AUBURN UNIVERSITY

# FINANCIAL REPORT 2010

Comprehensive Annual Financial Report for the year ended September 30, 2010

AUBURN UNIVERSITY

# 2010 Financial Report

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AUBURN UNIVERSITY

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# Introductory Section

OFFICE OF
THE PRESIDENT

AUBURN
UNIVERSITY

January 21, 2011

Dear Members of the Auburn Community and Alabama Citizens:

This annual Financial Report summarizes Auburn University's financial position and activity for the fiscal year ended September 30, 2010.

Auburn University has a number of strengths that has enabled it to achieve distinction as a premier land-, sea-, and space-grant institution. The Strategic Plan, introduced two years ago, is further building on this foundation to bringing positive, measurable results in many strategic areas. Auburn's stakeholders—our alumni, students, faculty, staff, friends and every citizen of the state of Alabama—have an essential role in the success of the plan and the university. We have made a commitment to serve our state, our nation, and beyond by continually working to improve and sustain our academic excellence. You can review our latest updates to the plan in the areas of instruction, research, outreach, and collaborative efforts at http://ocm.auburn.edu/strategic_plan/.

As a result, Auburn University will provide its students and the community with greater access to a world of opportunity.

In addition to the excitement and success on the football field, capturing its second national championship, seventh conference title, and a third Heisman Trophy, the following are highlights for Auburn in what was an equally productive year off the field as well:

Auburn University more than doubled its number of newly enrolled National Merit Scholars in 2010. Auburn enrolled 133 new scholars this summer and fall, which more than doubles last year's number of 64. Only six public institutions nationally enrolled more than 133 scholars.

Auburn is ranked 38th among public universities nationwide, up from 39th last year, according to an annual survey released by *U.S. News & World Report*. The ranking marks the 18th consecutive year the magazine has ranked Auburn among the nation's top 50 public universities.

Auburn University has achieved its highest enrollment in history this fall, and its freshman class boasts the top ACT score of any previous class. The class compiled an average score of 26.9 on the ACT college entrance exam, outpacing last year's then-record of 26.2. They also earned an average high school grade point average of 3.79, up from 3.69 last year.

Two members of Auburn's Honors College were selected finalists in 2010 for the prestigious Rhodes Scholarship.

Auburn has two national finalist candidates for The Harry S. Truman Scholarship that prepares students for careers in government or public service.

For its design of the $20K House in Newbern, The Rural Studio is currently one of 11 teams highlighted in the Museum of Modern Art's exhibition, "Small Scale, Big Change: New Architectures of Social Engagement."

Auburn University and East Alabama Medical Center have partnered to bring a 3-Tesla MRI, the most powerful unit currently cleared for clinical use with humans, to Auburn.

Auburn University administrators opened a new flight terminal at the Auburn University Regional Airport, which will be an important economic development tool for east Alabama.

Auburn's new Huntsville Research Center is working closely with area industry and federal agencies, including plans to develop cyber security technologies designed to protect U.S. soldiers and information systems on the battlefield.

The U.S. Department of Commerce has awarded an Auburn University outreach initiative $4.6 million to expand the availability of broadband technology in Alabama's rural libraries and schools.

The National Science Foundation has awarded Auburn University a $4.6 million grant to renovate research laboratories that will enhance the university's biological engineering programs.

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

Sincerely,

Jay Gogue
President

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

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

OFFICE OF
THE PRESIDENT

AUBURN
UNIVERSITY

January 21, 2011

The Comprehensive Annual Financial Report for Auburn University for 2010 provides comparative financial statements for the years ended September 30, 2010, and September 30, 2009. The financial statements on the following pages have been prepared in accordance with the guidelines established by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants, and general conformance with College and University Business Administration, which sets forth generally accepted accounting principles for colleges and universities.

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

Sincerely,

Donald L. Large, Jr.

Donald L. Large, Jr.
Executive Vice President

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

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

www.auburn.edu

AUBURN UNIVERSITY

# 2010 Financial Report

# Financial Section

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, 2010 and 2009 (June 30, 2010 and 2009 for Tigers Unlimited Foundation), and the respective changes in financial position and cash flows (as applicable), of the University and its component units for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Auburn Alumni Association (the "Association") and the Auburn University Foundation (the "Foundation"), which represent 85 percent and 84 percent of assets, 87 percent and 85 percent of net assets and 53 percent and 60 percent of revenues of the discretely presented component units at September 30, 2010 and 2009 (at June 30, 2010 and 2009 for Tigers Unlimited Foundation) and for the years then ended (for the years ended June 30, 2010 and 2009 for Tigers Unlimited Foundation), respectively. Each of those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Association and the Foundation, is based solely on the reports of other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

The management's discussion and analysis and required supplemental information on pages 12 through 21 and pages 69 through 72 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, 2009, that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The introductory information on pages 6 through 7, the information presented on pages 12 through 21, and the supplemental divisional financial statements as set forth on pages 59 through 67 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

PricewaterhouseCoopers LLP

January 21, 2011

# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The following discussion and analysis provides an overview of the financial position and activities of Auburn University (the University) for the year ended September 30, 2010, with a comparison to the year ended September 30, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements, footnotes, and this discussion are the responsibility of University management.

The University is a land grant institution and is classified by the Carnegie Foundation as "Doctoral/Research-Extensive," while Auburn University at Montgomery (AUM) is classified as "Master's I." Fall 2010 enrollment included 30,889 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 5,168 full-time employees, including approximately 1,381 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 "2010," "2009," or another year refer to the fiscal year ended September 30, unless otherwise noted.

The University's financial statements are summarized as follows:

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

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

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

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

(1) **Auburn University Foundation (AUF)** - AUF was organized on February 9, 1960, and is the fundraising foundation for the University. As of September 30, 2010, AUF holds endowments and distributes earnings from those endowments to the University. AUF is incorporated as a legally separate, tax-exempt nonprofit organization established to solicit individual and corporate donations for the direct benefit of the University. The Auburn University Real Estate Foundation, Inc. (AUREFI) has been consolidated into AUF's financial statements.

(2) **Tigers Unlimited Foundation (TUF)** - TUF is a legally separate nonprofit organization incorporated in December 2002, which began operations on April 21, 2004. TUF was organized exclusively for charitable purposes, pursuant to Sections 501(a) and 501(c)(3) of the Internal Revenue Code to support athletic fund raising and athletic programs. TUF has a June 30 fiscal year end. TUF provides economic resources to the University for athletic scholarships, athletic building maintenance or new construction, and for athletic department programs.

(3) **Auburn Alumni Association (the Association)** - The Association is a nonprofit corporation organized on April 14, 1945, to promote mutually beneficial relationships between the University and its alumni, to encourage loyalty among alumni, and to undertake various other actions for the benefit of the University, its alumni, and the State of Alabama. Membership is comprised of alumni, friends, and students of the University. The Association provides monetary support to the University in the form of faculty awards and student scholarships.

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

## Financial Highlights

**Statement of Net Assets**

A summary of assets, liabilities, and net assets as of September 30, 2010 and 2009, is as follows:

| | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Current assets | $ 254,490,376 | $ 240,967,072 |
| Capital assets | 1,133,914,138 | 1,044,435,194 |
| Other noncurrent assets | 737,279,980 | 736,553,896 |
| **Total assets** | 2,125,684,494 | 2,021,956,162 |
| **Liabilities** | | |
| Current liabilities | 247,022,382 | 236,354,392 |
| Noncurrent liabilities | 558,174,508 | 575,689,578 |
| **Total liabilities** | 805,196,890 | 812,043,970 |
| **Net assets** | | |
| Invested in capital assets, net of related debt | 616,209,983 | 553,281,602 |
| Restricted-nonexpendable | 24,051,577 | 23,886,049 |
| Restricted-expendable | 163,738,506 | 162,874,294 |
| Unrestricted | 516,487,538 | 469,870,247 |
| **Total net assets** | $ 1,320,487,604 | $ 1,209,912,192 |

**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. The University's current assets increased $13.5 million from 2009 to 2010. The University's total receivables increased $10.9 million. Most of this increase is attributable to accounts receivable growing $9 million. Two million dollars of this increase is the result of spending American Recovery and Reinvestment Act (ARRA) funds, which were not reimbursed as of September 30, 2010. Approximately $6.3 million relates to spending incurred for federal or state sponsored capital projects. Accrued interest receivable decreased approximately $1.2 million, due to a reduction in interest earned in the cash pool. In the prior year, the University also earned interest on unexpended bond proceeds, which were utilized in the current year. Student accounts receivable increased $3.1 million. During fiscal year 2010, the University saw enrollment climb, and the University's Board of Trustees (the Board) approved a tuition restructure plan. In addition, cash and cash equivalents and operating investments combined increased approximately $2.5 million. The University is maintaining additional funds in current assets due to the uncertainty of future state funding.

Other noncurrent assets had minor increases. However, capital assets, net of depreciation, shown as "Investment in plant, net" on the Statement of Net Assets increased 8.6% from 2009 to 2010. Capital assets generally represent the historical cost of land improvements, buildings, construction in progress, infrastructure, equipment, library books and livestock, less any accumulated depreciation, with buildings comprising over 68% of the total capital asset value. The increase, offset by disposal activity, depreciation and transfers, was the result of $139 million, net of new additions to property, plant and equipment. In addition to the following construction projects totaling $119 million, which were completed and placed into service during 2010, the University experienced a growth of the projects under construction of $132 million.

| | |
|---|---|
| New Basketball Arena | $ 85.7 million |
| Housing District Energy Plant Expansion Phase II | $ 11.0 million |
| Airport Terminal | $ 5.5 million |
| Housing Costs Assessment and Programming | $ 3.9 million |
| A-O Airport New Hanger | $ 1.4 million |
| Inst. of Natural Resource Bioenergy and Biproduct Plant | $ 1.3 million |
| West Campus Dining Facility | $ 1.2 million |
| Federal Highway Admin Center for Technology | $ 1.0 million |
| District Energy Plant Expansion | $ 1.0 million |
| Other Small Projects | $ 7.0 million |

**The University's Liabilities**

Current liabilities consist of accounts payable, the current portion of compensation-related liabilities, accrued interest payable, student and other deposits (including Perkins and Health Professions loan liability), deferred revenues, the current portion of noncurrent liabilities, and other accrued liabilities. Current liabilities increased by $10.7 million from 2009 to 2010. Although accounts payable and the current portion of long term debt decreased approximately $2.8 million, deferred revenue increased approximately $13.7 million. Deferred revenue is comprised of deferred tuition revenue and contracts and grants funding received prior to expenditures. For Fall 2010, the Board approved a 9.75% tuition increase for AUM, and AU implemented a tuition restructure plan and increased tuition approximately 8%. Sixty percent of Fall tuition is reported as deferred revenue due to the fiscal year end of September 30. Accounts payable decreased due to overall reduction in noncompensation expense resulting from a reduction in state budgeted appropriations and proration.

Noncurrent liabilities include principal amounts due on University bonds payable, accrued compensated absences and other compensation-related liabilities that are payable beyond September 30, 2011. Noncurrent liabilities decreased $17.5 million from 2009 to 2010, primarily due to principal payments on the 2003 General, Athletic, and Housing bonds, 2004 General and Athletic A bonds, 2006A General Fee bond, 2007 A and B General Fee bonds, and 2008 bonds that become due in fiscal year 2011. During 2010, the 2001 General Fee and 2001A General Fee bonds were defeased and replaced with the 2009 General Fee bond. This transaction decreased the University's future debt service obligations (including interest) by $4.5 million.

**The University's Net Assets**

The three major net asset categories are discussed below:

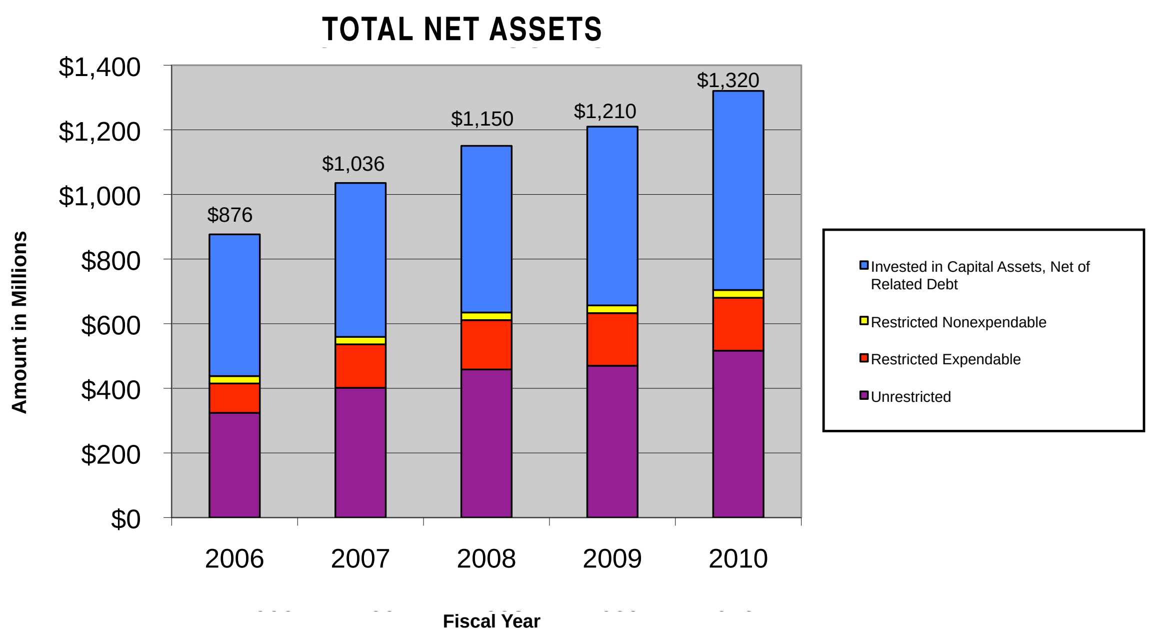
Net assets invested in capital, net of related debt, represent unexpended capital debt proceeds, the University's capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. These net assets increased 11.4% from 2009 to 2010. This increase is due to capitalization of assets as previously described.

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

Restricted-nonexpendable net assets are subject to external restrictions governing their use and consist of the University's permanent endowment funds. These net assets increased modestly from 2009 to 2010. This increase is the result of additional gifts to permanently endowed funds as well as investment earnings that were added back to current permanent endowments.

Restricted-expendable net assets are also subject to external restrictions governing their use. Such net assets include gifts, contracts, and grants restricted by federal, state, local governments, or private sources 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. Although there was a slight increase related to restricted scholarships and gifts, there was a comparable decrease due to amounts spent that were temporarily restricted for capital projects.

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 $46.6 million from 2009 to 2010. The increase in unrestricted net assets is mainly due to holding unrestricted funds for future mission-related priorities and deferred maintenance needs during this uncertain economic time.




**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:

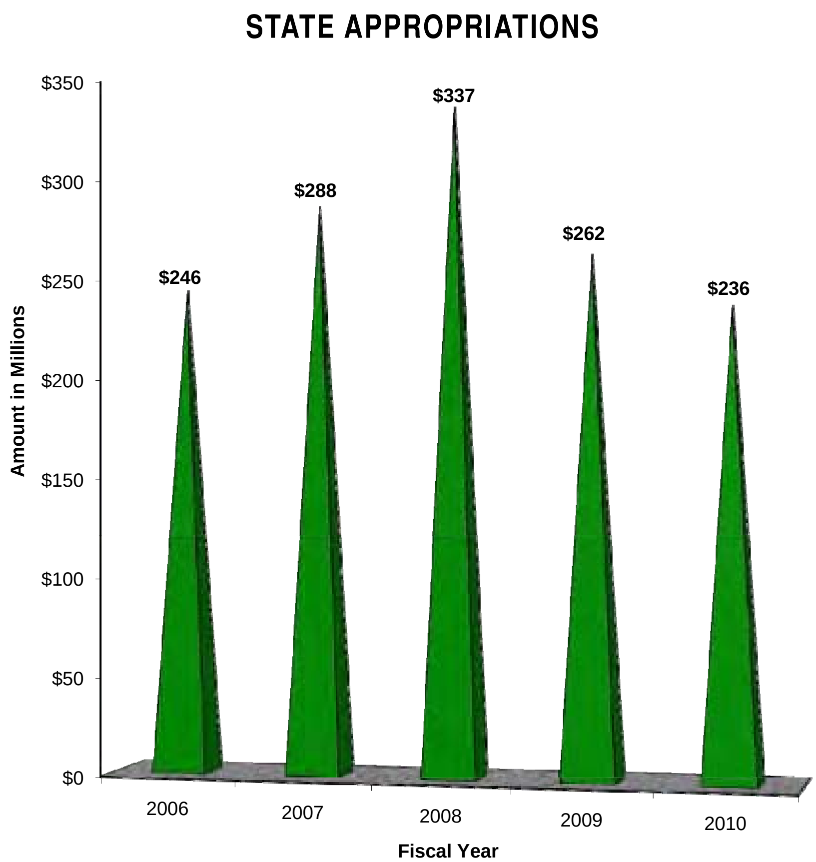
| | 2010 | 2009 |
|---|---|---|
| Operating revenues | $ 525,067,874 | $ 489,650,295 |
| Operating expenses | 789,043,548 | 784,042,362 |
| Operating loss | (263,975,674) | (294,392,067) |
| Net nonoperating revenues and other changes in net assets | 374,551,086 | 353,886,034 |
| Increase in net assets | 110,575,412 | 59,493,967 |
| Net assets - beginning of year | 1,209,912,192 | 1,150,418,225 |
| Net assets - end of year | $ 1,320,487,604 | $ 1,209,912,192 |

The 2010 Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in net assets at the end of the year of $110.6 million. Operating revenues increased 7.2% when comparing operating revenues from 2009 to 2010. The majority of this increase is attributable to the increase in student tuition and fee revenue, net of discounts, which increased $17.9 million. The University also recognized an increase in contract and grant revenues of $9.9 million. This is primarily due to an increase in federal funds awarded for research. Approximately $3.1 million of this increase were competitive awards received under the ARRA. Auxiliary revenue increased approximately $7.0 million due to new revenue generated by the opening of the Village housing.

Operating expenses increased $5 million from 2009 to 2010. The University's compensation and employee benefits experienced a modest increase in fiscal year 2010. The University incurred an additional $4 million related to employer paid benefits. Scholarships and fellowships expense increased $4 million from 2009 to 2010. This was due to the increase in tuition and the additional scholarships that were awarded in fiscal year 2010. Other supplies and services expenses decreased $6.4 million. This decrease reflects reductions in spending due to reduced State appropriation budgets. Depreciation expense increased $5.1 million, as a result of recording depreciation beginning in fiscal year 2010 on new projects completed in 2009. The buildings completed include the Village Dorms, infrastructure related to the Village, and West Campus Dining.

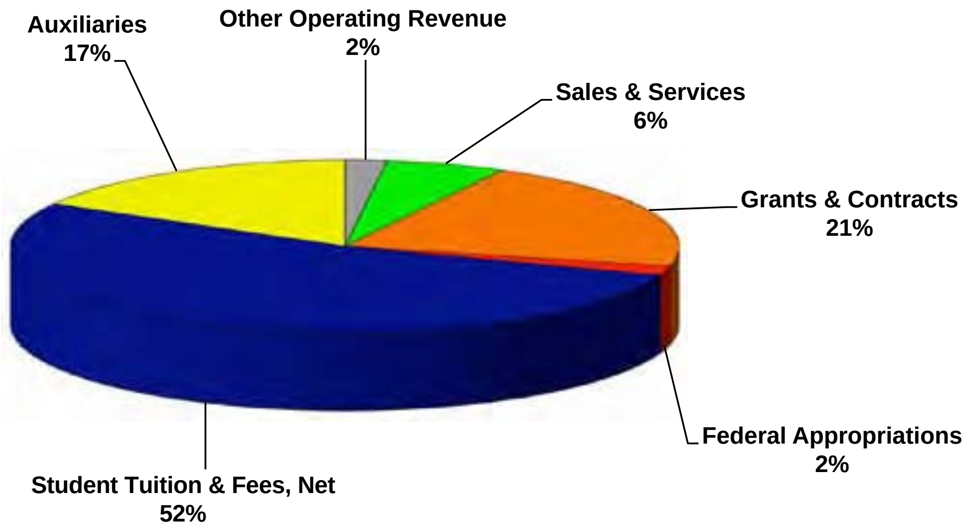
Net nonoperating revenues decreased $8.4 million from 2009 to 2010. The University's State appropriations decreased from $262 million in fiscal year 2009 to $236 million in fiscal year 2010. The $25.5 million decrease is attributable to a combined 23% permanent reduction in appropriations and proration from the State of Alabama. This decrease was offset by the recognition of ARRA State Fiscal Stabilization funds of $21.2 million. In addition, the University received an additional $6.8 million in Pell grants, which were awarded to students in fiscal year 2010. The University saw revenue related to investments continue to decline in fiscal year 2010. The University's endowment, interest income and realized gains decreased $10.8 million from fiscal year 2009 to 2010, and the University only recognized $7.9 million in unrealized gains, which was a decrease of $5.5 million from the $13.4 million recognized in fiscal year 2009.

Capital appropriations, capital gifts and grants, and additions to permanent endowments increased $29.1 million when comparing $47.8 million recognized in 2010 to $18.7 million recognized in 2009. In fiscal year 2010, the University received funding from the Alabama Public Schools and Colleges Act and ARRA State Fiscal Stabilization for capital projects of approximately $14.1 million and $4.1 million, respectively. These amounts are reflected in capital appropriations. The University expended approximately $14 million dollars for the construction of the new phase of the Technology Transportation building. The corresponding revenue is reflected in the line item capital gifts & grants.



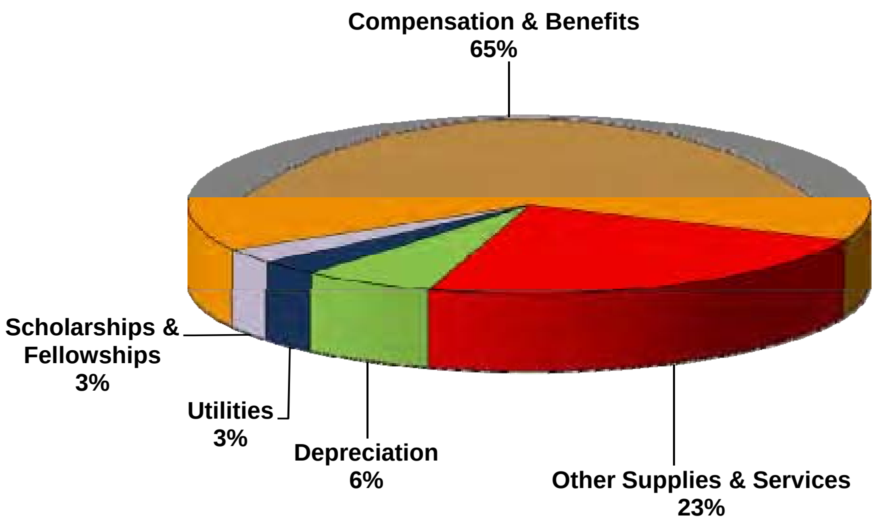
## OPERATING REVENUES SUPPORTING CORE ACTIVITIES

For the year ended September 30, 2010



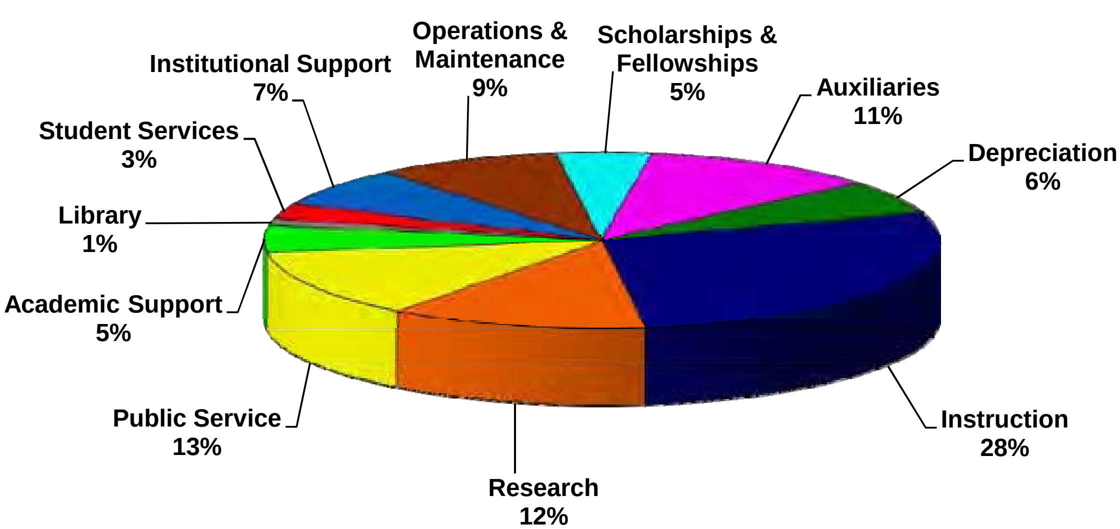

## OPERATING EXPENSES BY NATURAL CLASSIFICATION

For the year ended September 30, 2010




## OPERATING EXPENSES BY FUNCTION

For the year ended September 30, 2010



**Statement of Cash Flows**

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

The University's cash flows are summarized below:

| | 2010 | 2009 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities | $ (201,394,939) | $ (248,648,625) |
| Net noncapital financing activities | 310,633,767 | 310,913,714 |
| Net capital and related financing activities | (132,745,160) | (226,029,888) |
| Net investing activities | 36,085,922 | 171,637,841 |
| Net increase in cash | 12,579,590 | 7,873,042 |
| Cash and cash equivalents beginning of year | 57,096,605 | 49,223,563 |
| Cash and cash equivalents end of year | $ 69,676,195 | $ 57,096,605 |

The excess of uses over sources of cash used for operating activities decreased from 2009 to 2010 by 19.0%. This decrease was the result of the University receiving additional funds from tuition and fees, as well as the University decreasing its payments to suppliers related to operations. The University reduced its expenditures related to operations as a direct result of the reduced appropriations from the State of Alabama.

Cash provided by noncapital financing activities increased $280,000. Although the University received a decrease in State appropriations of $25.5 million, the University's net decrease from the State was $6.2 million, due to the receipt of $19.3 million of ARRA State Fiscal Stabilization funds. This net decrease was offset by a $6.7 million increase in gifts other than capital purposes. The remaining difference was due to timing differences in the receipt and disbursement of loan funds issued to students in the Direct Loan Program.

Net cash used in capital and related financing activities decreased $93.3 million from 2009 to 2010, which is primarily attributable to a reduction of purchases of capital assets.

Net cash provided by investing activities decreased $135.6 million. This decrease is the result of the University utilizing previously invested bond funds for construction projects. In addition, the University received fewer funds from investment income.

**Economic factors that will affect the future**

While the University is impacted by the general economic conditions, management believes the University will continue its high level of excellence in service to students, sponsors, the State of Alabama, and other constituents. In addition to legislative permanent appropriation reductions for fiscal year 2010, the Governor announced the 9.5% proration of the Special Education Trust Fund, which effectively reduced the appropriations for the University by an additional 9% in the fiscal year ended September 30, 2010. The University's strong financial position and internal financial planning process provides the University some protection against the funding reductions and adverse economic conditions. Nonetheless, a continuation of the economic downturn and future reductions in state support must be anticipated and managed carefully to maintain excellence. Neither external nor internal efforts to mitigate the impact, however, are intended to eliminate the effects of future proration or decreases in state funding. As a labor-intensive organization, the University faces competitive pressures related to attracting and retaining faculty and staff. The rising cost of health care remains a concern, particularly in light of the post-retirement health care benefits offered to retirees.

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

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

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

**Cautionary note regarding forward-looking statements**

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

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

## UNDERGRADUATE TUITION FOR THE ACADEMIC YEAR

| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Auburn Main Campus and Auburn University at Montgomery | | | | | |
| Full Time Students: | | | | | |
| In-State | $5,496/$4,760 | $5,834/$5,010 | $6,500/$5,580 | $6,972/$5,970 | $7,900/$6,730 |
| Out-of-State | $15,496/$13,760 | $16,334/$14,490 | $18,260/$16,200 | $19,452/$17,250 | $21,916/$19,090 |

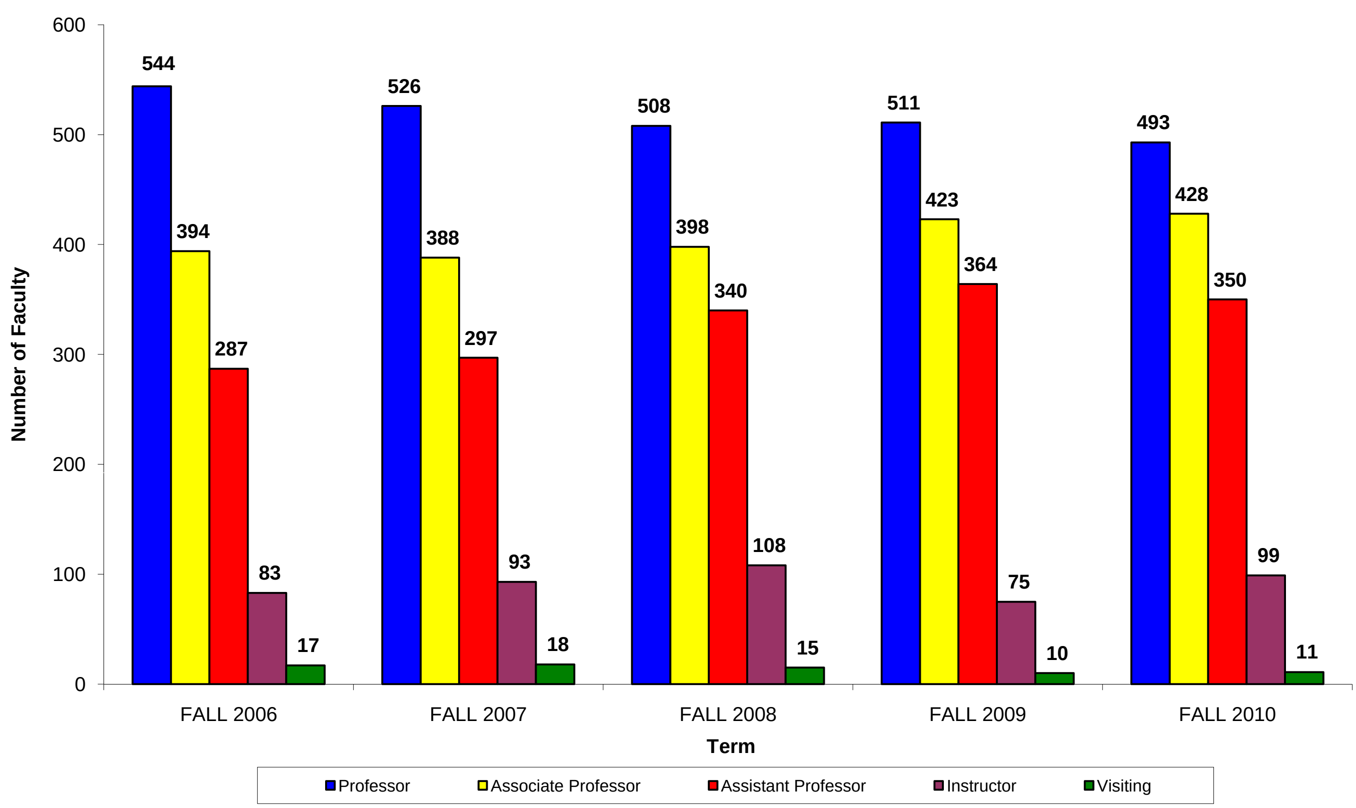
## FALL STUDENT ENROLLMENT

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Auburn Main Campus and Auburn University at Montgomery | | | | | |
| Undergraduate and Professional | 24,602 | 25,115 | 25,471 | 25,599 | 26,025 |
| Graduate | 4,024 | 4,146 | 4,346 | 4,558 | 4,864 |

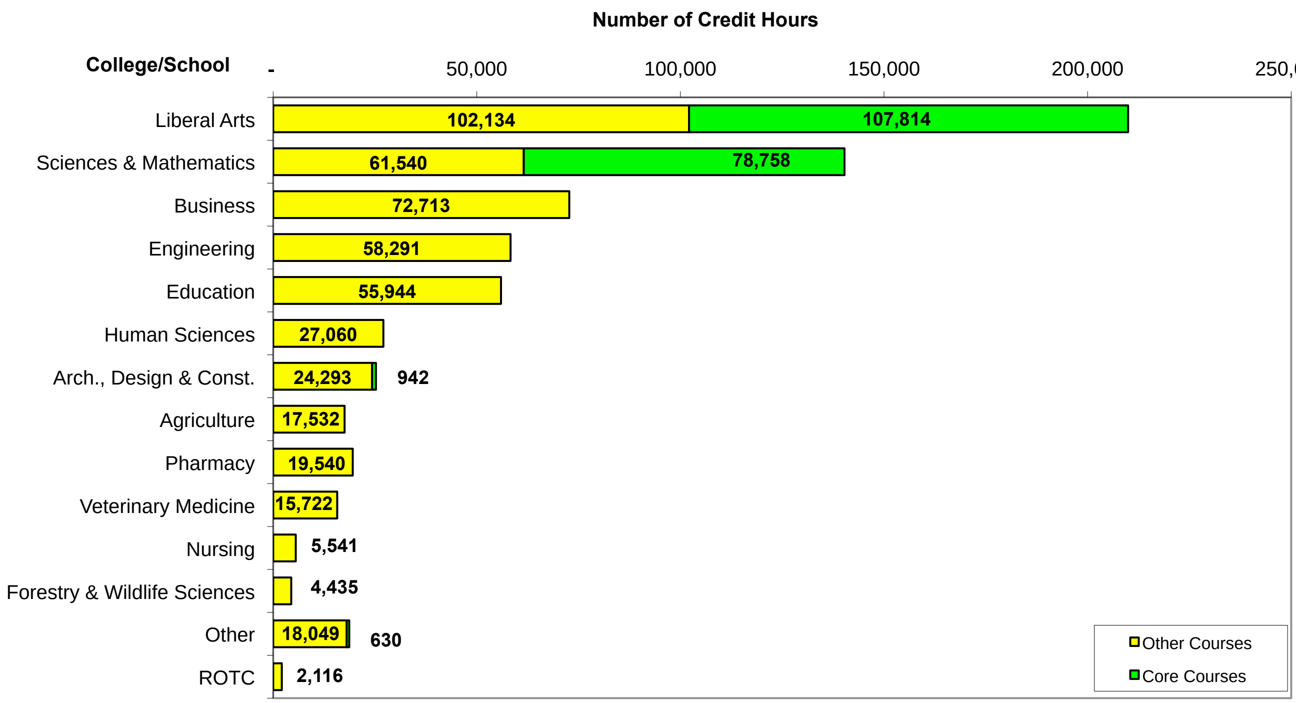
## DEGREES AWARDED FOR THE ACADEMIC YEAR

| | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|---|---|---|---|---|---|
| Auburn Main Campus and Auburn University at Montgomery | | | | | |
| Bachelor | 4,658 | 4,373 | 4,441 | 4,593 | 4,700 |
| Advanced | 1,493 | 1,465 | 1,520 | 1,561 | 1,670 |

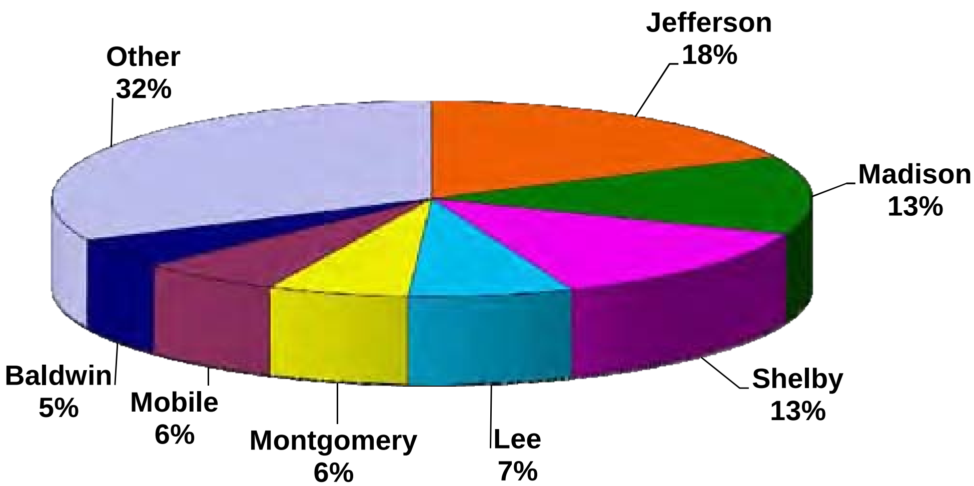
## AUBURN UNIVERSITY MAIN CAMPUS AND AUBURN UNIVERSITY AT MONTGOMERY FULL-TIME FACULTY BY RANK



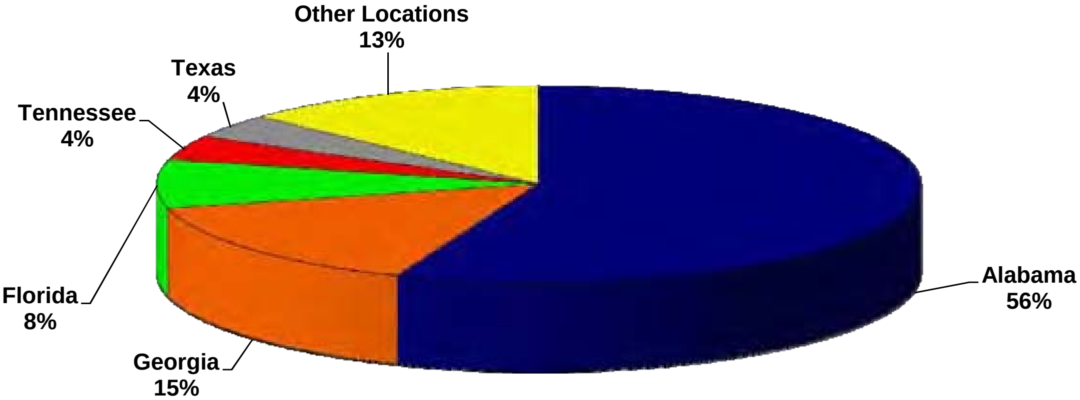
## AUBURN UNIVERSITY MAIN CAMPUS TOTAL STUDENT CREDIT HOURS BY COLLEGE/SCHOOL 2009-10




## AUBURN UNIVERSITY MAIN CAMPUS FRESHMEN ENROLLMENT BY ALABAMA COUNTIES SUMMER/FALL TERMS 2010




## SOURCES OF ENTERING FRESHMEN BY STATE MAIN CAMPUS SUMMER/FALL TERMS 2010



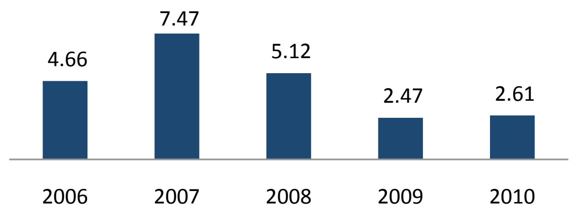
# AUBURN UNIVERSITY
## FIVE YEAR HIGHLIGHTS (MILLIONS OF DOLLARS)
## FOR THE FISCAL YEARS ENDED SEPTEMBER 30

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Revenues by Source** | | | | | |
| Tuition and fees | $ 204.5 | $ 219.5 | $ 235.3 | $ 257.6 | $ 275.5 |
| Federal appropriations | 10.2 | 13.0 | 15.7 | 10.9 | 9.0 |
| State appropriations | 245.7 | 288.3 | 336.9 | 261.7 | 236.2 |
| ARRA state fiscal stabilization funds | - | - | - | - | 21.2 |
| Grants & contracts | 106.4 | 127.2 | 118.9 | 115.6 | 132.4 |
| Gifts | 22.5 | 54.8 | 28.5 | 29.8 | 30.2 |
| Sales, services, investments and other income | 71.2 | 98.2 | 70.6 | 87.1 | 107.4 |
| Sales and services of auxiliary enterprises | 64.1 | 65.3 | 75.5 | 80.8 | 87.7 |
| **Total Revenues by Source** | $ 724.6 | $ 866.3 | $ 881.4 | $ 843.5 | $ 899.6 |
| **Operating Expenses by Function** | | | | | |
| Instruction | $ 181.6 | $ 194.9 | $ 212.6 | $ 215.3 | $ 220.6 |
| Research | 80.9 | 94.7 | 101.1 | 99.6 | 97.5 |
| Public Service | 84.1 | 106.3 | 108.0 | 101.3 | 99.2 |
| Academic Support | 33.2 | 29.1 | 32.0 | 34.5 | 37.5 |
| Library | 13.7 | 7.2 | 9.4 | 8.6 | 10.2 |
| Student Services | 15.7 | 16.3 | 19.4 | 20.4 | 21.8 |
| Institutional Support | 51.7 | 61.5 | 62.2 | 71.8 | 57.4 |
| Operation and Maintenance | 49.6 | 57.9 | 70.9 | 74.6 | 70.2 |
| Scholarships and Fellowships | 23.0 | 26.3 | 30.9 | 31.2 | 36.0 |
| Auxiliary Enterprises | 76.7 | 76.0 | 78.8 | 82.5 | 89.3 |
| Depreciation | 34.2 | 37.1 | 41.3 | 44.2 | 49.3 |
| **Total Operating Expenses by Function** | $ 644.4 | $ 707.3 | $ 766.6 | $ 784.0 | $ 789.0 |
| **Operating Expenses by Natural Classification** | | | | | |
| Salaries and wages | $ 330.3 | $ 352.0 | $ 374.5 | $ 386.4 | $ 384.8 |
| Employee benefits | 88.9 | 95.7 | 115.1 | 121.5 | 126.1 |
| Scholarships and fellowships | 14.2 | 16.3 | 18.9 | 17.9 | 21.9 |
| Utilities | 21.3 | 20.5 | 22.9 | 23.7 | 22.9 |
| Travel | 21.7 | 21.8 | 24.5 | 22.7 | 22.7 |
| Other operating expenses | 168.0 | 201.0 | 210.7 | 211.8 | 210.6 |
| **Total Operating Expenses by Natural Classification** | $ 644.4 | $ 707.3 | $ 766.6 | $ 784.0 | $ 789.0 |

# AUBURN UNIVERSITY
## FINANCIAL RATIOS*
## FOR THE FISCAL YEARS ENDED SEPTEMBER 30

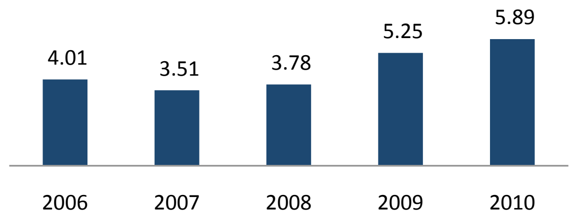
**Debt Service Coverage Ratio**
The debt service coverage ratio measures the ability to cover annual debt service obligations from current year operating cash flows. A ratio of at least 1.0 is desirable.

The University's debt service coverage ratio decreased in recent years due to new debt issuances in 2007 and 2008. Still, the ratio remains sufficiently above the desired 1.0 in all years presented.



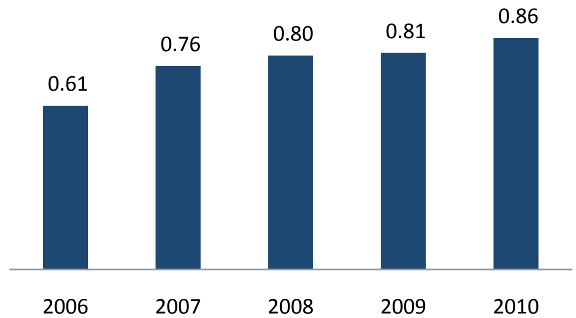

**Debt Service Burden**
This ratio measures the percentage of annual operating expenses devoted to debt service. A ratio below 7% is desirable.

The University's debt service burden increased in recent years due to new debt issuances in 2007 and 2008. Still, the ratio remains sufficiently below the target of 7% in all years presented.



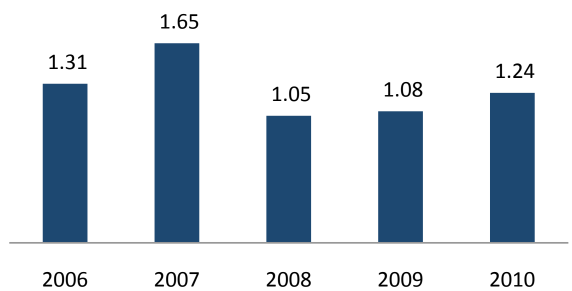

**Primary Reserve Ratio**
The Primary Reserve Ratio measures the financial strength of the institution by indicating how many years it could operate using expendable net assets without relying on additional revenue. A positive trend over time indicates improving financial condition with reserves.

The University's primary reserve ratio has continued to improve over the 5 years presented, indicating a strengthening financial condition.



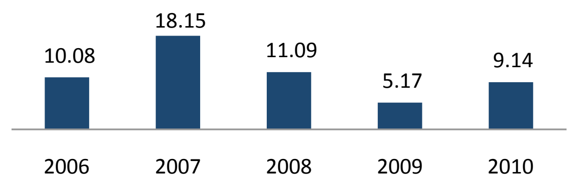

**Viability Ratio**
This ratio measures the availability of expendable net assets to cover debt obligations should the institution be required to settle them immediately. A ratio of at least 1.0 is desirable.

While the University's viability ratio has fluctuated somewhat over the 5 years presented, it remains higher than the desired 1.0, and has increased steadily since 2008.




**Return on Net Assets Ratio**
This ratio measures total economic return and can be used to indicate whether the institution is financially stronger or weaker over time. A positive trend over time is desirable.

While the University's return on net assets ratio has fluctuated over the 5 years presented, it remains strong, with an increase in 2010 over the previous year.




* These financial ratios are presented for purposes of additional analysis and are not a required part of the basic financial statements. These ratios include only the University's financial statements and may not be comparable to other institutions.

# AUBURN UNIVERSITY
## STATEMENTS OF NET ASSETS
## SEPTEMBER 30, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 69,676,195 | $ 57,096,605 |
| Operating investments | 90,101,995 | 100,197,782 |
| Accounts receivable, net | 49,160,303 | 40,127,137 |
| Student accounts receivable, net | 31,774,743 | 28,635,482 |
| Loans receivable, net | 2,744,742 | 2,895,997 |
| Accrued interest receivable | 2,335,669 | 3,488,574 |
| Inventories | 4,006,169 | 3,595,380 |
| Prepaid expenses | 4,690,560 | 4,930,115 |
| Total current assets | 254,490,376 | 240,967,072 |
| Noncurrent assets | | |
| Investments | 719,777,359 | 719,525,726 |
| Loans receivable, net | 17,502,621 | 17,028,170 |
| Investment in plant, net | 1,133,914,138 | 1,044,435,194 |
| Total noncurrent assets | 1,871,194,118 | 1,780,989,090 |
| **Total assets** | 2,125,684,494 | 2,021,956,162 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable | 41,853,443 | 43,492,762 |
| Accrued salaries and wages | 5,441,206 | 5,077,503 |
| Accrued compensated absences | 17,466,534 | 17,029,736 |
| Accrued interest payable | 9,123,945 | 9,006,785 |
| Other accrued liabilities | 3,109,966 | 2,814,171 |
| Student deposits | 198,702 | 816,355 |
| Deposits held in custody | 19,097,263 | 19,848,095 |
| Deferred revenues | 131,089,174 | 117,424,351 |
| Noncurrent liabilities-current portion | 19,642,149 | 20,844,634 |
| Total current liabilities | 247,022,382 | 236,354,392 |
| Noncurrent liabilities | | |
| Accrued compensated absences | - | 691,230 |
| Bonds and notes payable | 530,768,053 | 550,080,467 |
| Lease obligations | 1,235,379 | 1,540,660 |
| Other noncurrent liabilities | 26,171,076 | 23,377,221 |
| Total noncurrent liabilities | 558,174,508 | 575,689,578 |
| **Total liabilities** | 805,196,890 | 812,043,970 |
| **NET ASSETS** | | |
| Invested in capital assets, net of related debt | 616,209,983 | 553,281,602 |
| Restricted | | |
| Nonexpendable | 24,051,577 | 23,886,049 |
| Expendable: | | |
| Scholarships, research, instruction, other | 141,718,010 | 139,000,957 |
| Loans | 5,116,931 | 5,023,192 |
| Capital projects | 16,903,565 | 18,850,145 |
| Unrestricted | 516,487,538 | 469,870,247 |
| **Total net assets** | $ 1,320,487,604 | $ 1,209,912,192 |

*See accompanying notes to financial statements.*

# AUBURN UNIVERSITY
## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
## FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Tuition & fees, net of scholarship allowances of $78,469,688 and $60,575,755, respectively | $ 275,489,454 | $ 257,628,293 |
| Federal appropriations | 9,026,000 | 10,946,114 |
| Federal grants & contracts, net | 77,953,387 | 69,512,621 |
| State & local grants & contracts, net | 19,873,107 | 18,187,145 |
| Nongovernmental grants & contracts, net | 11,297,084 | 11,516,685 |
| Sales & services of educational departments | 30,308,344 | 27,998,226 |
| Auxiliary revenue, net of scholarship allowances of $5,002,042 and $3,125,629, respectively | 87,714,612 | 80,754,997 |
| Other operating revenues | 13,405,886 | 13,106,214 |
| Total operating revenues | 525,067,874 | 489,650,295 |
| **OPERATING EXPENSES** | | |
| Compensation & benefits | 510,919,404 | 507,894,296 |
| Scholarships & fellowships | 21,931,019 | 17,903,346 |
| Utilities | 22,899,217 | 23,708,155 |
| Other supplies & services | 183,965,097 | 190,348,713 |
| Depreciation | 49,328,811 | 44,187,852 |
| Total operating expenses | 789,043,548 | 784,042,362 |
| Operating loss | (263,975,674) | (294,392,067) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| State appropriations | 236,212,711 | 261,691,096 |
| ARRA state fiscal stabilization funds | 21,236,839 | - |
| Gifts | 30,218,934 | 29,786,518 |
| Grants | 23,204,820 | 16,424,734 |
| Net investment income | 25,088,863 | 41,436,581 |
| Interest expense on capital debt | (9,174,150) | (14,150,603) |
| Nonoperating revenues, net | 326,788,017 | 335,188,326 |
| Income before other changes in net assets | 62,812,343 | 40,796,259 |
| **OTHER CHANGES IN NET ASSETS** | | |
| Capital appropriations | 18,224,230 | 2,760,396 |
| Capital gifts & grants | 29,373,311 | 15,681,879 |
| Additions to permanent endowments | 165,528 | 255,433 |
| Net increase in net assets | 110,575,412 | 59,493,967 |
| **Net assets - beginning of year** | 1,209,912,192 | 1,150,418,225 |
| **Net assets - end of year** | $ 1,320,487,604 | $ 1,209,912,192 |

*See accompanying notes to financial statements.*

# AUBURN UNIVERSITY
## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Tuition & fees | $ 283,673,417 | $ 262,875,230 |
| Federal appropriations | 8,870,750 | 10,601,588 |
| Grants & contracts | 104,103,309 | 98,800,123 |
| Sales & services of educational departments | 28,875,686 | 25,562,933 |
| Auxiliary enterprises | 91,974,967 | 87,337,187 |
| Other operating revenues | 13,998,139 | 14,950,271 |
| Payments to suppliers | (178,861,390) | (202,348,794) |
| Payments for utilities | (22,899,217) | (23,708,155) |
| Payments for employee compensation & benefits | (508,477,336) | (504,676,629) |
| Payments for scholarships & fellowships | (21,902,709) | (17,932,871) |
| Student loans issued | (2,973,616) | (2,558,526) |
| Student loans collected | 2,223,061 | 2,449,018 |
| Net cash used in operating activities | (201,394,939) | (248,648,625) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State appropriations | 236,212,711 | 261,691,096 |
| ARRA state fiscal stabilization funds | 19,289,939 | - |
| Gifts and grants for other than capital purposes | 56,154,128 | 49,465,542 |
| Direct loan receipts | 158,192,455 | 142,384,346 |
| Direct loan disbursements | (159,215,466) | (142,627,270) |
| Net cash provided by noncapital financing activities | 310,633,767 | 310,913,714 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Proceeds from advanced refunding of debt, net of issuance cost | 84,946,185 | - |
| Capital appropriations | 18,224,230 | 2,760,396 |
| Capital grants & gifts received | 21,889,138 | 12,679,929 |
| Purchases of capital assets | (146,662,988) | (221,493,168) |
| Proceeds received from sale of capital assets | 57,270 | 6,769,654 |
| Principal paid on debt & capital leases | (18,057,271) | (15,268,177) |
| Interest paid on debt & capital leases | (8,245,820) | (11,478,522) |
| Payment to escrow on advanced refunding of debt | (84,895,904) | - |
| Net cash used in capital and related financing activities | (132,745,160) | (226,029,888) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sales and maturities of investments and reinvestments | 795,600,868 | 804,344,342 |
| Investment income | 17,357,295 | 31,290,907 |
| Purchases of investments | (776,872,241) | (663,997,408) |
| Net cash provided by investing activities | 36,085,922 | 171,637,841 |
| Net increase in cash and cash equivalents | 12,579,590 | 7,873,042 |
| **Cash and cash equivalents, beginning of year** | 57,096,605 | 49,223,563 |
| **Cash and cash equivalents, end of year** | $ 69,676,195 | $ 57,096,605 |

*See accompanying notes to financial statements.*

# AUBURN UNIVERSITY
## STATEMENTS OF CASH FLOWS (CONTINUED)
## FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:** | | |
| Operating loss | $ (263,975,674) | $ (294,392,067) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation and amortization | 48,780,030 | 43,542,273 |
| Write-off of loans receivable | 427,359 | 297,343 |
| Loss (gain) on sale of net assets | 120,032 | (2,421,038) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (3,467,032) | (1,517,742) |
| Student accounts receivable | (3,139,261) | (3,330,318) |
| Inventories | (410,789) | 129,041 |
| Deferred revenue | 13,664,823 | 14,664,799 |
| Accounts payable | 5,074,297 | (10,564,048) |
| Prepaid expenses | 239,555 | 1,051,905 |
| Accrued salaries, wages and compensated absences | 109,270 | 684,963 |
| Student deposits and deposits held in custody | (345,474) | 623,306 |
| Loans to students | (750,555) | (109,508) |
| Other accrued liabilities | 295,795 | (53,913) |
| Other noncurrent liabilities | 1,982,685 | 2,746,379 |
| Net cash used in operating activities | $ (201,394,939) | $ (248,648,625) |
| **SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION** | | |
| Capital assets acquired with a liability at year-end | $ 10,403,689 | $ 19,735,848 |
| Gifts of capital assets | 1,300,093 | 4,467,893 |
| Capital assets acquired through capital leases | 354,135 | - |
| Capitalized interest | 17,418,054 | 14,228,375 |

*See accompanying notes to financial statements.*

# AUBURN UNIVERSITY COMPONENT UNITS
## STATEMENTS OF FINANCIAL POSITION
## SEPTEMBER 30, 2010 AND 2009

| | Auburn University Foundation 2010 | Auburn University Foundation 2009 | Auburn Alumni Association 2010 | Auburn Alumni Association 2009 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 387,622 | $ 615,925 | $ 20,501 | $ 61,520 |
| Investments | 287,289,683 | 250,294,773 | 4,012,591 | 3,772,017 |
| Investment in Auburn University Foundation Securities Pool | - | - | 7,021,266 | 6,412,561 |
| Accrued interest receivable | 338,476 | 891,323 | 26,375 | 16,230 |
| Contributions receivable, net | 23,454,237 | 31,411,275 | 576,963 | 401,240 |
| Notes receivable | 115 | 798,137 | - | - |
| Other assets | 146,610 | 42,733 | - | - |
| Investment in real estate | 2,939,847 | 2,240,356 | 674,799 | 674,799 |
| Cash surrender value of life insurance | 3,476,136 | 3,057,945 | - | - |
| Beneficial interest in outside trusts | 1,353,116 | 969,723 | - | - |
| Property and equipment, net | 297,014 | 1,916,801 | 2,030,490 | 2,087,765 |
| Prepaid rent | - | - | 29 | 30 |
| Due from Auburn University Foundation | - | - | 3,847 | 178 |
| **Total assets** | $ 319,682,856 | $ 292,238,991 | $ 14,366,861 | $ 13,426,340 |
| **LIABILITIES** | | | | |
| Accounts payable and accrued liabilities | $ 290,576 | $ 376,293 | $ 45,784 | $ 86,580 |
| Annuities payable | 8,096,784 | 6,820,790 | - | - |
| Due to Auburn University | 9,115 | 256,417 | 231,907 | 159,846 |
| Due to Auburn University Foundation | - | - | - | 1,555 |
| Due to Auburn Alumni Association | 7,021,866 | 6,411,182 | - | - |
| Due to Tigers Unlimited Foundation | 6,394,967 | 5,701,268 | - | - |
| Deferred revenue | 122,369 | - | 7,729,229 | 7,295,068 |
| **Total liabilities** | 21,935,677 | 19,565,950 | 8,006,920 | 7,543,049 |
| **NET ASSETS** | | | | |
| Unrestricted | 10,661,255 | 2,679,275 | 6,359,941 | 5,883,291 |
| Temporarily restricted | 48,779,831 | 41,988,537 | - | - |
| Permanently restricted | 238,306,093 | 228,005,229 | - | - |
| **Total net assets** | 297,747,179 | 272,673,041 | 6,359,941 | 5,883,291 |
| **Total liabilities and net assets** | $ 319,682,856 | $ 292,238,991 | $ 14,366,861 | $ 13,426,340 |

*See accompanying notes to financial statements.*

## AUBURN UNIVERSITY COMPONENT UNITS
### STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
### FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

| | Auburn University Foundation | | Auburn Alumni Association | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **REVENUES AND OTHER SUPPORT** | | | | |
| Public support - contributions | $ 26,234,797 | $ 40,431,304 | $ 1,397,553 | $ 1,471,028 |
| Investment income | 2,905,022 | 3,651,701 | 277,322 | 347,211 |
| Other revenues | 2,276,151 | 1,922,900 | 707,475 | 830,451 |
| Total operating revenues | 31,415,970 | 46,005,905 | 2,382,350 | 2,648,690 |
| **EXPENSES AND LOSSES** | | | | |
| Program services | | | | |
| Contributions to and support for Auburn University | 20,452,280 | 24,871,876 | - | - |
| Other program services | 2,163,967 | 1,781,213 | 767,848 | 804,487 |
| Total program services | 22,616,247 | 26,653,089 | 767,848 | 804,487 |
| Support services | | | | |
| General and administrative | 1,370,980 | 2,027,449 | 1,369,342 | 1,565,152 |
| Fund raising | 2,837,848 | 2,850,797 | 250,730 | 169,605 |
| Total support services | 4,208,828 | 4,878,246 | 1,620,072 | 1,734,757 |
| Total expenses | 26,825,075 | 31,531,335 | 2,387,920 | 2,539,244 |
| Unrealized (gains) losses on investments | (20,819,480) | 3,388,239 | (482,220) | 500,844 |
| Realized losses on investments | 1,415,028 | 3,619,719 | - | - |
| Change in valuation of split-interest agreements | (1,116,279) | 901,779 | - | - |
| Impairment in real estate | 37,488 | 672,224 | - | - |
| Total expenses, (gains) and losses | 6,341,832 | 40,113,296 | 1,905,700 | 3,040,088 |
| *Change in net assets | 25,074,138 | 5,892,609 | 476,650 | (391,398) |
| **Net assets - beginning of year** | 272,673,041 | 266,780,432 | 5,883,291 | 6,274,689 |
| **Net assets - end of year** | $ 297,747,179 | $ 272,673,041 | $ 6,359,941 | $ 5,883,291 |

| | | | | |
|---|---|---|---|---|
| *Change in net assets | | | | |
| Unrestricted | $ 7,981,980 | $ (1,082,878) | $ 476,650 | $ (391,398) |
| Temporarily restricted | 6,791,294 | (16,551,143) | - | - |
| Permanently restricted | 10,300,864 | 23,526,630 | - | - |
| Total change in net assets | $ 25,074,138 | $ 5,892,609 | $ 476,650 | $ (391,398) |

*See accompanying notes to financial statements.*

# AUBURN UNIVERSITY COMPONENT UNITS
## STATEMENTS OF FINANCIAL POSITION
## JUNE 30, 2010 AND 2009

| | Tigers Unlimited Foundation 2010 | Tigers Unlimited Foundation 2009 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 662,931 | $ 543,077 |
| Investments | 32,618,872 | 32,086,163 |
| Investment in Auburn University Foundation Securities Pool | 5,838,464 | 5,106,545 |
| Accrued interest receivable | 119,700 | 134,472 |
| Contributions receivable, net | 8,820,602 | 14,606,450 |
| Other receivables | - | 314 |
| Notes receivable | 833,602 | 800,000 |
| Other assets | 458,907 | 248,792 |
| Property and equipment, net | 16,365 | 2,140 |
| Due from Auburn University Foundation | 100,000 | 100,000 |
| **Total assets** | $ 49,469,443 | $ 53,627,953 |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities | $ 129,561 | $ 2,525,995 |
| Deferred revenue | 1,239,908 | 1,193,181 |
| Due to Auburn University | 2,445,460 | 2,022,800 |
| **Total liabilities** | 3,814,929 | 5,741,976 |
| **NET ASSETS** | | |
| Unrestricted | 27,975,657 | 24,748,814 |
| Temporarily restricted | 10,787,583 | 15,608,646 |
| Permanently restricted | 6,891,274 | 7,528,517 |
| **Total net assets** | 45,654,514 | 47,885,977 |
| **Total liabilities and net assets** | $ 49,469,443 | $ 53,627,953 |

*See accompanying notes to financial statements.*

# AUBURN UNIVERSITY COMPONENT UNITS
## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
## FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

| | Tigers Unlimited Foundation | |
|---|---|---|
| | **2010** | **2009** |
| **REVENUES AND OTHER SUPPORT** | | |
| Public support - contributions | $ 24,729,864 | $ 28,272,549 |
| Investment income | 744,120 | 1,386,722 |
| Other revenues | 4,530,971 | 3,348,179 |
| Total operating revenues | 30,004,955 | 33,007,450 |
| **EXPENSES, (GAINS) AND LOSSES** | | |
| Program services | | |
| Contributions to and support for Auburn University | 12,367,507 | 17,321,887 |
| Other program services | 8,471,741 | 10,527,120 |
| Total program services | 20,839,248 | 27,849,007 |
| Support services | | |
| General and administrative | 1,277,728 | 1,225,214 |
| Fund raising | 5,382,829 | 4,934,128 |
| Total support services | 6,660,557 | 6,159,342 |
| Total expenses | 27,499,805 | 34,008,349 |
| Unrealized (gains) losses on investments | (817,042) | 1,730,351 |
| Realized losses on investments | 601 | 2,057 |
| Loss on write-off of contribution receivable | 5,553,054 | 3,231,315 |
| Total expenses, (gains) and losses | 32,236,418 | 38,972,072 |
| *Change in net assets | (2,231,463) | (5,964,622) |
| **Net assets - beginning of year** | 47,885,977 | 53,850,599 |
| **Net assets - end of year** | $ 45,654,514 | $ 47,885,977 |
| *Change in net assets | | |
| Unrestricted | $ 3,226,843 | $ (4,062,203) |
| Temporarily restricted | (4,821,063) | 1,901,117 |
| Permanently restricted | (637,243) | 1,302 |
| Total change in net assets | $ (2,231,463) | $ (5,964,622) |

*See accompanying notes to financial statements.*

# NOTES TO FINANCIAL STATEMENTS

## (1) NATURE OF OPERATIONS

Auburn University (the University) is a land grant university originally chartered on February 1, 1856, as the East Alabama Male College. The Federal Land Grant Act of 1862, by which the University was established as a land grant university, donated public lands to several states and territories with the intent that the states would use these properties for the benefit of agriculture and the mechanical arts. Several pertinent laws dictate specific purposes for which the land may be used. In 1960, the Alabama State Legislature officially changed the name of the University to Auburn University. The University has two campuses, Auburn and Montgomery, with a combined enrollment of 30,889 students for Fall Semester 2010. It serves the State of Alabama, the nation and international business communities through instruction of students and the advancement of research and outreach programs. By statutory laws of the State of Alabama, the University is governed by the Board of Trustees (the Board) appointed by the Governor, a committee consisting of two trustees and two Alumni Association board members and approved by the Alabama State Senate.

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

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

### Reporting Entity

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

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

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

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

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

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

### Component Units

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

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

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

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

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

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

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

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

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

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

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

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

Financial statements for AUF, TUF, the Association, and ASFS may be obtained by writing to the applicable entity at 317 South College Street, Auburn, Alabama 36849. Financial statements for ARTF may be obtained by writing to 570 Devall Drive, Suite 101, Auburn, AL 36832.

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

- **Invested in capital assets, net of related debt:**
  Unexpended debt proceeds, capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

- **Restricted net assets:**
  **Nonexpendable** – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.
  **Expendable** – Net assets whose use by the University are subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations, or that expire by the passage of time.

- **Unrestricted net assets:** Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, capital programs, and auxiliary units.

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

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

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

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

### Reclassification
Certain reclassifications have been made to the 2009 financial statements in order to conform them to the 2010 financial statement presentation. The reclassifications had no impact on net assets.

## (2) SIGNIFICANT ACCOUNTING POLICIES OF AUBURN UNIVERSITY

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

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

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

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

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

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

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

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

The equipment capitalization threshold was increased from $2,500, effective October 1, 2009.

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

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* the University continues to evaluate prominent events of changes in circumstance to determine whether an impairment loss should be recorded and whether any insurance recoveries should be offset against the impairment loss. The University did not incur any losses related to asset impairment during fiscal year 2010 or 2009.

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

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

- **Operating Revenues:** Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, private grants and contracts and federal appropriations, and (4) interest on institutional student loans.

- **Nonoperating Revenues:** Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues. In accordance with GASB Statement No. 35, certain significant revenues on which the University relies to support its operational mission are required by the GASB to be recorded as nonoperating revenues. These revenues include state appropriations, private gifts and investment income, including realized and unrealized gains and losses on investments.

**Student Tuition, Fees and Scholarship Discounts and Allowances**

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

**Auxiliary Enterprises Revenues**

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

**Compensated Absences**

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

**Pledged Revenue**

The University normally does not receive gift pledges. Pledged revenue representing unconditional promises to give is normally received by AUF or TUF and later disbursed in accordance with the donors' wishes for the benefit of the University. Pledges are recorded at their gross, undiscounted amounts. In accordance with the recognition criteria of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* the University recorded pledges of approximately $233,000 and $409,000 in fiscal years 2010 and 2009, respectively.

## (3) CASH AND CASH EQUIVALENTS

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

Effective January 1, 2001, any depository of University funds must provide annual evidence of its continuing designation as a qualified public depository under the Security for Alabama Fund Enhancement Act (SAFE). The enactment of the SAFE program changed the way all Alabama public deposits are collateralized. In the past, the bank pledged collateral directly to each individual public entity. Under the mandatory SAFE program, each qualified public depository (QPD) is required to hold collateral for all its public deposits on a pooled basis in a custody account established for the State Treasurer as SAFE administrator. In the unlikely event a public entity should suffer a loss due to QPD insolvency or default, a claim form would be filed with the State Treasurer who would use the SAFE pool collateral or other means to reimburse the loss. As a result, the University believes its custodial risk related to cash is remote. In addition, all funds in non-interest bearing accounts are fully guaranteed by the Federal Deposit Insurance Corporation (FDIC) through December 31, 2012, regardless of the amount.

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

## (4) INVESTMENTS

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

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

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

Diversification through asset allocation is utilized as a fundamental risk strategy for endowed funds. These strategic allocations represent a blend of assets best suited, over the long term, to achieve maximum returns without violating the risk parameters established by the Board. The Endowment Investment Policy, approved June 18, 2010, authorizes investment of the endowment portfolio to include the following: cash and cash equivalents; global fixed income; global equity securities; private capital; absolute return/hedge funds; and real estate assets, collectively referred to as the endowment pool.

The Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA) has been enacted by the Legislature of the State of Alabama and signed into law effective January 1, 2009. Among its changes, UPMIFA prescribes new guidelines for expenditure of a donor-restricted endowment fund (in the absence of overriding, explicit donor stipulations). Its predecessor, the Uniform Management of Institutional Funds Act (UMIFA), focused on the prudent spending of the net appreciation of the fund. UPMIFA, instead, focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. UPMIFA eliminates UMIFA's historic dollar value threshold, an amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund.

The earnings distributions are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by UPMIFA. In order to conform to the standards for prudent fiduciary management of investments, the Board has adopted a spending plan whose long term objective is to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations. In the policy approved on June 18, 2010, spending for a given year equals 80% of spending in the previous year, adjusted for inflation (Consumer Price Index (CPI) within a range of 0% and 6%), plus 20% of the long-term spending rate (4%) applied to the twelve-month rolling average of the market values. For the calendar year 2009, the Board approved a spending distribution equal to 3% of the December 31, 2009 market values. Accumulated net realized and unrealized gains on endowments and funds functioning as endowments total $28,396,131 and $24,078,534 at September 30, 2010 and 2009, 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, 2010 and 2009, are as follows:

| | 2010 | 2009 |
|---|---|---|
| Accumulated net realized gains on sale of investments | $ 21,443,994 | $ 25,278,210 |
| Accumulated net unrealized gains (losses) | 6,952,137 | (1,199,676) |
| Net gains in fair value of investments | $ 28,396,131 | $ 24,078,534 |

**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, 2010 and 2009, covering the fair value of investments by investment type and related maturity:

**Auburn University Investments**
**Investment Maturities at Fair Value (in Years)**
**September 30, 2010**

| Type of Investments | < 1 year | 1-5 years | 6-10 years | > 10 years | Total Fair Value |
|---|---|---|---|---|---|
| Fixed Maturity | | | | | |
| Commercial Paper | $ 47,476,865 | $ - | $ - | $ - | $ 47,476,865 |
| Certificates of Deposit | - | 3,733,321 | - | - | 3,733,321 |
| U. S. Treasury Obligations | 53,049,927 | 35,921,583 | - | - | 88,971,510 |
| U. S. Agency Securities | 55,437,118 | 234,259,973 | 141,666,245 | 55,805,291 | 487,168,627 |
| Mortgage Backed Securities | - | 5,187,358 | 12,258,216 | 26,921,695 | 44,367,269 |
| Municipals | - | 1,029,580 | - | - | 1,029,580 |
| | $ 155,963,910 | $ 280,131,815 | $ 153,924,461 | $ 82,726,986 | $ 672,747,172 |
| Domestic Equities | | | | | 822,964 |
| Alternative Investments – at cost: | | | | | |
| Hedge Funds | | | | | 46,987,120 |
| Private Capital | | | | | 12,254,701 |
| Real Assets | | | | | 23,225,432 |
| Mutual Funds | | | | | 79,086,220 |
| Other | | | | | 3,888,868 |
| Money Market | | | | | 34,243,741 |
| Total investments | | | | | 873,256,218 |
| Less cash equivalents held in cash pool | | | | | (63,376,864) |
| Operating and noncurrent investments | | | | | $ 809,879,354 |

**Auburn University Investments**
**Investment Maturities at Fair Value (in Years)**
**September 30, 2009**

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

- **Custodial Credit Risk** – GASB Statement No. 40 defines investment custodial risk as "the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party." Although no formal policy has been adopted, the University requires its safekeeping agents to hold all securities in the University's name for both the Cash Pool and the Endowment Pool. Certain limited partnership investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

- **Credit Quality Risk** – GASB Statement No. 40 defines credit quality risk as "the risk that an issuer or other counterparty to an investment will not fulfill its obligations" as they become due. The University Non-Endowment Cash Pool Investment Policy stipulates that commercial paper be rated P1 by Moody's or A1 by Standard & Poor's or a comparable rating by another nationally recognized rating agency. Bankers' acceptances should hold a long term debt rating of at least AA or short term debt rating of AAA (or comparable ratings) as provided by one of the nationally recognized rating agencies.

The following table provides information as of September 30, 2010 and 2009, 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 |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| US Treasury | $ 88,971,510 | 13.23% | $ 114,132,879 | 17.80% |
| Aaa | 531,535,896 | 79.01% | 521,101,784 | 81.30% |
| Aa | 1,029,580 | .15% | 1,016,530 | 0.16% |
| P1 | 47,476,865 | 7.06% | - | - |
| Not rated* | 3,733,321 | .55% | 4,711,371 | 0.74% |
| | $ 672,747,172 | 100.00% | $ 640,962,564 | 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, 2010 and 2009, 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, 2010 and 2009, the University held no investments in foreign currency.

**Securities Lending Program**

The University's investment policies allow participation in securities lending, such as Reverse Repurchase Agreements, as authorized by the State Street Index Fund held by the University Endowment Pool. Effective June 2008, the State Street Index Fund held by the Endowment Pool terminated participation in securities lending. As of September 30, 2010 and 2009, there was no participation in any securities lending program.

**Interest Sensitive Securities**

As of September 30, 2010 and 2009, the University held $44,367,269 and $45,804,176, representing 5.08% and 5.27%, respectively, of its total investments in mortgage-backed securities. As of September 30, 2010 and 2009, the University held no 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, such as early or extended principal payments.

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, 2010 and 2009, the University Cash Pool held $4,000,000 and $12,496,715, representing 0.46% and 1.44%, respectively, of total investments in continuously callable fixed maturity investments. The University investment policies do not restrict the purchase of mortgage-backed securities, asset-backed securities, or bonds with call provisions.

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

The University has entered into separate subscription agreements with a capital commitment to each alternative investment that expire periodically in the future. The following information pertains to alternative investment capital commitments at September 30, 2010 and 2009:

**2010**

| Type of Alternative Investment | Number of Commitments | Original Commitments | Capital Contributions | Unfunded Commitment by Commitment Expiration: < 1 Year | 1-5 years | 6-10 years | >10 years | Total Unfunded Commitment |
|---|---|---|---|---|---|---|---|---|
| Hedge Funds | 11 | $ 47,987,120 | $ 47,987,120 | $ - | $ - | $ - | $ - | $ - |
| Private Capital | 8 | 17,250,000 | 12,254,701 | - | 1,842,795 | 3,152,504 | - | 4,995,299 |
| Real Assets | 11 | 33,300,000 | 26,363,908 | - | - | 4,726,594 | 2,209,498 | 6,936,092 |
| | 30 | $ 98,537,120 | $ 86,605,729 | $ - | $ 1,842,795 | $ $7,879,098 | $ 2,209,498 | $ 11,931,391 |

**2009**

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

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

As of September 30, 2010 and 2009, the University's limited partnership investments are carried at cost. As required by GASB Statement No. 31, no adjustment was recorded to recognize net unrealized gains and losses. Limited partnership investments are made in accordance with the University's investment policy, which approves the allocation of funds to various assets classes (i.e., global equity, private capital, hedge funds, real assets, global fixed income and cash) in order to ensure the proper level of diversification within the endowment pool. The limited partnerships (private equity, hedge funds, and real assets) enhance diversification and provide reductions in overall portfolio volatility.

On September 30, 2010 and 2009, the University was not a party to any swap contracts or other derivative instruments.

The table entitled, "Auburn University Investments, Investment Maturities at Fair Value (in Years)", included funds held for pending capital expenditures at September 30, 2010 and 2009 totaling $101,513,459 and $154,055,372, respectively. The General Liability Account held investments of $5,697,020 and $5,650,670 as of September 30, 2010 and 2009, respectively.

**AUF investments at September 30, 2010 and 2009, include the following:**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Fair Value | Cost | Fair Value | Cost |
| Cash and pooled investments | $ 10,179,335 | $ 10,179,335 | $ 10,580,219 | $ 10,575,371 |
| Government bonds, notes and other securities | 25,278,210 | 23,404,790 | 29,327,318 | 28,509,883 |
| Municipal bonds | 14,750 | 14,104 | 24,296 | 23,753 |
| Corporate bonds and debentures | 12,949,996 | 9,575,051 | 10,272,455 | 9,074,982 |
| Corporate stocks | 1,173,383 | 805,189 | 1,138,849 | 835,087 |
| Mutual funds, business trust funds and common trust funds | 102,339,501 | 96,457,747 | 100,664,111 | 103,568,997 |
| Hedge funds | 80,589,831 | 70,675,000 | 64,561,933 | 60,875,000 |
| Private equity funds | 20,181,980 | 20,268,117 | 14,628,159 | 17,088,446 |
| Real asset investment funds | 34,582,697 | 41,667,276 | 19,097,433 | 28,586,318 |
| Total investments | $ 287,289,683 | $ 273,046,609 | $ 250,294,773 | $ 259,137,837 |

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

As of September 30, 2010, AUF had entered into subscription agreements with one corporate and twenty-seven limited partnership investments. The aggregate amount of capital committed to these investments is $135,275,000 of which capital contributions of $115,145,411 have been invested. A net unrealized loss of $2,558,603 has been recorded on these investments. Of these twenty-eight commitments, eleven subscriptions relate to hedge funds, ten subscriptions relate to private equity funds, and seven subscriptions relate to real estate asset funds. The hedge funds are primarily invested in long/short equities, fixed income arbitrage, merger arbitrage and other event driven strategies through various investment managers, investment partnerships and offshore funds. The private equity fund commitments are for investments in privately held companies in various industries, including alternative fuel technology. The real assets funds include investments in commercial real estate, residential real estate, and oil and gas production.

Investment income, realized gains and losses, unrealized gains and losses, and changes in values of split-interest agreements are reported on the Consolidated Statements of Activities and Changes in Net Assets net of estimated investment expenses of $2,791,000 and $2,347,000 for the fiscal years ended September 30, 2010 and 2009, respectively.

AUF carries its limited partnership investments at fair value. This differs from how the University carries these investments, which is at cost, in accordance with GASB requirements. AUF believes that the carrying amount of its limited partnership investments is a reasonable estimate of fair value as of September 30, 2010. Because limited partnership investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such difference could be material. Limited partnership investments are made in accordance with AUF's investment policy that approves the allocation of funds to various assets classes (i.e., global equity, private capital, hedge funds, real assets, global fixed income and cash) in order to ensure the proper level of diversification within the endowment pool. Investments in limited partnerships (private equity, hedge funds, and real assets) are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated by the general partner of each limited partnership using various valuation techniques. The fair values of these investments at September 30, 2010 and 2009, were $128,662,869 and $91,900,500, respectively.

The FASB has provided guidance in the ASC relevant to endowments of not-for-profit organizations net asset classification of funds subject to an enacted version of UPMIFA, and enhanced disclosures for all endowment funds. The ASC requires new endowment disclosures, effective for the fiscal year ending September 30, 2009. The combination of the adoption of new ASC disclosure requirements and the enactment of UPMIFA by the State of Alabama, for the year ended September 30, 2010, resulted in AUF recognizing an increase in unrestricted net assets and a decrease in temporarily restricted net assets in the amount of $10,621,849. Previously, AUF recognized a decrease in unrestricted net assets and an increase in temporarily restricted net assets in the amount of $17,303,474, related to donor-restricted endowment fund deficits in existence at the time of the enactment of UPMIFA.

### (5) FUNDS HELD IN TRUST

In addition to permanently restricted net assets carried on the University's financial statements, the University is the beneficiary of income earned on a number of AUF endowments. The cost of these funds was $235,635,688 and $219,752,906 and the market value was $248,182,214 and $211,045,198 at September 30, 2010 and 2009, respectively. The portion of endowment income received by the University from these funds was $5,509,017 and $8,640,852 for the fiscal years ended September 30, 2010 and 2009, respectively. Endowment earnings are distributed annually in January, based on the AUF endowment distribution spending rate. These amounts are reported as investment income on the Statement of Revenues, Expenses and Changes in Net Assets.

In addition, the University has been named as a beneficiary of a foundation with investments having a cost of $2,418,022 and $2,414,034 and a market value of $2,722,358 and $2,481,781 at September 30, 2010 and 2009, 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, 2010 and 2009. The income received from the two trusts was $59,965 and $62,615 for the fiscal years ended September 30, 2010 and 2009, respectively.

## (6) ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for doubtful accounts at September 30, 2010 and 2009, are summarized as follows:

| | 2010 | 2009 |
|---|---|---|
| **NONSTUDENT ACCOUNTS RECEIVABLE** | | |
| Federal, state & local government, and other restricted expendable | $ 32,586,193 | $ 27,849,191 |
| Less allowance for doubtful accounts | (2,321,015) | (3,130,301) |
| Pledged receivables | 1,990,657 | 4,401,231 |
| General | 10,121,993 | 9,214,566 |
| Less allowance for doubtful accounts | (9,994,252) | (8,628,021) |
| Auxiliary | 8,867,052 | 9,128,314 |
| Capital gifts and grants | 7,909,675 | 1,292,157 |
| Total | $ 49,160,303 | $ 40,127,137 |

| | 2010 | 2009 |
|---|---|---|
| **STUDENT ACCOUNTS RECEIVABLE** | | |
| Unrestricted general | $ 30,130,761 | $ 27,551,333 |
| Less allowance for doubtful accounts | (471,670) | (419,786) |
| Unrestricted auxiliary | 2,123,129 | 1,528,828 |
| Less allowance for doubtful accounts | (7,477) | (24,893) |
| Total | $ 31,774,743 | $ 28,635,482 |

## (7) CAPITAL ASSETS

Capital assets at September 30, 2010 and 2009, are summarized as follows (dollars in thousands):

| | September 30, 2009 | Additions/Transfers | Deletions/Transfers | September 30, 2010 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 15,890 | $ 349 | $ - | $ 16,239 |
| Art & collectibles | 7,738 | 329 | (61) | 8,006 |
| Construction in progress | 115,174 | 131,914 | (170,585) | 76,503 |
| Livestock | 1,230 | 858 | (256) | 1,832 |
| Total capital assets not being depreciated | 140,032 | 133,450 | (170,902) | 102,580 |
| Capital assets being depreciated | | | | |
| Land improvements | 45,926 | 25,440 | - | 71,366 |
| Buildings | 979,447 | 119,372 | - | 1,098,819 |
| Equipment | 191,410 | 9,394 | (6,785) | 194,019 |
| Infrastructure | 143,294 | 14,811 | - | 158,105 |
| Library books | 144,613 | 5,796 | (50) | 150,359 |
| Banner system implementation | 11,431 | 1,306 | - | 12,737 |
| Total capital assets being depreciated | 1,516,121 | 176,119 | (6,835) | 1,685,405 |
| Less accumulated depreciation for | | | | |
| Land improvements | 18,554 | 2,942 | (5) | 21,491 |
| Buildings | 308,137 | 21,487 | (3) | 329,621 |
| Equipment | 123,353 | 13,022 | (6,937) | 129,438 |
| Infrastructure | 41,074 | 4,894 | - | 45,968 |
| Library books | 116,786 | 5,710 | (31) | 122,465 |
| Banner system implementation | 3,814 | 1,274 | - | 5,088 |
| Total accumulated depreciation | 611,718 | 49,329 | (6,976) | 654,071 |
| Total capital assets being depreciated, net | 904,403 | 126,790 | 141 | 1,031,334 |
| Capital assets, net | $ 1,044,435 | $ 260,240 | $ (170,761) | $ 1,133,914 |

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

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

During the fiscal years ended September 30, 2010 and 2009, approximately $18,000,000 and $2,760,000, respectively, were received 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 and notes payable | Balance at September 30, 2009 | Principal New Debt | Repayment | Balance at September 30, 2010 |
|---|---|---|---|---|
| 1978 Auburn University at Montgomery Dormitory Revenue Bonds, $3,279,000 face value, 3.0%, due annually through 2018, a reserve of $146,283 and a $138,143 contingency fund. | $ 1,245,000 | $ - | $ (110,000) | $ 1,135,000 |
| 2001 General Fee Revenue Bonds, $19,460,000 face value, 3.25% to 5.0%, due annually through 2011. | 4,700,000 | - | (4,700,000) | - |
| 2001A General Fee Revenue Bonds, $74,750,000 face value, 5.0% to 6.0%, due annually from 2012 through 2026. | 74,750,000 | - | (74,750,000) | - |
| 2001A Athletic Revenue Bonds, $24,412,607 face value, 2.125% to 5.49%, due annually through 2021. | 21,375,792 | - | (412,020) | 20,963,772 |
| 2003 General Fee Revenue Bonds, $49,460,000 face value, 1.45% to 5.25%, due annually through 2016. | 30,050,000 | - | (3,950,000) | 26,100,000 |
| 2003 Athletic Revenue Bonds, $21,900,000 face value, 2.25% to 5.0%, due annually through 2010. | 3,060,000 | - | (3,060,000) | - |
| 2003 Housing and Dining Revenue Bonds, $15,645,000 face value, 1.4% to 5.0%, due annually through 2012. | 5,445,000 | - | (1,760,000) | 3,685,000 |
| 2004 General Fee Revenue Bonds, $76,875,000 face value, 3.0% to 5.25%, due annually through 2034. | 69,220,000 | - | (1,515,000) | 67,705,000 |
| 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. | 22,660,000 | - | (590,000) | 22,070,000 |
| 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. | 57,970,000 | - | (1,075,000) | 56,895,000 |
| 2007A General Fee Revenue Bonds, $162,530,000 face value, 3.6% to 5.0%, due annually from 2009 through 2038. | 161,910,000 | - | (670,000) | 161,240,000 |
| 2007B General Fee Revenue Bonds, $14,465,000 face value, 4.625% to 5.125%, due annually from 2010 through 2014. | 14,465,000 | - | (2,600,000) | 11,865,000 |
| 2008 General Fee Revenue Bonds, $82,500,000 face value, 3.0% to 5.0%, due annually from 2010 through 2038. | 92,500,000 | - | (1,720,000) | 90,780,000 |
| 2009 General Fee Revenue Bonds, $79,500,000 face value, 2.0% to 5.0%, due annually from 2011 through 2026. | - | 79,500,000 | - | 79,500,000 |
| Notes payable | 2,618,544 | - | (2,618,544) | - |
| Total bonds and notes payable | 565,019,336 | 79,500,000 | (99,530,564) | 544,988,772 |
| Plus unamortized bond premium | 6,819,951 | 6,166,315 | (2,147,380) | 10,838,886 |
| Less unamortized bond discount | (990,814) | - | 715,508 | (275,306) |
| Less unamortized loss on refunding | (398,413) | (6,121,267) | 838,042 | (5,681,638) |
| | 570,450,060 | $ 79,545,048 | $ (100,124,394) | 549,870,714 |
| Less: current portion | | | | |
| Bonds payable | (19,747,020) | | | (18,594,610) |
| Unamortized bond premium | (832,798) | | | (1,334,446) |
| Unamortized bond discount | 76,988 | | | 29,676 |
| Unamortized loss on refunding | 133,237 | | | 796,719 |
| Total noncurrent bonds and notes payable | $ 550,080,467 | | | $ 530,768,053 |

| Bonds and notes payable | Balance at September 30, 2008 | Principal New Debt | Repayment | Balance at September 30, 2009 |
|---|---|---|---|---|
| 1978 Auburn University at Montgomery Dormitory Revenue Bonds, $3,279,000 face value, 3.0%, due annually through 2018, a reserve of $146,047 and a $137,926 contingency fund. | $ 1,350,000 | $ - | $ (105,000) | $ 1,245,000 |
| 2001 General Fee Revenue Bonds, $19,460,000 face value, 3.25% to 5.0%, due annually through 2011. | 6,880,000 | - | (2,180,000) | 4,700,000 |
| 2001A General Fee Revenue Bonds, $74,750,000 face value, 5.0% to 6.0%, due annually from 2012 through 2026. | 74,750,000 | - | - | 74,750,000 |
| 2001A Athletic Revenue Bonds, $24,412,607 face value, 2.125% to 5.49%, due annually through 2021. | 21,774,086 | - | (398,294) | 21,375,792 |
| 2003 General Fee Revenue Bonds, $49,460,000 face value, 1.45% to 5.25%, due annually through 2016. | 33,860,000 | - | (3,810,000) | 30,050,000 |
| 2003 Athletic Revenue Bonds, $21,900,000 face value, 2.25% to 5.0%, due annually through 2010. | 5,970,000 | - | (2,910,000) | 3,060,000 |
| 2003 Housing and Dining Revenue Bonds, $15,645,000 face value, 1.4% to 5.0%, due annually through 2012. | 7,145,000 | - | (1,700,000) | 5,445,000 |
| 2004 General Fee Revenue Bonds, $76,875,000 face value, 3.0% to 5.25%, due annually through 2034. | 70,690,000 | - | (1,470,000) | 69,220,000 |
| 2004A Athletic Revenue Bonds, $24,860,000 face value, 2.0% to 5.0%, due annually from 2006 through 2021 and annually from 2025 through 2034. | 23,235,000 | - | (575,000) | 22,660,000 |
| 2004B Athletic Revenue Bonds, $3,050,000 face value, 5.75%, due annually from 2022 through 2024. | 3,050,000 | - | - | 3,050,000 |
| 2006A General Fee Revenue Bonds, $60,000,000 face value, 3.5% to 5.0%, due annually from 2008 through 2037. | 59,005,000 | - | (1,035,000) | 57,970,000 |
| 2007A General Fee Revenue Bonds, $162,530,000 face value, 3.6% to 5.0%, due annually from 2008 through 2038. | 162,530,000 | - | (620,000) | 161,910,000 |
| 2007B General Fee Revenue Bonds, $14,465,000 face value, 4.625% to 5.125%, due annually from 2010 through 2014. | 14,465,000 | - | - | 14,465,000 |
| 2008 General Fee Revenue Bonds, $82,500,000 face value, 3.0% to 5.0%, due annually from 2010 through 2038. | 92,500,000 | - | - | 92,500,000 |
| Notes payable | - | 2,618,544 | - | 2,618,544 |
| Total bonds and notes payable | 577,204,086 | 2,618,544 | (14,803,294) | 565,019,336 |
| Plus unamortized bond premium | 7,724,319 | - | (904,368) | 6,819,951 |
| Less unamortized bond discount | (1,071,045) | - | 80,231 | (990,814) |
| Less unamortized loss on refunding | (576,972) | - | 178,559 | (398,413) |
| | 583,280,388 | $ 2,618,544 | $ (15,448,872) | 570,450,060 |
| Less: current portion | | | | |
| Bonds payable | (14,803,294) | | | (19,747,020) |
| Unamortized bond premium | (840,412) | | | (832,798) |
| Unamortized bond discount | 80,231 | | | 76,988 |
| Unamortized loss on refunding | 178,559 | | | 133,237 |
| Total noncurrent bonds and notes payable | $ 567,895,472 | | | $ 550,080,467 |

On December 29, 2009, $79,500,000 in General Fee bonds with interest rates ranging from 2% to 5% were issued to advance refund $79,450,000 of outstanding bonds with interest rates ranging from 4.45% to 6%. The net proceeds of the new bond issue were deposited in an irrevocable trust with an escrow agent and were used to purchase U.S. Government securities which will provide sufficient funds to pay all future debt service payments on the previously outstanding bonds. As a result, the previously outstanding bonds are considered to be defeased and the liability for those bonds has been removed from the University's financial statements. This refunding resulted in the University recognizing a loss of $6,121,267 for the difference between the acquisition price of the new debt and the net carrying amount of the old debt. Although the University recognized an accounting loss, the refunding decreases the University's total debt service payments over the next 16 years by $4,508,214 and resulted in an economic gain (the difference between the present values of the debt service payments on the old and new bonds) for the University of $4,352,046.

**Future Debt Service**

Future debt service payments for each of the five fiscal years subsequent to September 30, 2010, and thereafter, are as follows:

| Year Ending September 30 | Bonds Payable Principal | Bonds Payable Interest |
|---|---|---|
| 2011 | $ 18,594,610 | $ 22,545,093 |
| 2012 | 20,314,833 | 22,078,205 |
| 2013 | 19,090,538 | 21,583,050 |
| 2014 | 19,437,349 | 21,042,539 |
| 2015 | 19,708,361 | 20,499,408 |
| 2016-2020 | 93,011,606 | 95,704,852 |
| 2021-2025 | 102,706,475 | 73,244,096 |
| 2026-2030 | 94,125,000 | 52,423,756 |
| 2031-2035 | 103,660,000 | 28,692,556 |
| 2036-2038 | 54,340,000 | 5,268,531 |
| Total future debt service | $ 544,988,772 | $ 363,082,086 |

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

**Capital Lease Obligations**

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

| Lease Obligations | Balance at September 30, 2009 | New Debt | Principal Repayment | Balance at September 30, 2010 |
|---|---|---|---|---|
| Building | $ 1,080,000 | $ - | $ (160,000) | $ 920,000 |
| Equipment | 935,701 | 354,135 | (435,251) | 854,585 |
| Total lease obligations | $ 2,015,701 | $ 354,135 | $ (595,251) | $ 1,774,585 |

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 |
|---|---|---|---|
| 2010-2011 | $ 210,053 | $ 429,817 | $ 639,870 |
| 2011-2012 | 212,215 | 412,517 | 624,732 |
| 2012-2013 | 213,815 | 58,829 | 272,644 |
| 2013-2014 | 214,750 | 48,105 | 262,855 |
| 2014-2015 | 210,000 | - | 210,000 |
| Minimum lease payments | 1,060,833 | 949,268 | 2,010,101 |
| Less interest | (140,833) | (94,683) | (235,516) |
| Present value of minimum lease payments | 920,000 | 854,585 | 1,774,585 |
| Less current portion | (165,000) | (374,206) | (539,206) |
| Noncurrent obligations | $ 755,000 | $ 480,379 | $ 1,235,379 |

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, 2010 and 2009, amounted to approximately $4.4 million for each year.

## (9) PLEDGED REVENUES

Pledged revenue for 2010 and 2009 as defined by the **Series 2001, 2001A, 2003, 2004, 2006A, 2007A, 2007B, 2008 and 2009 General Fee Revenue Trust Indentures** is as follows:

| | 2010 | 2009 |
|---|---|---|
| Student fees collected | $ 310,388,794 | $ 281,903,435 |
| Less AUM fees | (31,844,543) | (27,198,672) |
| Less fees pledged for specific purposes: | | |
| Athletic fees ($96 per student per semester) | (5,001,404) | (5,227,908) |
| Transit fees ($114/$105 as of Fall 2010/2009 per student per semester) | (5,945,222) | (5,427,004) |
| Student activities fees ($15 per student per semester) | (775,833) | (807,440) |
| Total general fees pledged | $ 266,821,792 | $ 243,242,411 |

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

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

Pledged revenue for 2010 and 2009 as defined by the **Series 2001A, 2003 and 2004 Athletic A & B Revenue Trust Indentures** is as follows:

| | 2010 | 2009 |
|---|---|---|
| Jordan Hare and other revenues: | | |
| Television and broadcast revenues | $ 4,637,605 | $ 4,900,000 |
| Conference and NCAA distributions | 19,096,693 | 13,202,753 |
| Sales and services revenues | 25,600,475 | 23,207,553 |
| Student fees | 5,001,308 | 5,227,908 |
| Royalties, advertisements and sponsorships | 3,188,793 | 3,396,585 |
| Other income | 2,269,895 | 5,777,724 |
| Total athletic revenues pledged | $ 59,794,769 | $ 55,712,523 |

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

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

Pledged revenue for 2010 and 2009 as defined by the Series 2003 Housing and Dining Revenue Trust Indenture is as follows:

| | 2010 | 2009 |
|---|---|---|
| Housing revenues: | | |
| Room rental | $ 18,440,714 | $ 11,312,345 |
| Other income | 919,177 | 595,114 |
| Total housing revenues pledged | 19,359,891 | 11,907,459 |
| Food services revenue | - | - |
| Total housing and food services revenues pledged | $ 19,359,891 | $ 11,907,459 |

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

The Auburn University dormitory occupancy rate for Fall Semester 2010 and Fall Semester 2009 was 98.7% and 98.3%, respectively (unaudited).

Pledged revenues and related expenses for 2010 and 2009 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, 2010 and 2009.

| | 2010 | 2009 |
|---|---|---|
| Revenues: | | |
| Room rental | $ 1,141,122 | $ 623,357 |
| Other income | 73,652 | 57,560 |
| Total revenues | 1,214,774 | 680,917 |
| Expenses and transfers: | | |
| Personnel costs | 516,175 | 538,544 |
| Operating expenses | 298,912 | 254,919 |
| Transfers | 148,784 | 123,686 |
| Total expenses and transfers | 963,871 | 917,149 |
| Surplus (deficit) of revenues over expenses and transfers | 250,903 | (236,232) |
| AUM Student Housing net deficit at beginning of year | (1,551,973) | (1,315,741) |
| AUM Student Housing net deficit at end of year | $ (1,301,070) | $ (1,551,973) |

The AUM dormitory occupancy rate for Fall Semester 2010 and Fall Semester 2009 was 99.04% and 89.42%, respectively (unaudited).

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

## (10) RETIREMENT PROGRAMS

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

### A. Teachers' Retirement System of Alabama

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

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

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

The ten year historical trend information showing TRS's progress in accumulating sufficient assets to pay benefits when due and the significant actuarial assumptions used to compute the pension benefit obligation, including the discount rate, projected salary increases and post-retirement benefit increases, are presented in the September 30, 2009, 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, | 2010 | 2009 | 2008 |
|---|---|---|---|
| Total percentage of covered payroll | 17.51% | 17.07% | 16.75% |
| Contributions: | | | |
| Percentage contributed by the employer | 12.51% | 12.07% | 11.75% |
| Percentage contributed by the employees | 5.00% | 5.00% | 5.00% |
| Contributed by the employer | $ 39,951,632 | $ 38,697,899 | $ 36,742,052 |
| Contributed by the employees | 15,973,406 | 16,036,739 | 15,639,571 |
| Total contributions | $ 55,925,038 | $ 54,734,638 | $ 52,381,623 |

**B. Employees' Retirement System of Alabama**

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

**Funding Policy**

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

| Fiscal year ended September 30, | 2010 | 2009 | 2008 |
|---|---|---|---|
| Total percentage of covered payroll | 37.54% | 38.48% | 33.05% |
| Contributions: | | | |
| Percentage contributed by the employer | 35.04% | 35.98% | 30.55% |
| Percentage contributed by the employees | 2.50% | 2.50% | 2.50% |
| Contributed by the employer | $ 1,910,078 | $ 2,216,747 | $ 1,954,795 |
| Contributed by the employees | 136,278 | 154,026 | 163,172 |
| Total contributions | $ 2,046,356 | $ 2,370,773 | $ 2,117,967 |

**C. Tax Deferred Annuity Plans**

This plan is a defined contribution plan under section 403(b) of the Internal Revenue Code. Accordingly, benefits depend solely on amounts contributed to the plan plus investment earnings. This is provided as a supplement to the aforementioned programs. All full-time regular or probationary employees are eligible to participate. Full-time temporary employees are also eligible if their employment period is for a minimum of one year. The University will match up to $1,650 per year of a qualifying employee's contribution. This equates to five percent of gross salary with a maximum covered salary of $33,000 per year. An employee enrolling in one of the University's tax deferred annuity plans will not vest in the University's matching portion until he/she has completed five years of full-time continuous service. Upon the employee's completion of the five year requirement, the University's matching contribution and interest earned will be vested to the participant. Nonparticipating employees with continuous service will be given credit toward the five year requirement upon joining the tax deferred annuity program. The total investment in the annuities is determined by Section 403(b). There are several investment options including fixed and variable annuities and mutual funds. The University-approved investment firms employees may select are Valic, TIAA-CREF, Fidelity Investments and Lincoln Financial. At September 30, 2010 and 2009, 3,236 employees and 3,264 employees, respectively, participated in the tax deferred annuity program. The contribution for 2010 was $16,206,000, which includes $4,705,987 from the University and $11,500,013 from its employees. The contribution for 2009 was $16,591,893, which includes $4,753,976 from the University and $11,837,917 from its employees. Total salaries and wages during the fiscal year for covered employees participating in the plan were approximately $207,744,900 and $208,722,000 for the fiscal years ended September 30, 2010 and 2009, respectively.

**D. Deferred Compensation Plans**

The University follows the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-a recission of GASB Statement No. 2 and an amendment of GASB Statement No. 31.* As of September 30, 2010 and 2009, 206 and 218 employees, respectively, participated in the plans. Contributions of $2,051,796 and $2,047,116 for fiscal years 2010 and 2009, respectively, were funded by employees and no employer contribution was funded. The 457(b) plans include Valic, TIAA-CREF, Fidelity Investments and Lincoln Financial.

## (11) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

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

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

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

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

The required contribution rate of the employer was $382 per employee per month in the years ended September 30, 2010 and 2009. The University paid $8,999,920 and $8,719,443 for 2,001 and 1,925 retirees for the years ended September 30, 2010 and 2009, respectively. The required contribution rate is determined by PEEHIP in accordance with state statute.

The required monthly contribution rates for fiscal year 2010 are as follows:

**Retired Member Rates**

- Individual Coverage/Non-Medicare Eligible - $97.54
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - $284.94
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - $188.54
- Individual Coverage/Medicare Eligible Retired Member - $1.14
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - $188.54
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - $92.14
- For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium.
- Tobacco surcharge - $25.00 per month
- PEEHIP Supplemental Plan - $0
- Optional Plans (Hospital Indemnity, Cancer, Dental, Vision) - up to two optional plans can be taken by retirees at no cost if the retiree is not also taking one of the Hospital Medical Plans or combining allocations. Otherwise, these plans can be purchased for $38.00 per month per plan.

**Surviving Spouse Rates**

- Surviving Spouse Non-Medicare Eligible - $598.00
- Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible - $730.00
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible - $689.00
- Surviving Spouse Medicare Eligible - $313.00
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible - $445.00
- Surviving Spouse Medicare Eligible and Dependent Medicare Eligible - $404.00

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

### B. Retiree Medical Plan (the Plan)

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

Employees included in the actuarial valuation include retirees and survivors, active Civil Service employees who are eligible to participate in the Plan upon retirement and those employees the University pays a subsidy for who elected the PEEHIP plan on or prior to October 1, 1997. Expenditures for postretirement health care benefits are recognized monthly and financed on a pay-as-you-go basis. The University funds approximately 60% of the postretirement healthcare premiums, which totaled $861,096 and $930,648 for fiscal years ended September 30, 2010 and 2009, respectively. The retirees are responsible for funding approximately 40% of the healthcare premiums.

In compliance with the provisions of GASB Statement No. 45, the University accrued an additional $2,219,838 and $2,608,604 in retiree healthcare expense during fiscal years 2010 and 2009, respectively.

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

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

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

| Cost Element | | Fiscal Year Ended Sept. 30, 2010 | |
|---|---|---|---|
| | | Amount | Percent of Payroll[1] |
| 1. Unfunded actuarial accrued liability at Oct. 1, 2009 | $ | 67,083,414 | 1,107.5% |
| Annual Required Contribution (ARC) | | | |
| 2. Normal cost | $ | 101,058 | |
| 3. Amortization of the unfunded actuarial accrued liability over 15 years using level dollar amortization | | 5,163,772 | |
| 4. Annual Required Contribution (ARC = 2 + 3) | $ | 5,264,830 | 86.9% |
| Annual OPEB Cost (Expense) | | | |
| 5. ARC | $ | 5,264,830 | |
| 6. Interest on beginning of year accrual | | 147,204 | |
| 7. Adjustment to ARC | | 561,580 | |
| 8. Fiscal year 2010 OPEB cost (5 + 6 - 7) | $ | 4,850,454 | 80.1% |
| **End of Year Accrual (Net OPEB Obligation)[2]** | | | |
| 9. Beginning of year accrual[1] | $ | 7,360,204 | |
| 10. Annual OPEB cost | | 4,850,454 | |
| 11. Employer contribution (benefit payments)[2] | | 2,630,017 | |
| 12. End of year CAFR accrual (9 + 10 – 11)[2] | $ | 9,580,641 | 158.2% |

[1] Annual payroll for 77 participants as of October 1, 2009, $6,057,128.
[2] Actual amounts paid in fiscal year 2010 include claim costs, administrative fees, and PEEHIP subsidy less participant contributions.

**Three Year Schedule of Percentage of OPEB Cost Contributed**

| Fiscal Year Ended | Annual OPEB Cost | Percentage of OPEB Cost Contributed[3] | Net OPEB Obligation |
|---|---|---|---|
| Sept. 30, 2008 | $ 4,258,900 | 52.7% | $ 4,751,600 |
| Sept. 30, 2009 | $ 5,162,091 | 49.4% | $ 7,360,204 |
| Sept. 30, 2010 | $ 4,850,454 | 54.2% | $ 9,580,641 |

[3] Cost Contributed is shown in the “Determination of Annual Required contribution and End of Year Accrual.”

**Summary of Key Actuarial Methods and Assumptions**

| | |
|---|---|
| **Valuation year** | October 1, 2009 – September 30, 2010 |
| **Actuarial cost method** | Unit Credit, Actuarial Cost Method |
| **Amortization method** | 15 years, level dollar open amortization[4] |
| **Asset valuation method** | Not applicable |
| **Discount rate** | 2.0% |
| **Projected payroll growth rate** | Not applicable |

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

**Heath care cost trend rate for medical and prescription drugs** 9.0% in fiscal year 2010, decreasing by one-half percentage point per year to an ultimate of 5.0% in fiscal year 2019 and later.

**Valuation Date** October 1, 2009

**Monthly Per Capita Claim Costs**

| Age | Medical |
|---|---|
| 55 | $628 |
| 60 | 753 |
| 65 | 306 |
| 70 | 339 |
| 75 | 361 |

Claim costs were increased by 4.5% over last year. Future claim costs are increased by health care cost trend.

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

| | As of 1/1/10 | As of 1/1/09 |
|---|---|---|
| Pre-65 Single | $432 | $413 |
| Pre-65 Family | 893 | 855 |
| Post-65 Single | 131 | 125 |
| Post-65 Family | 601 | 575 |

Note: There are several other categories of premiums.

**Administrative Expenses** Included in claim cost.

**Annual Health Care Trend Rate**

| Fiscal Year | Medical and Rx Combined Rate |
|---|---|
| 2011 | 9.0% |
| 2012 | 8.5% |
| 2013 | 8.0% |
| 2014 | 7.5% |
| 2015 | 7.0% |
| 2016 | 6.5% |
| 2017 | 6.0% |
| 2018 | 5.5% |
| 2019+ | 5.0% |

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

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

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

**Retirement Rates** Employees are assumed to retire according to the following schedule:

| 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 a financial institution to be used to pay claims for which the University may become legally liable. The liability at September 30, 2010 and 2009, was $592,550 and $651,288, respectively.

The On-The-Job-Injury program provides benefits for job-related injuries or death related from work at the University. This program is designed to cover out-of-pocket expenses of any employee who is not covered by insurance. The program will also pay for medically evidenced disability claims and provide death benefits arising from a job-related death of an employee. This self-funded program is provided to employees since the University is not subject to the workers' compensation laws of the State of Alabama. The liability at September 30, 2010 and 2009, was $1,720,415 and $1,903,007, 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, 2010 and 2009, of $2,641,157 and $2,814,100, respectively.

**Other Liabilities**

Other liabilities include compensated absences, deposits held in custody and deferred revenues. The University allows employees to accrue and carryover annual and sick leave up to certain maximum amounts depending on years of service. Employees will be compensated for accrued annual leave at time of separation from University employment (termination or retirement) up to a maximum of one month's additional compensation. All eligible employees hired before October 1, 1990, may be compensated for unused sick leave at the rate of 25% of their respective balances, subject to a maximum of one month's additional compensation. The liability for compensated absences was $17,466,534 and $17,720,966 at September 30, 2010 and 2009, respectively.

Deposits held in custody include the portion of the Federal Perkins Student Loan funds and Health Professional Student Loans which would be refunded in the event the University's operations ceased. The refundable amounts were $16,187,022 and $16,307,677 at September 30, 2010 and 2009, respectively. Also included in deposits held in custody of others are the agency funds. These amounts totaled $2,909,441 and $3,620,840 for September 30, 2010 and 2009, respectively.

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

Deferred revenues at September 30, 2010 and September 30, 2009 are as follows:

| | 2010 | 2009 |
|---|---|---|
| Tuition and fees | $ 92,939,208 | $ 83,119,621 |
| Federal, state and local government grants and contracts | 11,363,742 | 12,087,456 |
| Auxiliary | 26,216,430 | 21,631,653 |
| Plant | 569,794 | 585,621 |
| Total deferred revenue | $ 131,089,174 | $ 117,424,351 |

**(13) CONTRACTS AND GRANTS**

The University has been awarded approximately $12,734,000 (unaudited) and $8,438,000 (unaudited) in contracts and grants that have not been received or expended as of September 30, 2010 and 2009, 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 $16,227,246 and $14,680,214 in facilities and administrative cost recovery for the years ended September 30, 2010 and 2009, 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 $703,000,000 (unaudited). At September 30, 2010, the estimated remaining cost to complete the projects is approximately $317,000,000 (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, 2010 and 2009, are listed below. In preparing the financial statements, all significant transactions and balances between auxiliary units and other funds have been eliminated. Some scholarships and fellowships are provided by the instruction or research function and are broken out in the charts below. In addition, the graduate waivers are shown as compensation; however, they are shown functionally as scholarship and fellowship expense. The University is able to capture auxiliary utility expenditures; therefore, those expenditures are shown separately by function.

**September 30, 2010**

| | Compensation and Benefits | Scholarships and Fellowships | Utilities | Other Supplies and Services | Depreciation | Total |
|---|---|---|---|---|---|---|
| Instruction | $ 193,058,323 | $ 1,206,446 | $ - | $ 26,375,288 | $ - | $ 220,640,057 |
| Research | 69,223,115 | 619,250 | 7,378 | 27,626,196 | - | 97,475,939 |
| Public Service | 60,215,408 | 25,239 | 69,508 | 38,895,071 | - | 99,205,226 |
| Academic Support | 32,666,269 | - | - | 4,862,053 | - | 37,528,322 |
| Library | 7,370,765 | - | - | 2,836,500 | - | 10,207,265 |
| Student Services | 14,885,762 | - | - | 6,963,947 | - | 21,849,709 |
| Institutional Support | 54,605,061 | - | - | 2,834,383 | - | 57,439,444 |
| Operation and Maintenance | 24,571,807 | - | 18,134,800 | 27,359,855 | - | 70,066,462 |
| Scholarships and Fellowships | 15,890,453 | 19,874,334 | - | 201,187 | - | 35,965,974 |
| Auxiliaries | 38,432,441 | 205,750 | 4,687,531 | 46,010,617 | - | 89,336,339 |
| Depreciation | - | - | - | - | 49,328,811 | 49,328,811 |
| | $ 510,919,404 | $ 21,931,019 | $ 22,899,217 | $ 183,965,097 | $ 49,328,811 | $ 789,043,548 |

**September 30, 2009**

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

## (17) CONTINGENT LIABILITIES

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

## (18) RELATED PARTY TRANSACTIONS

### Auburn University Foundation

The majority of funds that the AUF raises are donor restricted for specific schools, colleges or programs of the University. These may be transferred to the University for its use, expended by AUF for the benefit of University schools, colleges or programs, or in the case of endowments, invested with only the earnings transferred to or expended on behalf of the University. Amounts transferred to the University or expended on behalf of its programs totaled $22,616,247 and $26,653,089 during the years ended September 30, 2010 and 2009, respectively. Net undistributed grants to the University totaled $9,115 and $256,417 at September 30, 2010 and 2009, respectively.

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

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

- For the years ended September 30, 2010 and 2009, all personnel costs were incurred by the University and AUF reimbursed the University $1,360,120 and $1,637,538, respectively, for its share of these central development services in accordance with the Agreement.

- Non-salary development costs were incurred and paid primarily by AUF. The University provided for its share of 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 $1,714,302 and $2,023,814 for the years ended September 30, 2010 and 2009, respectively.

- Constituency development operations, which are fund raising programs restricted to one school, college or program of the University, are funded jointly by AUF and the University unit involved. While essentially all of the non-salary expenses are paid by AUF from restricted funds, the salaries are incurred by the University and reimbursed by AUF upon request by the head of the related university unit. During the years ended September 30, 2010 and 2009, the constituency salaries reimbursed to the University totaled $56,250 and $402,116, respectively.

During 2010 and 2009, AUF granted AUREFI $1,913,371 and $2,675,522, respectively, for operations and projects. AUREFI reimbursed AUF $14,548 and $12,878 for operating expenses paid on behalf of AUREFI during 2010 and 2009, respectively. AUREFI also reimbursed AUF $35,284 for construction related disbursements in 2009. These inter-entity transactions are eliminated in consolidation.

For the year ended September 30, 2008, AUREFI and the University entered into a services and facilities agreement which addressed the construction services and facilities. The University provided certain construction services and facilities to AUREFI, which primarily consisted of personnel and other administrative support. For the year ended September 30, 2009, AUREFI reimbursed the University $16,000 under that agreement upon the completion of the project. AUREFI also reimbursed the University $148,428 for administrative support services. Both reimbursements are accrued and reflected in the payable due to the University in the Consolidated Statements of Financial Position.

AUREFI granted real estate to the University valued at $349,500 for an archaeological preserve for the College of Liberal Arts and $1,260,000 for the perpetual management and use of the School of Forestry and Wildlife Science in the year 2010. During 2009, AUREFI also granted $200,000 in cash for professorships, $300,000 in real estate for expanding the property of an existing University center and a constructed asset with a cost basis of $3,065,906.

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, 2010 and 2009, AUF was committed to the Association for $7,021,866 and $6,411,182, respectively. Of the amount for the year ended September 30, 2010 and 2009, $600 and $641 relates to receivables from the Association to AUF for reimbursement of miscellaneous general and administrative expenses, respectively.

The amount due from AUF to TUF consists of funds which are invested with AUF's pooled endowment. AUF remits income from the investments which are designated by donor restriction for spending directly to the University on behalf of TUF on an annual basis. AUF remits income from investments which are designated by donor restriction for additions to endowment corpus directly to the TUF on an annual basis. As of September 30, 2010 and 2009, AUF was committed to TUF for $6,394,967 and $5,701,268, respectively. Of these amounts for both fiscal years, $100,000 relates to a payable by AUF to TUF upon the termination of a trust. In 2009, AUF owed TUF $500 for a routine operating transaction.

**Tigers Unlimited Foundation**

During the year ended June 30, 2010, TUF identified certain errors in the accounting for bad debt expense related to contributions receivable that impacted its fiscal year 2009 and prior Statement of Financial Position and Statement of Activities and Changes in Net Assets. The restatement to correct these errors for periods prior to 2009 resulted in a decrease to the fiscal year 2009 beginning of the year temporarily restricted and permanently restricted net assets, and a corresponding increase to the fiscal year 2009 beginning of the year unrestricted net assets, in the aggregate amount of $2.5 million. TUF has also restated its fiscal year 2009 financial statements by increasing loss on write-off of contributions receivable in the temporarily restricted and permanently restricted net asset categories, and decreasing fundraising expense in the unrestricted net asset category, in the aggregate amount of $3.2 million. These adjustments had no impact on total net assets, revenues or cash flows for any period presented.

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 $20,839,248 and $27,849,007 during the years ended June 30, 2010 and 2009, respectively.

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

For the years ended June 30, 2010 and 2009, TUF reimbursed the University $293,207 and $267,857, respectively, for TUF personnel costs incurred by the University.

During the years ended June 30, 2010 and 2009, the University contributed $499,125 and $515,588, 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, 2010 and 2009, TUF paid the University for normal, recurring expense transactions including, but not limited to, purchasing athletic event tickets, reimbursing athletic staff salaries, sponsoring student scholarships, and funding the debt, repair, maintenance and operations of athletic facilities. At June 30, 2010 and 2009, obligations of $2,445,460 and $2,022,800 related to these transactions, respectively, were outstanding. These obligations were paid during the subsequent fiscal year.

At June 30, 2010 and 2009, amounts payable from AUF to TUF were $100,000.

As indicated, the above TUF balances are as of June 30, 2010 and 2009; however, the University believes these figures are not materially different than at September 30, 2010 and 2009, respectively.

**Auburn Alumni Association**

The Association, AUF, Auburn University Offices of Alumni and Development and their related support units jointly utilize operational facilities, personnel and other assets in order to effectively and efficiently carry out their required activities. All personnel are employed by the University and their services are provided to the other organizations under contractual agreements. Other operational costs are paid from budgets of each organization. The combined expenditures are analyzed periodically and, based on each entity's utilization of the facilities, supplies and services, any necessary reimbursements are made among the organizations. In the Statements of Activities and Changes in Net Assets, amounts received by the Operating Fund from other organizations are used to offset the related expenses. The Executive Director of the Association is an employee of the University, providing services to the Association under a services and facilities contract. The Executive Director 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, 2010 and 2009, the Association had a salary reimbursement expense of $956,909 and $885,693, respectively, to the University under the service and facilities agreement. Of this amount, $725,002 and $725,847 had been paid and $231,907 and $159,846 was accrued as an amount payable at September 30, 2010 and 2009, respectively.

Rental income recorded by the Association from the University totaled $213,116 and $210,878, respectively, for the years ended September 30, 2010 and 2009. Rental income recorded by the Association from AUF totaled $112,114 and $111,374 for the years ended September 30, 2010 and 2009, respectively.

During the year ended September 30, 2010, the University provided for its share of alumni affairs activities costs by establishing a budget within the University's budgetary system; whereby, the University pays a portion of the costs, and reimburses the Association for the balance. The alumni affairs activities costs were $640,000 and $740,000 for the years ended September 30, 2010 and 2009, respectively.

During the years ended September 30, 2010 and 2009, the Association contributed $129,607 and $347,338, respectively, to the Auburn Alumni Association Endowment for Scholarships held with the AUF.

## (19) DIRECT LOAN PROGRAMS

The Federal Direct Loan Program (DL) enables an eligible student or parent to obtain a loan directly through the Department of Education. Main campus returned to DL from the Federal Family Education Loan Program (FFELP) in the summer of 2009. All schools were required to process loans through DL effective July 1, 2010, which is when AUM returned to DL. Under DL, files are transmitted via the federal Common Origination and Disbursement system (COD). Funds are received via G5, a federal web site. The Department of Education is responsible for the collection of these loans.

FFELP was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FFELP enabled an eligible student or parent to obtain a loan directly through FFELP lenders. Alabama's designated state guarantor for FFELP loans was Kentucky Higher Education Assistance Authority (KHEAA). KHEAA was responsible for handling the complete loan process, including funds management as well as promissory note functions. Other guarantors were also involved in the process depending on the lender's guarantor of choice. Files were transmitted via the ELM-Electronic Loan Maintenance System which routed loan information to the appropriate lender or guarantor and then routed the response files back to the University. The FFELP lenders, and not the University, are responsible for the collection of these loans.

The University's main campus disbursed approximately $131,300,000 and $111,900,000 under these programs during the fiscal years ended September 30, 2010 and 2009, respectively. AUM disbursed approximately $27,900,000 and $30,700,000 under these programs during the fiscal years ended September 30, 2010 and 2009, respectively.

## (20) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* was issued in June 2007. Statement No. 51 provides guidelines for the capitalization and amortization of intangible assets to include internally generated intangible assets and to reduce the inconsistencies existing due to the absence of sufficiently specific authoritative guidance that has resulted in inconsistencies in the accounting and financial reporting of intangible assets among states and local governments, particularly in the areas of recognition, initial measurement, and amortization. Implementation of this standard should enhance the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement is effective for periods beginning after June 15, 2009, and is required to be applied retroactively by phase I and phase II governments for intangible assets acquired or generated in fiscal years ending after June 30, 1980. There was no material impact on the University's financial statements from the adoption of this statement.

Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, was issued in December 2009. Statement No. 57 amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method. It also amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* to permit the actuarial valuation requirement to be satisfied for an agent multiple-employer other postemployment benefit (OPEB) plan by reporting an aggregation of individual-employer valuations or measurements from the alternative measurement method where eligible. Additionally, it clarifies timing and frequency guidelines for agent employers participating in multiple-employer OPEB plans. The provisions applying to the alternative measurement method are effective immediately, while the frequency and timing provisions are effective for valuations first used to report on periods beginning after June 15, 2011. The University does not believe this Statement will impact the University's financial statements, since all University plans have over 100 total plan members.

Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, was issued in December 2009. This Statement, effective for periods beginning after June 15, 2009, provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for Chapter 9 Bankruptcy, and requires remeasurement of liabilities that are adjusted in bankruptcy. The University does not believe this Statement will impact the University's financial statements, since the University has not filed for Chapter 9 Bankruptcy; however, an evaluation of the impact of this Statement will be completed should such a filing take place.

Statement No. 59, *Financial Instruments Omnibus*, was issued in June 2010. This Statement, which will be effective for periods beginning after June 15, 2010, updates existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools and amends several previous Statements, including No. 25, No. 31, No. 40, No. 43, and No. 53. The University is currently evaluating the financial statement impact of the adoption of this Statement.

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* was issued November 2010. This Statement addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The University is currently evaluating the financial statement impact of the adoption of this Statement.

Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* was issued in November 2010. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. It amends the requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012. The University is currently evaluating the financial statement impact of the adoption of this Statement.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued in December 2010. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) Statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The University does not believe the adoption of this Statement will have an effect on the University's financial statements.

AUBURN UNIVERSITY

# 2010
# Financial Report

# Unaudited Divisional Financial Statements

# AUBURN UNIVERSITY MAIN CAMPUS
## STATEMENTS OF NET ASSETS
## SEPTEMBER 30, 2010 AND 2009
## (UNAUDITED)

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 64,338,244 | $ 52,754,520 |
| Operating investments | 83,199,207 | 92,577,937 |
| Accounts receivable, net | 37,324,130 | 28,212,646 |
| Student accounts receivable, net | 27,599,855 | 25,417,671 |
| Loans receivable, net | 2,154,138 | 2,434,010 |
| Accrued interest receivable | 2,235,270 | 3,387,852 |
| Inventories | 3,386,204 | 3,184,747 |
| Prepaid expenses | 4,683,933 | 4,925,312 |
| Due from other funds | 464,761 | 420,066 |
| Total current assets | 225,385,742 | 213,314,761 |
| Noncurrent assets | | |
| Investments | 664,634,622 | 664,807,207 |
| Loans receivable, net | 15,022,459 | 14,443,096 |
| Investment in plant, net | 1,098,428,644 | 1,009,432,264 |
| Due from other funds | 19,288,324 | 18,984,243 |
| Total noncurrent assets | 1,797,374,049 | 1,707,666,810 |
| **Total assets** | 2,022,759,791 | 1,920,981,571 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable | 36,544,060 | 38,782,693 |
| Accrued salaries and wages | 4,183,923 | 3,831,228 |
| Accrued compensated absences | 12,252,489 | 11,770,081 |
| Accrued interest payable | 9,113,145 | 8,994,885 |
| Other accrued liabilities | 3,109,966 | 2,814,171 |
| Student deposits | 198,702 | 816,355 |
| Deposits held in custody | 16,109,452 | 16,580,514 |
| Deferred revenues | 115,306,979 | 104,195,541 |
| Noncurrent liabilities-current portion | 19,367,149 | 20,574,634 |
| Total current liabilities | 216,185,865 | 208,360,102 |
| Noncurrent liabilities | | |
| Accrued compensated absences | - | 477,563 |
| Bonds and notes payable | 529,743,053 | 548,945,467 |
| Lease obligations | 480,379 | 620,660 |
| Other noncurrent liabilities | 17,625,222 | 16,843,909 |
| Due to other funds | 26,529,995 | 25,448,741 |
| Total noncurrent liabilities | 574,378,649 | 592,336,340 |
| **Total liabilities** | 790,564,514 | 800,696,442 |
| **NET ASSETS** | | |
| Invested in capital assets, net of related debt | 601,940,441 | 539,771,949 |
| Restricted | | |
| Nonexpendable | 19,060,158 | 18,930,145 |
| Expendable: | | |
| Scholarships, research, instruction, other | 113,961,984 | 108,444,956 |
| Loans | 4,743,279 | 4,669,230 |
| Capital projects | 16,733,534 | 18,683,861 |
| Unrestricted | 475,755,881 | 429,784,988 |
| **Total net assets** | $ 1,232,195,277 | $ 1,120,285,129 |

# AUBURN UNIVERSITY MAIN CAMPUS
## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
## FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
## (UNAUDITED)

| | 2010 | 2009 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Tuition and fees, net of scholarship allowances of $71,353,524 and $54,782,963, respectively | $ 250,761,075 | $ 236,222,413 |
| Federal appropriations | 44,443 | 83,283 |
| Federal grants & contracts, net | 53,243,997 | 47,676,163 |
| State & local grants & contracts, net | 6,526,578 | 6,447,282 |
| Nongovernmental grants & contracts, net | 8,246,712 | 8,387,973 |
| Sales & services of educational departments | 25,254,090 | 22,707,595 |
| Auxiliary revenue, net of scholarship allowances of $4,328,221 and $2,607,736, respectively | 82,049,029 | 75,075,749 |
| Other operating revenues | 9,429,183 | 9,919,231 |
| Total operating revenues | 435,555,107 | 406,519,689 |
| **OPERATING EXPENSES** | | |
| Compensation & benefits | 385,185,766 | 381,636,878 |
| Scholarships & fellowships | 16,881,904 | 14,276,140 |
| Utilities | 19,226,761 | 19,645,909 |
| Other supplies & services | 127,456,217 | 134,571,289 |
| Depreciation | 46,728,646 | 41,617,369 |
| Total operating expenses | 595,479,294 | 591,747,585 |
| Operating loss | (159,924,187) | (185,227,896) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| State appropriations | 152,941,285 | 170,961,681 |
| ARRA state fiscal stabilization funds | 12,495,118 | - |
| Gifts | 29,248,126 | 28,353,948 |
| Grants | 15,114,918 | 10,752,794 |
| Net investment income | 23,295,287 | 38,456,242 |
| Interest expense on capital debt | (7,879,353) | (12,861,043) |
| Nonoperating revenues, net | 225,215,381 | 235,663,622 |
| Income before other changes in net assets | 65,291,194 | 50,435,726 |
| **OTHER CHANGES IN NET ASSETS** | | |
| Capital appropriations | 17,134,500 | 292,609 |
| Capital gifts & grants | 29,354,441 | 15,644,657 |
| Additions to permanent endowments | 130,013 | 215,252 |
| Net increase in net assets | 111,910,148 | 66,588,244 |
| **Net assets - beginning of year** | 1,120,285,129 | 1,053,696,885 |
| **Net assets - end of year** | $ 1,232,195,277 | $ 1,120,285,129 |

# AUBURN UNIVERSITY AT MONTGOMERY
## STATEMENTS OF NET ASSETS
## SEPTEMBER 30, 2010 AND 2009
## (UNAUDITED)

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 1,195,456 | $ 1,004,455 |
| Operating investments | 1,545,908 | 1,762,699 |
| Accounts receivable, net | 5,509,079 | 6,409,883 |
| Student accounts receivable, net | 4,174,888 | 3,217,811 |
| Loans receivable, net | 590,604 | 461,987 |
| Accrued interest receivable | 100,399 | 100,722 |
| Inventories | 619,965 | 410,633 |
| Prepaid expenses | 6,627 | 4,803 |
| Total current assets | 13,742,926 | 13,372,993 |
| Noncurrent assets | | |
| Investments | 12,349,447 | 12,658,037 |
| Loans receivable, net | 2,480,162 | 2,585,074 |
| Investment in plant, net | 35,485,494 | 35,002,930 |
| Due from other funds | 26,529,995 | 25,448,741 |
| Total noncurrent assets | 76,845,098 | 75,694,782 |
| **Total assets** | 90,588,024 | 89,067,775 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable | 2,415,880 | 1,678,795 |
| Accrued salaries and wages | 502,219 | 471,007 |
| Accrued compensated absences | 1,344,318 | 1,373,521 |
| Accrued interest payable | 10,800 | 11,900 |
| Deposits held in custody | 2,987,011 | 3,267,181 |
| Deferred revenues | 10,174,468 | 8,441,371 |
| Noncurrent liabilities-current portion | 275,000 | 270,000 |
| Due to other funds | 464,761 | 420,066 |
| Total current liabilities | 18,174,457 | 15,933,841 |
| Noncurrent liabilities | | |
| Accrued compensated absences | - | 55,730 |
| Bonds and notes payable | 1,025,000 | 1,135,000 |
| Lease obligations | 755,000 | 920,000 |
| Other noncurrent liabilities | 151,912 | 35,571 |
| Due to other funds | 19,288,324 | 18,984,243 |
| Total noncurrent liabilities | 21,220,236 | 21,130,544 |
| **Total liabilities** | 39,394,693 | 37,064,385 |
| **NET ASSETS** | | |
| Invested in capital assets, net of related debt | 14,269,542 | 13,509,653 |
| Restricted | | |
| Nonexpendable | 4,991,419 | 4,955,904 |
| Expendable: | | |
| Scholarships, research, instruction, other | 23,040,839 | 24,183,097 |
| Loans | 373,652 | 353,962 |
| Capital projects | 138,217 | 136,650 |
| Unrestricted | 8,379,662 | 8,864,124 |
| **Total net assets** | $ 51,193,331 | $ 52,003,390 |

# AUBURN UNIVERSITY AT MONTGOMERY
## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
## FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
## (UNAUDITED)

| | 2010 | 2009 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Tuition and fees, net of scholarship allowances of $7,116,164 and $5,792,792, respectively | $ 24,728,379 | $ 21,405,880 |
| Federal grants & contracts, net | 2,068,153 | 2,263,642 |
| State & local grants & contracts, net | 9,400,191 | 7,252,208 |
| Nongovernmental grants & contracts, net | 156,475 | 296,828 |
| Sales & services of educational departments | 2,267,665 | 2,382,599 |
| Auxiliary revenue, net of scholarship allowances of $673,821 and $517,893, respectively | 5,665,583 | 5,679,248 |
| Other operating revenues | 1,467,026 | 734,169 |
| Total operating revenues | 45,753,472 | 40,014,574 |
| **OPERATING EXPENSES** | | |
| Compensation & benefits | 44,711,478 | 45,330,283 |
| Scholarships & fellowships | 5,037,355 | 3,627,206 |
| Utilities | 2,547,844 | 2,745,982 |
| Other supplies & services | 24,991,735 | 20,164,924 |
| Depreciation | 2,600,165 | 2,570,483 |
| Total operating expenses | 79,888,577 | 74,438,878 |
| Operating loss | (34,135,105) | (34,424,304) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| State appropriations | 22,842,974 | 24,830,698 |
| ARRA state fiscal stabilization funds | 1,806,189 | - |
| Gifts | (582,299) | 426,054 |
| Grants | 8,089,902 | 5,671,940 |
| Net investment income | 1,321,142 | 2,195,332 |
| Interest expense on capital debt | (1,294,797) | (1,289,560) |
| Nonoperating revenues, net | 32,183,111 | 31,834,464 |
| Loss before other changes in net assets | (1,951,994) | (2,589,840) |
| **OTHER CHANGES IN NET ASSETS** | | |
| Capital appropriations | 1,089,730 | 2,467,787 |
| Capital gifts & grants | 16,690 | 35,152 |
| Additions to permanent endowments | 35,515 | 40,181 |
| Net decrease in net assets | (810,059) | (46,720) |
| **Net assets - beginning of year** | 52,003,390 | 52,050,110 |
| **Net assets - end of year** | $ 51,193,331 | $ 52,003,390 |

# ALABAMA AGRICULTURAL EXPERIMENT STATION
## STATEMENTS OF NET ASSETS
## SEPTEMBER 30, 2010 AND 2009
## (UNAUDITED)

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 1,908,431 | $ 1,646,223 |
| Operating investments | 2,467,893 | 2,888,927 |
| Accounts receivable, net | 3,924,784 | 3,455,375 |
| Total current assets | 8,301,108 | 7,990,525 |
| Noncurrent assets | | |
| Investments | 19,714,697 | 20,745,541 |
| Total noncurrent assets | 19,714,697 | 20,745,541 |
| **Total assets** | 28,015,805 | 28,736,066 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable | 760,303 | 1,054,647 |
| Accrued salaries and wages | 353,427 | 347,692 |
| Accrued compensated absences | 1,800,446 | 1,813,895 |
| Deposits held in custody | 800 | 400 |
| Deferred revenues | 4,566,146 | 4,120,521 |
| Total current liabilities | 7,481,122 | 7,337,155 |
| Noncurrent liabilities | | |
| Accrued compensated absences | - | 73,598 |
| Other noncurrent liabilities | 92,515 | 76,153 |
| Total noncurrent liabilities | 92,515 | 149,751 |
| **Total liabilities** | 7,573,637 | 7,486,906 |
| **NET ASSETS** | | |
| Restricted | | |
| Expendable: | | |
| Scholarships, research, instruction, other | 723 | 1,529,003 |
| Unrestricted | 20,441,445 | 19,720,157 |
| **Total net assets** | $ 20,442,168 | $ 21,249,160 |

# ALABAMA AGRICULTURAL EXPERIMENT STATION

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
## FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
## (UNAUDITED)

| | 2010 | 2009 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Federal appropriations | $ 2,483,595 | $ 3,642,554 |
| Federal grants & contracts | 16,073,034 | 13,866,093 |
| State & local grants & contracts | 1,107,334 | 896,184 |
| Nongovernmental grants & contracts | 2,124,686 | 2,142,838 |
| Sales & services of educational departments | 2,651,528 | 2,768,305 |
| Other operating revenues | 341,585 | 339,669 |
| Total operating revenues | 24,781,762 | 23,655,643 |
| **OPERATING EXPENSES** | | |
| Compensation & benefits | 40,001,716 | 38,652,297 |
| Scholarships & fellowships | 11,760 | - |
| Utilities | 951,076 | 1,060,776 |
| Other supplies & services | 18,721,565 | 19,121,245 |
| Total operating expenses | 59,686,117 | 58,834,318 |
| Operating loss | (34,904,355) | (35,178,675) |
| **NONOPERATING REVENUES** | | |
| State appropriations | 29,320,262 | 31,768,933 |
| ARRA state fiscal stabilization funds | 3,310,569 | - |
| Gifts | 1,281,419 | 778,917 |
| Net investment income | 185,113 | 277,090 |
| Nonoperating revenues, net | 34,097,363 | 32,824,940 |
| Net decrease in net assets | (806,992) | (2,353,735) |
| **Net assets - beginning of year** | 21,249,160 | 23,602,895 |
| **Net assets - end of year** | $ 20,442,168 | $ 21,249,160 |

# ALABAMA COOPERATIVE EXTENSION SYSTEM
## STATEMENTS OF NET ASSETS
## SEPTEMBER 30, 2010 AND 2009
## (UNAUDITED)

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 2,234,064 | $ 1,691,407 |
| Operating investments | 2,888,987 | 2,968,219 |
| Accounts receivable, net | 2,402,310 | 2,049,233 |
| Total current assets | 7,525,361 | 6,708,859 |
| Noncurrent assets | | |
| Investments | 23,078,593 | 21,314,941 |
| Total noncurrent assets | 23,078,593 | 21,314,941 |
| **Total assets** | 30,603,954 | 28,023,800 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable | 2,133,200 | 1,976,627 |
| Accrued salaries and wages | 401,637 | 427,576 |
| Accrued compensated absences | 2,069,281 | 2,072,239 |
| Deferred revenues | 1,041,581 | 666,918 |
| Total current liabilities | 5,645,699 | 5,143,360 |
| Noncurrent liabilities | | |
| Accrued compensated absences | - | 84,339 |
| Other noncurrent liabilities | 8,301,427 | 6,421,588 |
| Total noncurrent liabilities | 8,301,427 | 6,505,927 |
| **Total liabilities** | 13,947,126 | 11,649,287 |
| **NET ASSETS** | | |
| Restricted | | |
| Expendable: | | |
| Scholarships, research, instruction, other | 4,714,464 | 4,843,901 |
| Capital projects | 31,814 | 29,634 |
| Unrestricted | 11,910,550 | 11,500,978 |
| **Total net assets** | $ 16,656,828 | $ 16,374,513 |

## ALABAMA COOPERATIVE EXTENSION SYSTEM

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
### FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
### (UNAUDITED)

| | 2010 | 2009 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Federal appropriations | $ 6,497,962 | $ 7,220,277 |
| Federal grants & contracts | 6,568,203 | 5,706,723 |
| State & local grants & contracts | 2,839,004 | 3,591,471 |
| Nongovernmental grants & contracts | 769,211 | 689,046 |
| Sales & services of educational departments | 135,061 | 139,727 |
| Other operating revenue | 2,168,092 | 2,113,145 |
| Total operating revenues | 18,977,533 | 19,460,389 |
| **OPERATING EXPENSES** | | |
| Compensation & benefits | 41,020,444 | 42,274,838 |
| Utilities | 173,536 | 255,488 |
| Other supplies & services | 12,795,580 | 16,491,255 |
| Total operating expenses | 53,989,560 | 59,021,581 |
| Operating loss | (35,012,027) | (39,561,192) |
| **NONOPERATING REVENUES** | | |
| State appropriations | 31,108,190 | 34,129,784 |
| ARRA state fiscal stabilization funds | 3,624,963 | - |
| Gifts | 271,688 | 227,599 |
| Net investment income | 287,321 | 507,917 |
| Nonoperating revenues, net | 35,292,162 | 34,865,300 |
| Income (loss) before other changes in net assets | 280,135 | (4,695,892) |
| **OTHER CHANGES IN NET ASSETS** | | |
| Capital gifts and grants | 2,180 | 2,070 |
| Net increase (decrease) in net assets | 282,315 | (4,693,822) |
| **Net assets - beginning of year** | 16,374,513 | 21,068,335 |
| **Net assets - end of year** | $ 16,656,828 | $ 16,374,513 |

AUBURN UNIVERSITY

# 2010
# FINANCIAL REPORT

# REQUIRED SUPPLEMENTAL INFORMATION

# REQUIRED SUPPLEMENTAL INFORMATION

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

| Cost Element | | Fiscal Year Ended Sept. 30, 2010 | |
|---|---|---|---|
| | | Amount | Percent of Payroll[1] |
| 1. Unfunded actuarial accrued liability at Oct. 1, 2009 | $ | 67,083,414 | 1,107.5% |
| Annual Required Contribution (ARC) | | | |
| 2. Normal cost | $ | 101,058 | |
| 3. Amortization of the unfunded actuarial accrued liability over 15 years using level dollar amortization | | 5,163,772 | |
| 4. Annual Required Contribution (ARC = 2 + 3) | $ | 5,264,830 | 86.9% |
| Annual OPEB Cost (Expense) | | | |
| 5. ARC | $ | 5,264,830 | |
| 6. Interest on beginning of year accrual | | 147,204 | |
| 7. Adjustment to ARC | | 561,580 | |
| 8. Fiscal year 2010 OPEB cost (5 + 6 - 7) | $ | 4,850,454 | 80.1% |
| **End of Year Accrual (Net OPEB Obligation)[2]** | | | |
| 9. Beginning of year accrual[1] | $ | 7,360,204 | |
| 10. Annual OPEB cost | | 4,850,454 | |
| 11. Employer contribution (benefit payments)[2] | | 2,630,017 | |
| 12. End of year CAFR accrual (9 + 10 – 11)[2] | $ | 9,580,641 | 158.2% |

[1] Annual payroll for 77 participants as of October 1, 2009, $6,057,128.
[2] Actual amounts paid in fiscal year 2010 include claim costs, administrative fees, and PEEHIP subsidy less participant contributions.

**Three Year Schedule of Percentage of OPEB Cost Contributed**

| Fiscal Year Ended | Annual OPEB Cost | Percentage of OPEB Cost Contributed[3] | Net OPEB Obligation |
|---|---|---|---|
| Sept. 30, 2008 | $ 4,258,900 | 52.7% | $ 4,751,600 |
| Sept. 30, 2009 | $ 5,162,091 | 49.4% | $ 7,360,204 |
| Sept. 30, 2010 | $ 4,850,454 | 54.2% | $ 9,580,641 |

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

**Summary of Key Actuarial Methods and Assumptions**

| | |
|---|---|
| **Valuation year** | October 1, 2009 – September 30, 2010 |
| **Actuarial cost method** | Unit Credit, Actuarial Cost Method |
| **Amortization method** | 15 years, level dollar open amortization[4] |
| **Asset valuation method** | Not applicable |
| **Discount rate** | 2.0% |
| **Projected payroll growth rate** | Not applicable |

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

**Heath care cost trend rate for medical and prescription drugs** 9.0% in fiscal year 2010, decreasing by one-half percentage point per year to an ultimate of 5.0% in fiscal year 2019 and later.

**Valuation Date** October 1, 2009

**Monthly Per Capita Claim Costs**

| Age | Medical |
|---|---|
| 55 | $628 |
| 60 | 753 |
| 65 | 306 |
| 70 | 339 |
| 75 | 361 |

Claim costs were increased by 4.5% over last year. Future claim costs are increased by health care cost trend.

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

| | As of 1/1/10 | As of 1/1/09 |
|---|---|---|
| Pre-65 Single | $432 | $413 |
| Pre-65 Family | 893 | 855 |
| Post-65 Single | 131 | 125 |
| Post-65 Family | 601 | 575 |

Note: There are several other categories of premiums.

**Administrative Expenses** Included in claim cost.

**Annual Health Care Trend Rate**

| Fiscal Year | Medical and Rx Combined Rate |
|---|---|
| 2011 | 9.0% |
| 2012 | 8.5% |
| 2013 | 8.0% |
| 2014 | 7.5% |
| 2015 | 7.0% |
| 2016 | 6.5% |
| 2017 | 6.0% |
| 2018 | 5.5% |
| 2019+ | 5.0% |

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

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

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

**Retirement Rates** Employees are assumed to retire according to the following schedule:

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

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