AUBURN

UNIVERSITY

2007
Financial Report

Comprehensive Annual Financial Report
For the year ended September 30, 2007

AUBURN

UNIVERSITY

2007
FINANCIAL REPORT

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Auburn University

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2007
Financial Report

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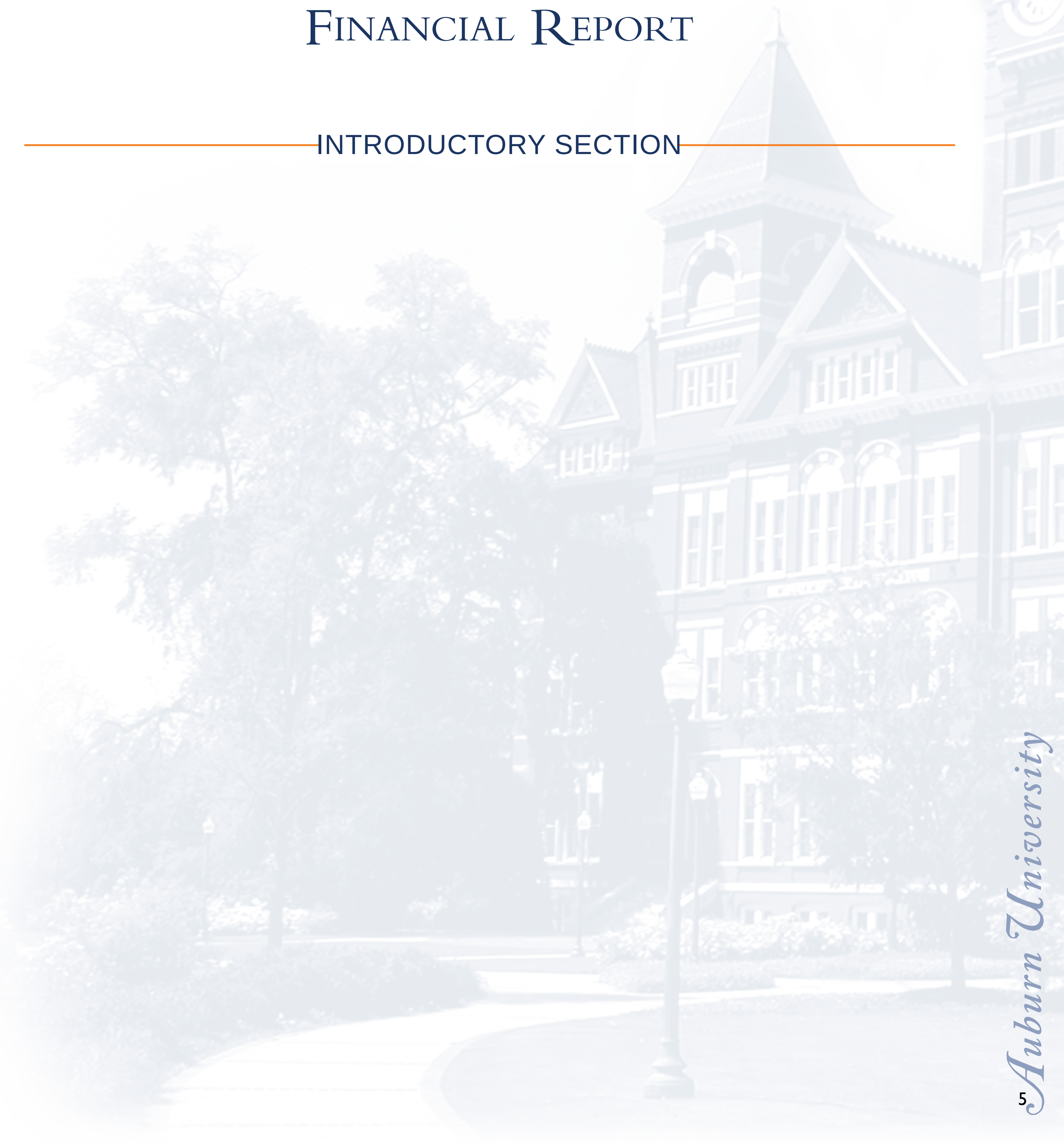
INTRODUCTORY SECTION



Auburn University

OFFICE OF
THE PRESIDENT

AUBURN
UNIVERSITY

Auburn University

January 21, 2008

Dear Members of the Auburn Community and Alabama Citizens:

This Annual Financial Report presented on the following pages briefly summarizes the University's financial position at September 30, 2007, and financial activity for the year then ended. I am pleased to note that the University has again finished the year in strong financial condition as the various information in the report demonstrates and is further supported by a recent bond rating upgrade by Standard and Poor's.

I have had the honor and pleasure of serving as President of Auburn University since July 2007. While only a short period of time and one that has been spent visiting our various colleges, departments, and offices throughout the State of Alabama, it has been adequate time to grow increasingly impressed with the quality of the institution and its great potential for the future.

Some of my observations include:

- Auburn University has been ranked in the top 50 public institutions for the past 15 years and is among the top 15 percent of colleges ranked by the Princeton Review.
- In recent surveys, more than 90 percent of our students and more than 95 percent of our alumni say that if they could start college over again, they would choose Auburn.
- A 2005 Harvard survey ranked Auburn University as one of the top six colleges and universities in the country as a place for young faculty to work, which has a lot to do with actively engaging students.
- Auburn University Draughon Library is the largest library in the state, with 2.9 million volumes. The library subscribes to 19,000 journals and 256 electronic databases.
- Our scholarship offerings are increasing significantly and will continue to be a high priority in the future.
- Our international presence is growing with increased study abroad programs with more than 800 students from around the world attending Auburn University and with 388 international faculty and scholars representing more than 40 nations.
- Our campus construction and building improvements have been substantial in recent years laying the foundation for serving our students and faculty for many years to come.

There are many examples of Auburn University's proud accomplishments. I believe, however, the future is even brighter. I am also pleased to share that we have a broad-based constituency helping to provide input and develop our strategic plan to guide the University in the upcoming years.

As we look to the future, we remain committed to moving the University to even greater heights and to serving the State of Alabama and its citizens by promoting economic growth by way of our quality programs and emphasis on access and diversity.

Sincerely,

Jay Gogue

Jay Gogue
President

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

OFFICE OF
THE PRESIDENT

AUBURN
UNIVERSITY

January 21, 2008

The Comprehensive Annual Financial Report for Auburn University for 2007 provides comparative financial statements for the years ended September 30, 2007 and September 30, 2006. Governmental Accounting Standards Board (GASB) Statement No. 14 provides criteria for determining which related organizations should be reported as component units. GASB Statement No. 39 clarifies financial reporting requirements for those organizations as amendments to GASB Statement No. 14. Consequently, the Statements of Financial Position and Statements of Activities and Changes in Net Assets 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 Auburn Research and Technology Foundation's and the Auburn Spirit Foundation for Scholarships' financial statements are not required to be disclosed, due to immateriality.

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.

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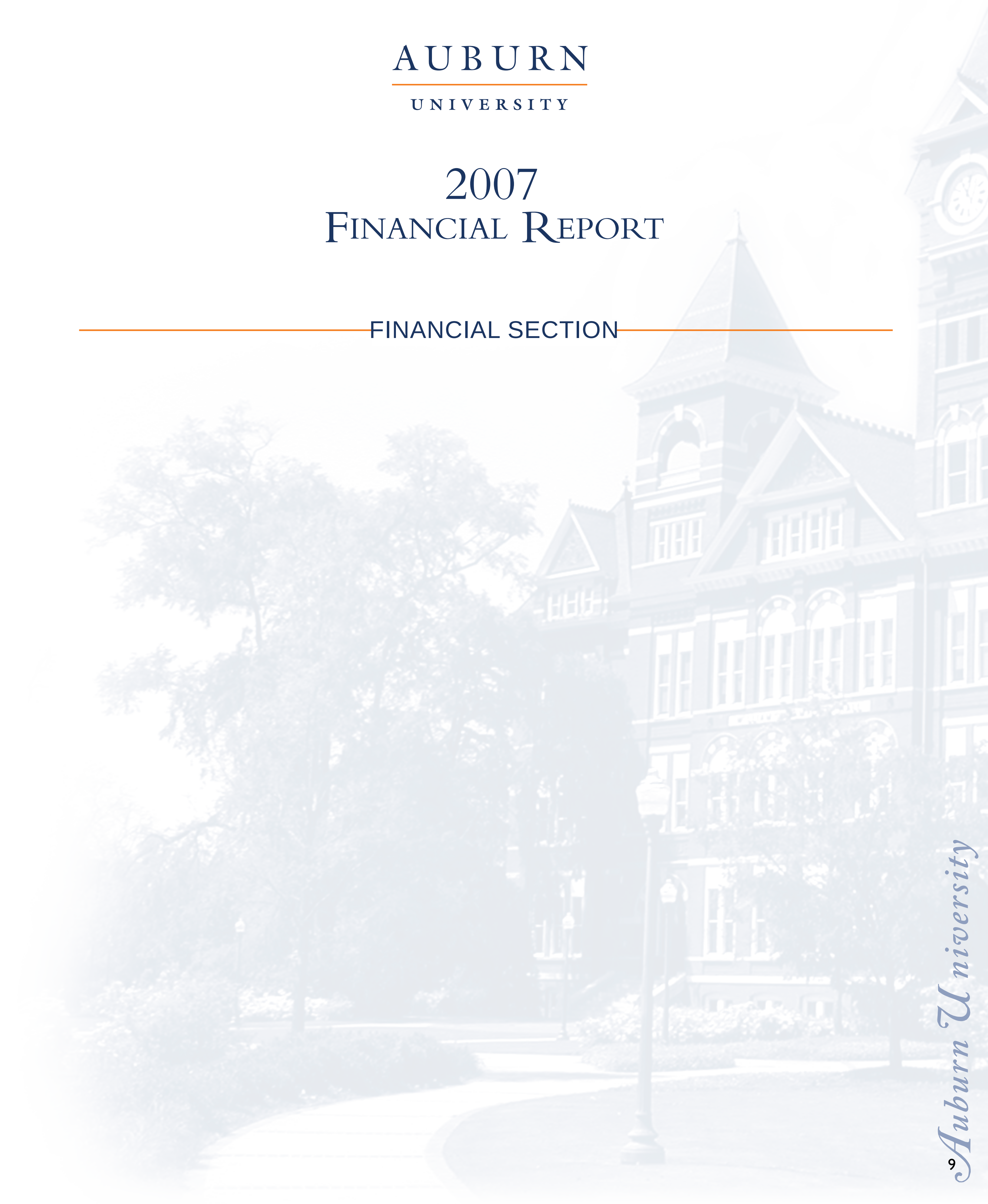
AUBURN

UNIVERSITY

2007
Financial Report

FINANCIAL SECTION



Auburn University


AUBURN UNIVERSITY
INSTRUCTION
FOR THE
ADVANCEMENT
OF SCIENCE
AND ARTS
RESEARCH
EXTENSION
ESTABLISHED

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1901 6th Ave. North
Suite 1600
Birmingham AL 35203
Telephone (205) 252 8400
Facsimile (205) 252 7776

Report of Independent Auditors

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

In our opinion, based upon our audits and the reports of other auditors, the financial statements listed in the accompanying table of contents, which collectively comprise the financial statements of Auburn University (the "University"), a component unit of the State of Alabama, present fairly, in all material respects, the respective financial position of the University and its discretely presented component units at September 30, 2007 and 2006 (June 30, 2007 and 2006 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") at September 30, 2007 and 2006 and for the years then ended. We did not audit the financial statements of the Auburn University Foundation (the "Foundation") at September 30, 2007 and for the year then ended Each of those statements were audited by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for the Association and the Foundation, is based solely on the reports of other auditors We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

As dis ussed in Note 11 to the financial statements, on October 1, 2006, the University adopted G vernmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* GASB Statement No. 45 requires the University to recognize and match other postemployment benefit costs with related services received and disclose additional information.

The management's discussion and analysis and required supplemental information on pages 12 through 21 and pages 66 through 69 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The University has not presented the management s discussion and analysis for the year ended September 30, 2006, 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 56 through 63 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 21, 2008

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, 2007, with a comparison to the year ended September 30, 2006. 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 Montgomery (AUM) is classified as "Master's I." Fall 2007 enrollment included 29,261 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 5,117 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 Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities.* GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on an entity-wide basis to focus on the University as a whole. All references to "2007," "2006," or another year refer to the fiscal year ended September 30, unless otherwise noted.

The University's financial statements are summarized as follows:

The Statement of Net Assets presents entity-wide assets, liabilities and net assets (assets minus liabilities) on the last day of the fiscal year. Distinctions are made in current and noncurrent assets and liabilities. Net assets are segregated into unrestricted, restricted (expendable and nonexpendable), and invested in capital, net of related debt. The University's net assets are one indicator of the University's financial health. 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 realize a significant operating loss. The utilization of capital assets is reflected in the Statement of Revenues, Expenses and Changes in Net Assets as depreciation expense, which reflects the amortization of the cost of an asset over its expected useful life.

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

In addition to the University's financial statements, related component units' Statements of Financial Position and Statements of Activities and Changes in Net Assets have been included in this annual report. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, provides criteria for determining which related organizations should be reported as component units based on the nature and significance of their relationship with the primary government, which is the University. GASB Statement No. 39 also clarifies financial reporting requirements for those organizations as amendments to GASB Statement No. 14, *The Financial Reporting Entity*. The University has identified these significant related organizations that are required to be reported as component units. The 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, 2007, AUF holds approximately $232 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 fundraising 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.

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

FINANCIAL HIGHLIGHTS

Statement of Net Assets

The University's financial position is strong at September 30, 2007 and 2006, with assets of $1.6 billion and liabilities of $526 million and assets of $1.3 billion and liabilities of $458 million, all respectively. The University experienced an increase in net assets of 18% in 2007. A summary of assets, liabilities and net assets as of September 30, 2007 and 2006, is as follows:

	2007	2006
Assets		
Current assets	$ 208,111,161	$ 164,376,716
Capital assets	757,360,225	688,311,759
Other noncurrent assets	595,779,272	481,736,433
Total assets	1,561,250,658	1,334,424,908
Liabilities		
Current liabilities	195,013,081	176,886,922
Noncurrent liabilities	330,697,951	281,081,129
Total liabilities	525,711,032	457,968,051
Net assets		
Invested in capital assets, net of related debt	476,479,089	438,559,234
Restricted-Nonexpendable	22,949,706	22,927,448
Restricted-Expendable	134,691,617	90,984,289
Unrestricted	401,419,214	323,985,886
Total net assets	$ 1,035,539,626	$ 876,456,857

The University's Assets

Current assets consist of cash and cash equivalents, operating investments (those investments that are expected to be liquidated during the course of normal operations), net accounts receivable (primarily amounts due from the federal and state governments and other agencies as reimbursements for sponsored programs), net student accounts receivable (including amounts due from third parties on behalf of the students), current portion of loans receivable, accrued interest receivable, inventories, and prepaid expenses. These assets increased $44 million from 2006 to 2007. This change was due in part 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 93% in 2006 to 107% in 2007. The University had increases in accounts receivables due to pledges the University expects to receive cash payments for in fiscal years 2008 and 2009 as well as increases in contracts and grants receivables related to new projects during fiscal year 2007.

Capital assets generally represent the historical cost of land improvements, buildings, construction in progress, infrastructure, equipment, library books, livestock, less any accumulated depreciation, with buildings constituting over 65% of the total capital asset value. Capital assets, net of depreciation, shown as investment in plant, net on the Statement of Net Assets increased 10% from 2006 to 2007. The increase was mainly due to the completion and capitalization of the following construction projects in fiscal year 2007 totaling $59 million:

Shelby Transportation Technology Center Phase 1	$ 43.9 million
Chilled Water Plant	$ 4.1 million
Golf Teaching Facility	$ 1.8 million
Jordan-Hare Stadium Concourse	$ 1.8 million
Small Projects Total	$ 7.4 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 increased by $18.1 million from 2006 to 2007. This increase was primarily due to additional payables accrued as of September 30, 2007, but paid subsequent to year end. The University's deferred revenue increased based on increases in fall 2007 tuition, which the University defers 60% as of September 30.

Noncurrent liabilities include principal amounts due on University bonds payable, accrued compensated absences and other compensation-related liabilities that are payable beyond September 30, 2008. Noncurrent liabilities increased 18% from 2006 to 2007, primarily due to the issuance of general fee revenue bonds in 2007, and the accrual of other postemployment benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions* (refer to Note 11).

During 2007, the University issued $60,000,000 in General Fee Revenue bonds. Proceeds from the bonds are to be used for financing costs of certain capital improvements to the Auburn campus and paying the costs of the issuance of the 2006-A General Fee Revenue bonds. The capital improvements include a new student center and furnishings for the center, construction of pedestrian and vehicular roads and accesses, renovations to Haley Center, relocating the Speech and Hearing Clinic to Cary Hall, relocation of the natural history collections, renovations to the east plaza of Jordan Hare Stadium, additional parking facilities, and general infrastructure additions and improvements.

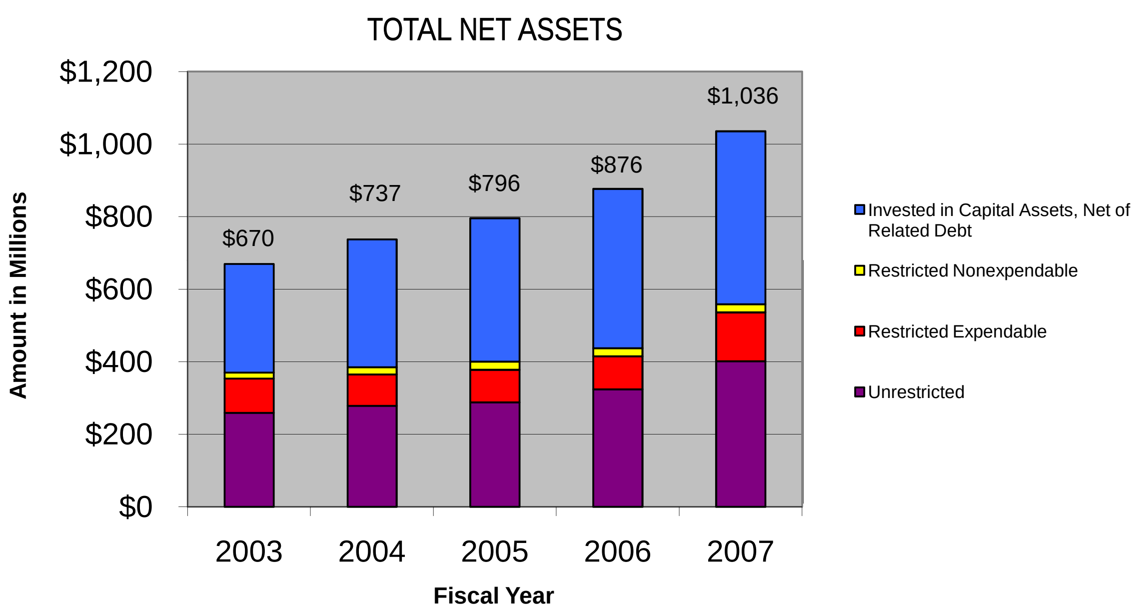
The University's Net Assets
The three major net asset categories are discussed below:

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 9% from September 30, 2006 to September 30, 2007. This increase is primarily 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 $22,300 from September 30, 2006 to September 30, 2007, 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 48% from September 30, 2006 to September 30, 2007. The majority of the increase is due to new restricted gift funds that 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 24% from September 30, 2006 to Septembe 30, 2007. The increase in unrestricted net assets is mainly due to holding unrestricted funds for future mission-related priorities, proration reserve, and deferred maintenance needs.



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:

	2007	2006
Operating revenues	$ 460,939,754	$ 421,955,733
Operating expenses	707,318,186	644,377,002
Operating loss	(246,378,432)	(222,421,269)
Net nonoperating revenues and other changes in net assets	405,461,201	302,708,015
Increase in net assets	159,082,769	80,286,746
Net assets:		
Beginning of year	876,456,857	796,170,111
End of year	$ 1,035,539,626	$ 876,456,857

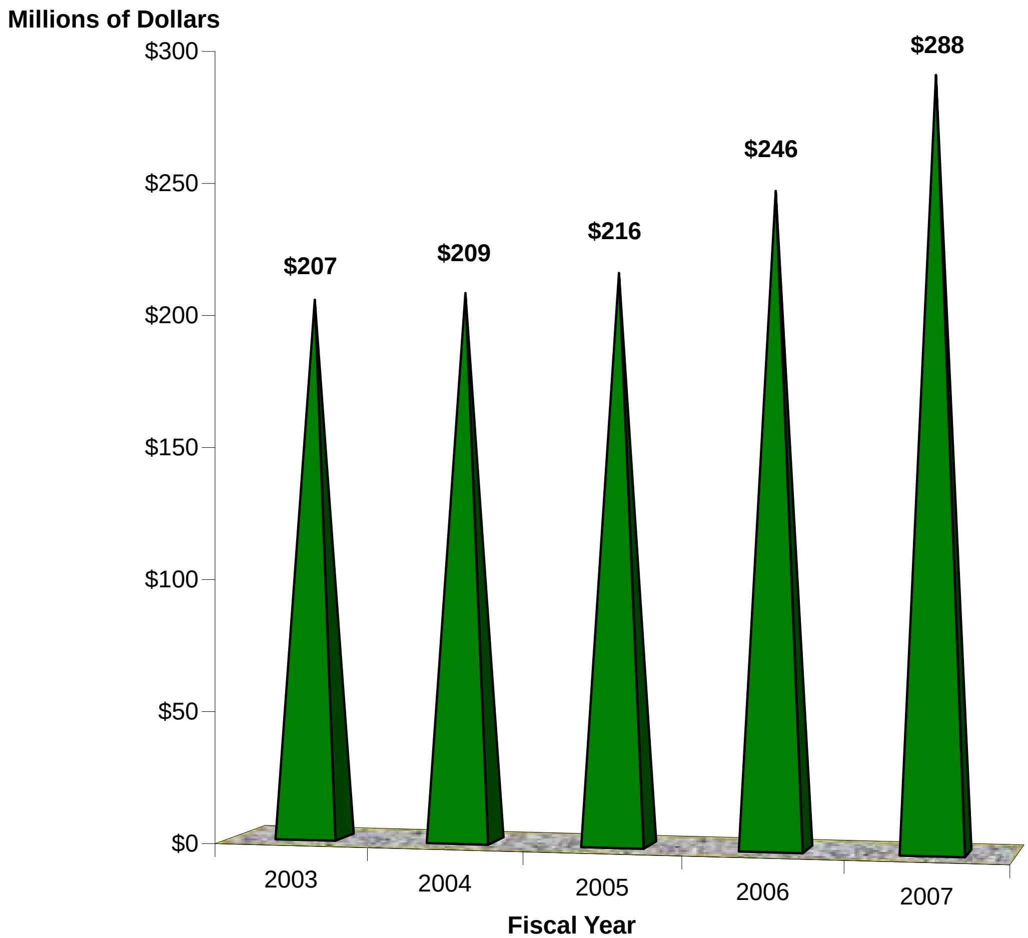
The 2007 Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in net assets during fiscal year 2007 of $159 million. Operating revenues increased 9.2% when comparing operating revenues from 2006 to 2007. Student tuition and fee revenue, net of discounts, increased $15 million, which is primarily the result of Board-approved tuition increases of 5% and 4% in the 2006-2007 and 2005-2006 academic years, respectively, for the main campus and AUM. Because the University's fiscal year crosses fall semester, tuition revenues in the fiscal year ending September 30, 2007, include 60% of fall semester of 2006, spring semester of 2007, and summer term of 2007, as well as 40% of fall semester of 2007.

Operating expenses increased 9.8% from 2006 to 2007. Expenses for compensation and employee benefits increased $29 million, which was primarily attributable to the 2007 compensation increases of approximately 7%. Other Supplies and Services increased approximately $29 million. This increase is due to an increase in repair and maintenance expenses of 22% as well as an increase in expenditures on new and expanded contract & grant and appropriated projects. This is consistent with the increase shown in federal appropriation and federal, state & other contract and grant revenue, which increased 20%. Depreciation expense increased $2.9 million, mainly due to depreciation being recorded beginning in fiscal year 2007 on new projects completed in 2006.

Net nonoperating revenues increased $88.7 million from 2006 to 2007, and this increase is attributable to an increase in state appropriated funding, gifts received, and investment income. State appropriations increased approximately $43 million or 17.3% from 2006 to 2007 due to the University receiving record breaking appropriations from the State of Alabama. Gifts increased $32 million in 2007 compared to 2006. In 2007, gifts of approximately $18 million were pledged to or received by the University from a single donor. In addition, net investment income increased $16 million, as a result of high market rates at year end.

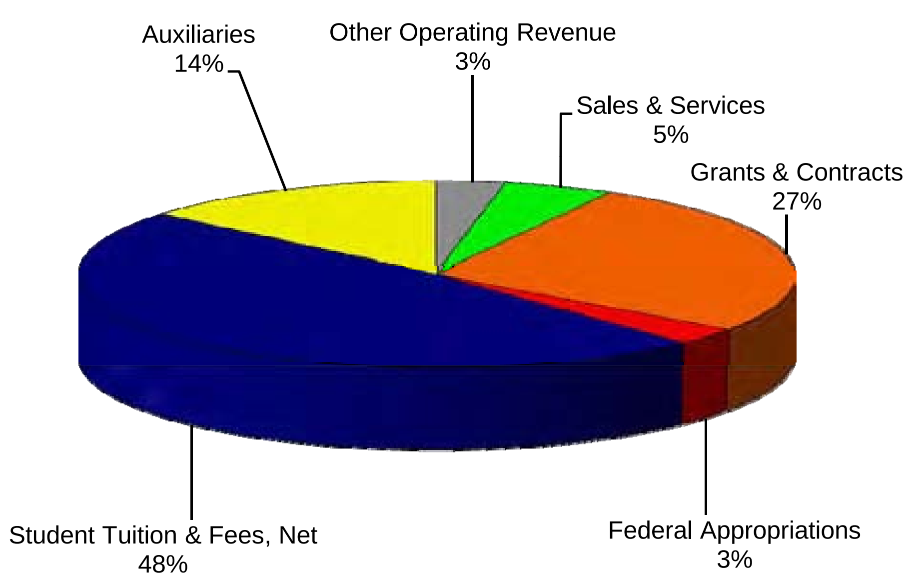
Capital appropriations, capital gifts and grants, and additions to permanent endowments increased $14 million when comparing $22.7 million recognized in 2007 to $8.7 million recognized in 2006. This increase is due to approximately $13 million of gifts given in support of the Shelby Transportation Technology Center. The University received capital appropriations of $108,000 in 2007, as compared to $1.2 million in 2006. Capital appropriations decreased due to the completion of many projects funded with State Agricultural Development Bonds and Alabama Public School and College Authority (APSCA) dollars in 2006.

STATE APPROPRIATIONS



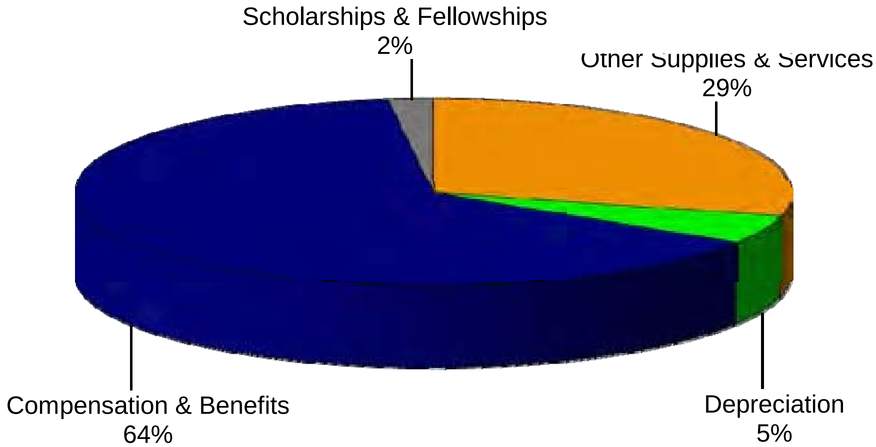
OPERATING REVENUES SUPPORTING CORE ACTIVITIES

For the year ended September 30, 2007



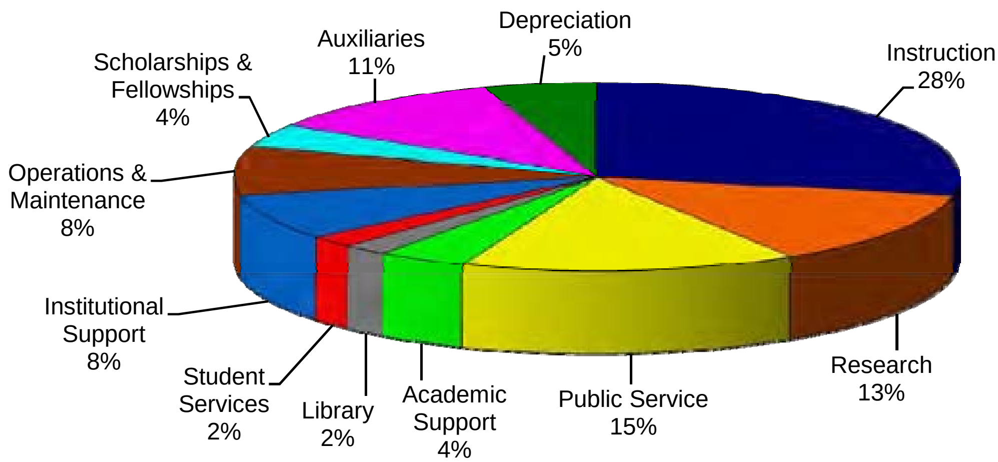
OPERATING EXPENSES BY NATURAL CLASSIFICATION

For the year ended September 30, 2007



OPERATING EXPENSES BY FUNCTION

For the year ended September 30, 2007



Statement of Cash Flows

The Statement of Cash Flows presents information about changes in the University's cash position using the direct method of reporting sources and uses of cash. The direct method reports all major gross cash inflows and outflows, differentiating these activities into operating activities; noncapital financing, such as nonexchange grants and contributions; capital and related financing, including bond proceeds from debt issued to purchase or construct buildings; and investing activities.

The University's cash flows are summarized below:

	2007	2006
Cash (used in) provided by:		
Operating activities	$ (203,255,957)	$ (187,289,390)
Net noncapital financing activities	334,697,688	244,174,655
Net capital and related financing activities	(43,351,538)	(113,158,455)
Net investing activities	(71,488,829)	55,341,532
Net increase (decrease) in cash	16,601,364	(931,658)
Cash and cash equivalents beginning of year	22,482,715	23,414,373
Cash and cash equivalents end of year	$ 39,084,079	$ 22,482,715

The University had an increase of 8.5% in cash used in operating activities from 2006 to 2007. However, the increase used in operating activities was offset by an increase of 37% provided by noncapital financing activities. Most of the increase from noncapital financing activities was the result of an increase in state appropriations and gifts.

Cash used in capital and related financing activities decreased 62% from 2006 to 2007, which was primarily due to proceeds received from issuing new bonds by the University. It was also attributable to an increase in capital grants and gifts received.

Cash used in investing activities was $71 million in 2007, which was an increase of $126 million over 2006. This increase is attributable to an increase in purchases of investments and slightly offset by an increase in investment proceeds.

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 postretirement health care benefits offered to retirees. The cost assessed to the University for retiree health care has experienced a significant increase and, in addition, the University will continue to recognize, in accordance with GASB Statement No. 45, the cost of the future benefit provided to those present and future retirees who are participants in the self-funded University health insurance plan, Retiree Medical Plan.

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

The University 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 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 prorations 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. Preservation of capital is regarded as the highest priority in the investing of the cash pool. Diversification through asset allocation is utilized as a fundamental risk strategy for endowed funds.

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

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

UNDERGRADUATE TUITION FOR THE ACADEMIC YEAR

	2007-08	2006-07	2005-06	2004-05	2003-04
Auburn Main Campus/ Auburn University Montgomery					
Full-Time Students:					
In-State	$ 5,594/5,010	$ 5,256/4,760	$ 5,038/4,410	$ 4,828/4,230	$ 4,426/3,390
Out-of-State	$ 16,094/14,490	$ 15,256/13,760	$ 14,638/13,230	$ 14,048/12,690	$ 12,866/11,170

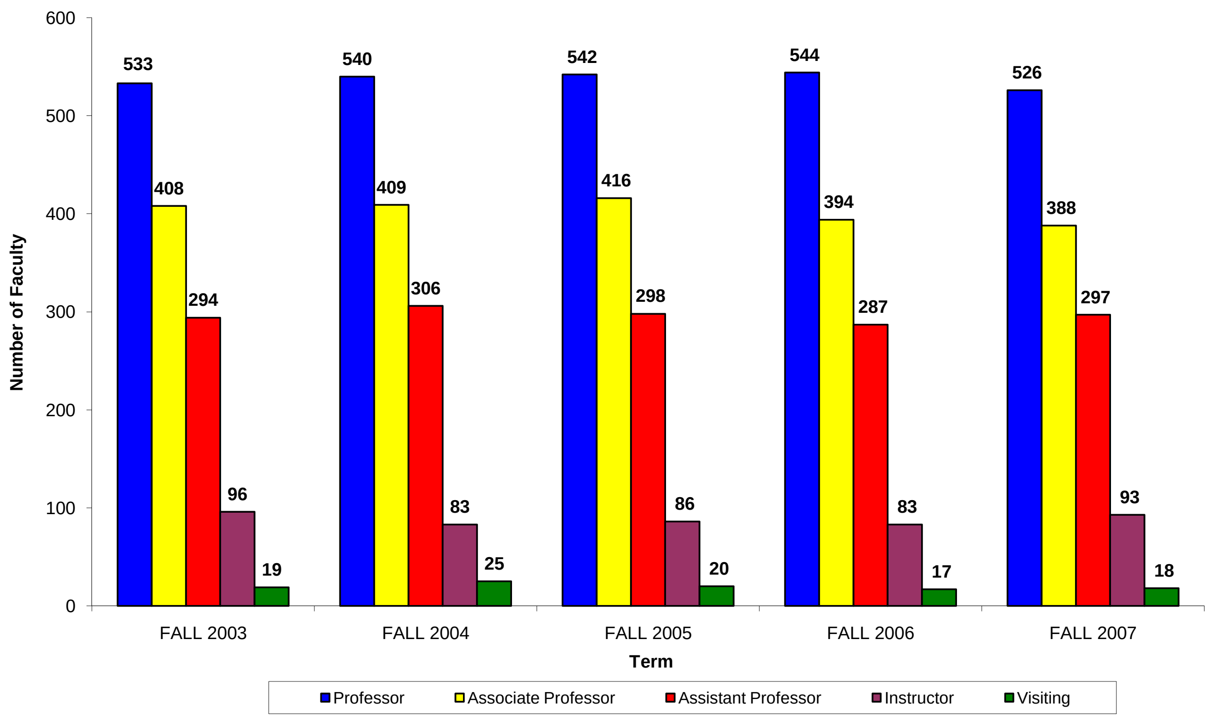
FALL STUDENT ENROLLMENT

	2007	2006	2005	2004	2003
Auburn Main Campus and Auburn University Montgomery					
Undergraduate/Professional	25,115	24,602	24,464	24,120	24,540
Graduate	4,146	4,024	3,997	3,931	3,910

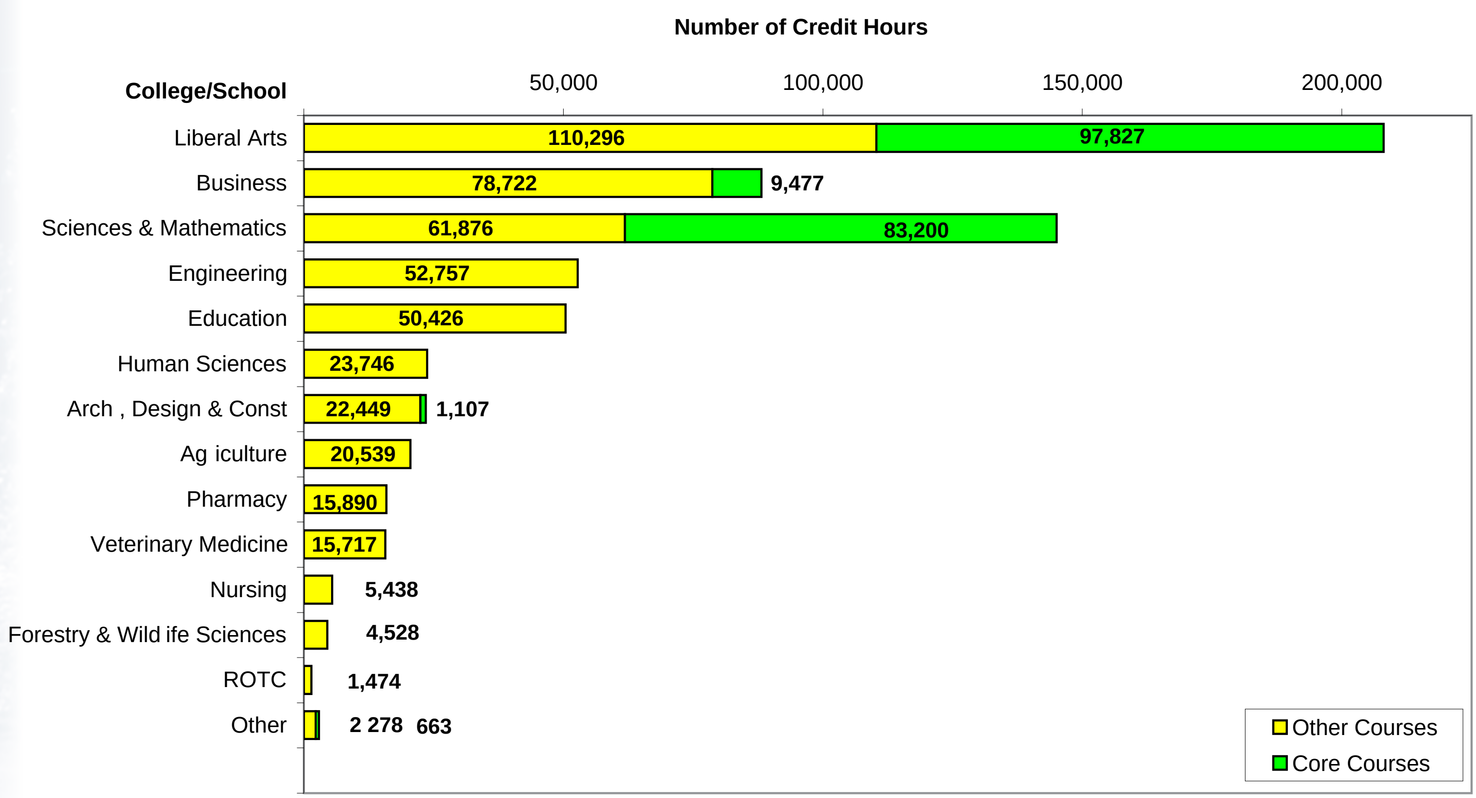
DEGREES AWARDED FOR THE ACADEMIC YEAR

	2006-07	2005-06	2004-05	2003-04	2002-03
Auburn Main Campus and Auburn University Montgomery					
Bachelor	4,373	4,658	4,538	4,525	4,304
Advanced	1,465	1,493	1,394	1,359	1,271

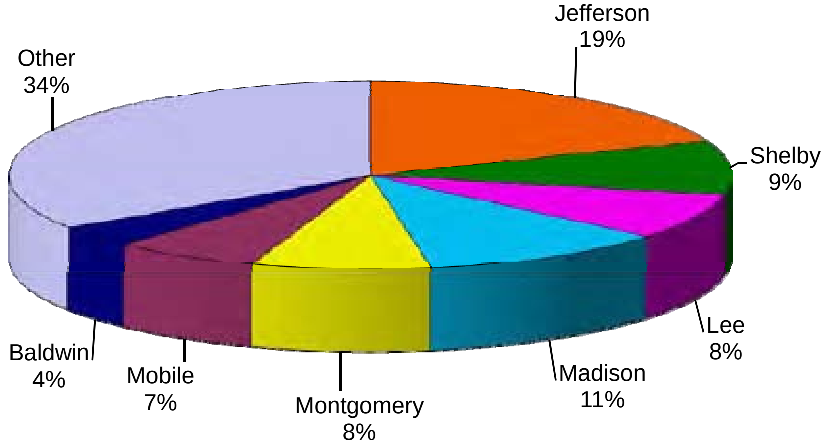
AUBURN UNIVERSITY MAIN CAMPUS AND AUBURN UNIVERSITY MONTGOMERY FULL-TIME FACULTY BY RANK



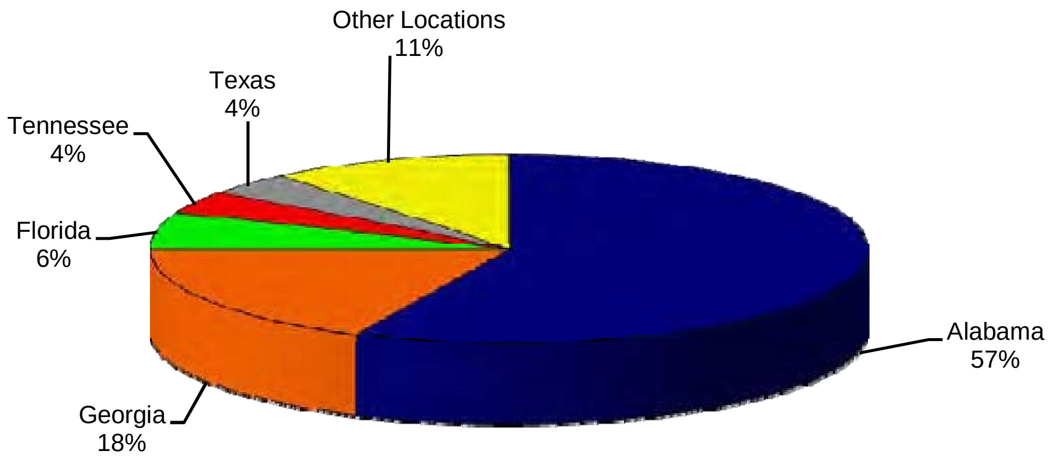
AUBURN UNIVERSITY MAIN CAMPUS TOTAL STUDENT CREDIT HOURS BY COLLEGE/SCHOOL 2006-07



AUBURN UNIVERSITY MAIN CAMPUS FRESHMEN ENROLLMENT BY ALABAMA COUNTIES SUMMER/FALL TERMS 2007



SOURCES OF ENTERING FRESHMEN BY STATE MAIN CAMPUS SUMMER/FALL TERMS 2007



AUBURN UNIVERSITY
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2007 AND 2006

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 39,084,079	$ 22,482,715
Operating investments	73,037,007	65,363,502
Accounts receivable, net	52,043,718	37,927,582
Student accounts receivable, net	27,887,624	24,801,906
Loans receivable, net	3,520,016	2,931,909
Accrued interest receivable	5,176,113	3,783,205
Inventories	3,784,486	3,861,584
Prepaid expenses	3,578,118	3,224,313
Total current assets	208,111,161	164,376,716
Noncurrent assets		
Investments	578,946,923	464,900,568
Loans receivable, net	16,832,349	16,835,865
Investment in plant, net	757,360,225	688,311,759
Total noncurrent assets	1,353,139,497	1,170,048,192
Total assets	1,561,250,658	1,334,424,908
LIABILITIES		
Current liabilities		
Accounts payable	40,006,766	28,559,121
Accrued salaries and wages	3,871,528	3,346,922
Accrued compensated absences	15,230,778	17,450,410
Accrued interest payable	5,151,637	4,157,113
Other accrued liabilities	2,799,700	2,138,300
Student deposits	760,624	1,063,975
Deposits held in custody	20,142,609	19,617,816
Deferred revenues	92,235,802	87,595,756
Noncurrent liabilities-current portion	14,813,637	12,957,509
Total current liabilities	195,013,081	176,886,922
Noncurrent liabilities		
Accrued compensated absences	1,739,701	5,985,312
Bonds and notes payable	311,080,199	263,002,388
Lease obligations	2,470,627	1,450,871
Other noncurrent liabilities	15,407,424	10,642,558
Total noncurrent liabilities	330,697,951	281,081,129
Total liabilities	525,711,032	457,968,051
NET ASSETS		
Invested in capital assets, net of related debt	476,479,089	438,559,234
Restricted		
Nonexpendable	22,949,706	22,927,448
Expendable:		
Scholarships, research, instruction, other	126,031,608	85,194,116
Loans	5,199,804	5,049,996
Capital projects	3,460,205	740,177
Unrestricted	401,419,214	323,985,886
Total net assets	$ 1,035,539,626	$ 876,456,857

See accompanying notes to financial statements.

AUBURN UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
OPERATING REVENUES		
Tuition & fees, net of scholarship allowances of $39,740,632 and $36,784,106, respectively	$ 219,527,520	$ 204,501,267
Federal appropriations	12,980,725	10,224,608
Federal grants & contracts	89,231,359	73,535,070
State & local grants & contracts	27,490,738	22,167,518
Nongovernmental grants & contracts	10,475,227	10,739,860
Sales & services of educational departments	21,856,102	23,381,047
Auxiliary revenue, net of scholarship allowances of $1,892,749 and $1,833,799, respectively	65,342,459	64,123,811
Other operating revenues	14,035,624	13,282,552
Total operating revenues	460,939,754	421,955,733
OPERATING EXPENSES		
Compensation & benefits	447,666,281	419,134,595
Scholarships & fellowships	16,250,173	14,207,166
Other supplies & services	206,266,946	176,848,884
Depreciation	37,134,786	34,186,357
Total operating expenses	707,318,186	644,377,002
Operating loss	(246,378,432)	(222,421,269)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	288,250,909	245,740,695
Gifts	54,813,663	22,547,034
Net investment income	51,623,939	35,671,671
Interest expense on capital debt	(11,962,218)	(9,967,957)
Nonoperating revenues, net	382,726,293	293,991,443
Income before other changes in net assets	136,347,861	71,570,174
OTHER CHANGES IN NET ASSETS		
Capital appropriations	108,492	1,151,334
Capital gifts & grants	22,414,383	7,415,133
Additions to permanent endowments	212,033	150,105
Net increase in net assets	159,082,769	80,286,746
Net assets - beginning of year	876,456,857	796,170,111
Net assets - end of year	$ 1,035,539,626	$ 876,456,857

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition & fees	$ 221,555,587	$ 206,711,561
Federal appropriations	12,980,725	10,224,608
Grants & contracts	120,168,422	100,467,971
Sales & services of educational departments	21,182,886	23,194,348
Auxiliary enterprises	65,807,302	66,136,944
Other operating revenues	14,910,846	13,693,776
Payments to suppliers	(193,061,796)	(175,903,328)
Payments for employee compensation & benefits	(449,746,166)	(417,194,462)
Payments for scholarships & fellowships	(16,250,173)	(14,207,166)
Student loans issued	(4,271,414)	(3,956,432)
Student loans collected	3,467,824	3,542,790
Net cash used in operating activities	(203,255,957)	(187,289,390)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	288,250,909	245,740,695
Gifts for other than capital purposes	46,396,382	22,697,139
Federal Family Education Loan receipts	113,056,491	-
Federal Family Education Loan disbursements	(113,006,094)	-
Decrease in outstanding checks in excess of bank balance	-	(24,263,179)
Net cash provided by noncapital financing activities	334,697,688	244,174,655
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt, net of issuance cost	61,708,401	-
Capital appropriations	108,492	1,151,334
Capital grants & gifts received	18,116,759	5,472,990
Purchases of capital assets	(101,249,905)	(97,441,498)
Proceeds received from sale of capital assets	30,533	87,562
Principal paid on debt & capital leases	(12,608,457)	(12,293,196)
Interest paid on debt & capital leases	(9,457,361)	(10,135,647)
Net cash used in capital and related financing activities	(43,351,538)	(113,158,455)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments and reinvestments	382,982,789	204,477,529
Investment income	28,225,458	23,604,155
Purchases of investments	(482,697,076)	(172,740,152)
Net cash (used in) provided by investing activities	(71,488,829)	55,341,532
Net increase (decrease) in cash and cash equivalents	16,601,364	(931,658)
Cash and cash equivalents, beginning of year	22,482,715	23,414,373
Cash and cash equivalents, end of year	$ 39,084,079	$ 22,482,715

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (246,378,432)	$ (222,421,269)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	37,375,672	33,794,341
Write-off of loans receivable	218,999	402,094
Loss (gain) on sale of net assets	1,451,217	(24,415)
Capitalization of prior year expenses	164,230	(155,109)
Changes in assets and liabilities:		
Accounts receivable, net	(4,742,687)	(14,645,587)
Student accounts receivable, net	(3,085,717)	2,193,674
Advances	-	(84,776)
Inventories	77,098	(143,865)
Deferred revenue	4,640,045	11,217,792
Accounts payable	10,001,738	(1,201,217)
Prepaid expenses	(353,805)	96,780
Accrued salaries, wages and compensated absences	(5,940,637)	2,757,893
Student deposits and deposits held in custody	203,979	1,420,537
Loans to students, net	(803,590)	(413,642)
Other accrued liabilities	661,400	527,467
Other noncurrent liabilities	3,254,533	(610,088)
Net cash used in operating activities	$ (203,255,957)	$ (187,289,390)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION		
Capital assets acquired with a liability at year-end	$ 9,104,773	$ 7,691,800
Gifts of capital assets	3,553,487	1,502,510
Capital assets acquired through capital leases	1,612,865	146,116
Capitalized interest, net	4,509,366	2,388,088

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2007 AND 2006

	Auburn University Foundation		Auburn Alumni Association	
	2007	2006	2007	2006
ASSETS				
Cash and cash equivalents	$ 338,815	$ 331,046	$ 36,336	$ 6,539
Investments	275,129,050	230,858,833	3,460,585	3,411,970
Investment in Auburn University Foundation securities pool	-	-	7,901,993	6,932,602
Accrued interest receivable	754,071	1,048,615	48,030	71,971
Contributions receivable, net	37,340,959	22,490,579	504,120	467,567
Notes receivable	679,129	953,029	-	-
Other receivables	31,043	24,094	8,491	-
Other assets	42,613	51,857	-	-
Investment in real estate	927,096	579,683	674,799	674,799
Cash surrender value of life insurance	2,383,608	2,205,374	-	-
Beneficial interest in outside trusts	2,173,947	-	-	-
Property and equipment, net	1,896,869	815,421	2,147,140	2,221,364
Prepaid rent	-	-	32	33
Due from Auburn University Foundation	-	-	92,754	80,178
Total assets	321,697,200	259,358,531	14,874,280	13,867,023
LIABILITIES				
Accounts payable and accrued liabilities	222,140	241,634	73,662	76,961
Notes payable	-	165,927	-	-
Annuities payable	8,217,588	7,844,186	-	-
Due to Auburn University	2,447,146	2,048,815	33,438	101,365
Due to Auburn University Foundation	-	-	7,500	-
Due to Auburn Alumni Association	7,987,747	7,012,780	-	-
Due to Tigers Unlimited Foundation	7,343,095	5,536,258	-	-
Deferred revenue	-	-	7,095,633	6,881,973
Total liabilities	26,217,716	22,849,600	7,210,233	7,060,299
NET ASSETS				
Unrestricted	21,118,838	18,965,935	7,664,047	6,806,724
Temporarily restricted	80,425,590	58,810,699	-	-
Permanently restricted	193,935,056	158,732,297	-	-
Total net assets	295,479,484	236,508,931	7,664,047	6,806,724
Total liabilities and net assets	$ 321,697,200	$ 259,358,531	$ 14,874,280	$ 13,867,023

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	Auburn University Foundation		Auburn Alumni Association	
	2007	2006	2007	2006
REVENUES AND OTHER SUPPORT				
Public support - contributions	$ 55,776,334	$ 38,256,307	$ 1,448,666	$ 1,007,809
Investment income	4,303,794	3,948,112	471,584	385,755
Other revenues	499,082	264,182	744,744	1,628,338
Total operating revenues	60,579,210	42,468,601	2,664,994	3,021,902
EXPENSES AND LOSSES				
Program services				
Contributions to and support for Auburn University	22,549,954	19,285,134	-	-
Other program services	1,575,626	1,762,785	852,683	742,265
Total program services	24,125,580	21,047,919	852,683	742,265
Support services				
General and administrative	1,723,299	1,723,627	1,470,792	1,756,493
Fund raising	3,622,093	4,261,841	235,281	203,398
Total support services	5,345,392	5,985,468	1,706,073	1,959,891
Total expenses	29,470,972	27,033,387	2,558,756	2,702,156
Unrealized gains on investments	(11,899,726)	(10,675,625)	(751,085)	(336,962)
Realized gains on investments	(15,467,881)	(3,639,990)	-	-
Change in valuation of split-interest agreements	(494,708)	618,820	-	-
Total expenses, (gains) and losses	1,608,657	13,336,592	1,807,671	2,365,194
*Change in net assets	58,970,553	29,132,009	857,323	656,708
NET ASSETS				
Beginning of the year	236,508,931	207,376,922	6,806,724	6,150,016
End of the year	$ 295,479,484	$ 236,508,931	$ 7,664,047	$ 6,806,724
*Change in net assets				
Unrestricted	$ 2,152,903	$ (291,056)	$ 857,323	$ 656,708
Temporarily restricted	21,614,891	15,758,693	-	-
Permanently restricted	35,202,759	13,664,372	-	-
Total change in net assets	$ 58,970,553	$ 29,132,009	$ 857,323	$ 656,708

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006

	Tigers Unlimited Foundation	
	2007	2006
ASSETS		
Cash and cash equivalents	$ 1,657,596	$ 3,238,419
Investments	24,722,043	19,960,653
Investment in Auburn University Foundation securities pool	7,122,426	5,693,296
Accrued interest receivable	247,907	183,108
Contributions receivable, net	13,000,714	11,689,596
Other receivables	17,500	31,138
Other assets	1,638,250	486,648
Property and equipment, net	4,556	2,349
Due from Auburn University	-	37,105
Due from Auburn University Foundation	100,000	105,048
Total assets	48,510,992	41,427,360
LIABILITIES		
Accounts payable and accrued liabilities	473,690	465,878
Deposits payable	1,232,771	1,212,378
Due to Auburn University	1,900,495	2,393,037
Total liabilities	3,606,956	4,071,293
NET ASSETS		
Unrestricted	20,933,749	17,702,485
Temporarily restricted	16,533,149	14,164,508
Permanently restricted	7,437,138	5,489,074
Total net assets	44,904,036	37,356,067
Total liabilities and net assets	$ 48,510,992	$ 41,427,360

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	Tigers Unlimited Foundation	
	2007	2006
REVENUES AND OTHER SUPPORT		
Public support - contributions	$ 27,371,132	$ 26,339,459
Investment income	1,331,986	764,880
Other revenues	3,679,222	843,192
Total operating revenues	32,382,340	27,947,531
EXPENSES AND LOSSES		
Program services		
Contributions to and support for Auburn University	12,712,078	6,933,649
Other program services	5,943,580	5,792,455
Total program services	18,655,658	12,726,104
Support services		
General and administrative	1,139,017	1,088,104
Fund raising	5,841,680	1,578,820
Total support services	6,980,697	2,666,924
Total expenses	25,636,355	15,393,028
Unrealized gains on investments	(802,058)	(91,802)
Realized (gains) losses on investments	(504)	13,777
Loss on write-off	578	2,403,914
Total expenses, (gains) and losses	24,834,371	17,718,917
*Change in net assets	7,547,969	10,228,614
NET ASSETS		
Beginning of the year	37,356,067	27,127,453
End of the year	$ 44,904,036	$ 37,356,067
*Change in net assets		
Unrestricted	$ 3,231,264	$ 9,240,947
Temporarily restricted	2,368,641	420,541
Permanently restricted	1,948,064	567,126
Total change in net assets	$ 7,547,969	$ 10,228,614

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) NATURE OF OPERATIONS

Auburn University (the University) is a land grant university originally chartered on February 1, 1856, as the East Alabama Male College. The Federal Land Grant Act of 1862, by which the University was established as a land grant university, donated public lands to several states and territories with the intent that the states would use these properties for the benefit of agriculture and the mechanical arts. Several pertinent laws dictate specific purposes for which the land may be used. In 1960, the Alabama State Legislature officially changed the name of the University to Auburn University. The University has two campuses, Auburn and Montgomery, with a combined enrollment of 29,261 students for fall semester 2007. 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 all Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, unless FASB pronouncements conflicts with GASB pronouncements. The accompanying financial statements include the following four divisions of the University:

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

Reporting Entity

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

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

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

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

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

Component Units

The University adheres to GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement clarifies GASB Statement No. 14, *The Financial Reporting Entity,* which provides criteria for determining whether such organizations for which a government is not financially accountable should be reported as component units. Due to the fact that the exclusion of such organizations would render the entity's financial statements misleading or incomplete, the University has included statements for Auburn University Foundation, the Tigers Unlimited Foundation and the Auburn Alumni Association in these financial statements. 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 adhere to FASB accounting principles.

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

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

The Auburn Research and Technology Foundation (ARTF) is an independent corporation organized on August 24, 2004, to facilitate the acquisition, construction and equipping of a technology and research park on the Auburn University campus. ARTF activities are governed by its own Board of Directors.

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

Financial statements for AUF, TUF, the Association, ARTF and ASFS may be obtained by writing 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 the Board. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, capital programs, and auxiliary units.

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

Basis of Accounting

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

GASB Statement No. 35 requires the recording of depreciation on capital assets, accrual or deferral of revenue associated with certain grants and contracts, accrual of interest expense, accounting for certain scholarship allowances as a reduction of revenue, classification of federal refundable loans as a liability, and capitalization and depreciation of equipment with a sponsor reversionary interest. The basis of accounting and presentation, as well as other significant accounting policies of AUF, TUF and the Association, are discussed in Note 2.

Use of Estimates

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

(2) SIGNIFICANT ACCOUNTING POLICIES OF AUBURN UNIVERSITY

Cash & Cash Equivalents

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

Investments

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

Under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the University records its initial investment and subsequent contributions in 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 are addressed. 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 at the date of donation. Depreciation is computed on a straight line basis over the estimated useful lives of buildings and building improvements (40 years), land improvements and infrastructure (10 – 40 years), library collection and software costs (10 years) and inventoried equipment (5 – 18 years). Land and construction in progress are not depreciated. The threshold for capitalizing buildings, land improvements and infrastructure is $25,000. Expenditures for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized if they meet the $25,000 threshold. Equipment is capitalized if the cost exceeds $2,500 and has a useful life of more than one year. All buildings are insured through the State of Alabama Property Insurance Fund.

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

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the University continues to evaluate prominent events or changes in circumstance to determine whether an impairment loss should be recorded and whether any insurance recoveries should be offset against the impairment loss. The University did not incur any costs related to asset impairment during fiscal years 2007 or 2006.

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, 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 accordance with GASB Statement No. 33, the University recorded two such pledges in fiscal year 2007, totaling $8.6 million.

(3) CASH AND CASH EQUIVALENTS

Cash consists of petty cash funds and demand deposits held in the name of the University. The Board approves all banks or other institutions as depositories for University funds. 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.

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

(4) INVESTMENTS

The Board is authorized to invest all available cash and is responsible for the management of the University's investments. The endowment funds and the cash pool assets are invested in accordance with policies established by the Board. The Board has 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 November 10, 2006, 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 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 whose long term objective is to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations. Under this policy, spending for a given year equals 80% of spending in the previous year, adjusted for inflation (Consumer Price Index (CPI) within a range of 1% and 6%), plus 20% of the long-term spending rate (4.5%) applied to the twelve month rolling average of the market values. Under the previous spending policy, the distribution rate approved by the Board for the year ended September 30, 2006, was 3.90%. Accumulated net realized and unrealized gains on endowments and funds functioning as endowments total $53,491,089 and $42,765,435 at September 30, 2007 and 2006, respectively, and are recorded as restricted expendable net assets.

The components of the accumulated net gains in fair value of investments for the years ended September 30, 2007 and 2006 are as follows:

	2007	2006
Accumulated Realized gains on sale of investments	$ 39,605,771	$ 23,580,597
Accumulated Unrealized gains	13,885,318	19,184,838
Net gains in fair value of investments	$ 53,491,089	$ 42,765,435

Investment Risks

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

- **Interest Rate Risk** – Interest rate or market risk is the potential for changes in the value of financial instruments due to interest rate changes in the market. Certain fixed maturity investments contain call provisions that could result in shorter maturity periods. As previously stated, it is the University's intent to hold all investments in the Cash Pool until maturity. The Board understands that in order to achieve its objectives, investments can experience fluctuations in fair value. Both the Endowment Investment Policy and the Non-Endowment Cash Pool Investment Policy set forth allowable investments and allocations.

The following segmented time distribution tables provide information as of September 30, 2007 and 2006, and presents the fair value of investments by investment type and related maturity:

Auburn University Investments
Investment Maturities at Fair Value (in Years)
September 30, 2007

Type of Investments	< 1 year	1-5 years	6-10 years	> 10 years	Total Fair Value
Fixed Maturity					
Repurchase Agreements	$ 2,100,000	$ -	$ -	$ -	$ 2,100,000
Commercial Paper	9,881,240	-	-	-	9,881,240
Certificates of Deposit	1,000,000	621,436	-	-	1,621,436
U. S. Treasury Obligations	36,087,001	24,271,323	-	2,369,305	62,727,629
U. S. Agency Securities	62,322,678	189,203,590	103,483,638	10,740,678	365,750,584
Mortgage Backed Securities	-	97,347	1,503,438	24,822,479	26,423,264
Asset Backed Securities	-	4,001,499	1,285,235	-	5,286,734
Corporate Bonds	362,599	5,065,323	1,621,354	1,175,539	8,224,815
Non U. S. Government Securities	-	698,567	-	-	698,567
Municipals	100,332	-	-	-	100,332
	$ 111,853,850	$ 223,959,085	$ 107,893,665	$ 39,108,001	$ 482,814,601
Domestic Equities					980,146
Alternative Investments (Limited Partnerships) - at cost					
Hedge Funds					35,500,000
Private Capital					2,977,821
Real Assets					15,869,640
Real Estate - at cost					740,750
Mutual Funds					101,852,701
Other					3,679,381
Money Market					44,550,130
Total Investments					688,965,170
Less cash equivalents held in cash pool					(36,981,240)
Operating and noncurrent investments					$ 651,983,930

Auburn University Investments
Investment Maturities at Fair Value (in Years)
September 30, 2006

Type of Investments	< 1 year	1-5 years	6-10 years	> 10 years	Total Fair Value
Fixed Maturity					
Repurchase Agreements	$ 1,200,000	$ -	$ -	$ -	$ 1,200,000
Commercial Paper	13,956,336	-	-	-	13,956,336
Certificates of Deposit	-	1,590,255	-	-	1,590,255
U. S. Treasury Obligations	40,131,185	18,939,193	3,633,393	1,348,018	64,051,789
U. S. Agency Securities	44,802,498	133,427,201	80,991,403	10,588,835	269,809,937
Mortgage Backed Securities	2,650,917	-	1,911,403	20,961,199	25,523,519
Asset Backed Securities	-	2,210,838	100,516	-	2,311,354
Corporate Bonds	-	2,868,304	-	-	2,868,304
Non U. S. Government Securities	189,893	654,484	-	-	844,377
Municipals	-	-	-	685,980	685,980
	$ 102,930,829	$ 159,690,275	$ 86,636,715	$ 33,584,032	$ 382,841,851
Domestic Equities					919,502
Alternative Investments (Limited Partnerships) - at cost					
Hedge Funds					15,000,000
Private Capital					713,727
Real Assets					12,716,668
Real Estate - at cost					740,750
Mutual Funds					108,013,265
Other					3,408,067
Money Market					23,130,896
Total Investments					547,484,726
Less cash equivalents held in cash pool					(17,220,656)
Operating and noncurrent investments					$ 530,264,070

- **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, 2007 and 2006, 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
	2007		2006	
US Treasury	$ 62,727,629	12.99%	$ 64,051,791	16.73%
Aaa	399,144,564	82.67%	299,516,710	78.23%
Aa	3,549,881	0.74%	1,636,367	0.43%
A	3,477,526	0.72%	890,392	0.23%
Baa	312,325	0.06%	-	-
P1	9,881,240	2.05%	13,956,336	3.65%
Not Rated*	3,721,436	0.77%	2,790,255	0.73%
	$ 482,814,601	100.00%	$ 382,841,851	100.00%

*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. As of September 30, 2007 and 2006, 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, 2007 and 2006, 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, 2007 and 2006, there was no participation in any securities lending program.

Interest Sensitive Securities

As of September 30, 2007 and 2006, the University held $26,423,264 and $25,523,519, representing 3.84% and 4.66%, respectively, of its total investments in mortgage-backed securities. As of September 30, 2007 and 2006, the University held $5,286,724 and $2,311,354, representing 0.77% and 0.42%, 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, 2007 and 2006, the University Cash Pool held $48,686,187 and $28,651,962, representing 7.07% and 5.23%, respectively, of total investments in continuously callable fixed maturity investments.

The University owns shares in eight mutual funds, four common trust funds and two business trust funds. These funds are invested in domestic marketable securities, international marketable securities, commodities 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.

As of September 30, 2007, the University had entered into subscription agreements with fourteen limited partnership investments. As of September 30, 2007, the aggregate amount of capital committed to these investment partnerships was $54,000,000 of which capital contributions of $39,847,460 have been made. Of these fourteen commitments, six subscriptions relate to private equity funds, five subscriptions relate to hedge funds and three subscriptions relate to real asset funds. The private equity fund commitments are investments in privately held companies in various industries, including alternative fuel technology. The hedge funds are primarily invested in long term/short term equities, fixed income arbitrage, merger arbitrage and other event driven strategies through various investment managers, investment partnerships and offshore funds. The real assets funds include investments in commercial real estate, residential real estate, and oil and gas production.

As of September 30, 2007 and 2006, 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 asset 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	$ 74,750,000	$ 72,105,000
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 Dealers 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 September 28, 2007 and December 19, 2006, the Swap Agreements were valued at $650,615 and ($573,337), respectively, by Deutsche Bank and the Investment Management Advisory Group, Inc.

The table entitled, "Auburn University Investments, Investment Maturities at Fair Value (in Years)," includes funds held for pending capital expenditures at September 30, 2007: $20,484,512, 2004 General Fee Bond Proceeds; $41,956,162, 2006 General Fee Bond Proceeds and $24,363,771, Deferred Maintenance Building Fund. The General Liability Account holds investments of $5,599,826.

At September 30, 2006, funds held for capital expenditures were as follows: $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 held investments of $6,005,439.

AUF investments at September 30, 2007 and 2006 include the following:

	2007		2006	
	Fair Value	Cost	Fair Value	Cost
Cash and pooled investments	$ 9,365,907	$ 9,356,562	$ 3,393,167	$ 3,393,167
Government bonds, notes and other securities	22,244,323	22,135,264	24,748,468	24,723,171
Corporate bonds and debentures	15,749,070	15,679,386	7,261,183	7,176,824
Corporate stocks	1,907,392	1,269,611	3,690,906	3,968,092
Mutual funds and common trust funds	142,188,115	117,279,328	138,288,318	117,473,513
Hedge funds	45,670,042	36,875,000	33,870,686	30,500,000
Private equity funds	8,298,120	8,104,929	2,059,489	2,104,408
Real asset investment funds	29,706,081	25,109,743	17,546,616	16,035,854
Total investments	$ 275,129,050	$ 235,809,823	$ 230,858,833	$ 205,375,029

The Foundation owns shares in five mutual funds, two business trust funds and four common trust funds. These funds are invested in domestic marketable securities, international marketable securities, commodities, and debt securities. The Foundation 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, the Foundation enters into a separate subscription agreement with a capital commitment to each limited partnership.

As of September 30, 2007, the Foundation had entered into subscription agreements with seventeen limited partnership investments. The aggregate amount of capital committed to these investment partnerships is $86,975,000 of which capital contributions of $64,089,672 have been invested. A net realized gain of $12,627,540 has been recorded on these investments on the Consolidated Statements of Activities and Changes in Net Assets. Of these seventeen commitments, five subscriptions relate to hedge funds, eight subscriptions relate to private equity funds, and four subscriptions relate to real asset funds. The hedge funds are primarily invested in long/short equities, fixed-income arbitrage, merger arbitrage and other event driven strategies through various investment managers, investment partnerships and offshore funds. The private equity fund commitments are for investments in privately held companies in various industries, including alternative fuel technology. The real asset funds include an investment in commercial real estate, residential real estate, and oil and gas production.

The Foundation believes that the carrying amount of its limited partnership investments is a reasonable estimate of fair value as of September 30, 2007. Because limited partnership investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such difference could be material. Limited partnership investments are made in accordance with the Foundation's investment policy that approves the allocation of funds to various asset 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.

Investment income, realized gains and losses, unrealized gains and losses, and changes in values of split-interest agreements are reported on the Consolidated Statements of Activities and Changes in Net Assets net of investment expenses. Investment income is shown net of estimated investment expenses of $2,302,000 and $1,760,000, for the fiscal years ended September 30, 2007 and 2006, respectively.

(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 $196,528,951 and $166,947,757, and the market value was $232,070,597 and $191,569,739, at September 30, 2007 and 2006, respectively. The portion of endowment income received by the University from these funds was $7,177,362 and $6,024,214 for the fiscal years ended September 30, 2007 and 2006, respectively. Endowment earnings are distributed annually in January, based on the AUF endowment distribution spending rate.

In addition, the University has been named as a beneficiary of a foundation with investments having a cost of $2,800,376 and $2,763,416, and a market value of $3,145,829 and $2,998,038, at September 30, 2007 and 2006, respectively.

The University is the beneficiary of the income earned on two additional trusts. The cost of investments held by these trusts was $753,000 as of September 30, 2007 and 2006. The income received from the two trusts was $91,915 and $20,280 for the years ended September 30, 2007 and 2006, respectively.

(6) ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for doubtful accounts at September 30, 2007 and 2006, are summarized as follows:

	2007	2006
NON - STUDENT ACCOUNTS RECEIVABLE		
Federal, state & local government, and other restricted expendable	$ 35,763,673	$ 29,452,140
Less allowance for doubtful accounts	(1,764,000)	(825,000)
Pledged Receivables	8,629,314	-
General	6,847,311	6,215,816
Less allowance for doubtful accounts	(6,251,148)	(4,728,719)
Auxiliary	6,732,651	6,471,565
Capital	2,085,917	1,341,780
Total	$ 52,043,718	$ 37,927,582

	2007	2006
STUDENT ACCOUNTS RECEIVABLE		
Unrestricted general	$ 28,710,315	$ 24,121,036
Less allowance for doubtful accounts	(1,950,730)	(889,758)
Unrestricted auxiliary	1,208,717	1,631,795
Less allowance for doubtful accounts	(80,678)	(61,167)
Total	$ 27,887,624	$ 24,801,906

(7) CAPITAL ASSETS

Capital assets at September 30, 2007 and 2006, are summarized as follows (dollars in thousands):

	Sept. 30, 2006	Additions	Deletions	Sept. 30, 2007
Capital assets not being depreciated				
Land	$ 15,890	$ 1,260	$ -	$ 17,150
Art & collectibles	6,603	454	-	7,057
Construction in progress	42,246	84,233	(73,937)	52,542
Livestock	1,210	123	(56)	1,277
Total capital assets not being depreciated	65,949	86,070	(73,993)	78,026
Capital assets being depreciated				
Land improvements	39,113	4,297	(2,134)	41,276
Buildings	689,924	78,529	(4,150)	764,303
Equipment	156,816	16,226	(4,097)	168,945
Infrastructure	122,111	5,684	(16,393)	111,402
Library books	124,766	6,844	(394)	131,216
Banner implementation	6,401	2,700	-	9,101
Total capital assets being depreciated	1,139,131	114,280	(27,168)	1,226,243
Less accumulated depreciation for				
Land improvements	10,913	2,198	-	13,111
Buildings	264,307	14,377	(2,784)	275,900
Equipment	109,237	11,475	(3,816)	116,896
Infrastructure	30,189	3,146	-	33,335
Library books	101,482	5,029	(394)	106,117
Banner implementation	640	910	-	1,550
Total accumulated depreciation	516,768	37,135	(6,994)	546,909
Total capital assets being depreciated, net	622,363	77,145	(20,174)	679,334
Capital assets, net	$ 688,312	$ 163,215	$ (94,167)	$ 757,360

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	93,392	88,066	(115,509)	65,949
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	1,017,962	127,616	(6,447)	1,139,131
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	488,979	34,186	(6,397)	516,768
Total capital assets being depreciated, net	528,983	93,430	(50)	622,363
Capital assets, net	$ 622,375	$ 181,496	$ (115,559)	$ 688,312

During the fiscal years ended September 30, 2007 and 2006, the University received approximately $108,000 and $1.2 million, respectively, from the State of Alabama to fund construction. These revenues are classified as capital appropriations on the Statement of Revenues, Expenses and Changes in Net Assets.

(8) LONG-TERM DEBT

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

Bonds payable	Balance at September 30, 2006	Principal New Debt	Repayment	Balance at September 30, 2007
1978 Auburn University at Montgomery Dormitory Revenue bonds, $3,279,000 face value, 3.0%, due annually through 2018, a reserve of $193,929 and a $138,990 contingency fund.	$ 1,555,000	$ -	$ (100,000)	$ 1,455,000
2001 General Fee Revenue bonds, $19,460,000 face value, 3.25% to 5.0%, due annually through 2011.	10,930,000	-	(1,975,000)	8,955,000
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.	22,519,429	-	(362,903)	22,156,526
2003 General Fee Revenue bonds, $49,460,000 face value, 1.45% to 5.25%, due annually through 2016.	41,110,000	-	(3,575,000)	37,535,000
2003 Athletic Revenue bonds, $21,900,000 face value, 2.25% to 5.0%, due annually through 2010.	11,625,000	-	(2,775,000)	8,850,000
2003 Housing and Dining Revenue bonds, $15,645,000 face value, 1.4% to 5.0%, due annually through 2012.	10,400,000	-	(1,600,000)	8,800,000
2004 General Fee Revenue bonds, $76,875,000 face value, 3.0% to 5.25%, due annually through 2034.	73,465,000	-	(1,360,000)	72,105,000
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.	24,330,000	-	(540,000)	23,790,000
2004B Athletic Revenue bonds, $3,050,000 face value, 5.75%, due annually from 2022 through 2024.	3,050,000	-	-	3,050,000
2006A General Fee Revenue bonds, $60,000,000 face value, 3.5% to 5.0%, due annually from 2008 through 2037.	-	60,000,000	-	60,000,000
Total bonds payable	273,734,429	60,000,000	(12,287,903)	321,446,526
Plus unamortized bond premium	4,223,425	2,456,590	(873,616)	5,806,399
Less unamortized bond discount	(1,203,285)	-	76,187	(1,127,098)
Less unamortized loss on refunding	(1,097,276)	-	290,127	(807,149)
	275,657,293	62,456,590	(12,795,205)	325,318,678
Less: current portion				
Bonds payable	(12,287,903)			(13,737,440)
Unamortized bond premium	(733,317)			(807,402)
Unamortized bond discount	76,186			76,186
Unamortized loss on refunding	290,129			230,177
Total noncurrent bonds payable	$ 263,002,388			$ 311,080,199

Bonds payable	Balance at September 30, 2005	Principal New Debt	Repayment	Balance at September 30, 2006
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
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

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Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to September 30, 2007, and thereafter, are as follows:

Year Ending September 30	Bonds Payable Principal	Interest
2008	$ 13,737,440	$ 14,554,965
2009	14,183,294	14,046,058
2010	14,757,020	13,538,883
2011	14,299,610	14,079,998
2012	14,669,833	13,716,555
2013-2017	64,413,468	62,254,209
2018-2022	58,385,861	49,090,999
2023-2027	58,645,000	25,081,481
2028-2032	39,285,000	13,086,343
2033-2037	29,070,000	3,302,400
Total future debt service	$ 321,446,526	$ 222,751,891

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, 2006	New Obligations	Principal Repayment	Balance at Sept. 30, 2007
Building	$ 1,525,000	$ -	$ (145,000)	$ 1,380,000
Equipment	228,475	1,612,864	(175,554)	1,665,785
Total lease obligations	$ 1,753,475	$ 1,612,864	$ (320,554)	$ 3,045,785

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
2007-2008	$ 211,450	$ 463,887	$ 675,337
2008-2009	214,780	387,481	602,261
2009-2010	212,572	368,897	581,469
2010-2011	210,053	349,542	559,595
2011-2012	212,215	332,242	544,457
2012-2016	638,565	-	638,565
Minimum lease payments	1,699,635	1,902,049	3,601,684
Less interest	(319,635)	(236,264)	(555,899)
Present value of minimum lease payments	1,380,000	1,665,785	3,045,785
Less current portion	(145,000)	(430,158)	(575,158)
Noncurrent obligations	$ 1,235,000	$ 1,235,627	$ 2,470,627

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, 2007 and 2006, amounted to approximately $3.9 million and $3.3 million, respectively.

(9) PLEDGED REVENUES

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

	2007	2006
Student fees collected	$ 231,220,338	$ 214,779,768
Less AUM fees	(20,673,604)	(20,874,563)
Less fees pledged for specific purposes:		
Athletic fees ($96 per student per semester)	(4,960,876)	(944,244)
Transit fees ($89 and $53 per student per semester for 2007 and 2006, respectively)	(3,114,312)	(2,659,430)
Student activities fees ($15 per student per semester)	(790,306)	(784,061)
Total general fees pledged	$ 201,681,240	$ 189,517,470

Pledged revenue for 2007 and 2006 as defined by the Series 2001A, 2003, and 2004 Athletic A & B Revenue Trust Indentures is as follows:

	2007	2006
Jordan Hare and Other Revenues:		
Television and broadcast revenues	$ 4,150,000	$ 4,090,000
Conference and NCAA distributions	12,159,634	12,628,646
Sales and services revenues	24,653,339	19,153,188
Student fees	4,960,876	944,244
Game settlements	-	1,225,480
Other income	3,621,856	935,746
Total Athletic revenues pledged	$ 49,545,705	$ 38,977,304

Pledged revenue for 2007 and 2006 as defined by the Series 2003 Housing and Dining Revenue Trust Indenture is as follows:

	2007	2006
Housing Revenues:		
Room rental	$ 9,317,145	$ 9,764,483
Other income	750,618	612,979
Total Housing revenues pledged	$ 10,067,763	$ 10,377,462

The Auburn University dormitory occupancy rate for fall semester 2007 and fall semester 2006 was 98.6% and 99.4%, respectively (unaudited).

	2007	2006
Food Services Revenues:		
Other income	$ 509,430	$ 550,000
Total Food Services revenues pledged	$ 509,430	$ 550,000

Pledged revenues and related expenses for 2007 and 2006 as defined by the 1978 Auburn University at Montgomery Trust Indenture are as follows:

The following summary shows the revenues, expenses and transfers from operations of the dormitories of AUM for the years ended September 30, 2007 and 2006.

	2007	2006
Revenues:		
Room rental	$ 851,046	$ 576,317
Other income	36,054	270,331
Total revenues	887,100	846,648
Expenses and Transfers:		
Personnel cost	565,544	455,001
Operating expenses	531,186	583,915
Transfers	148,445	143,520
Total expenses and transfers	1,245,175	1,182,436
Deficit of revenues over expenses and transfers	(358,075)	(335,788)
AUM Student Housing net deficit at beginning of year	(964,169)	(628,381)
AUM Student Housing net deficit at end of year	$ (1,322,244)	$ (964,169)

The AUM dormitory occupancy rate for fall semester 2007 and fall semester 2006 was 97.36% and 97.00%, respectively (unaudited).

(10) RETIREMENT PROGRAMS

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

A. Teachers' Retirement System of Alabama

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

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

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

The ten year historical trend information showing TRS's progress in accumulating sufficient assets to pay benefits when due and the significant actuarial assumptions used to compute the pension benefit obligation, including the discount rate, projected salary increases and post-retirement benefit increases, are presented in the September 30, 2006, 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,	2007	2006
Total percentage of covered payroll	14.36%	13.17%
Contributions:		
Percentage contributed by the employer	9.36%	8.17%
Percentage contributed by the employees	5.00%	5.00%
Contributed by the employer	$ 27,514,629	$ 22,235,640
Contributed by the employees	14,701,877	13,812,039
Total contributions	$ 42,216,506	$ 36,047,679

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% 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,	2007	2006
Total percentage of covered payroll	27.11%	25.57%
Contributions:		
Percentage contributed by the employer	24.61%	23.07%
Percentage contributed by the employees	2.50%	2.50%
Contributed by the employer	$ 1,626,391	$ 1,489,525
Contributed by the employees	165,224	161,413
Total contributions	$ 1,791,615	$ 1,650,938

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 $1,500 per year of a qualifying employee's contribution. This equates to five percent of gross salary with a maximum covered salary of $30,000 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, Vanguard Fidelity Investments, Lincoln Financial and Merrill Lynch. At September 30, 2007 and 2006, 3,276 employees and 3,187 employees, respectively, participated in the tax deferred annuity program. The contribution for 2007 was $15,996,510, which includes $4,195,025 from the University and $11,801,485 from its employees. The contribution for 2006 was $15,074,792, which includes $3,776,198 from the University and $11,298,594 from its employees. Total salaries and wages during the fiscal year for covered employees participating in the plan were approximately $200,725,000 and $202,758,000 for the fiscal years ended September 30, 2007 and 2006, 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, 2007 and 2006, 213 and 211 employees, respectively, participated in the plans. Contributions of $2,181,213 and $2,134,057 for fiscal years 2007 and 2006, respectively, were funded by employees and no employer contribution was funded. The 457(b) plans include VALIC, TIAA-CREF, Vanguard, Fidelity Investments, Lincoln Financial, and Merrill Lynch.

(11) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

Eligible retired employees participating in PEEHIP pay their premiums directly to TRS. Auburn University paid the employer portion of premiums directly to TRS in the amount of $8,623,680 and $7,686,668 for fiscal years 2007 and 2006, respectively.

The University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* during fiscal year 2007. This statement requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services.

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

Employees included in the actuarial valuation include retirees and survivors, active Civil Service employees who are eligible to participate in the Plan upon retirement, and those employees the University pays a subsidy for who elected the PEEHIP plan on or prior to 10/1/1997. Expenditures for postretirement health care benefits are recognized monthly and financed on a pay-as-you-go basis. The University funds approximately 60% of the postretirement healthcare premiums, which totaled $996,645 and $1,040,488 for fiscal years ended September 30, 2007 and 2006, respectively. The retirees are responsible for funding approximately 40% of the healthcare premiums.

As part of the transition provisions of GASB Statement No. 45, the University accrued an additional $2,737,700 in retiree healthcare expense during fiscal year 2007.

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

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

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

Cost Element	Fiscal Year Ending Sept. 30, 2007 Amount	Percent of Payroll[2]
1. Unfunded actuarial accrued liability at Oct. 1, 2006	$ 57,878,500	890.9%
Annual Required Contribution (ARC)		
2. Normal cost	$ 189,200	
3. Amortization of the unfunded actuarial accrued liability over 15 years using level dollar amortization	5,205,700	
4. Annual Required Contribution (ARC = 2 + 3)	$ 5,394,900	83.0%
Annual OPEB Cost (Expense)		
5. ARC	$ 5,394,900	
6. Interest on beginning of year CAFR accrual[1]	-	
7. Amortization of beginning of year CAFR accrual[1]	-	
8. Fiscal 2007 OPEB cost (5 + 6 – 7)	$ 5,394,900	83.0%
End of Year CAFR Accrual (Net OPEB Obligation)[3]		
9. Beginning of year CAFR accrual[1]	$ -	
10. Annual OPEB cost	5,394,900	
11. Employer contribution (benefit payments)[3]	2,657,200	
12. End of year CAFR accrual (9 + 10 – 11)[3]	$ 2,737,700	42.1%

[1] No accrual is required at the adoption of the GASB Statement

[2] Annual payroll for the 87 plan participants as of October 1, 2006 estimated at $6,496,800 based on actual payroll of $6,515,400 as of November 1, 2006.

[3] Actual contributions and administrative fees paid in fiscal year 2008 for the PPO of $2,875,765 plus expected subsidy payments of $405,038 less participant contributions of $623,625 (the sum of retiree premiums of $452,908 and survivor premiums of $170,717). Employer contributed 49.3% of annual OPEB cost during fiscal year 2007.

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contributions	Actual Contributions[4]	Percentage Contributed
September 30, 2007	$ 5,394,900	$ 2,657,200	49.3%

[4] Since there is no funding, these are actual PPO benefit payments of $2,875,765 plus expected subsidy payments of $405,038 less retiree contributions of $623,625.

Schedule of Funding Progress

The schedule of funding progress presents multi-year trend information comparing the actuarial value of plan assets to the actuarial accrued liability.

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll[5] (c)	UAAL as a Percentage Of Covered Payroll[5] [(b)-(a)/ (c)]
September 30, 2007	$ -	$ 57,878,500	$ 57,878,500	- %	$ 6,496,800	890.9%

[5] Estimated payroll as of October 1, 2006 includes only plan participants.

Note: The annual required contribution (ARC) of $5.39 million for fiscal year 2007 and CAFR accrual of $2.74 million as of September 30, 2007, are based on the assumption of no funding in a segregated GASB qualified trust.

Three Year Schedule of Percentage of OPEB Cost Contributed

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
September 30, 2007	$ 5,394,900	49.3%	$ 2,737,700

Summary of Key Actuarial Methods and Assumptions

Valuation year	October 1, 2006 – September 30, 2007
Actuarial cost method	Unit Credit, level dollar
Amortization method	15 years, level dollar open amortization[6]
Asset valuation method	N/A

[6] Open amortization means a fresh-start each year for the cumulative unrecognized amount.

Actuarial assumptions:

Discount rate	4.0%
Projected payroll growth rate	3.5%
Heath care cost trend rate for medical and prescription drugs	9% in fiscal year 2007 and fiscal year 2008, decreasing by one-half percentage point per year to an ultimate of 5.0% in fiscal year 2016 and after.

General Overview of the Valuation Methodology

The estimation of the retiree healthcare benefit obligation is generally based on per capita costs developed from recent periods for which claims experience is available. The University provided calendar year claims information for fiscal years 2001 through 2006. Averaging over 200 pre-65 plan participants per year and over 500 post-65 plan participants per year, the experience was used to develop the initial average pre-65 and post-65 baseline costs for fiscal year 2007. These costs were then age-adjusted using a combination of retiree demographics and information from a retiree health claim database which reflect the benefits available to Plan participants. The resulting per capita costs by age and dependent status were projected into the future to estimate future benefit and expense payments for each plan participant, using assumptions to estimate the effect of future trends and population changes.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Calculations are based on the types of benefits provided under the terms of the Plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Sample per capita costs are provided below.

Valuation Year	October 1, 2006 – September 30, 2007
Date of Census Data	November 1, 2006
Actuarial Cost Method	Unit Credit actuarial cost method; unfunded Actuarial Liability (AL) amortized on a level dollar basis over 15 years.
Medical Per Capita Costs	Sample Costs for Fiscal Year Beginning 10/1/2006

			LTD Retiree & Spouse	
Age	Retiree	Spouse	Retiree	Spouse
55	$ 6,657	$ 6,771	$ 5,825	$ 6,771
60	7,985	7,953	6,987	7,953
65	3,239	3,390	3,239	3,390
70	3,594	3,704	3,594	3,704
75	3,828	3,864	3,828	3,864
80	3,909	3,896	3,909	3,896
85	3,853	3,833	3,853	3,833

Note: 75% Pre-65 LTD participants are assumed to receive Medicare.

Grandfathered retirees who elected PEEHIP on or before 10/1/1997 receive a monthly subsidy of:

Pre-65: $27 for single coverage; $77 for family
Post-65: $0 for single coverage; $39.64 if both over age 65 and $85 if one over age 65 and one under age 65.

Retiree Premiums

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

	As of 1/1/06	As of 1/1/07
Pre-65 Single	$ 350	$ 368
Pre-65 Family	725	761
Post-65 Single	103	108
Post-65 Family	241	253

Note: There are several other categories of premiums.

Administrative Expenses

The per capita costs for 2007 include $18.75 per contract per month. This will increase to $20.50 in fiscal years 2008 and 2009.

Annual Health Care Trend Rate

Fiscal Year	Medical and Rx Combined Rate
2007	9.0%
2008	9.0
2009	8.5
2010	8.0
2011	7.5
2012	7.0
2013	6.5
2014	6.0
2015	5.5
2016+	5.0

Discount Rate

4.00% per annum

Salary Increase

3.50% applicable only for amortization on a level percentage of pay basis.

Spouse Age Difference

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

Mortality

RP-2000 Combined Mortality Table (unprojected, combined active and retiree, gender distinct tables)

Participation Rates

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

For future retirees, 60% of males and 40% of females are assumed to cover a spouse at time of retirement.

Retirement Rates

Employees are assumed to retire according to the following schedule:

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

Withdrawal Rates

None assumed since all are long service Civil Service employees.

Disability Rates — Sample rates are shown below

Percent assumed to terminate within one year

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

(12) SELF INSURANCE PROGRAMS AND OTHER LIABILITIES

Self Insurance

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

The Comprehensive General Liability Trust Fund is a self-insured retention program that protects the University, its faculty, staff and volunteers against claims brought by third parties arising from bodily injury, property damage and personal liability (libel, slander, etc.) Funds are held in a separate trust account with Compass Bank to be used to pay claims for which the University may become legally liable. The liability at September 30, 2007 and 2006, was $457,402 and $472,379, 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, 2007 and 2006, was $1,827,275 and $1,611,061, 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, 2007 and 2006 of $2,799,700 and $791,519, 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 $16,970,479 and $23,435,722 at September 30, 2007 and 2006, 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 $15,358,148 and $15,168,601, at September 30, 2007 and 2006, respectively. Also included in deposits held in custody of others are the agency funds. These amounts totaled $4,777,302 and $4,440,891 for September 30, 2007 and 2006, respectively.

Deferred revenue includes tuition revenue related to the portion of fall semester subsequent to September 30, funding received for contracts and grants that 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, 2007 and 2006 are as follows:

	2007	2006
Tuition and fees	$ 66,161,923	$ 61,065,103
Federal, state & local government	10,331,866	12,044,946
Auxiliary	15,122,894	14,485,707
Loan	1,843	-
Plant	617,276	-
Total deferred revenue	$ 92,235,802	$ 87,595,756

(13) CONTRACTS AND GRANTS

The University has been awarded approximately $5,085,000 (unaudited) and approximately $5,500,000 (unaudited) in contracts and grants that have not been received or expended as of September 30, 2007 and 2006, respectively. These awards, which represent commitments of sponsors to provide funds for research and training projects, have not been reflected in the financial statements.

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

The portion of revenue recognized for all grants and contracts that represents facilities and administrative cost recovery is recognized on the Statement of Revenues, Expenses and Changes in Net Assets with contract and grant operating revenues. The University recognized $15,806,919 and $12,798,675 in facilities and administrative cost recovery for the years ended September 30, 2007 and 2006, 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 $346,000,000 (unaudited). At September 30, 2007, the estimated remaining cost to complete the projects is approximately $73,000,000 (unaudited) which will be funded from University funds and bond proceeds.

(16) OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended September 30, 2007 and 2006, are listed below. In preparing the financial statements, all significant transactions and balances between auxiliary units and other funds have been eliminated.

September 30, 2007

	Compensation and Benefits	Scholarships and Fellowships	Other Supplies and Services	Depreciation	Total
Instruction	$ 170,573,889	$ 1,202,722	$ 23,156,844	$ -	$ 194,933,455
Research	61,852,121	755,050	32,060,190	-	94,667,361
Public Service	55,753,466	-	50,514,387	-	106,267,853
Academic Support	24,755,244	-	4,372,542	-	29,127,786
Library	6,981,110	-	6,218,348	-	13,199,458
Student Services	10,400,130	-	5,897,597	-	16,297,727
Institutional Support	55,404,174	-	117,576	-	55,521,750
Operation and Maintenance	21,963,798	-	35,948,170	-	57,911,968
Scholarships and Fellowships	11,675,895	14,104,079	471,784	-	26,251,758
Auxiliaries	28,306,454	188,322	47,509,508	-	76,004,284
Depreciation	-	-	-	37,134,786	37,134,786
	$ 447,666,281	$ 16,250,173	$ 206,266,946	$ 37,134,786	$ 707,318,186

September 30, 2006

	Compensation and Benefits	Scholarships and Fellowships	Other Supplies and Services	Depreciation	Total
Instruction	$ 161,235,971	$ 1,045,280	$ 19,280,646	$ -	$ 181,561,897
Research	55,320,152	623,710	24,983,391	-	80,927,253
Public Service	48,379,398	-	35,712,545	-	84,091,943
Academic Support	25,337,436	-	7,864,945	-	33,202,381
Library	6,931,032	-	6,797,301	-	13,728,333
Student Services	10,118,528	-	5,548,942	-	15,667,470
Institutional Support	51,727,927	-	-	-	51,727,927
Operation and Maintenance	21,382,658	-	28,218,974	-	49,601,632
Scholarships and Fellowships	10,758,400	12,231,141	-	-	22,989,541
Auxiliaries	27,943,093	307,035	48,442,140	-	76,692,268
Depreciation	-	-	-	34,186,357	34,186,357
	$ 419,134,595	$ 14,207,166	$ 176,848,884	$ 34,186,357	$ 644,377,002

(17) CONTINGENT LIABILITIES

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

(18) RELATED PARTY TRANSACTIONS

Auburn University Foundation

The majority of funds that the AUF raises are restricted for specific schools, colleges or programs of the University. These may be transferred to the University for its use; expended for the benefit of University schools, colleges or programs; or in the case of endowments, invested with only the earnings transferred to the University or expended on behalf of the University. Amounts transferred to the University or expended on behalf of its programs totaled $24,125,580 and $21,047,919 during the years ended September 30, 2007 and 2006, respectively. Of the $2,447,146 and $2,048,815 due to the University at September 30, 2007 and 2006, respectively, cumulative undistributed earnings on endowed funds were $2,183,596 and $1,851,819 at September 30, 2007 and 2006, respectively. In addition to the net undistributed grants due to the University, other net amounts due to the University were $263,550 and $196,996 at September 30, 2007 and 2006, 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 an Operating 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 and transfer funds as necessary. AUF and the University are to review the agreement annually and to provide an estimate of the maximum consideration to be paid for the upcoming year for approval by the respective boards. The actual reimbursement is determined based on the actual costs incurred and is as follows:

- For the years ended September 30, 2007 and 2006, all personnel costs were incurred by the University and AUF reimbursed the University $1,837,833 and $1,440,998, respectively, for its share of these central development services in accordance with the Agreement.

- Nonsalary development costs were incurred and paid primarily by AUF. The University provided for its share of development nonpersonnel operating costs by establishing budgets within the University's budgetary system whereby it paid a portion of the costs, and reimbursed AUF for the balance. The amount directly incurred by the University or reimbursed to AUF was $1,648,760 and $1,266,012 for the years ended September 30, 2007 and 2006, respectively.

- Constituency development operations, which are fundraising 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, 2007 and 2006, the constituency salaries reimbursed to the University totaled $182,711 and $977,057, respectively.

The amount due from AUF to the Association consists of funds from the Association's Life Membership program, which are invested with AUF's pooled endowment. AUF remits income from the investments directly to the Association on an annual basis. For the years ended September 30, 2007 and 2006, AUF was committed to the Association for $7,987,747 and $7,012,780, respectively. Of the amount for the year ended September 30, 2007, $7,500 related to a receivable from the Association to AUF for a gift to the Auburn Alumni Association Scholarship Endowment.

The amount due from AUF to TUF consists of funds that are invested with AUF's pooled endowment. AUF remits income from the investments, which are designated by donor restriction for spending directly to the University on behalf of TUF on an annual basis. AUF remits income from investments, which are designated by donor restriction for additions to endowment corpus directly to the TUF on an annual basis. As of September 30, 2007 and 2006, AUF was committed to TUF for $7,343,095 and $5,536,258, respectively. Of these amounts for both fiscal years, $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 $18,655,658 and $12,726,104 during the years ended June 30, 2007 and 2006, respectively.

During the years ended June 30, 2007 and 2006, the University contributed $490,875 and $420,750, respectively, to TUF for the use of executive suites at University athletic events. This amount is recorded as public support-contribution revenue on the Statements of Activities and Changes in Net Assets.

During the years ended June 30, 2007 and 2006, 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. TUF and the University have an Operating Agreement similar to the Agreement between AUF and the University. Consistent with the other component units, facilities, personnel and other assets are utilized jointly. All personnel are employees of the University. At June 30, 2007 and 2006, obligations of $1,900,495 and $2,393,037 related to these transactions, respectively, were outstanding. These obligations were paid during the subsequent fiscal year.

As of June 30, 2007 and 2006, amounts payable from AUF to TUF were $100,000 and $105,048, respectively. At June 30, 2006, $37,105 was payable from the University to TUF.

Auburn Alumni Association

The Association, AUF, Auburn University Offices of Alumni and Development and their related support units jointly utilize operational facilities, personnel and other assets in order to effectively and efficiently carry out their required activities. All personnel are employed by the University and their services are provided to the other organizations under contractual agreements. Other operational costs are paid from budgets of each organization. The combined expenditures are analyzed periodically and, based on each entity's utilization of the facilities, supplies and services, any necessary reimbursements are made among the organizations. In the Statements of Activities and Changes in Net Assets, amounts received by the Operating Fund from other organizations are used to offset the related expenses. The Executive Director of the Association is an employee of the University, providing services to the Association under a services and facilities contract. She also serves as the Vice President for Alumni Affairs for the University. A portion of the Association's investments have been pooled with AUF investments and are invested and managed by AUF. Cash receipts and disbursements records of the Association are maintained within the University accounting system. During the years ended September 30, 2007 and 2006, the Association had a salary reimbursement expense of $775,245 and $706,297, respectively, to the University under the service and facilities agreement. Of this amount, $741,807 and $604,932 had been paid and $33,438 and $101,365 was accrued as an amount payable at September 30, 2007 and 2006, all respectively.

Rental income recorded by the Association from the University and AUF totaled $199,385 and $103,770, respectively, for the year ended September 30, 2007, and $192,622 and $100,178, respectively, for the year ended September 30, 2006.

During the year ended September 30, 2007, the University provided for its share of alumni affairs activities costs by establishing a budget within the University's budgetary system; whereby, they paid a portion of the costs, and reimbursed the Association for the balance. The alumni affairs activities costs for the years ended September 30, 2007 and 2006, were $738,823 and $327,815, respectively.

During the years ended September 30, 2007 and 2006, the Association contributed $473,424 and $669,213, respectively, 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 TUF for its share of the Auburn Spirit Card royalty. The Auburn Spirit Card contract expired on September 30, 2006, and was not renewed with the Association, which resulted in a termination of the TUF royalty transfer for the year ended September 30, 2007.

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

The Federal Family Education Loan Program (FFELP) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FFELP enables an eligible student or parent to obtain a loan directly through FFELP lenders. Alabama's designated state guarantor for FFELP loans is the 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's Main Campus disbursed approximately $94,600,000 under the FFELP during the fiscal year ended September 30, 2007. AUM disbursed approximately $18,400,000 under the FFELP during the fiscal year ended September 30, 2007.

(20) SUBSEQUENT EVENTS

On November 1, 2007, the University issued $162,530,000 of Auburn University General Fee Revenue Bonds, series 2007-A and $14,465,000 of Auburn University General Fee Revenue Bonds, series 2007-B (Taxable). The 2007-A and 2007-B (Taxable) Bonds were issued to provide funds (1) to finance the construction and related costs of new student housing village and dining facilities, as well as construction of pedestrian and vehicular road and access projects, general infrastructure facility additions and improvements and (2) to pay the costs of issuing the Series 2007-A and 2007-B (Taxable) Bonds. The 2007-A Bonds will mature, subject to mandatory and optional redemption, from June 1, 2009 to June 1, 2038. The 2007-B (Taxable) Bonds will mature, subject to mandatory and optional redemption, from June 1, 2010 to June 1, 2014. The 2007-A Bonds have an interest rate range of 3.6% to 5%. The 2007-B (Taxable) Bonds have an interest rate range of 4.625% to 5.125%.

(21) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

GASB Statement No. 45, *Accounting and Financial 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. The University adopted GASB Statement No. 45 during fiscal year 2007, and its impact is disclosed in Note 11.

In September 2006, the GASB issued GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity 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 does not believe GASB Statement No. 48 will have a material impact on the financial statements.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was issued by the GASB in November 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 GASB Statement No. 49 will have on the University's financial statements is currently being evaluated.

GASB Statement No. 50, *Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27*, was issued by the GASB in May 2007. This statement enhances pension information disclosed in financial statements or presented as required supplementary information. This statement is effective for periods beginning after June 15, 2007. The University is currently evaluating the impact GASB Statement No. 50 will have on the financial statements.

In June 2007, the GASB issued GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for the University's fiscal year beginning October 1, 2009. This statement requires capitalization of identifiable intangible assets in the Statement of Net Assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life. The University is currently evaluating the impact GASB Statement No. 51 will have on the financial statements.

The GASB issued GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This new accounting standard aims to improve the quality of financial reporting by requiring state and local government endowments to report their land and other real estate investments at fair value, with changes in fair value reported in investment income. Previously, such endowments were required to report land and other real estate investments at historical cost. The GASB believes that reporting these types of investments at fair value will provide more decision-useful information about their composition, current value, and recent changes in value. GASB Statement No. 52 is effective for periods beginning after June 15, 2008. Once implemented, some state and local government endowments may experience greater volatility in income from period to period due to fluctuations in the fair value of their real estate investments. The University is currently evaluating the impact GASB Statement No. 52 will have on the financial statements.

AUBURN
UNIVERSITY

2007 Financial Report

UNAUDITED DIVISIONAL FINANCIAL STATEMENTS

Auburn University

AUBURN UNIVERSITY MAIN CAMPUS
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2007 AND 2006
(UNAUDITED)

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 36,516,004	$ 20,687,655
Operating investments	67,154,458	60,144,765
Accounts receivable, net	33,843,320	28,014,622
Student accounts receivable, net	25,258,302	22,042,369
Loans receivable, net	2,951,605	2,418,233
Accrued interest receivable	5,176,113	3,781,874
Inventories	3,073,959	3,267,509
Prepaid expenses	3,575,952	3,220,827
Due from other funds	411,244	356,869
Total current assets	177,960,957	143,934,723
Noncurrent assets		
Investments	532,317,366	427,523,126
Loans receivable, net	14,326,517	14,346,763
Investment in plant, net	719,963,417	649,764,266
Due from other funds	275,690	815,730
Total noncurrent assets	1,266,882,990	1,092,449,885
Total assets	1,444,843,947	1,236,384,608
LIABILITIES		
Current liabilities		
Accounts payable	34,952,413	25,776,447
Accrued salaries and wages	2,828,834	2,428,902
Accrued compensated absences	10,473,651	13,792,804
Accrued interest payable	5,137,612	4,142,063
Other accrued liabilities	2,799,700	2,138,300
Student deposits	757,373	1,063,975
Deposits held in custody	16,983,402	16,311,422
Deferred revenues	83,181,230	77,773,469
Noncurrent liabilities-current portion	14,563,637	12,712,509
Total current liabilities	171,677,852	156,139,891
Noncurrent liabilities		
Accrued compensated absences	1,196,328	4,730,180
Bonds and notes payable	309,730,199	261,547,388
Lease obligations	1,235,627	70,871
Other noncurrent liabilities	12,669,724	10,642,558
Due to other funds	21,414,284	11,089,983
Total noncurrent liabilities	346,246,162	288,080,980
Total liabilities	517,924,014	444,220,871
NET ASSETS		
Invested in capital assets, net of related debt	441,675,751	402,864,367
Restricted		
Nonexpendable	18,121,550	17,756,104
Expendable:		
Scholarships, research, instruction, other	96,566,392	75,640,207
Loans	4,842,445	4,686,922
Capital projects	3,294,807	594,591
Unrestricted	362,418,988	290,621,546
Total net assets	$ 926,919,933	$ 792,163,737

AUBURN UNIVERSITY MAIN CAMPUS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(UNAUDITED)

	2007	2006
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of $35,951,098 and $33,465,222, respectively	$ 202,643,450	$ 186,945,588
Federal appropriations	39,277	110,959
Federal grants & contracts, net	61,341,233	45,897,273
State & local grants & contracts, net	5,560,484	3,119,604
Nongovernmental grants & contracts, net	8,011,001	7,590,681
Sales & services of educational departments	18,343,601	19,551,497
Auxiliary revenue, net of scholarship allowances of $1,520,121 and $1,465,035, respectively	60,988,458	59,733,046
Other operating revenues	8,659,182	8,974,072
Total operating revenues	365,586,686	331,922,720
OPERATING EXPENSES		
Compensation & benefits	331,894,244	312,611,690
Scholarships & fellowships	13,676,503	11,601,912
Other supplies & services	134,763,878	116,588,616
Depreciation	34,460,577	31,714,554
Total operating expenses	514,795,202	472,516,772
Operating loss	(149,208,516)	(140,594,052)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	188,794,357	162,042,781
Gifts	35,265,763	21,123,437
Net investment income	49,159,407	33,600,894
Interest expense on capital debt	(11,916,872)	(9,921,332)
Nonoperating revenues, net	261,302,655	206,845,780
Income before other changes in net assets	112,094,139	66,251,728
OTHER CHANGES IN NET ASSETS		
Capital appropriations	108,492	1,150,467
Capital gifts & grants	22,366,052	7,371,235
Additions to permanent endowments	187,513	111,954
Net increase in net assets	134,756,196	74,885,384
Net assets - beginning of year	792,163,737	717,278,353
Net assets - end of year	$ 926,919,933	$ 792,163,737

AUBURN UNIVERSITY MONTGOMERY
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2007 AND 2006
(UNAUDITED)

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 558,776	$ 302,989
Operating investments	1,039,309	880,872
Accounts receivable, net	12,761,994	3,517,248
Student accounts receivable, net	2,629,322	2,759,537
Loans receivable, net	568,411	513,676
Accrued interest receivable	-	1,331
Inventories	710,527	594,075
Prepaid expenses	2,166	3,486
Total current assets	18,270,505	8,573,214
Noncurrent assets		
Investments	8,238,354	6,524,198
Loans receivable, net	2,505,832	2,489,102
Investment in plant, net	37,396,808	38,547,493
Due from other funds	21,414,284	11,089,983
Total noncurrent assets	69,555,278	58,650,776
Total assets	87,825,783	67,223,990
LIABILITIES		
Current liabilities		
Accounts payable	2,835,463	1,703,565
Accrued salaries and wages	414,812	368,638
Accrued compensated absences	1,188,679	1,492,010
Accrued interest payable	14,025	15,050
Student deposits	3,251	-
Deposits held in custody	3,159,207	3,306,394
Deferred revenues	6,315,289	6,167,383
Noncurrent liabilities-current portion	250,000	245,000
Due to other funds	28,388	54,162
Total current liabilities	14,209,114	13,352,202
Noncurrent liabilities		
Accrued compensated absences	135,775	512,784
Bonds and notes payable	1,350,000	1,455,000
Lease obligations	1,235,000	1,380,000
Total noncurrent liabilities	2,720,775	3,347,784
Total liabilities	16,929,889	16,699,986
NET ASSETS		
Invested in capital assets, net of related debt	34,803,338	35,694,867
Restricted		
Nonexpendable	4,828,156	5,171,344
Expendable:		
Scholarships, research, instruction, other	24,099,021	5,079,126
Loans	357,359	363,074
Capital projects	141,142	134,553
Unrestricted	6,666,878	4,081,040
Total net assets	$ 70,895,894	$ 50,524,004

AUBURN UNIVERSITY MONTGOMERY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(UNAUDITED)

	2007	2006
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of $3,789,534 and $3,318,884, respectively	$ 16,884,070	$ 17,555,679
Federal grants & contracts, net	5,875,332	6,340,823
State & local grants & contracts, net	17,886,179	15,260,220
Nongovernmental grants & contracts, net	340,032	537,257
Sales & services of educational departments	1,422,470	1,650,023
Auxiliary revenue, net of scholarship allowances of $372,628 and $368,764, respectively	4,354,001	4,390,765
Other operating revenues	2,614,127	1,969,258
Total operating revenues	49,376,211	47,704,025
OPERATING EXPENSES		
Compensation & benefits	39,534,316	38,778,906
Scholarships & fellowships	2,572,665	2,604,757
Other supplies & services	31,645,227	29,876,306
Depreciation	2,674,209	2,471,803
Total operating expenses	76,426,417	73,731,772
Operating loss	(27,050,206)	(26,027,747)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	27,210,846	23,140,350
Gifts	18,703,898	738,607
Net investment income	1,486,749	1,134,516
Interest expense on capital debt	(45,346)	(46,625)
Nonoperating revenues, net	47,356,147	24,966,848
Income (loss) before other changes in net assets	20,305,941	(1,060,899)
OTHER CHANGES IN NET ASSETS		
Capital appropriations	-	867
Capital gifts & grants	41,429	43,898
Additions to permanent endowments	24,520	38,151
Net increase (decrease) in net assets	20,371,890	(977,983)
Net assets - beginning of year	50,524,004	51,501,987
Net assets - end of year	$ 70,895,894	$ 50,524,004

ALABAMA AGRICULTURAL EXPERIMENT STATION
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2007 AND 2006
(UNAUDITED)

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,831,513	$ 758,348
Operating investments	2,350,770	2,204,728
Accounts receivable, net	3,048,358	4,508,037
Total current assets	7,230,641	7,471,113
Noncurrent assets		
Investments	18,633,991	15,681,218
Total noncurrent assets	18,633,991	15,681,218
Total assets	25,864,632	23,152,331
LIABILITIES		
Current liabilities		
Accounts payable	954,900	599,294
Accrued salaries and wages	272,515	227,566
Accrued compensated absences	1,629,910	1,088,906
Deferred revenues	2,199,824	2,165,923
Due to other funds	382,856	302,707
Total current liabilities	5,440,005	4,384,396
Noncurrent liabilities		
Accrued compensated absences	186,173	372,688
Due to other funds	275,690	815,730
Total noncurrent liabilities	461,863	1,188,418
Total liabilities	5,901,868	5,572,814
NET ASSETS		
Restricted		
Expendable:		
Scholarships, research, instruction, other	839,251	82,938
Unrestricted	19,123,513	17,496,579
Total net assets	$ 19,962,764	$ 17,579,517

ALABAMA AGRICULTURAL EXPERIMENT STATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(UNAUDITED)

	2007	2006
OPERATING REVENUES		
Federal appropriations	$ 4,608,717	$ 4,411,953
Federal grants & contracts	13,341,460	14,292,842
State & local grants & contracts	1,134,451	1,175,802
Nongovernmental grants & contracts	1,728,395	1,809,305
Sales & services of educational departments	2,032,945	2,116,146
Other operating revenues	917,387	451,030
Total operating revenues	23,763,355	24,257,078
OPERATING EXPENSES		
Compensation & benefits	35,257,225	32,432,411
Scholarships & fellowships	1,005	308
Other supplies & services	21,985,169	16,774,175
Total operating expenses	57,243,399	49,206,894
Operating loss	(33,480,044)	(24,949,816)
NONOPERATING REVENUES		
State appropriations	34,730,026	29,081,460
Gifts	698,356	524,490
Net investment income	434,909	401,458
Nonoperating revenues, net	35,863,291	30,007,408
Net increase in net assets	2,383,247	5,057,592
Net assets - beginning of year	17,579,517	12,521,925
Net assets - end of year	$ 19,962,764	$ 17,579,517

Auburn University

ALABAMA COOPERATIVE EXTENSION SYSTEM
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2007 AND 2006
(UNAUDITED)

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 177,786	$ 733,723
Operating investments	2,492,470	2,133,137
Accounts receivable, net	2,390,046	1,887,675
Total current assets	5,060,302	4,754,535
Noncurrent assets		
Investments	19,757,212	15,172,026
Total noncurrent assets	19,757,212	15,172,026
Total assets	24,817,514	19,926,561
LIABILITIES		
Current liabilities		
Accounts payable	1,263,990	479,815
Accrued salaries and wages	355,367	321,816
Accrued compensated absences	1,938,538	1,076,690
Deferred revenues	539,459	1,488,981
Total current liabilities	4,097,354	3,367,302
Noncurrent liabilities		
Accrued compensated absences	221,425	369,660
Other noncurrent liabilities	2,737,700	-
Total noncurrent liabilities	2,959,125	369,660
Total liabilities	7,056,479	3,736,962
NET ASSETS		
Restricted		
Expendable:		
Scholarships, research, instruction, other	4,526,944	4,391,845
Capital Projects	24,256	11,033
Unrestricted	13,209,835	11,786,721
Total net assets	$ 17,761,035	$ 16,189,599

ALABAMA COOPERATIVE EXTENSION SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(UNAUDITED)

	2007	2006
OPERATING REVENUES		
Federal appropriations	$ 8,332,731	$ 5,701,696
Federal grants & contracts	8,673,334	7,004,132
State & local grants & contracts	2,909,624	2,611,892
Nongovernmental grants & contracts	395,799	802,617
Sales & services of educational departments	57,086	63,381
Other operating revenues	1,844,928	1,888,192
Total operating revenues	22,213,502	18,071,910
OPERATING EXPENSES		
Compensation & benefits	40,980,496	35,311,588
Scholarships & fellowships	-	189
Other supplies & services	17,872,672	13,609,787
Total operating expenses	58,853,168	48,921,564
Operating loss	(36,639,666)	(30,849,654)
NONOPERATING REVENUES		
State appropriations	37,515,680	31,476,104
Gifts	145,646	160,500
Net investment income	542,874	534,803
Nonoperating revenues, net	38,204,200	32,171,407
Income before other changes in net assets	1,564,534	1,321,753
OTHER CHANGES IN NET ASSETS		
Capital gifts and grants	6,902	-
Net increase in net assets	1,571,436	1,321,753
Net assets - beginning of year	16,189,599	14,867,846
Net assets - end of year	$ 17,761,035	$ 16,189,599

AUBURN

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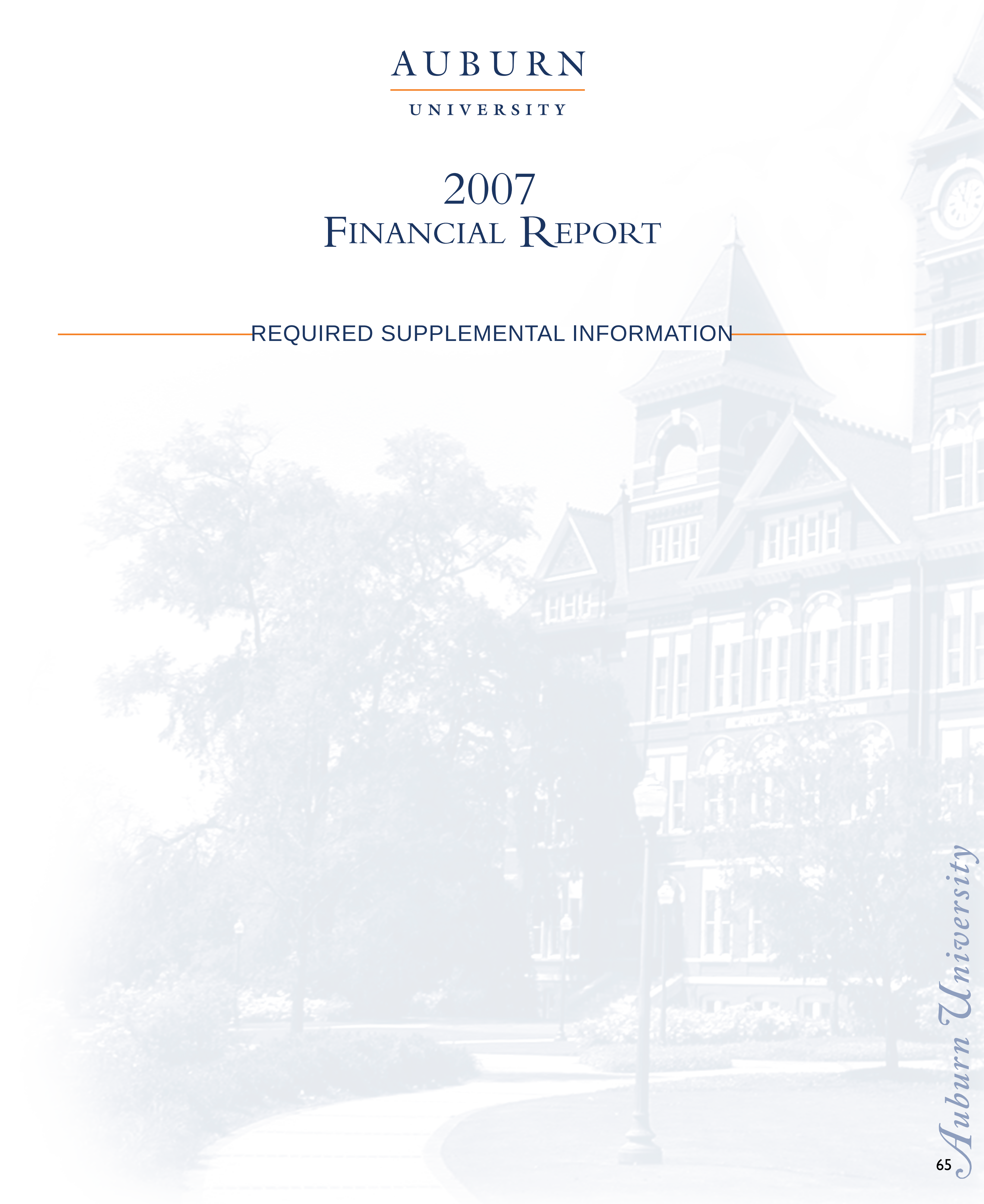
2007
Financial Report

REQUIRED SUPPLEMENTAL INFORMATION



Auburn University

REQUIRED SUPPLEMENTAL INFORMATION

OTHER POSTEMPLOYMENT BENEFITS

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

Cost Element	Fiscal Year Ending Sept. 30, 2007 Amount	Percent of Payroll[2]
1. Unfunded actuarial accrued liability at Oct. 1, 2006	$ 57,878,500	890.9%
Annual Required Contribution (ARC)		
2. Normal cost	$ 189,200	
3. Amortization of the unfunded actuarial accrued liability over 15 years using level dollar amortization	5,205,700	
4. Annual Required Contribution (ARC = 2 + 3)	$ 5,394,900	83.0%
Annual OPEB Cost (Expense)		
5. ARC	$ 5,394,900	
6. Interest on beginning of year CAFR accrual[1]	-	
7. Amortization of beginning of year CAFR accrual[1]	-	
8. Fiscal 2007 OPEB cost (5 + 6 – 7)	$ 5,394,900	83.0%
End of Year CAFR Accrual (Net OPEB Obligation) [3]		
9. Beginning of year CAFR accrual[1]	$ -	
10. Annual OPEB cost	5,394,900	
11. Employer contribution (benefit payments) [3]	2,657,200	
12. End of year CAFR accrual (9 + 10 – 11) [3]	$ 2,737,700	42.1%

[1] No accrual is required at the adoption of the GASB Statement

[2] Annual payroll for the 87 plan participants as of October 1, 2006 estimated at $6,496,800 based on actual payroll of $6,515,400 as of November 1, 2006.

[3] Actual contributions and administrative fees paid in fiscal year 2008 for the PPO of $2,875,765 plus expected subsidy payments of $405,038 less participant contributions of $623,625 (the sum of retiree premiums of $452,908 and survivor premiums of $170,717). Employer contributed 49.3% of annual OPEB cost during fiscal year 2007.

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contributions	Actual Contributions[4]	Percentage Contributed
September 30, 2007	$ 5,394,900	$ 2,657,200	49.3%

[4] Since there is no funding, these are actual PPO benefit payments of $2,875,765 plus expected subsidy payments of $405,038 less retiree contributions of $623,625.

Schedule of Funding Progress

The schedule of funding progress presents multi-year trend information comparing the actuarial value of plan assets to the actuarial accrued liability.

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll[5] (c)	UAAL as a Percentage Of Covered Payroll[5] [(b)-(a)/ (c)]
September 30, 2007	$ -	$ 57,878,500	$ 57,878,500	- %	$ 6,496,800	890.9%

[5] Estimated payroll as of October 1, 2006 includes only plan participants.

Note: The annual required contribution (ARC) of $5.39 million for fiscal year 2007 and CAFR accrual of $2.74 million as of September 30, 2007, are based on the assumption of no funding in a segregated GASB qualified trust.

Three Year Schedule of Percentage of OPEB Cost Contributed

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
September 30, 2007	$ 5,394,900	49.3%	$ 2,737,700

Summary of Key Actuarial Methods and Assumptions

Valuation year — October 1, 2006 – September 30, 2007

Actuarial cost method — Unit Credit, level dollar

Amortization method — 15 years, level dollar open amortization[6]

Asset valuation method — N/A

[6] Open amortization means a fresh-start each year for the cumulative unrecognized amount.

Actuarial assumptions:

Discount rate — 4.0%
Projected payroll growth rate — 3.5%
Heath care cost trend rate for medical and prescription drugs — 9% in fiscal year 2007 and fiscal year 2008, decreasing by one-half percentage point per year to an ultimate of 5.0% in fiscal year 2016 and after.

General Overview of the Valuation Methodology

The estimation of the retiree healthcare benefit obligation is generally based on per capita costs developed from recent periods for which claims experience is available. The University provided calendar year claims information for fiscal years 2001 through 2006. Averaging over 200 pre-65 plan participants per year and over 500 post-65 plan participants per year, the experience was used to develop the initial average pre-65 and post-65 baseline costs for fiscal year 2007. These costs were then age-adjusted using a combination of retiree demographics and information from a retiree health claim database which reflect the benefits available to Plan participants. The resulting per capita costs by age and dependent status were projected into the future to estimate future benefit and expense payments for each plan participant, using assumptions to estimate the effect of future trends and population changes.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Calculations are based on the types of benefits provided under the terms of the Plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Sample per capita costs are provided below.

Valuation Year — October 1, 2006 – September 30, 2007

Date of Census Data — November 1, 2006

Actuarial Cost Method — Unit Credit actuarial cost method; unfunded Actuarial Liability (AL) amortized on a level dollar basis over 15 years.

Medical Per Capita Costs — Sample Costs for Fiscal Year Beginning 10/1/2006

			LTD Retiree & Spouse	
Age	Retiree	Spouse	Retiree	Spouse
55	$ 6,657	$ 6,771	$ 5,825	$ 6,771
60	7,985	7,953	6,987	7,953
65	3,239	3,390	3,239	3,390
70	3,594	3,704	3,594	3,704
75	3,828	3,864	3,828	3,864
80	3,909	3,896	3,909	3,896
85	3,853	3,833	3,853	3,833

Note: 75% Pre-65 LTD participants are assumed to receive Medicare.

Grandfathered retirees who elected PEEHIP on or before 10/1/1997 receive a monthly subsidy of:

Pre-65: $27 for single coverage; $77 for family
Post-65: $0 for single coverage; $39.64 if both over age 65 and $85 if one over age 65 and one under age 65.

Retiree Premiums

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

	As of 1/1/06	As of 1/1/07
Pre-65 Single	$ 350	$ 368
Pre-65 Family	725	761
Post-65 Single	103	108
Post-65 Family	241	253

Note: There are several other categories of premiums.

Administrative Expenses

The per capita costs for 2007 include $18.75 per contract per month. This will increase to $20.50 in fiscal years 2008 and 2009.

Annual Health Care Trend Rate

Fiscal Year	Medical and Rx Combined Rate
2007	9.0%
2008	9.0
2009	8.5
2010	8.0
2011	7.5
2012	7.0
2013	6.5
2014	6.0
2015	5.5
2016+	5.0

Discount Rate

4.00% per annum

Salary Increase

3.50% applicable only for amortization on a level percentage of pay basis.

Spouse Age Difference

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

Mortality

RP-2000 Combined Mortality Table (unprojected, combined active and retiree, gender distinct tables)

Participation Rates

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

For future retirees, 60% of males and 40% of females are assumed to cover a spouse at time of retirement.

Retirement Rates

Employees are assumed to retire according to the following schedule:

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

Withdrawal Rates — None assumed since all are long service Civil Service employees.

Disability Rates — Sample rates are shown below

Percent assumed to terminate within one year

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

AUBURN UNIVERSITY BOARD OF TRUSTEES

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

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