
Due from Auburn University Foundation	-	-	80,178	72,566
Total assets	<u>259,358,531</u>	<u>228,250,753</u>	<u>13,867,023</u>	<u>13,054,429</u>
LIABILITIES				
Accounts payable and accrued liabilities	241,634	148,262	76,961	63,546
Notes payable	165,927	326,314	-	-
Annuities payable	7,844,186	6,763,172	-	-
Due to Auburn University	2,048,815	1,596,164	101,365	174,144
Due to Auburn Alumni Association	7,012,780	6,675,667	-	-
Due to Tigers Unlimited Foundation	5,536,258	5,364,252	-	-
Deferred revenue	-	-	6,881,973	6,666,723
Total liabilities	<u>22,849,600</u>	<u>20,873,831</u>	<u>7,060,299</u>	<u>6,904,413</u>
NET ASSETS				
Unrestricted	18,965,935	19,256,991	6,806,724	6,150,016
Temporarily restricted	58,810,699	43,052,006	-	-
Permanently restricted	<u>158,732,297</u>	<u>145,067,925</u>	<u>-</u>	<u>-</u>
Total net assets	<u>236,508,931</u>	<u>207,376,922</u>	<u>6,806,724</u>	<u>6,150,016</u>
Total liabilities and net assets	<u>\$ 259,358,531</u>	<u>\$ 228,250,753</u>	<u>\$ 13,867,023</u>	<u>\$ 13,054,429</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	Auburn University Foundation		Auburn Alumni Association	
	2006	2005	2006	2005
REVENUES AND OTHER SUPPORT				
Public support - contributions	\$ 38,256,307	\$ 25,228,169	\$ 1,007,809	\$ 678,242
Investment income	3,948,112	3,758,775	385,755	306,575
Other revenues	274,182	536,716	1,628,338	1,575,527
Total operating revenues	<u>42,478,601</u>	<u>29,523,660</u>	<u>3,021,902</u>	<u>2,560,344</u>
EXPENSES AND LOSSES				
Program services				
Contributions to and support for Auburn University	19,285,134	15,989,101	-	-
Other program services	1,762,785	1,778,833	742,265	819,734
Total program services	<u>21,047,919</u>	<u>17,767,934</u>	<u>742,265</u>	<u>819,734</u>
Support services				
General and administrative	1,723,627	1,792,030	1,756,493	1,188,476
Fund raising	4,261,841	3,303,473	203,398	139,981
Total support services	<u>5,985,468</u>	<u>5,095,503</u>	<u>1,959,891</u>	<u>1,328,457</u>
Total expenses	<u>27,033,387</u>	<u>22,863,437</u>	<u>2,702,156</u>	<u>2,148,191</u>
Unrealized gains on investments	(10,675,625)	(7,903,021)	(336,962)	(461,996)
Realized gains on investments	(3,639,990)	(8,804,113)	-	-
Impairment on real estate	10,000	50,000	-	-
Change in valuation of split-interest agreements	618,820	(1,943,977)	-	-
Total expenses, (gains) and losses	<u>13,346,592</u>	<u>4,262,326</u>	<u>2,365,194</u>	<u>1,686,195</u>
Change in net assets	29,132,009	25,261,334	656,708	874,149
NET ASSETS				
Beginning of the year	<u>207,376,922</u>	<u>182,115,588</u>	<u>6,150,016</u>	<u>5,275,867</u>
End of the year	<u>\$ 236,508,931</u>	<u>\$ 207,376,922</u>	<u>\$ 6,806,724</u>	<u>\$ 6,150,016</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2006 AND 2005

	Tigers Unlimited Foundation	
	2006	2005
ASSETS		
Cash and cash equivalents	\$ 3,238,419	\$ 767,091
Investments	19,960,653	15,063,864
Investment in Auburn University Foundation securities pool	5,693,296	5,076,386
Accrued interest receivable	183,108	111,556
Contributions receivable, net	11,689,596	11,963,055
Other receivables	31,138	-
Other assets	486,648	56,148
Property and equipment, net	2,349	4,650
Due from Auburn University	37,105	-
Due from Auburn University Foundation	105,048	101,633
Total assets	<u>41,427,360</u>	<u>33,144,383</u>
LIABILITIES		
Accounts payable and accrued liabilities	465,878	3,198,056
Deposits payable	1,212,378	920,521
Notes payable	-	186,600
Due to Auburn University	2,393,037	1,711,753
Total liabilities	<u>4,071,293</u>	<u>6,016,930</u>
NET ASSETS		
Unrestricted	17,702,485	8,461,538
Temporarily restricted	14,164,508	13,743,967
Permanently restricted	5,489,074	4,921,948
Total net assets	<u>37,356,067</u>	<u>27,127,453</u>
Total liabilities and net assets	<u>\$ 41,427,360</u>	<u>\$ 33,144,383</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	Tigers Unlimited Foundation	
	2006	2005
REVENUES AND OTHER SUPPORT		
Public support - contributions	\$ 26,339,459	\$ 21,059,539
Investment income	764,880	1,022,328
Other revenues	<u>843,192</u>	<u>583,365</u>
Total operating revenues	<u>27,947,531</u>	<u>22,665,232</u>
EXPENSES AND LOSSES		
Program services		
Contributions to and support for Auburn University	6,933,649	14,848,709
Other program services	<u>5,792,455</u>	<u>4,975,647</u>
Total program services	<u>12,726,104</u>	<u>19,824,356</u>
Support services		
General and administrative	1,088,104	454,957
Fund raising	<u>1,578,820</u>	<u>3,091,936</u>
Total support services	<u>2,666,924</u>	<u>3,546,893</u>
Total expenses	<u>15,393,028</u>	<u>23,371,249</u>
Unrealized (gains) losses on investments	(91,802)	35,114
Realized losses on investments	13,777	7,594
Loss on write-off of contributions receivable	<u>2,403,914</u>	<u>-</u>
Total expenses (gains) and losses	<u>17,718,917</u>	<u>23,413,957</u>
Transfer to Auburn University Foundation	<u>-</u>	<u>(68,251)</u>
Change in net assets	10,228,614	(816,976)
NET ASSETS		
Beginning of the year	<u>27,127,453</u>	<u>27,944,429</u>
End of the year	<u>\$ 37,356,067</u>	<u>\$ 27,127,453</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

(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 28,626 students for fall semester 2006. It serves the State of Alabama, the nation and international business communities through instruction of students and the advancement of research and outreach programs. By statutory laws of the State of Alabama, the University is governed by the Board of Trustees (the Board), appointed by the Governor, a committee consisting of two trustees and two Auburn 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 only Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, unless the FASB pronouncements conflict 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.

Auburn University Foundation and the Auburn Alumni Association are exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. Tigers Unlimited Foundation, a newly created organization in 2004, is exempt from federal taxes under section 501(a) as an organization described in section 501(c)(3). Therefore, no provision has been made for income taxes in their respective financial statements.

Contributions intended for the University's benefit 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) and corresponding state law.

Component Units

The University adheres to the provisions of 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 the Auburn Alumni Association in these financial statements. These three affiliated organizations' financial statements are presented following the University's statements. The component units are not GASB entities; therefore, their respective financial statements are prepared using 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 and benefit of the University. AUF's activities are governed by its own Board of Directors.

Tigers Unlimited Foundation (TUF) is an independent corporation that began operations on April 21, 2004. It was formed for the sole purpose of obtaining and disbursing funds for the use and benefit of 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 the applicable entity at 317 South College Street, Auburn, Alabama 36849.

Financial Statement Presentation

For financial reporting purposes, the University adheres to the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. 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 and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted net assets:**
 - Nonexpendable** – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.
 - Expendable** – Net assets whose use by the University are subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations, or that expire by the passage of time.
- **Unrestricted net assets:** Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or 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.

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

Basis of Accounting

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

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

(2) SIGNIFICANT ACCOUNTING POLICIES OF AUBURN UNIVERSITY

Cash & Cash Equivalents

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

Investments

Investments in equity securities, mutual funds, common trust funds, 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 that 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

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

Capital Assets

Capital expenditures for and gifts of land, buildings and equipment are carried at cost at date of acquisition or, in the case of gifts, at fair market value on 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). Land and construction in progress are not depreciated. The threshold for capitalizing buildings and infrastructure is \$25,000. Expenditures for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized if they meet the \$25,000 threshold. Equipment is capitalized if the cost exceeds \$2,500 and has a useful life of more than one year. All buildings are insured through the State of Alabama Property Insurance Fund.

Art collections and historical treasures are capitalized and valued at cost or fair market value on 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 (see Note 12).

Classification of Revenues

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

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

Compensated Absences

The University reports employees' accrued annual leave and sick leave at varying rates depending upon employee classification and length of service, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rates of pay up to a designated maximum number of days. GASB Statement No. 35 requires the amount of compensated absences that are due within one year of the fiscal year end to be classified as a current liability. Since this amount cannot be known 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. Pledged revenue representing unconditional promises to give is normally received by AUF or TUF and later disbursed in accordance with the donors' wishes for the benefit of the University. In fiscal year 2005, the University received one gift pledge and one life insurance premium pledge. In accordance with the recognition criteria of GASB Statement No. 33, neither pledge is recorded in these statements. Both pledges are restricted expendable gifts and will be recorded when they are received.

(3) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of petty cash funds and demand deposits held in the name of the University. The Board approves all banks or other institutions as depositories for University funds. GASB Statement No. 40 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. As a result, the University believes its custodial risk related to cash and cash equivalents is remote.

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

Diversification through asset allocation is utilized as a fundamental risk strategy for endowed funds. These strategic allocations represent a blend of assets best suited, over the long term, to achieve maximum returns without violating the risk parameters established by the Board. The Endowment Investment Policy approved 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 2006 and 2005, fiscal years was 3.90%. 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, since their inception, total \$42,765,435 and \$36,445,694 at September 30, 2006, and 2005, respectively, and are recorded as restricted expendable net assets.

The components of the cumulative net gains in fair value of investments for the years ended September 30, 2006, and 2005 are as follows:

	2006	2005
Realized gains on sale of investments	\$ 23,580,597	\$ 22,799,693
Unrealized gains	<u>19,184,838</u>	<u>13,646,001</u>
Net gains in fair value of investments	<u>\$ 42,765,435</u>	<u>\$ 36,445,694</u>

Investment Risks

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

- **Interest Rate Risk** – Interest rate or market risk is the potential for changes in the value of financial instruments due to interest rate changes in the market. Certain fixed maturity investments contain call provisions that could result in shorter maturity periods. As previously stated, it is the University's intent to hold all investments in the Cash Pool until maturity. The Board understands that in order to achieve its objectives, investments can experience fluctuations in fair value. Both the University 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, 2006 and 2005, and presents the fair value of investments by investment type and related maturity:

**Auburn University Investments
Ratings of Fixed Maturities
September 30, 2006 and 2005**

Type of Investments	< 1 year		1-5 years		6-10 years		> 10 years		Total Fair Value	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Fixed Maturity										
Repurchase Agreements	\$ 1,200,000	\$ 1,500,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,200,000	\$ 1,500,000
Commercial Paper	13,956,336	2,995,613	—	—	—	—	—	—	13,956,336	2,995,613
Certificates of Deposit	—	1,000,000	1,590,255	570,192	—	—	—	—	1,590,255	1,570,192
U. S. Treasury Obligations	40,131,185	13,171,716	18,939,193	51,101,308	3,633,393	19,875	1,348,018	1,886,683	64,051,789	66,179,582
U. S. Agency Securities	44,802,498	44,439,460	133,427,201	153,873,335	80,991,403	92,890,498	10,588,835	12,656,722	269,809,937	303,860,015
Mortgage Backed Securities	2,650,917	—	—	997,330	1,911,403	—	20,961,199	18,297,367	25,523,519	19,294,697
Asset Backed Securities	—	—	2,210,838	2,424,150	100,516	829,938	—	—	2,311,354	3,254,088
Corporate Bonds	—	—	2,868,304	2,227,134	—	391,114	—	—	2,868,304	2,618,248
Non U. S. Governments	189,893	—	654,484	—	—	—	—	—	844,377	—
Municipals	—	—	—	—	—	—	685,980	1,113,219	685,980	1,113,219
Total Fixed	\$ 102,930,829	\$ 63,106,789	\$ 159,690,275	\$ 211,193,449	\$ 86,636,715	\$ 94,131,425	\$ 33,584,032	\$ 33,953,991	\$ 382,841,851	\$ 402,385,654
Domestic Equities									919,502	924,580
Alternative Investments (Limited Partnerships)										
Hedge Funds									15,000,000	11,000,000
Private Capital									713,727	280,000
Real Assets									12,716,868	8,000,000
Real Estate									740,750	740,750
Mutual Funds									108,013,265	106,770,103
Other									3,408,067	3,279,542
Money Market									<u>23,130,896</u>	<u>39,669,953</u>
Total Investments									547,484,726	573,050,582
Less Cash and Cash Equivalent held in Cash Pool									(17,220,656)	(22,500,000)
Operating and Noncurrent Investments									<u>\$ 530,264,070</u>	<u>\$ 550,550,582</u>

- **Custodial Credit Risk** – GASB Statement No. 40 defines investment custodial risk as “the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.” Although no formal policy has been adopted, the University requires its safekeeping agents to hold all securities in the University’s name for both the Cash Pool and the Endowment Pool. Certain limited partnership investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.
- **Credit Quality Risk** – GASB Statement No. 40 defines credit risk as “the risk that an issuer or other counterparty to an investment will not fulfill its obligations as they become due.” The University Non-Endowment Cash Pool Investment Policy stipulates that commercial paper be rated P1 by Moody’s or A1 by Standard & 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, 2006, and 2005, concerning credit quality risk:

**Auburn University Investments
Ratings of Fixed Maturities**

Moody's Rating	Fair Value	Fair Value as a % of Total Fixed Maturity Fair Value	Fair Value	Fair Value as a % of Total Fixed Maturity Fair Value
2006			2005	
US Treasury	\$ 64,051,791	16.73%	\$ 66,179,582	16.45%
Aaa	299,516,710	78.23%	327,868,960	81.48%
Aa	1,636,367	0.43%	683,220	0.17%
A	890,392	0.23%	1,588,087	0.40%
P1	13,956,336	3.65%	2,995,613	0.74%
Not Rated*	2,790,255	0.73%	3,070,192	0.76%
	<u>\$ 382,841,851</u>	<u>100.00%</u>	<u>\$ 402,385,654</u>	<u>100.00%</u>

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

- **Concentration of Credit Risk** – GASB Statement No. 40 defines concentration of credit risk as "the risk of loss attributed to the magnitude of a government's investment in a single issuer." The University Non-Endowment Cash Pool Investment Policy does not limit the aggregate amounts that can be invested in U.S. Treasury securities with the explicit guarantee of the U.S. Government or U.S. Agency securities that carry the implicit guarantee of the U.S. Government. The University's portfolio includes only U.S. Agency securities that represent five percent of total investments. As of September 30, 2006, and 2005, the University Cash Pool and the 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 Statement No. 40 defines foreign currency risk as "the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit." No formal University policy has been adopted addressing foreign currency risk. As of September 30, 2006, and 2005, the 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 University Endowment Pool. As of September 30, 2006, and 2005, there was no participation in any securities lending program.

Interest Sensitive Securities

As of September 30, 2006, and 2005, the University held \$25,523,519 and \$19,294,697, representing 4.66% and 3.37%, respectively, of its total investments in mortgage-backed securities. As of September 30, 2006, and 2005, the University held \$2,311,354 and \$3,254,088 representing 0.42% and 0.57%, 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. The University's investment policies do not restrict the purchase of mortgage-backed securities, asset-backed securities, or bonds with call provisions.

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, 2006, and 2005, the Auburn University Cash Pool held \$28,651,962 and \$27,001,759, representing 5.23% and 4.71%, respectively, of total investments in continuously callable fixed maturity investments.

The University owns shares in eight mutual funds and three 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 year 2006, the University entered into subscription agreements with ten limited partnership investments. As of September 30, 2006, the aggregate amount of capital committed to these investment partnerships is \$42,500,000 of which capital contributions of \$28,430,395 have been made. Of these ten commitments, four subscriptions relate to hedge funds, two subscriptions relate to private equity funds, and four 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 investments in commercial real estate, residential real estate, oil and gas production and a commitment to timber investment fund.

As of September 30, 2006, and 2005, the University's limited partnership investments are carried at cost. As required by GASB Statement No. 31, no adjustment was recorded to recognize net unrealized gains and losses. Limited partnership investments are made in accordance with the University's investment policy, which approves the allocation of funds to various assets classes (i.e., 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.

A Swap Policy was adopted by the Board on September 22, 2006. In October 2006, the University entered into a Constant Maturity Swap (CMS) Agreement with Deutsche Bank AG as the counterparty for the purpose of reducing the net interest paid on the University's Series 2001A and 2004 General Fee Revenue Bonds. It is expected that positive cash flows will lower the associated bonds' interest expense and that this will occur as the yield curve reverts to the upward sloping curve. The terms of the Swap Agreements are listed below. The bonds associated with the notional value of the swaps are as follows:

	2001 A General Fee Bonds	2004 General Fee Bonds
Notional amount	\$ <u>74,750,000</u>	\$ <u>72,105,000</u>
Trade date	September 19, 2006	September 19, 2006
Execution date	October 3, 2006	October 3, 2006
Effective date	March 1, 2008	March 1, 2008
Termination date	June 1, 2026	June 1, 2034

The Swap Agreement uses the International Swap Deals Association (ISDA) Master Agreement. In the CMS, the University agrees to pay a short term floating rate in exchange for receiving a variable interest rate which is associated with a longer-term spot on the yield curve. According to the agreement, the University will pay the one month London Interbank Offered Rate (LIBOR) and receive 90.62% of the ten year LIBOR with settlement in June and December to coincide with the associated bond payment schedules. On December 19, 2006, the Swap Agreement was valued at \$573,337, by the Investment Management Advisory Group, Inc.

The table entitled, "Auburn University Investments Ratings of Fixed Maturities," provided includes funds held for pending capital expenditures as follows at September 30, 2006: \$36,177,405, 2004 General Fee Bond Proceeds; \$976,612, 2004 Athletic Bond Proceeds; and \$20,205,105, Deferred Maintenance Building Fund. The General Liability Account holds investments of \$6,005,439.

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

AUF investments at September 30, 2006 and 2005 include the following:

	2006		2005	
	Fair Value	Cost	Fair Value	Cost
Cash and pooled investments	\$ 3,393,167	\$ 3,393,167	\$ 3,956,619	\$ 3,942,152
Government bonds, notes and other securities	24,748,468	24,723,171	22,273,815	22,120,931
Corporate bonds and debentures	7,261,183	7,176,824	6,749,985	6,879,836
Corporate stocks	3,690,906	3,968,092	3,968,314	3,988,066
Mutual funds and common trust funds	138,288,317	117,473,513	134,656,964	121,008,125
Hedge funds	33,870,686	30,500,000	24,117,199	23,500,000
Private equity funds	2,059,489	2,104,408	350,000	350,000
Real estate asset investment funds	17,546,616	16,035,854	10,238,208	10,000,000
Cash value of life insurance	2,205,375	2,205,373	403,691	403,691
Total investments	<u>\$ 233,064,207</u>	<u>\$ 207,580,402</u>	<u>\$ 206,714,795</u>	<u>\$ 192,192,801</u>

AUF owns shares in five mutual funds and four common trust funds. These funds are invested in domestic marketable securities, international marketable securities and debt securities. AUF also owns limited partnership interests of which the goal is to invest in readily marketable securities, privately held companies and properties within different industry sectors. At investment inception, AUF enters into a separate subscription agreement with a capital commitment to each limited partnership.

As of September 30, 2006, AUF has subscription agreements with twelve limited partnership investments. The aggregate amount of capital committed to these investment partnerships is \$70,500,000 of which capital contributions of \$48,640,262 have been invested. A net realized gain of \$4,836,530 has been recorded on these investments in the Statement of Activities and Changes in Net Assets. Of these twelve commitments, five subscriptions relate to hedge funds, three subscriptions relate to private equity funds, and four 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, residential real estate, oil and gas production and a commitment to a timber investment fund.

AUF believes that the carrying amount of its limited partnership investments is a reasonable estimate of fair value as of September 30, 2006. 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 \$166,947,757 and \$159,597,709 and the market value was \$191,569,739 and \$173,263,501 at September 30, 2006, and September 30, 2005, respectively. The portion of endowment income received by the University from these funds was \$6,024,214 and \$4,455,458 for the fiscal years ended September 30, 2006, and 2005, respectively. Endowment earnings are distributed annually in January, based on the AUF endowment distribution spending rate, which was 3.9% for the fiscal years ended September 30, 2006, and 2005.

In addition, the University has been named as a beneficiary of a foundation with investments having a cost of \$2,763,416 and \$2,773,402 and a market value of \$2,998,038 and \$3,017,140 at September 30, 2006, and 2005, respectively.

The University is the beneficiary of the income earned on two additional trusts. The income received from the two trusts was \$20,280 and \$95,563 for the years ended September 30, 2006, and 2005, respectively.

(6) ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for doubtful accounts at September 30, 2006, and 2005, are summarized as follows:

	2006	2005
NON - STUDENT ACCOUNTS RECEIVABLE		
Federal, state & local government	\$ 29,452,140	\$ 21,030,584
Less allowance for doubtful accounts	(825,000)	(825,000)
General	6,215,816	1,564,294
Less allowance for doubtful accounts	(4,728,719)	(238,518)
Auxiliary	6,471,565	408,854
Capital	1,341,780	902,148
Total	<u>\$ 37,927,582</u>	<u>\$ 22,842,362</u>

	2006	2005
STUDENT ACCOUNTS RECEIVABLE		
Unrestricted general	\$ 24,121,036	\$ 23,431,079
Less allowance for doubtful accounts	(889,758)	(753,790)
Unrestricted auxiliary	1,631,795	4,356,279
Less allowance for doubtful accounts	(61,167)	(37,988)
Total	<u>\$ 24,801,906</u>	<u>\$ 26,995,580</u>

(7) CAPITAL ASSETS

Capital assets at September 30, 2006, and 2005 are summarized as follows (dollars in thousands):

	Sept. 30, 2005	Additions	Deletions	Sept. 30, 2006
Capital assets not being depreciated				
Land	\$ 15,194	\$ 699	\$ (3)	\$ 15,890
Art & collectibles	6,221	382	-	6,603
Construction in progress	70,726	86,881	(115,361)	42,246
Livestock	1,251	104	(145)	1,210
Total capital assets not being depreciated	<u>93,392</u>	<u>88,066</u>	<u>(115,509)</u>	<u>65,949</u>
Capital assets being depreciated				
Land improvements	27,709	11,404	-	39,113
Buildings	636,744	55,221	(2,041)	689,924
Equipment	150,980	9,549	(3,713)	156,816
Infrastructure	79,474	42,637	-	122,111
Library books	119,406	6,053	(693)	124,766
Banner implementation	3,649	2,752	-	6,401
Total capital assets being depreciated	<u>1,017,962</u>	<u>127,616</u>	<u>(6,447)</u>	<u>1,139,131</u>
Less accumulated depreciation for				
Land improvements	9,125	1,788	-	10,913
Buildings	253,545	13,001	(2,239)	264,307
Equipment	101,300	11,402	(3,465)	109,237
Infrastructure	27,632	2,557	-	30,189
Library books	97,377	4,798	(693)	101,482
Banner implementation	-	640	-	640
Total accumulated depreciation	<u>488,979</u>	<u>34,186</u>	<u>(6,397)</u>	<u>516,768</u>
Total capital assets being depreciated, net	<u>528,983</u>	<u>93,430</u>	<u>(50)</u>	<u>622,363</u>
Capital assets, net	<u>\$ 622,375</u>	<u>\$ 181,496</u>	<u>\$ (115,559)</u>	<u>\$ 688,312</u>

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	1,319	83	(151)	1,251
Total capital assets not being depreciated	95,066	43,297	(44,971)	93,392
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	-	3,649	-	3,649
Total capital assets being depreciated	925,831	117,594	(25,463)	1,017,962
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
Total accumulated depreciation	481,871	30,640	(23,532)	488,979
Total capital assets being depreciated, net	443,960	86,954	(1,931)	528,983
Capital assets, net	\$ 539,026	\$ 130,251	\$ (46,902)	\$ 622,375

During the fiscal years ended September 30, 2006, and 2005, the University received \$1.2 million and \$8.0 million, respectively, from the State of Alabama to fund construction. These revenues are classified as capital appropriations on the Statements of Revenues, Expenses and Changes in Net Assets.

In fiscal year 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 in 2005 and 2006, for the software, technical consultants and other related implementation costs. The system's finance module was implemented on October 1, 2005, with Human Resources being implemented in June 2006. Student and Financial Aid modules will be implemented later in fiscal year 2007. Depreciation expense for Banner implementation was recognized in fiscal year 2006.

(8) LONG-TERM DEBT

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

	Balance at September 30, 2005	Principal New Debt	Repayment	Balance at September 30, 2006
Bonds payable				
1978 Auburn University at Montgomery Dormitory Revenue bonds, \$3,279,000 face value, 3.0%, due annually through 2018, a reserve of \$184,895 and a \$132,495 contingency fund.	\$ 1,650,000	\$ -	\$ (95,000)	\$ 1,555,000

Bonds payable	Balance at September 30, 2005	Principal New Debt	Repayment	Balance at September 30, 2006
2001 General Fee Revenue bonds, \$19,460,000 face value, 3.25% to 5.0%, due annually through 2011.	12,815,000	-	(1,885,000)	10,930,000
2001A General Fee Revenue bonds, \$74,750,000 face value, 5.0% to 6.0%, due annually from 2012 through 2026.	74,750,000	-	-	74,750,000
2001A Athletic Revenue bonds, \$24,412,607 face value, 2.125% to 5.49%, due annually through 2021.	22,901,371	-	(381,942)	22,519,429
2003 General Fee Revenue bonds, \$49,460,000 face value, 1.45% to 5.25%, due annually through 2016.	44,635,000	-	(3,525,000)	41,110,000
2003 Athletic Revenue bonds, \$21,900,000 face value, 2.25% to 5.0%, due annually through 2010.	14,280,000	-	(2,655,000)	11,625,000
2003 Housing and Dining Revenue bonds, \$15,645,000 face value, 1.4% to 5.0%, due annually through 2012.	11,955,000	-	(1,555,000)	10,400,000
2004 General Fee Revenue bonds, \$76,875,000 face value, 3.0% to 5.25%, due annually through 2034.	74,775,000	-	(1,310,000)	73,465,000
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	-	(530,000)	24,330,000
2004B Athletic Revenue bonds, \$3,050,000 face value, 5.75%, due annually from 2022 through 2024.	3,050,000	-	-	3,050,000
Total bonds payable	285,671,371	-	(11,936,942)	273,734,429
Plus unamortized bond premium	5,056,635	-	(833,210)	4,223,425
Less unamortized bond discount	(1,281,555)	-	78,270	(1,203,285)
Less unamortized loss on refunding	(1,460,202)	-	362,926	(1,097,276)
	287,986,249	-	(12,328,956)	275,657,293
Less: current portion				
Bonds payable	(11,936,942)			(12,287,903)
Unamortized bond premium	(833,210)			(733,317)
Unamortized bond discount	78,270			76,186
Unamortized loss on refunding	362,926			290,129
Total noncurrent bonds payable	\$ 275,657,293			\$ 263,002,388

	Balance at September 30, 2004	Principal New Debt	Repayment	Balance at September 30, 2005
Bonds payable				
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 \$180,320 and a \$129,164 contingency fund.	1,745,000	-	(95,000)	1,650,000
2001 General Fee Revenue bonds, \$19,460,000 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 from 2012 through 2026.	74,750,000	-	-	74,750,000
2001A Athletic Revenue bonds, \$24,412,607 face value, 2.125% to 5.49%, due annually through 2021.	23,257,515	-	(356,144)	22,901,371
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

	Balance at September 30, 2004	Principal New Debt	Repayment	Balance at September 30, 2005
Bonds payable				
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)
Unamortized bond premium	(922,230)			(833,210)
Unamortized bond discount	79,178			78,270
Unamortized loss on refunding	<u>446,056</u>			<u>362,926</u>
Total noncurrent bonds payable	\$ <u>287,986,246</u>			\$ <u>275,657,293</u>

During fiscal year 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 cumulative amount at September 30, 2004, of \$4.9 million, which includes the fiscal year 2004 expense of \$1.6 million, was recorded in fiscal year 2005. The 2005 interest expense related to these bonds is \$1.7 million and it is similarly recorded in fiscal year 2005 interest expense. The 2006 interest expense recorded on these capital appreciation bonds is \$1.6 million.

The University has defeased certain indebtedness by depositing funds into escrow trust accounts sufficient to provide for the subsequent payment of principal and interest on defeased indebtedness. Under the trust agreements, funds deposited into the trust accounts were invested in obligations of the U.S. Government. Neither the assets of the trust accounts nor the defeased indebtedness are included in the accompanying Statements of Net Assets. The 1997 Industrial Development Board of the City of Auburn Variable/Fixed Rate Tax - Exempt Bonds, Series A bonds were paid in full on December 1, 2005, and the 1997 Industrial Development Board of the City of Auburn Taxable Revenue Bonds, Series B bonds were paid in full on December 1, 2004. The principal outstanding on the defeased 1997 Industrial Development Board of the City Auburn Variable/Fixed Rate Tax - Exempt Bonds, Series A issue at September 30, 2005, was \$8,415,000.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to September 30, 2006, and thereafter, are as follows:

Year Ending Sept. 30	Bonds Payable		Interest	
	Principal			
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		13,189,610		11,384,510
2012-2016		62,424,800		51,677,400
2017-2021		49,639,362		42,387,651
2022-2026		53,485,000		19,057,594
2027-2031		24,960,000		8,367,625
2032-2034		<u>18,175,000</u>		<u>1,825,962</u>
Total future debt service	\$	<u>273,734,429</u>	\$	<u>180,654,568</u>

Capital Lease Obligations

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

Lease Obligations	Balance at Sept. 30, 2005	New Debt	Principal Repayment	Balance at Sept. 30, 2006
Building	\$ 1,660,000	\$ -	\$ (135,000)	\$ 1,525,000
Equipment	303,610	146,116	(221,251)	228,475
Total lease obligations	<u>\$ 1,963,610</u>	<u>\$ 146,116</u>	<u>\$ (356,251)</u>	<u>\$ 1,753,475</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
2006-07	\$ 218,048	\$ 180,684	\$ 398,732
2007-08	211,450	75,084	286,534
2008-09	214,780	4,209	218,989
2009-10	212,572	-	212,572
2010-2011	210,054	-	210,054
2011-2015	<u>850,780</u>	<u>-</u>	<u>850,780</u>
Minimum lease payments	1,917,684	259,977	2,177,661
Less interest	<u>(392,684)</u>	<u>(31,502)</u>	<u>(424,186)</u>
Present value of minimum lease payments	1,525,000	228,475	1,753,475
Less current portion	<u>(145,000)</u>	<u>(157,604)</u>	<u>(302,604)</u>
Noncurrent obligations	<u>\$ 1,380,000</u>	<u>\$ 70,871</u>	<u>\$ 1,450,871</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, 2006, and 2005, amounted to approximately \$3.3 million and \$2.9 million, respectively.

(9) PLEDGED REVENUES

Pledged revenue for 2006 and 2005 as defined by the Series 2001, 2001A, 2003, and 2004 General Fee Revenue Trust Indentures is as follows:

	2006	2005
Student fees collected	\$ 214,779,768	\$ 202,346,802
Less AUM fees	(20,874,563)	(19,995,037)
Less fees pledged for specific purposes:		
Athletic fees (\$18 per student per semester)	<u>(944,244)</u>	<u>(1,157,021)</u>
Total general fees pledged	<u>\$ 192,960,961</u>	<u>\$ 181,194,744</u>

Pledged revenue for 2006 and 2005 as defined by the Series 2001A, 2003, and 2004 Athletic A & B Revenue Trust Indentures is as follows:

	2006	2005
Jordan Hare and Other Revenues:		
Television and broadcast revenues	\$ 4,090,000	\$ 1,213,312
Conference and NCAA distributions	12,628,646	9,158,331
Sales and services revenues	19,153,188	20,246,414
Student fees	944,244	1,157,021
Game settlements	1,225,480	625,000
Other income	<u>935,746</u>	<u>726,347</u>
Total Athletic revenues pledged	\$ <u>38,977,304</u>	\$ <u>33,126,425</u>

Pledged revenue for 2006 and 2005 as defined by the Series 2003 Housing and Dining Revenue Trust Indenture is as follows:

	2006	2005
Housing Revenues:		
Room rental	\$ 9,764,483	\$ 9,648,931
Other income	<u>612,979</u>	<u>362,637</u>
Total Housing revenues pledged	\$ <u>10,377,462</u>	\$ <u>10,011,568</u>

The Auburn University dormitory occupancy rate for Fall Semester 2006 and Fall Semester 2005 was 99.4% and 98.9%, respectively (unaudited).

	2006	2005
Food Services Revenues:		
Other income	\$ <u>550,000</u>	\$ <u>550,000</u>
Total Food Services revenues pledged	\$ <u>550,000</u>	\$ <u>550,000</u>

Pledged revenues and related expenses for 2006 and 2005 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, 2006 and September 30, 2005.

	2006	2005
Revenues:		
Room rental	\$ 576,317	\$ 697,840
Other income	<u>270,331</u>	<u>79,710</u>
Total revenues	<u>846,648</u>	<u>777,550</u>
Expenses and Transfers:		
Personnel cost	455,001	398,454
Operating expenses	583,915	457,148
Transfers	<u>143,520</u>	<u>107,664</u>
Total expenses and transfers	<u>1,182,436</u>	<u>963,266</u>
Deficit of revenues over expenses and transfers	(335,788)	(185,716)
AUM Student Housing net deficit at beginning of year	<u>(628,381)</u>	<u>(442,665)</u>
AUM Student Housing net deficit at end of year	\$ <u>(964,169)</u>	\$ <u>(628,381)</u>

The AUM dormitory occupancy rate for Fall Semester 2006 and Fall Semester 2005 was 90.70% and 90.43%, respectively (unaudited). The University budgeted a \$20 fee per student enrolled at AUM as a pledge for payments of principal and interest on the Student Facilities Bonds of 1971. During 2005, principal and interest payments of \$41,400 were made from the Facilities Bonds Reserve and the bonds were paid in full.

(10) RETIREMENT PROGRAMS

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

A. Teachers' Retirement System of Alabama

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

Substantially all non-student employees are members of the Teachers' Retirement System. Membership is mandatory for 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, 2005 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,	2006	2005	2004
Total percentage of covered payroll	13.17%	12.03%	11.56%
Contributions:			
Percentage contributed by the employer	8.17%	7.03%	6.56%
Percentage contributed by the employees	5.00%	5.00%	5.00%
Contributed by the employer	\$ 22,235,640	\$ 18,596,735	\$ 17,165,528
Contributed by the employees	<u>13,812,039</u>	<u>13,230,851</u>	<u>13,095,207</u>
Total contributions	<u>\$ 36,047,679</u>	<u>\$ 31,827,586</u>	<u>\$ 30,260,735</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,	2006	2005	2004
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	\$ 1,489,525	\$ 1,519,927	\$ 1,774,424
Contributed by the employees	<u>161,413</u>	<u>164,709</u>	<u>192,287</u>
Total contributions	\$ <u>1,650,938</u>	\$ <u>1,684,636</u>	\$ <u>1,966,711</u>

C. Tax Deferred Annuity Plan

This plan is a defined contribution plan under section 403(b) of the Internal Revenue Code. Accordingly, benefits depend solely on amounts contributed to the plan plus investment earnings. This is provided as a supplement to the aforementioned programs. All full-time regular or probationary employees are eligible to participate. Full-time temporary employees are also eligible if their employment period is for a minimum of one year. The University will match up to \$1,350 per year of a qualifying employee's contribution. This equates to five percent of gross salary with a maximum covered salary of \$27,000 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, 2006, 3,187 employees participated in the tax deferred annuity program. At September 30, 2005, 3,238 employees participated in the tax deferred annuity program. The contribution for 2006 was \$15,074,792, which includes \$3,776,198 from the University and \$11,298,594 from its employees. 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 for covered employees participating in the plan were approximately \$202,758,000 and \$202,396,000 for the fiscal year September 30, 2006, and 2005, respectively.

D. Deferred Compensation Plans

The University follows the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457(b) Deferred Compensation Plan*. As of September 30, 2006 and 2005, 211 and 217, respectively, employees participated in the plans. Contributions of \$2,134,057 and \$1,986,537 for fiscal years 2006 and 2005, respectively, were funded by employees and no employer contribution was funded. The 457(b) plans include Valic, TIAA-CREF, Johnson, Sterling, Paul and Company, and RSA-1.

(11) OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 10, the University offers 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 in order to be eligible for coverage under the plan. The health insurance plan is self-insured. As of September 30, 2006, 343 retirees have health care protection under the plan. 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.

Expenditures for postretirement health care benefits are recognized monthly. During the fiscal year ended September 30, 2006, the University funded approximately 60% of the postretirement healthcare premium expenditures, which totaled \$1,040,488. 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 Public Education Employees Health Insurance Plan (PEEHIP) Healthcare Program.

Eligible retired employees may elect to participate in the PEEHIP with TRS, in which case the retirees pay their premiums directly to TRS. Auburn University paid the employer portion of premium directly to TRS in the amount of \$7,686,668 and \$6,350,465 for fiscal years 2006 and 2005, respectively.

(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 Fund is a self-insured retention program that protects the University, its faculty, administrative and professional employees, 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 account with Compass Bank to be used to pay claims for which the University may become legally liable. The liability at September 30, 2006, and 2005, was \$472,379 and \$1,175,011, 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, 2006, and 2005, was \$1,611,061 and \$1,506,287 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, 2006, and 2005, of \$791,519 and \$1,610,834, respectively.

Other Liabilities

Other liabilities include compensated absences, deposits held in custody, and deferred revenues. The University allows employees to accrue and carryover annual and sick leave up to certain maximum amounts depending on years of service. Employees will be compensated for accrued annual leave at time of separation from University employment (termination or retirement) up to a maximum of one month's additional compensation. All eligible employees hired before October 1, 1990, may be compensated for unused sick leave at the rate of 25% of their respective balances, subject to a maximum of one month's additional compensation. The liability for compensated absences was \$23,435,722 and \$21,257,239 at September 30, 2006, and 2005, respectively.

Deposits held in custody include the portion of the Federal Perkins Student Loan Funds and Health Professional Student Loans which would be refunded in the event the University's operations ceased. The refundable amounts were \$15,168,601 and \$15,019,426, at September 30, 2006, and 2005, respectively. Also included in deposits held in custody of others are the agency funds. These amounts totaled \$4,440,891 and \$2,712,274 for September 30, 2006, and 2005, respectively.

Deferred revenue includes tuition revenue related to the portion of fall semester subsequent to September 30, funding received for contracts and grants which has not been expended as of September 30, as well as athletic revenue related to games played subsequent to September 30.

Deferred revenues at September 30, 2006, and 2005 are as follows:

	2006	2005
Deferred revenue		
General	\$ 61,065,103	\$ 58,675,355
Federal, state & local government	12,044,946	8,950,359
Auxiliary	<u>14,485,707</u>	<u>8,752,250</u>
Total deferred revenue	\$ <u>87,595,756</u>	\$ <u>76,377,964</u>

(13) CONTRACTS AND GRANTS

The University has been awarded \$5,502,475 (unaudited) in contracts and grants that have not been received or expended as of September 30, 2006. 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 with contract and grant operating revenues. The University recognized \$12,798,675 and \$13,363,079 in facilities and administrative cost recovery for the years ended September 30, 2006, and 2005, 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 \$366,781,000 (unaudited). At September 30, 2006, the estimated remaining cost to complete the projects is approximately \$124,385,000 (unaudited) which will be funded from University funds and bond proceeds.

(16) OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended September 30, 2006, and 2005, are listed below. In preparing the financial statements, all significant transactions and balances between auxiliary units and other funds have been eliminated.

	2006	2005
Instruction	\$ 189,997,318	\$ 190,548,047
Research	81,115,583	95,270,544
Public Service	84,391,289	76,297,156
Academic Support	33,318,821	28,559,846
Library	13,779,573	14,626,425
Student Services	16,065,088	15,178,772
Institutional Support	50,443,367	46,530,624
Operation and Maintenance	49,815,004	35,083,483
Scholarships and Fellowships	14,207,166	16,522,538
Auxiliaries	<u>77,057,436</u>	<u>70,239,644</u>
Total all functions	610,190,645	588,857,079
Add: depreciation expense	<u>34,186,357</u>	<u>30,640,610</u>
Total operating expenses	\$ <u>644,377,002</u>	\$ <u>619,497,689</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 AUF raises are restricted by the donor for specific schools, colleges or programs of the University. These may be transferred to the University for its use, expended by the foundation for the benefit of University schools, colleges or programs,

or in the case of endowments, invested with only the earnings transferred to the University or expended for the University's benefit. Amounts transferred to the University or expended on behalf of its programs totaled \$21,047,919 and \$17,767,934 during the years ended September 30, 2006, and 2005, respectively. Cumulative undistributed earnings on endowed funds were \$1,851,819 and \$1,639,335 at September 30, 2006, and 2005, 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.

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 in return for raising and administering gifts for the benefit of the University, the University will provide certain services and facilities to AUF, which primarily consist of personnel and other administrative support and that AUF will make a quarterly determination of their allocable share of these costs. AUF and the University are to review the agreement annually and to provide an estimate of the consideration to be paid for the upcoming year for approval by the respective boards. The actual reimbursement is determined based on the actual costs incurred.

For the years ended September 30, 2006, and 2005, all personnel costs were incurred by the University and AUF reimbursed the University \$1,440,988 and \$1,463,422, respectively, for its share of these central development services in accordance with the Agreement.

Non-salary development costs were incurred and paid primarily by AUF. The University provided for its share of University non-personnel operating costs by establishing budgets within the University's budgetary system whereby it paid a portion of the costs, and reimbursed AUF for the balance. The amount reimbursed to AUF by the University was \$572,283 and \$-0- for the years ended September 30, 2006, and 2005, respectively.

Constituency development operation, which are fund raising programs restricted to one school, college or program of the University, are funded jointly by AUF and the University unit involved. While essentially all of the non-salary expenses are paid by AUF from restricted funds, the salaries are incurred by the University and reimbursed by AUF upon request by the head of the related university unit. During the years ended September 30, 2006, and 2005, the constituency salaries reimbursed to the University totaled \$977,057 and \$402,757, respectively.

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 that are designated by donor restriction for spending directly to the University on behalf of TUF on an annual basis. AUF remits income from investments that are designated by donor restriction for additions to endowment corpus directly to the TUF on an annual basis. As of September 30, 2006, and 2005, AUF was committed to TUF for \$5,536,258 and \$5,364,252, respectively. 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 \$12,726,103 and \$19,824,356 during the years ended June 30, 2006, and 2005, respectively.

As of June 30, 2006, amounts payable from AUF to TUF were \$105,048. At June 30, 2006, \$37,105 was payable from the University to TUF.

As of June 30, 2005, included in accounts payable and accrued liabilities is approximately \$2,357,000 in accruals to current and former University employees. In July 2005, this obligation was satisfied.

During the years ended June 30, 2006, and 2005, the University contributed \$420,750 and \$401,775, respectively, to the TUF for the use of executive suites at University athletic events. This amount is recorded as public support-contribution revenue on the Statement of Activities.

During the year ended June 30, 2005, pledges receivable of \$68,251 were transferred to the AUF as a result of re-designations by the respective donors.

During the years ended June 30, 2006, and 2005, the TUF paid the University for normal, recurring expense transactions including, but not limited to, purchasing athletic event tickets, reimbursing athletic staff salaries, sponsoring student scholarships, and funding the debt, repair, maintenance and operations of athletic facilities. At the end of the year ended June 30, 2006, and 2005, commitments of \$2,393,037 and \$1,711,753, respectively, were outstanding. These obligations were satisfied within the subsequent fiscal year.

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 the 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 years ended September 30, 2006, and 2005, the Association had a salary reimbursement expense of \$706,297 and \$656,357, respectively to the University under the service and facilities agreement. Of this amount, \$604,932 and \$486,489 had been paid and \$101,365 and \$169,868 was accrued as an amount payable at September 30, 2006, and 2005, respectively.

Rental income recorded by the Association from the University and AUF totaled \$192,622 and \$100,178, respectively, for the year ended September 30, 2006. Rental income recorded by the Association from the University and AUF totaled \$133,220 and \$100,120, respectively, for the year ended September 30, 2005.

During the year ended September 30, 2006, the University provided for its share of alumni affairs activities costs by establishing a budget within the University's budgetary system; whereby, it paid a portion of the costs, and reimbursed the Association for the balance. The alumni affairs activities costs for the year ended September 30, 2006, were \$327,815.

During the year ended September 30, 2006, the Association contributed \$669,213 to the Auburn Alumni Association Endowment for Scholarships held with the AUF.

During the year ended September 30, 2006, the Association made a \$200,000 transfer to the TUF for their share of the Auburn Spirit Card royalty.

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 \$81,685,000 (unaudited) and \$81,455,000 (unaudited), under the FFELP during the fiscal years ended September 30, 2006, and 2005, respectively.

(20) SUBSEQUENT EVENTS

On November 1, 2006, the University issued \$60,000,000 of Auburn University General Fee Revenue Bonds, Series 2006-A. The 2006-A Bonds were issued to provide funds (1) to finance the construction and related costs of a new student center, as well as construction of pedestrian and vehicular road and access projects, general infrastructure facility additions and improvements and renovation of academic buildings on the Auburn campus and (2) to pay the costs of issuing the Series 2006-A Bonds. The bonds will

mature, subject to mandatory and optional redemption, from June 1, 2017 to June 1, 2037. The 2006-A Bonds have an interest rate range of 3.5% to 5%.

(21) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

GASB 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 Statement No. 45 will be effective for financial statement periods beginning after December 15, 2006. The impact that GASB Statement No. 45 will have on the University's financial statements is currently being evaluated.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues* effecting financial statement periods beginning after December 15, 2006. GASB Statement No. 48 details criteria used to determine whether certain revenue generating transactions should be classified as a sale or a collateralized borrowing. The University is currently evaluating the impact that GASB Statement No. 48 will have on its financial statements.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was issued by the GASB in December 2006. This statement will require that governments provide more detailed information regarding the effect of environmental cleanups and will be effective for financial periods beginning after December 15, 2007. The impact that GASB Statement No. 49 will have on the September 30, 2009, financial statements will be evaluated prior to that fiscal year.



AUBURN

UNIVERSITY

2006

Financial Report

DIVISIONAL FINANCIAL STATEMENTS

AUBURN UNIVERSITY MAIN CAMPUS

STATEMENTS OF NET ASSETS

SEPTEMBER 30, 2006 AND 2005

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 20,687,655	\$ 21,055,131
Operating investments	60,144,765	24,274,473
Accounts receivable, net	28,014,622	15,132,224
Student accounts receivable, net	22,042,369	24,248,810
Loans receivable, net	2,418,233	2,779,028
Accrued interest receivable	3,781,874	3,165,281
Inventories	3,267,509	3,109,051
Prepaid expenses	3,220,827	3,321,093
Due from other funds	356,869	312,950
Total current assets	<u>143,934,723</u>	<u>97,398,041</u>
Noncurrent assets		
Investments	427,523,126	486,749,807
Loans receivable, net	14,346,763	14,065,447
Investment in plant, net	649,764,266	583,691,476
Due from other funds	815,730	1,353,728
Total noncurrent assets	<u>1,092,449,885</u>	<u>1,085,860,458</u>
Total assets	<u>1,236,384,608</u>	<u>1,183,258,499</u>
LIABILITIES		
Current liabilities		
Outstanding checks in excess of bank balance	-	24,263,179
Advances	-	84,726
Accounts payable	25,776,447	24,357,016
Accrued salaries and wages	2,428,902	2,092,768
Accrued compensated absences	13,792,804	11,973,549
Accrued interest payable	4,142,063	4,488,890
Other accrued liabilities	2,138,300	1,610,834
Student deposits	1,063,975	1,096,605
Deposits held in custody	16,311,422	15,006,298
Deferred revenues	77,773,469	67,461,201
Noncurrent liabilities-current portion	12,712,509	12,418,799
Total current liabilities	<u>156,139,891</u>	<u>164,853,865</u>
Noncurrent liabilities		
Accrued compensated absences	4,730,180	4,827,562
Bonds and notes payable	261,547,388	274,102,293
Lease obligations	70,871	118,767
Other noncurrent liabilities	10,642,558	11,072,059
Due to other funds	11,089,983	11,005,600
Total noncurrent liabilities	<u>288,080,980</u>	<u>301,126,281</u>
Total liabilities	<u>444,220,871</u>	<u>465,980,146</u>
NET ASSETS		
Invested in capital assets, net of related debt	402,864,367	359,977,382
Restricted		
Nonexpendable	17,756,104	17,516,412
Expendable:		
Scholarships, research, instruction, other	75,640,207	73,198,299
Loans	4,686,922	4,527,493
Capital projects	594,591	1,783,685
Unrestricted	290,621,546	260,275,082
Total net assets	<u>\$ 792,163,737</u>	<u>\$ 717,278,353</u>

AUBURN UNIVERSITY MAIN CAMPUS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of \$33,465,222 and \$32,505,140, respectively	\$ 186,945,588	\$ 175,637,868
Federal appropriations	110,959	45,640
Federal grants & contracts, net	45,897,273	48,164,507
State & local grants & contracts, net	3,119,604	4,002,047
Nongovernmental grants & contracts, net	7,590,681	7,809,883
Sales & services of educational departments	19,551,497	17,160,420
Auxiliary revenue, net of scholarship allowances of \$1,465,035 and \$1,431,020, respectively	59,733,046	56,659,935
Other operating revenues	8,974,072	9,276,000
Total operating revenues	<u>331,922,720</u>	<u>318,756,300</u>
OPERATING EXPENSES		
Compensation & benefits	312,611,690	296,362,458
Scholarships & fellowships	11,601,912	13,466,553
Other supplies & services	116,588,616	115,634,930
Depreciation	31,714,554	28,262,895
Total operating expenses	<u>472,516,772</u>	<u>453,726,836</u>
Operating loss	<u>(140,594,052)</u>	<u>(134,970,536)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	162,042,781	140,789,622
Gifts	21,123,437	29,636,746
Net investment income	33,600,894	26,617,298
Interest expense on capital debt	(9,921,332)	(20,219,179)
Nonoperating revenues, net	<u>206,845,780</u>	<u>176,824,487</u>
Income before other changes in net assets	66,251,728	41,853,951
OTHER CHANGES IN NET ASSETS		
Capital appropriations	1,150,467	7,890,639
Capital gifts & grants	7,371,235	7,117,176
Additions to permanent endowments	111,954	3,589,707
Net increase in net assets	<u>74,885,384</u>	<u>60,451,473</u>
Net assets - beginning of year	<u>717,278,353</u>	<u>656,826,880</u>
Net assets - end of year	<u>\$ 792,163,737</u>	<u>\$ 717,278,353</u>

AUBURN UNIVERSITY AT MONTGOMERY

STATEMENTS OF NET ASSETS

SEPTEMBER 30, 2006 AND 2005

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 302,989	\$ 728,086
Operating investments	880,872	582,978
Accounts receivable, net	3,517,248	2,834,766
Student accounts receivable, net	2,759,537	2,746,770
Loans receivable, net	513,676	463,568
Accrued interest receivable	1,331	1,273
Inventories	594,075	608,668
Prepaid Expenses	3,486	-
Total current assets	<u>8,573,214</u>	<u>7,966,109</u>
Noncurrent assets		
Investments	6,524,198	8,467,727
Loans receivable, net	2,489,102	2,448,183
Investment in plant, net	38,547,493	38,683,342
Due from other funds	11,089,983	11,005,600
Total noncurrent assets	<u>58,650,776</u>	<u>60,604,852</u>
Total assets	<u>67,223,990</u>	<u>68,570,961</u>
LIABILITIES		
Current liabilities		
Advances	-	50
Accounts payable	1,703,565	2,361,341
Accrued salaries and wages	368,638	266,728
Accrued compensated absences	1,492,010	1,296,004
Accrued interest payable	15,050	16,500
Deposits held in custody	3,306,394	3,158,352
Deferred revenues	6,167,383	6,031,340
Noncurrent liabilities-current portion	245,000	230,000
Due to other funds	54,162	51,967
Total current liabilities	<u>13,352,202</u>	<u>13,412,282</u>
Noncurrent liabilities		
Accrued compensated absences	512,784	522,530
Bonds and notes payable	1,455,000	1,555,000
Lease obligations	1,380,000	1,525,000
Due to other funds	-	54,162
Total noncurrent liabilities	<u>3,347,784</u>	<u>3,656,692</u>
Total liabilities	<u>16,699,986</u>	<u>17,068,974</u>
NET ASSETS		
Invested in capital assets, net of related debt	35,694,867	35,588,042
Restricted		
Nonexpendable	5,171,344	5,121,155
Expendable:		
Scholarships, research, instruction, other	5,079,126	4,547,267
Loans	363,074	360,288
Capital projects	134,553	129,164
Unrestricted	4,081,040	5,756,071
Total net assets	<u>\$ 50,524,004</u>	<u>\$ 51,501,987</u>

AUBURN UNIVERSITY AT MONTGOMERY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of \$3,318,884 and \$3,317,646, respectively	\$ 17,555,679	\$ 16,677,391
Federal grants & contracts, net	6,340,823	6,998,735
State & local grants & contracts, net	15,260,220	8,448,441
Nongovernmental grants & contracts, net	537,257	146,886
Sales & services of educational departments	1,650,023	2,611,741
Auxiliary revenue, net of scholarship allowances of \$368,764 and \$357,638, respectively	4,390,765	4,255,531
Other operating revenues	<u>1,969,258</u>	<u>792,682</u>
Total operating revenues	<u>47,704,025</u>	<u>39,931,407</u>
OPERATING EXPENSES		
Compensation & benefits	38,778,906	35,991,458
Scholarships & fellowships	2,604,757	3,027,622
Other supplies & services	29,876,306	24,894,790
Depreciation	<u>2,471,803</u>	<u>2,377,715</u>
Total operating expenses	<u>73,731,772</u>	<u>66,291,585</u>
Operating loss	<u>(26,027,747)</u>	<u>(26,360,178)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	23,140,350	20,149,157
Gifts	738,607	266,121
Net investment income	1,134,516	1,041,169
Interest expense on capital debt	<u>(46,625)</u>	<u>(51,375)</u>
Nonoperating revenues, net	<u>24,966,848</u>	<u>21,405,072</u>
Loss before other changes in net assets	(1,060,899)	(4,955,106)
OTHER CHANGES IN NET ASSETS		
Capital appropriations	867	69,191
Capital gifts & grants	43,898	53,380
Additions to permanent endowments	<u>38,151</u>	<u>52,768</u>
Net decrease in net assets	(977,983)	(4,779,767)
Net assets - beginning of year	<u>51,501,987</u>	<u>56,281,754</u>
Net assets - end of year	<u>\$ 50,524,004</u>	<u>\$ 51,501,987</u>

ALABAMA AGRICULTURAL EXPERIMENT STATION

STATEMENTS OF NET ASSETS

SEPTEMBER 30, 2006 AND 2005

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 758,348	\$ 458,815
Operating investments	2,204,728	4,425,130
Accounts receivable, net	<u>4,508,037</u>	<u>3,358,535</u>
Total current assets	<u>7,471,113</u>	<u>8,242,480</u>
Noncurrent assets		
Investments	<u>15,681,218</u>	<u>9,781,377</u>
Total noncurrent assets	<u>15,681,218</u>	<u>9,781,377</u>
Total assets	<u>23,152,331</u>	<u>18,023,857</u>
LIABILITIES		
Current liabilities		
Accounts payable	599,294	1,098,658
Accrued salaries and wages	227,566	181,307
Accrued compensated absences	1,088,906	944,748
Deferred revenues	2,165,923	1,335,761
Due to other funds	<u>302,707</u>	<u>261,167</u>
Total current liabilities	<u>4,384,396</u>	<u>3,821,641</u>
Noncurrent liabilities		
Accrued compensated absences	372,688	380,909
Due to other funds	<u>815,730</u>	<u>1,299,382</u>
Total noncurrent liabilities	<u>1,188,418</u>	<u>1,680,291</u>
Total liabilities	<u>5,572,814</u>	<u>5,501,932</u>
NET ASSETS		
Restricted		
Expendable:		
Scholarships, research, instruction, other	82,938	403,475
Unrestricted	<u>17,496,579</u>	<u>12,118,450</u>
Total net assets	<u>\$ 17,579,517</u>	<u>\$ 12,521,925</u>

ALABAMA AGRICULTURAL EXPERIMENT STATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES		
Federal appropriations	\$ 4,411,953	\$ 4,582,733
Federal grants & contracts	14,292,842	16,415,331
State & local grants & contracts	1,175,802	800,239
Nongovernmental grants & contracts	1,809,305	1,740,210
Sales & services of educational departments	2,116,146	2,621,772
Other operating revenues	451,030	100
Total operating revenues	<u>24,257,078</u>	<u>26,160,385</u>
OPERATING EXPENSES		
Compensation & benefits	32,432,411	30,821,484
Scholarships & fellowships	308	23,917
Other supplies & services	<u>16,774,175</u>	<u>22,584,339</u>
Total operating expenses	<u>49,206,894</u>	<u>53,429,740</u>
Operating loss	<u>(24,949,816)</u>	<u>(27,269,355)</u>
NONOPERATING REVENUES		
State appropriations	29,081,460	26,651,658
Gifts	524,490	409,135
Net investment income	<u>401,458</u>	<u>235,405</u>
Nonoperating revenues, net	<u>30,007,408</u>	<u>27,296,198</u>
Net increase in net assets	5,057,592	26,843
Net assets - beginning of year	<u>12,521,925</u>	<u>12,495,082</u>
Net assets - end of year	<u>\$ 17,579,517</u>	<u>\$ 12,521,925</u>

ALABAMA COOPERATIVE EXTENSION SYSTEM

STATEMENTS OF NET ASSETS

SEPTEMBER 30, 2006 AND 2005

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 733,723	\$ 1,172,341
Operating investments	2,133,137	6,217,464
Accounts receivable, net	<u>1,887,675</u>	<u>1,516,837</u>
Total current assets	<u>4,754,535</u>	<u>8,906,642</u>
Noncurrent assets		
Investments	<u>15,172,026</u>	<u>10,051,626</u>
Total noncurrent assets	<u>15,172,026</u>	<u>10,051,626</u>
Total assets	<u>19,926,561</u>	<u>18,958,268</u>
LIABILITIES		
Current liabilities		
Accounts payable	479,815	1,002,114
Accrued salaries and wages	321,816	226,709
Accrued compensated absences	1,076,690	934,970
Deferred revenues	<u>1,488,981</u>	<u>1,549,662</u>
Total current liabilities	<u>3,367,302</u>	<u>3,713,455</u>
Noncurrent liabilities		
Accrued compensated absences	<u>369,660</u>	<u>376,967</u>
Total noncurrent liabilities	<u>369,660</u>	<u>376,967</u>
Total liabilities	<u>3,736,962</u>	<u>4,090,422</u>
NET ASSETS		
Restricted		
Expendable:		
Scholarships, research, instruction, other	4,391,845	4,959,095
Capital Projects	11,033	11,033
Unrestricted	<u>11,786,721</u>	<u>9,897,718</u>
Total net assets	<u>\$ 16,189,599</u>	<u>\$ 14,867,846</u>

ALABAMA COOPERATIVE EXTENSION SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES		
Federal appropriations	\$ 5,701,696	\$ 8,815,803
Federal grants & contracts	7,004,132	6,099,027
State & local grants & contracts	2,611,892	2,749,692
Nongovernmental grants & contracts	802,617	314,826
Sales & services of educational departments	63,381	103,823
Other operating revenues	<u>1,888,192</u>	<u>1,629,728</u>
Total operating revenues	<u>18,071,910</u>	<u>19,712,899</u>
OPERATING EXPENSES		
Compensation & benefits	35,311,588	32,773,210
Scholarships & fellowships	189	4,446
Other supplies & services	<u>13,609,787</u>	<u>13,271,872</u>
Total operating expenses	<u>48,921,564</u>	<u>46,049,528</u>
Operating loss	<u>(30,849,654)</u>	<u>(26,336,629)</u>
NONOPERATING REVENUES		
State appropriations	31,476,104	28,804,637
Gifts	160,500	383,862
Net investment income	<u>534,803</u>	<u>209,596</u>
Nonoperating revenues, net	<u>32,171,407</u>	<u>29,398,095</u>
Net increase in net assets	1,321,753	3,061,466
Net assets - beginning of year	<u>14,867,846</u>	<u>11,806,380</u>
Net assets - end of year	<u>\$ 16,189,599</u>	<u>\$ 14,867,846</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 of the Board of Trustees. Prior to 2003, trustees were appointed by the Governor, by and with the consent of the State Senate, for a term of 12 years. Any new trustees will be appointed by a committee, by and with the consent of the State Senate, for a term of seven years and may serve no more than two full seven year terms. A member may continue to serve until a successor is confirmed, but in no case for more than one year after the completion of a term. At this time the seat for the fifth Congressional District remains unfilled. 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
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
Congressional District



James W. Rane
Abbeville, Third
Congressional District



Virginia N. Thompson
Opelika, Third
Congressional District



Dwight L. Carlisle
Talladega, Fourth
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