



AUBURN

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UNIVERSITY

# FINANCIAL REPORT 2013

Comprehensive Annual Financial Report for the year ended September 30, 2013

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# FINANCIAL REPORT 2013

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AUBURN  

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UNIVERSITY

FINANCIAL REPORT  
2013

INTRODUCTORY SECTION



AUBURN UNIVERSITY  
OFFICE OF THE PRESIDENT

January 28, 2014

Dear Members of the Auburn Community and Alabama Citizens:

Auburn's annual financial report summarizes our financial position and activity for the fiscal year ended September 30, 2013. We invite you to learn more about our instruction, research and outreach programs by visiting [www.auburn.edu](http://www.auburn.edu).

During the fiscal year, Auburn updated its strategic plan, which is available on our home page. The revision is forward-looking and aggressive and developed with input from students, faculty, staff, alumni and others. It focuses our efforts around five common commitments – students, employees, research and creative scholarship, public engagement and our institutional mission.

In looking at our institutional mission, Auburn will conduct a comprehensive budget review, ensuring that our resources are aligned with our priorities. Throughout this process, we will remain dedicated to containing costs, controlling spending and maximizing the efficiency of campus operations.

Here are a couple more highlights that may interest you:

- Auburn Trustee Raymond Harbert made the largest gift in university history. The Board of Trustees renamed the College of Business as the Raymond J. Harbert College of Business in recognition of his \$40 million commitment. The investment in both people and programs will propel the College to thought leadership in business education, business research and economic development.
- Raycom Media and Auburn's School of Communication and Journalism dedicated a new multimedia studio in an innovative partnership between industry and academia. We believe the studio represents the future for how news is gathered and reported across digital, mobile and broadcast platforms.

At Auburn, we're in the business of helping people realize their hopes and dreams. We look forward to continuing our service to Alabama and the nation.

Sincerely,

Jay Gogue  
President



AUBURN UNIVERSITY  
OFFICE OF THE PRESIDENT

January 28, 2014

The Comprehensive Annual Financial Report for Auburn University for 2013 provides comparative financial statements for the years ended September 30, 2013 and September 30, 2012. 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.  
Executive Vice President





AUBURN  

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UNIVERSITY

FINANCIAL REPORT  
2013

FINANCIAL SECTION



## Independent Auditor's Report

To the Board of Trustees of Auburn University:

We have audited the accompanying financial statements of Auburn University (the "University"), a component unit of the State of Alabama, as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which consist of the statements of net position and the related statements of revenues, expenses and changes in net position and statements of cash flows of Auburn University and the statements of financial position and of activities and changes in net assets of the University's discretely presented component units.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on the financial statements based on our audits. We did not audit the financial statements of Auburn Alumni Association (the "Association"), and Auburn University Foundation (the "Foundation"), two of the University's discretely presented component units, as of and for the years ended September 30, 2013 and 2012. We did not audit the financial statements of Tigers Unlimited Foundation ("TUF"), one of the University's discretely presented component units, as of and for the year ended June 30, 2013. 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 above mentioned discretely presented component units of the University, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our audits and the reports of the other auditors, the financial statements

referred to above present fairly, in all material respects, the financial position of the University and its discretely presented component units at September 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 2, the University has revised its 2012 financial statements for the retrospective application of new accounting standards adopted during 2013. These standards govern the reporting of deferred outflows and deferred inflows of resources and the accounting for debt issuance costs. Our opinions are not modified with respect to this matter.

### ***Other Matters***

The accompanying management's discussion and analysis and the required supplemental information for the year ended September 30, 2013 on pages 12 through 19 and 69 through 72, respectively, are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The University has omitted the management's discussion and analysis for the year ended September 30, 2012 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Our opinions on the basic financial statements are not affected by this missing information.

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 to 7 and the supplemental divisional financial statements on pages 60 to 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 by us or other auditors, and accordingly, we express no opinion nor provide any assurance on them.

*PricewaterhouseCoopers LLP*

January 28, 2014

# 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, 2013, with a comparison to the year ended September 30, 2012. 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 2013 enrollment included 29,960 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 5,332 full-time employees, including 1,384 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

During 2013, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as well as GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The adoption of these statements changed the presentation of certain financial statement line items as well as restated some prior year balances (see Note 2). In accordance with these standards, the University's financial report includes three renamed financial statements: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. All references to "2013," "2012," 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 Position** presents entity-wide assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) on the last day of the fiscal year. Distinctions are made in current and noncurrent assets and liabilities. Net position is segregated into unrestricted, restricted (expendable and nonexpendable), and net investment in capital assets. The University's net position is one indicator of the University's financial health. From the data presented, readers of the Statement of Net Position 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 Position outlines the net resources available to the University.

**The Statement of Revenues, Expenses and Changes in Net Position** 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 Position as depreciation expense, which is 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—an amendment of GASB Statement No. 14*, 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 also evaluated GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* to ensure proper disclosure. The component units report financial results under principles prescribed by the Financial Accounting Standards Board (FASB) and are subject to standards under the 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 four 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, 2013, 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.
- (4) **Auburn Research and Technology Foundation (ARTF)** - ARTF was organized on August 24, 2004, as a separate nonprofit organization to develop and operate the Auburn Research Park and to assist the University with the attraction, development, and commercialization of technology. The vision of ARTF is to establish an entrepreneurial atmosphere for businesses to foster economic diversification and vitality of the local community, state, and region.

The University has one other related foundation. Due to immateriality, the statements for the Auburn Spirit Foundation for

Scholarships (ASFS) are not presented as a component unit in these financial statements.

## Financial Highlights

### Statement of Net Position

A summary of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of September 30, 2013 and 2012, is as follows:

|                                       | 2013                    | 2012                    |
|---------------------------------------|-------------------------|-------------------------|
| <b>Assets</b>                         |                         |                         |
| Current assets                        | \$ 257,011,629          | \$ 277,173,040          |
| Capital assets                        | 1,535,238,933           | 1,397,087,900           |
| Other noncurrent assets               | <u>865,559,735</u>      | <u>945,591,324</u>      |
| <b>Total assets</b>                   | <u>2,657,810,297</u>    | <u>2,619,852,264</u>    |
| <b>Deferred Outflows of Resources</b> |                         |                         |
| Loss on refunding of bonds            | <u>10,911,474</u>       | <u>12,813,756</u>       |
| <b>Liabilities</b>                    |                         |                         |
| Current liabilities                   | 318,508,943             | 316,383,075             |
| Noncurrent liabilities                | <u>772,599,661</u>      | <u>798,531,525</u>      |
| <b>Total liabilities</b>              | <u>1,091,108,604</u>    | <u>1,114,914,600</u>    |
| <b>Deferred Inflows of Resources</b>  |                         |                         |
| Nonexchange transactions              | <u>346,994</u>          | <u>179,752</u>          |
| <b>Net Position</b>                   |                         |                         |
| Net investment of capital assets      | 787,467,398             | 733,294,756             |
| Restricted-nonexpendable              | 27,696,563              | 25,977,276              |
| Restricted-expendable                 | 173,183,733             | 180,857,774             |
| Unrestricted                          | <u>588,918,479</u>      | <u>577,441,862</u>      |
| <b>Total net position</b>             | <u>\$ 1,577,266,173</u> | <u>\$ 1,517,571,668</u> |

### The University's Assets

Current assets consist of cash and cash equivalents, operating investments (those investments that are expected to be liquidated during the course of normal operations), net accounts receivable (primarily amounts due from the federal and state governments and other agencies as reimbursements for sponsored programs), net student accounts receivable (including amounts due from third parties on behalf of the students), current portion of loans receivable, accrued interest receivable, inventories, and prepaid expenses. The University's current assets decreased \$20.2 million from 2012 to 2013. Of this decrease, cash and cash equivalents and operating investments decreased by \$14.2 million. This decrease was mainly due to paying expenditures accrued at September 30, 2012. The remaining decrease was from accounts receivable and student accounts receivable. Current accounts receivable decreased by \$4.0 million, which was the result of decreases in receivables on federally sponsored projects. Student accounts receivable decreased by \$1.8 million, due to the timing of agency payments, such as Alabama's Prepaid Affordable College Tuition (PACT) program.

The University's long-term investments, shown in other noncurrent assets, decreased \$78.6 million from 2012 to 2013. This decrease is due to spending previously-invested bond funds held for construction projects. The University saw increases in capital assets, net of depreciation, shown as "Investment in plant, net" on the Statement of Net Position, of 9.9% from 2012 to 2013. 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 approximately 72.6% of the total net capital asset value. The increase, offset by disposal activity, depreciation and transfers, was the result of \$204.7 million, net, of new additions to property, plant and equipment. The University expended \$205.6 million in new construction during fiscal year 2013.

The following construction projects totaling \$250.1 million were completed and placed into service during the current fiscal year.

|  |                 |
|--|-----------------|
| Student Recreation and Wellness                        | \$ 73.4 million |
| South Donahue Residence Hall                           | \$ 67.7 million |
| Center for Advanced Science, Innovation & Commerce     | \$ 27.2 million |
| AUM Warhawk Residence Hall                             | \$ 26.5 million |
| Kinesiology Building                                   | \$ 20.3 million |
| Lowder Replace Exterior Brick & Expansion Joints       | \$ 6.5 million  |
| Biodiversity Learning Center                           | \$ 5.8 million  |
| Corley Annex Biological Engineering Research Lab       | \$ 5.7 million  |
| AUM Library Tower Annex                                | \$ 2.1 million  |
| Poultry and Animal Nutrition Center Feed Mill Building | \$ 1.7 million  |
| AUM Wellness Center                                    | \$ 1.6 million  |
| Lowder Student Athlete Development Center Renovation   | \$ 1.6 million  |
| Solon & Martha Dixon Foundation Learning Center        | \$ 1.5 million  |
| Walker Pharmacy Teaching Lab                           | \$ 1.0 million  |
| Other Small Projects                                   | \$ 7.5 million  |

### The University's Deferred Outflows of Resources

Deferred outflows of resources are a consumption of net assets that is applicable to a future reporting period. In 2010 and 2012, the University defeased certain outstanding bonds. These refundings resulted in a loss (the difference between the acquisition price of the new debt and the net carrying amount of the old debt). In accordance with the adoption of GASB Statements No. 63 and No. 65, this loss is presented as a deferred outflow of resources.

Implementation of these standards requires retroactive application and comparative values for the prior year(s) presented. The decrease in the deferred outflows of resources of \$1.9 million is the current year amortization of the loss on refunding of the bond, which is amortized over

the life of the old or new bonds, whichever is shorter. The University is amortizing over the life of the defeased bonds (see Note 9).

**The University's Liabilities**

Current liabilities consist of accounts payable, accrued salaries and wages, the current portion of compensation-related liabilities, accrued interest payable, student and other deposits (including Perkins and Health Professions loan liability), unearned revenues, the current portion of noncurrent liabilities, and other accrued liabilities. Current liabilities increased by \$2.1 million from 2012 to 2013. The majority is due to an increase in unearned revenues of \$4.3 million. Unearned revenue is comprised of tuition revenue that relates to fiscal year 2014 and contracts and grants funding received prior to expenditures. For Fall 2013, the Board approved approximately 5.0% and 8.0% tuition increases for main campus and AUM, respectively. Sixty percent of Fall tuition is reported as unearned revenue due to the fiscal year end of September 30. While the University accrued \$6.6 million less in payables at year end, the accrual for other accrued liabilities increased \$3.5 million, which was the result of adjusting and reclassing the University's pollution remediation obligation (GASB Statement No. 49) in fiscal year 2013 from noncurrent to current.

Noncurrent liabilities include principal amounts due on University bonds payable, lease obligations, accrued compensated absences, and other compensation-related liabilities that are payable beyond September 30, 2013. Noncurrent liabilities decreased \$25.9 million from 2012 to 2013. As mentioned above, approximately \$3.0 million of other noncurrent liabilities was reclassified to current liabilities. The remaining decrease was due to debt payments and amortization of bond premium and discounts.

**The University's Deferred Inflows of Resources**

Deferred inflows of resources are an acquisition of net assets that is applicable to a future reporting period. The University engages in certain voluntary nonexchange transactions (grants). Grant funds received for which all eligibility requirements have been met, other than time requirements, are presented as deferred inflows of resources in accordance with the adoption of GASB Statements No. 63 and No. 65.

Implementation of these standards requires retroactive application and comparative values for the prior year(s) presented. During fiscal year 2013, deferred inflows of resources increased \$0.2 million. This was the result of receiving additional funding for which the time requirement for spending had not occurred at year end (see Note 15).

**The University's Net Position**

The three major net position categories are discussed below:

Net investment in capital assets (previously shown as invested in capital assets, net of related debt) represent the University's capital assets, net of accumulated depreciation, and outstanding principal balances of debt as well as any deferred inflows or outflows of resources, attributable to the acquisition, construction, or improvement of those assets. Net investment in capital assets increased 7.4% from 2012 to 2013. This increase is due to the capitalization of assets as previously described and payments made on outstanding debt.

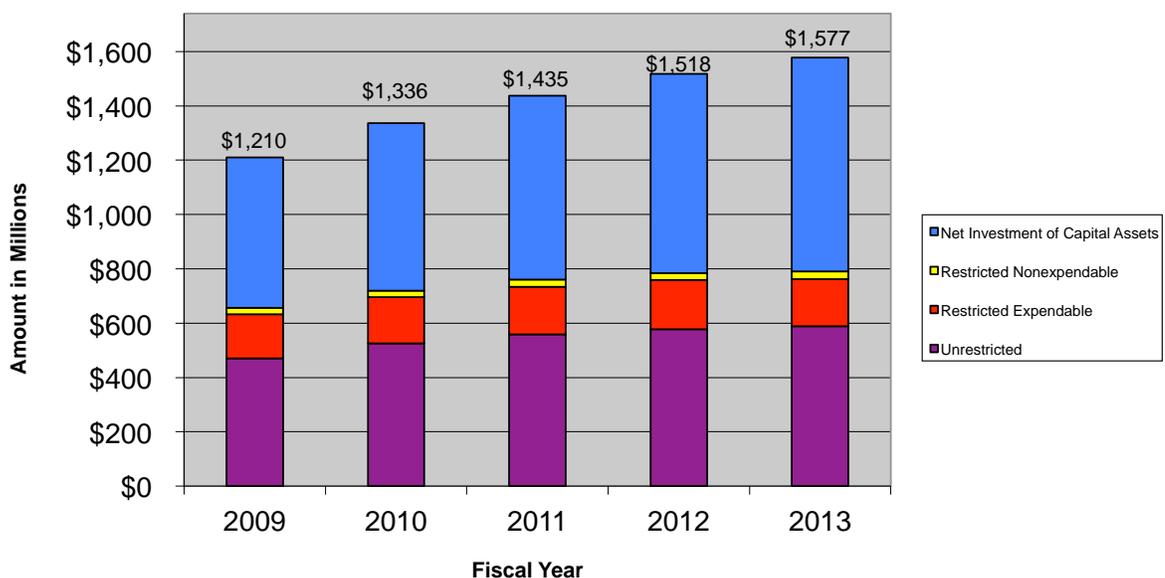
Restricted (nonexpendable and expendable) net position:

Restricted-nonexpendable net position is subject to external restrictions governing its use and consists of the University's permanent endowment funds. This net position increased 6.6% from 2012 to 2013. 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 position is also subject to external restrictions governing its use. Items of this nature 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. Restricted-expendable net position decreased 4.2%. This decrease was due to expending funds on capital projects that did not have associated outstanding debt.

Unrestricted net position is the third major class of net position, and it is not subject to externally imposed stipulations; however, the majority of the University's unrestricted net position has been internally designated for various mission-related purposes. This category includes funds for general operations of the University, auxiliary operations (including athletics, housing, and the bookstore), unrestricted quasi-endowments, and capital projects. Unrestricted net position increased \$11.5 million from 2012 to 2013. The increase in unrestricted net position is mainly due to holding unrestricted funds for future mission-related priorities and deferred maintenance needs during this uncertain economic time.

**TOTAL NET POSITION**



**Statement of Revenues, Expenses and Changes in Net Position**

Changes in total net position are the result of activity presented in the Statement of Revenues, Expenses and Changes in Net Position. 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 position.

A condensed statement is provided below:

|   | 2013                    | 2012                    |
|---|-------------------------|-------------------------|
| Operating revenues  | \$ 621,142,050          | \$ 602,442,097          |
| Operating expenses  | <u>885,675,659</u>      | <u>858,060,079</u>      |
| Operating loss  | (264,533,609)           | (255,617,982)           |
| Net nonoperating revenues and other changes in net position | <u>324,228,114</u>      | <u>342,859,031</u>      |
| Increase in net position                                    | 59,694,505              | 87,241,049              |
| Net position - beginning of year                            | <u>1,517,571,668</u>    | <u>1,430,330,619</u>    |
| Net position - end of year                                  | <u>\$ 1,577,266,173</u> | <u>\$ 1,517,571,668</u> |

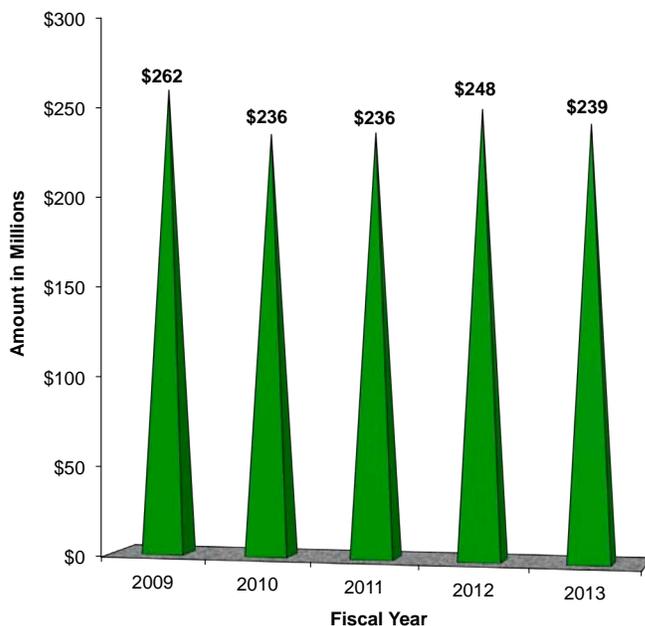
The 2013 Statement of Revenues, Expenses and Changes in Net Position reflects an increase in net position at the end of the year of \$59.7 million. Operating revenues increased 3.1% when comparing operating revenues from 2012 to 2013. The majority of this increase is attributable to the increase in student tuition and fee revenue, net of discounts. The \$22.1 million tuition and fee increase over fiscal year 2012 was the result of the Board-approved increase in tuition for both main campus and AUM. The University also saw increases in sales and services of educational departments of \$4.9 million. This increase was due to revenue generated by the increases in clinic and pharmacy sales. The University recognized a net decrease in federal appropriations, federal, state and nongovernmental contract and grant revenues of \$11.6 million, which was the result of a decrease in spending of federal grant funds appropriated and awarded for research. Auxiliary revenue increased approximately \$3.0 million. The majority of this increase was due to new dorms being placed into service at main campus and at AUM.

Operating expenses increased 3.2% from 2012 to 2013. Multiple factors contributed to this net increase. Compensation and benefit costs increased 3.5%. This was the result of a Board-approved salary increase. Other supplies and services expenses increased \$5.2 million. This increase was attributable to additional noncapitalized maintenance projects in fiscal year 2013. Depreciation expense increased 8.1%.

This increase was a result of recording depreciation beginning in fiscal year 2013 on projects completed in 2012. Some of the buildings completed included the AUM Wellness Center, AU's MRI Research Center Building, AUM Taylor Center Expansion, and AU's Multi-Sport Indoor Practice Facility.

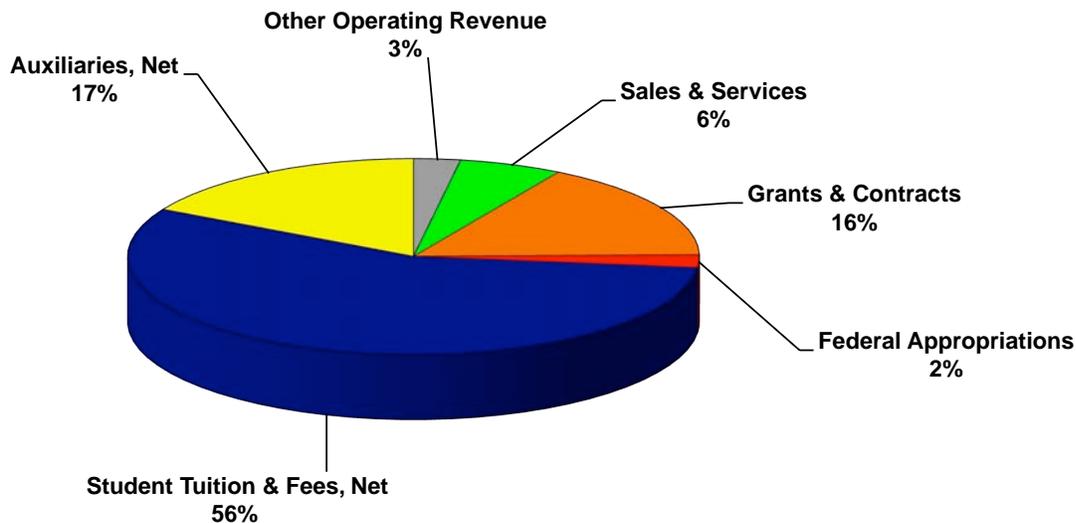
Net nonoperating revenues decreased \$30.8 million from 2012 to 2013. The University received a decrease in appropriations from the State of Alabama of \$9.2 million. Revenue recognized on Pell grants awarded to students in fiscal year 2013 decreased 3.2%. The University's net investment income decreased from \$28.4 million in fiscal year 2012 to \$13.1 million in fiscal year 2013. Due to the low interest rate environment, the University recognized decreases in interest income, which was offset by the increases in endowment income and realized gains. However, in fiscal year 2013, the University recognized unrealized losses of \$7.2 million, whereas, in fiscal year 2012, the University recognized unrealized gains of \$7.8 million.

Other Changes in Net Position increased \$12.2 million in fiscal year 2013 from fiscal year 2012. This increase is the direct result of receiving ARRA and state funding for the Center for Advanced Science, Innovation & Commerce and the renovation of the Corley Annex Biological Engineering Research Lab.

**STATE APPROPRIATIONS**

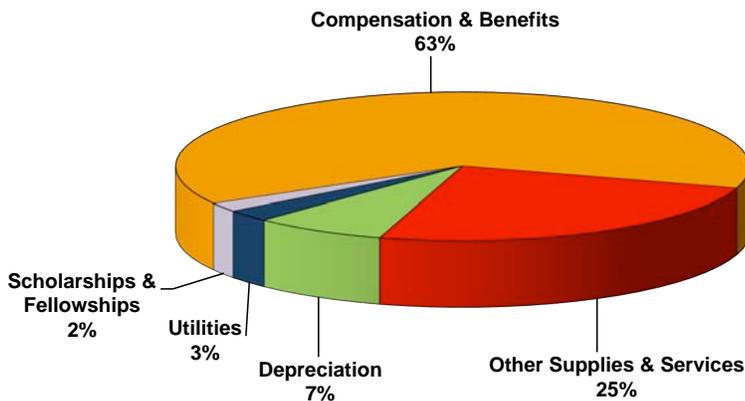
### OPERATING REVENUES SUPPORTING CORE ACTIVITIES

For the year ended September 30, 2013



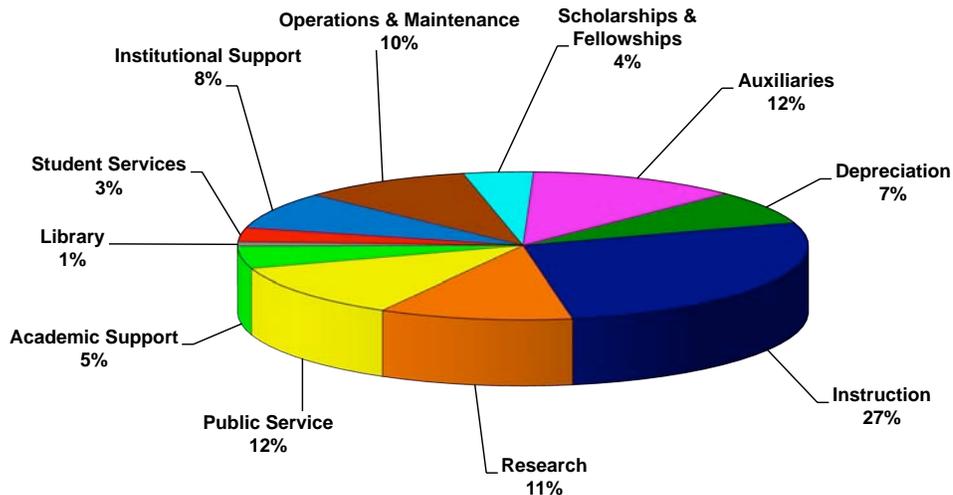
### OPERATING EXPENSES BY NATURAL CLASSIFICATION

For the year ended September 30, 2013



### OPERATING EXPENSES BY FUNCTION

For the year ended September 30, 2013



### 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:

|   | 2013                 | 2012                 |
|---|----------------------|----------------------|
| Net cash provided by (used in):               |                      |                      |
| Operating activities                          | \$ (182,145,734)     | \$ (165,997,216)     |
| Noncapital financing activities               | 296,475,856          | 310,756,753          |
| Capital and related financing activities      | (220,486,064)        | (193,743,815)        |
| Investing activities                          | <u>80,230,333</u>    | <u>63,708,912</u>    |
| Net (decrease) increase in cash               | (25,925,609)         | 14,724,634           |
| Cash and cash equivalents - beginning of year | <u>97,356,321</u>    | <u>82,631,687</u>    |
| Cash and cash equivalents - end of year       | <u>\$ 71,430,712</u> | <u>\$ 97,356,321</u> |

Net cash used for operating activities increased from 2012 to 2013 by 9.7%. During fiscal year 2013, the University had additional payments to suppliers of \$20.7 million, primarily due to the additional accruals at the end of fiscal year 2012, as well as payments for employee compensation & benefits of \$18.0 million. The University also saw a reduction in cash inflows from grants & contracts of \$5.7 million and auxiliary enterprises of \$3.6 million. This utilization of cash was offset by additional cash provided from tuition and fees of \$9.5 million, federal appropriations of \$1.3 million and sales and services of educational departments of \$17.8 million. In addition, the University provided less cash payments related to scholarships and fellowships of \$3.2 million, even though the amount of tuition and board benefit provided to students increased \$1.8 million.

Net cash provided by noncapital financing activities decreased \$14.3 million. This was primarily due to the reduction in state appropriations of 3.7%. During fiscal year 2013, the University distributed an additional net \$3.5 million for direct loans. This distribution reduced the amount of cash provided by noncapital financing activities from the prior year.

The University saw additional net cash used in capital and related financing activities of \$26.8 million. This is the result of issuing the 2012A General Fee Bonds and receiving new money in fiscal year 2012 of approximately \$28 million to construct the new dormitories at AUM.

Net cash provided by investing activities increased \$16.5 million. This is the result of receiving more proceeds from the sale and maturity of investments than purchases of new investments. During fiscal year 2013, investments in bond proceeds were sold in order to cover the costs of the construction projects.

### 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. The University's strong financial position and internal financial planning process provide 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**

|  | 2009-10           | 2010-11           | 2011-12           | 2012-13           | 2013-14           |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Auburn Main Campus/<br>Auburn University at Montgomery |                   |                   |                   |                   |                   |
| Full Time Students:                                    |                   |                   |                   |                   |                   |
| In-State   | \$6,972/\$5,970   | \$7,900/\$6,730   | \$8,698/\$6,930   | \$9,446/\$7,500   | \$9,852/\$8,425   |
| Out-of-State   | \$19,452/\$17,250 | \$21,916/\$19,090 | \$23,290/\$20,790 | \$25,190/\$22,500 | \$26,364/\$24,950 |

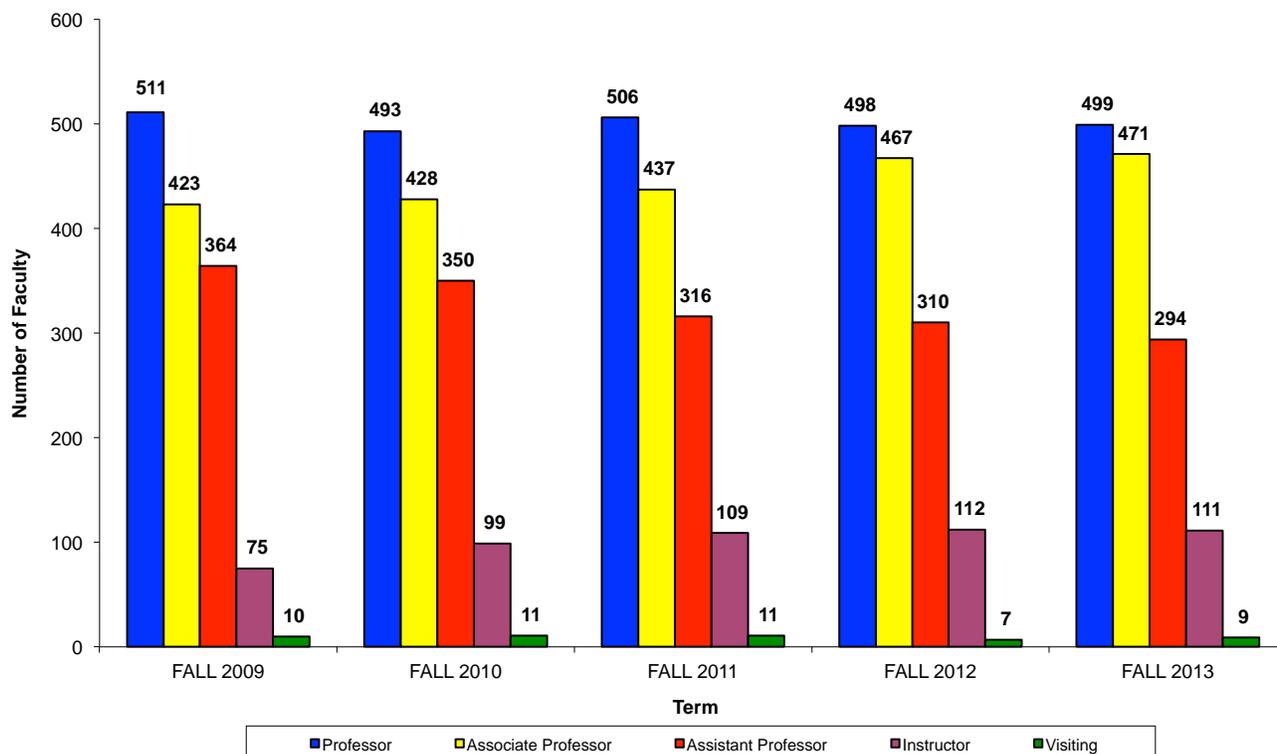
**FALL STUDENT ENROLLMENT**

|   | 2009   | 2010   | 2011   | 2012   | 2013   |
|---|--------|--------|--------|--------|--------|
| Auburn Main Campus and<br>Auburn University at Montgomery |        |        |        |        |        |
| Undergraduate and Professional                            | 25,599 | 26,025 | 25,868 | 25,442 | 24,133 |
| Graduate  | 4,558  | 4,864  | 4,906  | 4,681  | 5,827  |

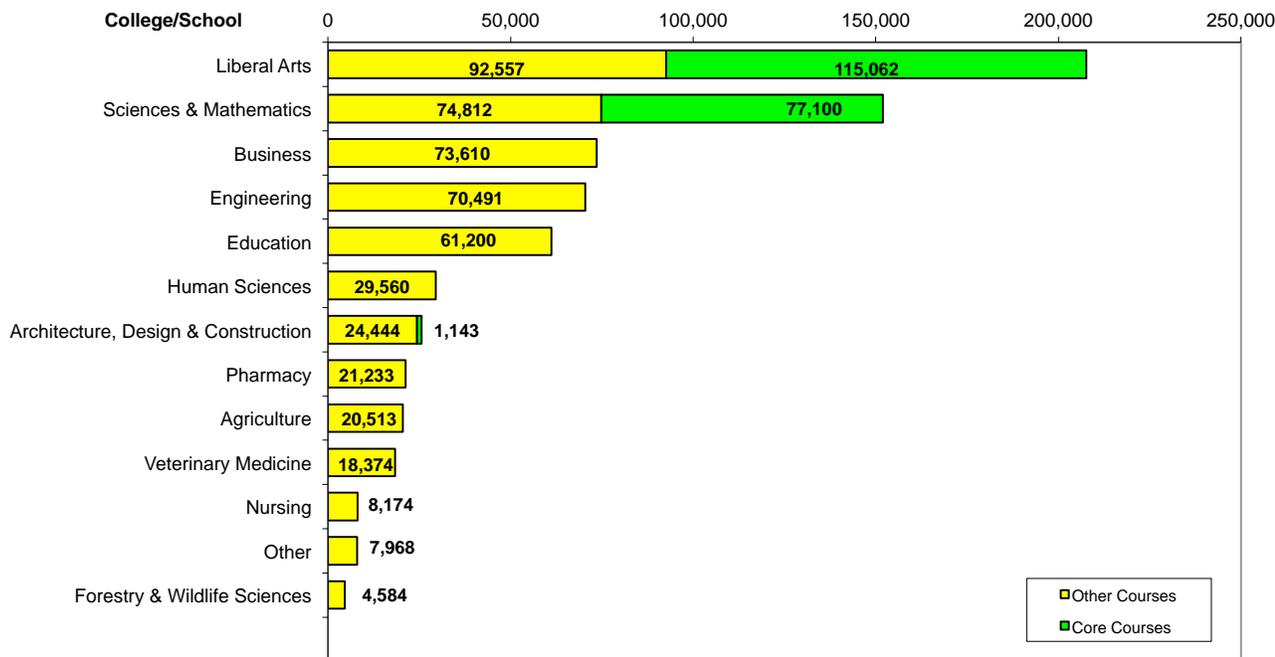
**DEGREES AWARDED FOR THE ACADEMIC YEAR**

|   | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---|---------|---------|---------|---------|---------|
| Auburn Main Campus and<br>Auburn University at Montgomery |         |         |         |         |         |
| Bachelor  | 4,593   | 4,700   | 4,800   | 4,925   | 4,834   |
| Advanced  | 1,561   | 1,670   | 1,809   | 1,827   | 1,835   |

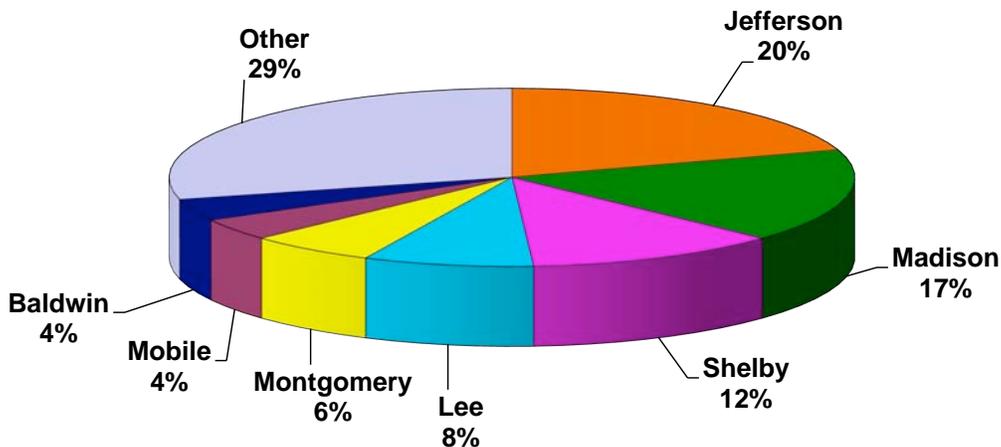
**AUBURN UNIVERSITY MAIN CAMPUS AND AUBURN UNIVERSITY AT MONTGOMERY  
FULL-TIME FACULTY BY RANK**



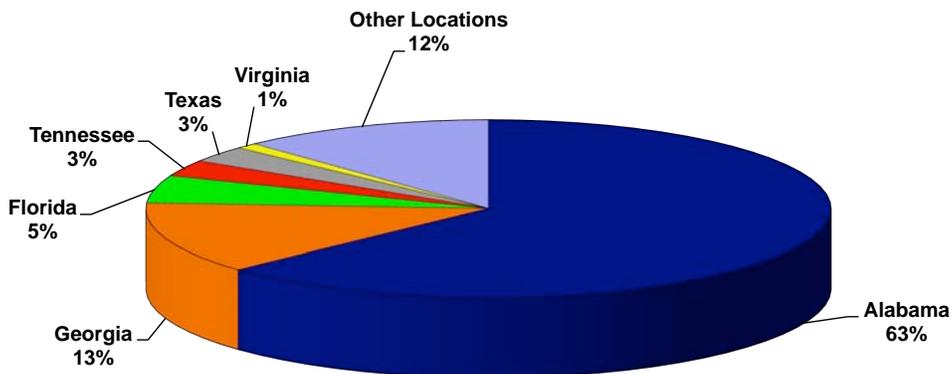
**AUBURN UNIVERSITY MAIN CAMPUS  
TOTAL STUDENT CREDIT HOURS BY COLLEGE/SCHOOL 2012-13**



**AUBURN UNIVERSITY MAIN CAMPUS FRESHMEN  
ENROLLMENT BY ALABAMA COUNTIES  
SUMMER/FALL TERMS 2013**



**SOURCES OF ENTERING FRESHMEN BY STATE  
MAIN CAMPUS SUMMER/FALL TERMS 2013**



**AUBURN UNIVERSITY**  
**STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2013 AND 2012**

|  | 2013             | 2012             |
|--|------------------|------------------|
| <b>ASSETS</b>                              |                  |                  |
| Current assets                             |                  |                  |
| Cash and cash equivalents                  | \$ 71,430,712    | \$ 97,356,321    |
| Operating investments                      | 59,887,580       | 48,141,852       |
| Accounts receivable, net                   | 47,339,578       | 51,311,777       |
| Student accounts receivable, net           | 34,360,176       | 36,146,796       |
| Loans receivable, net                      | 2,509,024        | 2,378,014        |
| Accrued interest receivable                | 1,713,614        | 1,932,483        |
| Inventories                                | 4,517,492        | 4,691,546        |
| Prepaid expenses                           | 35,253,453       | 35,214,251       |
| Total current assets                       | 257,011,629      | 277,173,040      |
| Noncurrent assets                          |                  |                  |
| Investments                                | 848,661,718      | 927,288,928      |
| Loans receivable, net                      | 16,898,017       | 18,302,396       |
| Investment in plant, net                   | 1,535,238,933    | 1,397,087,900    |
| Total noncurrent assets                    | 2,400,798,668    | 2,342,679,224    |
| <b>Total assets</b>                        | 2,657,810,297    | 2,619,852,264    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>      |                  |                  |
| Loss on refunding of bonds                 | 10,911,474       | 12,813,756       |
| <b>LIABILITIES</b>                         |                  |                  |
| Current liabilities                        |                  |                  |
| Accounts payable                           | 57,643,073       | 64,224,308       |
| Accrued salaries and wages                 | 2,637,392        | 2,401,088        |
| Accrued compensated absences               | 17,532,179       | 17,070,517       |
| Accrued interest payable                   | 12,460,524       | 12,601,718       |
| Other accrued liabilities                  | 7,699,964        | 4,245,267        |
| Student deposits                           | 2,534,320        | 2,278,242        |
| Deposits held in custody                   | 21,164,453       | 21,182,492       |
| Unearned revenues                          | 173,863,776      | 169,592,602      |
| Noncurrent liabilities-current portion     | 22,973,262       | 22,786,841       |
| Total current liabilities                  | 318,508,943      | 316,383,075      |
| Noncurrent liabilities                     |                  |                  |
| Bonds and notes payable                    | 739,255,580      | 761,934,877      |
| Lease obligations                          | 200,000          | 441,003          |
| Other noncurrent liabilities               | 33,144,081       | 36,155,645       |
| Total noncurrent liabilities               | 772,599,661      | 798,531,525      |
| <b>Total liabilities</b>                   | 1,091,108,604    | 1,114,914,600    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>       |                  |                  |
| Nonexchange transactions                   | 346,994          | 179,752          |
| <b>NET POSITION</b>                        |                  |                  |
| Net investment in capital assets           | 787,467,398      | 733,294,756      |
| Restricted                                 |                  |                  |
| Nonexpendable                              | 27,696,563       | 25,977,276       |
| Expendable:                                |                  |                  |
| Scholarships, research, instruction, other | 159,887,301      | 161,495,334      |
| Loans                                      | 3,908,694        | 5,160,622        |
| Capital projects                           | 9,387,738        | 14,201,818       |
| Unrestricted                               | 588,918,479      | 577,441,862      |
| <b>Total net position</b>                  | \$ 1,577,266,173 | \$ 1,517,571,668 |

See accompanying notes to financial statements.

**AUBURN UNIVERSITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

|   | 2013                    | 2012                    |
|---|-------------------------|-------------------------|
| <b>OPERATING REVENUES</b>   |                         |                         |
| Tuition & fees, net of scholarship allowances of \$107,695,483<br>and \$106,702,821, respectively | \$ 345,231,012          | \$ 323,136,139          |
| Federal appropriations  | 13,003,383              | 11,840,435              |
| Federal grants & contracts, net   | 69,712,138              | 82,499,718              |
| State & local grants & contracts, net   | 17,457,909              | 19,069,123              |
| Nongovernmental grants & contracts, net   | 12,965,576              | 11,317,521              |
| Sales & services of educational departments   | 41,965,810              | 37,061,728              |
| Auxiliary revenue, net of scholarship allowances of \$7,041,111<br>and \$6,207,278, respectively  | 104,542,266             | 101,537,350             |
| Other operating revenues  | <u>16,263,956</u>       | <u>15,980,083</u>       |
| Total operating revenues  | <u>621,142,050</u>      | <u>602,442,097</u>      |
| <b>OPERATING EXPENSES</b>   |                         |                         |
| Compensation & benefits   | 557,979,424             | 539,232,639             |
| Scholarships & fellowships  | 17,351,012              | 18,354,074              |
| Utilities   | 22,842,876              | 23,147,154              |
| Other supplies & services   | 221,437,423             | 216,222,211             |
| Depreciation  | <u>66,064,924</u>       | <u>61,104,001</u>       |
| Total operating expenses  | <u>885,675,659</u>      | <u>858,060,079</u>      |
| Operating loss  | <u>(264,533,609)</u>    | <u>(255,617,982)</u>    |
| <b>NONOPERATING REVENUES (EXPENSES)</b>   |                         |                         |
| State appropriations  | 238,601,180             | 247,816,148             |
| Gifts   | 35,354,346              | 36,603,692              |
| Grants  | 20,926,014              | 21,620,329              |
| Net investment income   | 13,129,982              | 28,359,822              |
| Interest expense on capital debt  | <u>(13,703,285)</u>     | <u>(9,305,463)</u>      |
| Nonoperating revenues, net  | <u>294,308,237</u>      | <u>325,094,528</u>      |
| Income before other changes in net position   | 29,774,628              | 69,476,546              |
| <b>OTHER CHANGES IN NET POSITION</b>  |                         |                         |
| Capital appropriations  | 114,188                 | 1,801,433               |
| Capital gifts & grants  | 28,086,402              | 15,393,203              |
| Additions to permanent endowments   | <u>1,719,287</u>        | <u>569,867</u>          |
| Net increase in net position  | 59,694,505              | 87,241,049              |
| <b>Net position - beginning of year</b>   | <u>1,517,571,668</u>    | <u>1,430,330,619</u>    |
| <b>Net position - end of year</b>   | <u>\$ 1,577,266,173</u> | <u>\$ 1,517,571,668</u> |

See accompanying notes to financial statements.

**AUBURN UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

|   | 2013                 | 2012                 |
|---|----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                         |                      |                      |
| Tuition & fees  | \$ 344,457,719       | \$ 334,911,633       |
| Federal appropriations  | 12,930,070           | 11,622,794           |
| Grants & contracts  | 105,355,969          | 111,100,719          |
| Sales & services of educational departments                         | 48,344,842           | 30,502,811           |
| Auxiliary enterprises   | 104,480,389          | 108,091,559          |
| Other operating revenues  | 14,762,840           | 15,878,174           |
| Payments to suppliers   | (216,718,691)        | (196,306,986)        |
| Payments for utilities  | (22,842,876)         | (23,147,154)         |
| Payments for employee compensation & benefits                       | (555,425,011)        | (537,396,915)        |
| Payments for scholarships & fellowships                             | (17,554,004)         | (20,734,008)         |
| Student loans issued  | (2,545,519)          | (2,853,108)          |
| Student loans collected   | 2,608,538            | 2,333,265            |
| Net cash used in operating activities                               | <u>(182,145,734)</u> | <u>(165,997,216)</u> |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>              |                      |                      |
| State appropriations  | 238,601,180          | 247,816,148          |
| ARRA state fiscal stabilization funds                               | -                    | 1,145,665            |
| Gifts and grants for other than capital purposes                    | 58,566,731           | 58,958,075           |
| Direct loan receipts  | 177,713,211          | 171,213,542          |
| Direct loan disbursements   | <u>(178,405,266)</u> | <u>(168,376,677)</u> |
| Net cash provided by noncapital financing activities                | <u>296,475,856</u>   | <u>310,756,753</u>   |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>     |                      |                      |
| Proceeds from advanced refunding of debt, net of issuance cost      | -                    | 132,658,243          |
| Capital appropriations  | 114,188              | 1,801,433            |
| Capital grants & gifts received                                     | 25,014,137           | 12,599,786           |
| Purchases of capital assets   | (210,399,545)        | (208,175,723)        |
| Proceeds received from sale of capital assets                       | 40,280               | 140,858              |
| Principal paid on debt & capital leases                             | (19,260,538)         | (20,871,247)         |
| Interest paid on debt & capital leases                              | (15,994,586)         | (11,037,165)         |
| Payment to escrow on advanced refunding of debt                     | -                    | (100,860,000)        |
| Net cash used in capital and related financing activities           | <u>(220,486,064)</u> | <u>(193,743,815)</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                         |                      |                      |
| Proceeds from sales and maturities of investments and reinvestments | 620,284,495          | 1,003,830,593        |
| Investment income   | 16,179,986           | 18,191,995           |
| Purchases of investments  | <u>(556,234,148)</u> | <u>(958,313,676)</u> |
| Net cash provided by investing activities                           | <u>80,230,333</u>    | <u>63,708,912</u>    |
| Net (decrease) increase in cash and cash equivalents                | (25,925,609)         | 14,724,634           |
| <b>Cash and cash equivalents - beginning of year</b>                | <u>97,356,321</u>    | <u>82,631,687</u>    |
| <b>Cash and cash equivalents - end of year</b>                      | <u>\$ 71,430,712</u> | <u>\$ 97,356,321</u> |

See accompanying notes to financial statements.

**AUBURN UNIVERSITY**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

|   | 2013                    | 2012                    |
|---|-------------------------|-------------------------|
| <b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</b> |                         |                         |
| Operating loss  | \$ (264,533,609)        | \$ (255,617,982)        |
| Adjustments to reconcile operating loss to net cash used in operating activities: |                         |                         |
| Depreciation  | 66,064,924              | 61,104,001              |
| Reserve for (recovery of) loans receivable  | 1,210,350               | (120,430)               |
| Loss on sale of capital assets  | 411,103                 | 2,948,970               |
| Changes in assets and liabilities:  |                         |                         |
| Accounts receivable   | 2,703,143               | (1,856,452)             |
| Student accounts receivable   | 1,746,381               | (893,627)               |
| Inventories   | 174,054                 | (909,912)               |
| Unearned revenue  | 4,271,174               | 12,120,743              |
| Accounts payable  | 2,925,207               | 15,453,574              |
| Prepaid expenses  | (67,287)                | (2,888,789)             |
| Accrued salaries, wages and compensated absences                                  | 697,966                 | 45,094                  |
| Student deposits and deposits held in custody                                     | 970,333                 | 1,151,946               |
| Loans to students   | 63,019                  | (519,843)               |
| Other accrued liabilities   | 3,454,697               | (303,691)               |
| Nonexchange transactions  | 167,242                 | 179,752                 |
| Other noncurrent liabilities  | (2,404,431)             | 4,109,430               |
| Net cash used in operating activities   | <u>\$ (182,145,734)</u> | <u>\$ (165,997,216)</u> |

**SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION**

|  |              |               |
|--|--------------|---------------|
| Capital assets acquired with a liability at year end | \$ 9,986,306 | \$ 19,492,748 |
| Gifts of capital assets                              | 3,774,237    | 2,361,703     |
| Capitalized interest                                 | 21,004,825   | 25,154,169    |

*See accompanying notes to financial statements.*

**AUBURN UNIVERSITY COMPONENT UNITS**  
**STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2013 AND 2012**

|  | Auburn University Foundation |                       | Auburn Alumni Association |                      |
|--|------------------------------|-----------------------|---------------------------|----------------------|
|  | 2013                         | 2012                  | 2013                      | 2012                 |
| <b>ASSETS</b>  |                              |                       |                           |                      |
| Cash and cash equivalents                                  | \$ 1,373,367                 | \$ 2,146,059          | \$ 58,870                 | \$ 58,447            |
| Investments  | 366,370,535                  | 323,877,142           | 4,173,764                 | 4,008,504            |
| Investment in Auburn University Foundation Securities Pool | -                            | -                     | 8,451,707                 | 7,521,948            |
| Accrued interest receivable                                | 82,936                       | 146,490               | 15,453                    | 8,044                |
| Contributions receivable, net                              | 56,501,674                   | 25,850,614            | 467,515                   | 522,955              |
| Other assets   | 27,471                       | 51,116                | 272                       | 1,211                |
| Investment in real estate                                  | 3,802,131                    | 2,426,897             | 674,799                   | 674,799              |
| Cash surrender value of life insurance                     | 4,633,863                    | 4,398,340             | -                         | -                    |
| Beneficial interest in outside trusts                      | 4,533,281                    | 4,520,683             | -                         | -                    |
| Property and equipment, net                                | 290,175                      | 373,151               | 1,889,526                 | 1,899,551            |
| Prepaid rent   | -                            | -                     | 26                        | 27                   |
| Due from Auburn University                                 | 130,222                      | 141,300               | -                         | -                    |
| Due from Auburn University Foundation                      | -                            | -                     | 390                       | -                    |
| <b>Total assets</b>  | <b>\$ 437,745,655</b>        | <b>\$ 363,931,792</b> | <b>\$ 15,732,322</b>      | <b>\$ 14,695,486</b> |
| <b>LIABILITIES</b>   |                              |                       |                           |                      |
| Accounts payable and accrued liabilities                   | \$ 215,336                   | \$ 132,511            | \$ 31,380                 | \$ 85,025            |
| Annuities payable  | 9,032,840                    | 6,459,762             | -                         | -                    |
| Due to Auburn University                                   | 48,270                       | 10,215                | 3,211                     | 7,981                |
| Due to Auburn University Foundation                        | -                            | -                     | 205,704                   | 16,800               |
| Due to Auburn Alumni Association                           | 8,452,093                    | 7,523,855             | -                         | -                    |
| Due to Tigers Unlimited Foundation                         | 7,984,570                    | 7,081,653             | -                         | -                    |
| Deferred revenue   | 52,626                       | 104,450               | 8,297,710                 | 8,150,857            |
| <b>Total liabilities</b>                                   | <b>25,785,735</b>            | <b>21,312,446</b>     | <b>8,538,005</b>          | <b>8,260,663</b>     |
| <b>NET ASSETS</b>  |                              |                       |                           |                      |
| Unrestricted   | 20,524,121                   | 17,619,650            | 7,194,317                 | 6,434,823            |
| Temporarily restricted                                     | 93,759,484                   | 67,403,823            | -                         | -                    |
| Permanently restricted                                     | 297,676,315                  | 257,595,873           | -                         | -                    |
| <b>Total net assets</b>                                    | <b>411,959,920</b>           | <b>342,619,346</b>    | <b>7,194,317</b>          | <b>6,434,823</b>     |
| <b>Total liabilities and net assets</b>                    | <b>\$ 437,745,655</b>        | <b>\$ 363,931,792</b> | <b>\$ 15,732,322</b>      | <b>\$ 14,695,486</b> |

See accompanying notes to financial statements.

**AUBURN UNIVERSITY COMPONENT UNITS**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

|  | Auburn University Foundation |                       | Auburn Alumni Association |                     |
|--|------------------------------|-----------------------|---------------------------|---------------------|
|  | 2013                         | 2012                  | 2013                      | 2012                |
| <b>REVENUES AND OTHER SUPPORT</b>                  |                              |                       |                           |                     |
| Public support - contributions                     | \$ 65,656,935                | \$ 37,611,370         | \$ 1,748,427              | \$ 1,558,661        |
| Investment income                                  | 2,722,858                    | 1,551,994             | 333,983                   | 337,637             |
| Other revenues                                     | 2,063,374                    | 2,347,268             | 948,257                   | 747,229             |
| Total operating revenues                           | <u>70,443,167</u>            | <u>41,510,632</u>     | <u>3,030,667</u>          | <u>2,643,527</u>    |
| <b>EXPENSES AND LOSSES</b>                         |                              |                       |                           |                     |
| Program services                                   |                              |                       |                           |                     |
| Contributions to and support for Auburn University | 27,796,485                   | 26,841,051            | -                         | -                   |
| Other program services                             | 2,755,692                    | 2,867,100             | 732,384                   | 738,325             |
| Total program services                             | <u>30,552,177</u>            | <u>29,708,151</u>     | <u>732,384</u>            | <u>738,325</u>      |
| Support services                                   |                              |                       |                           |                     |
| General and administrative                         | 1,277,134                    | 1,398,912             | 1,769,421                 | 1,850,920           |
| Fund raising                                       | 2,937,528                    | 2,717,525             | 267,158                   | 241,401             |
| Total support services                             | <u>4,214,662</u>             | <u>4,116,437</u>      | <u>2,036,579</u>          | <u>2,092,321</u>    |
| Total expenses                                     | 34,766,839                   | 33,824,588            | 2,768,963                 | 2,830,646           |
| Unrealized (gains) losses on investments, net      | (28,622,499)                 | (24,994,725)          | (497,790)                 | (463,842)           |
| Realized (gains) losses on investments, net        | (4,771,963)                  | (4,060,794)           | -                         | -                   |
| Change in valuation of split-interest agreements   | (319,601)                    | (1,593,483)           | -                         | -                   |
| Impairment in real estate                          | 49,817                       | 35,090                | -                         | -                   |
| Total expenses, (gains) and losses                 | <u>1,102,593</u>             | <u>3,210,676</u>      | <u>2,271,173</u>          | <u>2,366,804</u>    |
| <br>   |                              |                       |                           |                     |
| *Change in net assets                              | 69,340,574                   | 38,299,956            | 759,494                   | 276,723             |
| <b>Net assets - beginning of year</b>              | <u>342,619,346</u>           | <u>304,319,390</u>    | <u>6,434,823</u>          | <u>6,158,100</u>    |
| <b>Net assets - end of year</b>                    | <u>\$ 411,959,920</u>        | <u>\$ 342,619,346</u> | <u>\$ 7,194,317</u>       | <u>\$ 6,434,823</u> |
| <br>   |                              |                       |                           |                     |
| *Change in net assets                              |                              |                       |                           |                     |
| Unrestricted                                       | \$ 2,904,471                 | \$ 9,134,835          | \$ 759,494                | \$ 276,723          |
| Temporarily restricted                             | 26,355,661                   | 14,274,270            | -                         | -                   |
| Permanently restricted                             | 40,080,442                   | 14,890,851            | -                         | -                   |
| Total change in net assets                         | <u>\$ 69,340,574</u>         | <u>\$ 38,299,956</u>  | <u>\$ 759,494</u>         | <u>\$ 276,723</u>   |

See accompanying notes to financial statements.

**AUBURN UNIVERSITY COMPONENT UNITS**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2013 AND 2012**

|  | <b>Tigers Unlimited Foundation</b> |                             |
|--|------------------------------------|-----------------------------|
|  | <b>2013</b>                        | <b>2012</b>                 |
| <b>ASSETS</b>  |                                    |                             |
| Cash and cash equivalents                                  | \$ 1,026,747                       | \$ 660,212                  |
| Investments  | 38,714,112                         | 42,094,386                  |
| Investment in Auburn University Foundation Securities Pool | 7,543,528                          | 6,770,285                   |
| Due from Auburn University                                 | 504,245                            | 5                           |
| Due from Auburn University Foundation                      | 143,221                            | -                           |
| Accrued interest receivable                                | 101,308                            | 78,354                      |
| Contributions receivable, net                              | 8,923,837                          | 7,745,463                   |
| Other receivables  | 923,255                            | 669,251                     |
| Other assets   | 257,364                            | 199,504                     |
| Property and equipment, net                                | <u>164,640</u>                     | <u>9,127</u>                |
| <b>Total assets</b>  | <b><u>\$ 58,302,257</u></b>        | <b><u>\$ 58,226,587</u></b> |
| <br><b>LIABILITIES</b>                                     |                                    |                             |
| Accounts payable and accrued liabilities                   | \$ 523,711                         | \$ 323,458                  |
| Contracts payable, net                                     | 8,779,544                          | -                           |
| Deferred revenue   | 1,514,672                          | 1,295,858                   |
| Due to Auburn University                                   | <u>2,508,750</u>                   | <u>2,565,950</u>            |
| <b>Total liabilities</b>                                   | <b><u>13,326,677</u></b>           | <b><u>4,185,266</u></b>     |
| <br><b>NET ASSETS</b>                                      |                                    |                             |
| Unrestricted   | 23,013,931                         | 34,215,016                  |
| Temporarily restricted                                     | 14,989,563                         | 12,875,448                  |
| Permanently restricted                                     | <u>6,972,086</u>                   | <u>6,950,857</u>            |
| <b>Total net assets</b>                                    | <b><u>44,975,580</u></b>           | <b><u>54,041,321</u></b>    |
| <b>Total liabilities and net assets</b>                    | <b><u>\$ 58,302,257</u></b>        | <b><u>\$ 58,226,587</u></b> |

*See accompanying notes to financial statements.*

**AUBURN UNIVERSITY COMPONENT UNITS**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

|   | <b>Tigers Unlimited Foundation</b> |                      |
|---|------------------------------------|----------------------|
|   | <b>2013</b>                        | <b>2012</b>          |
| <b>REVENUES AND OTHER SUPPORT</b>                     |                                    |                      |
| Public support - contributions                        | \$ 29,882,610                      | \$ 29,144,504        |
| Investment income                                     | 606,399                            | 626,700              |
| Other revenues  | <u>4,680,650</u>                   | <u>4,910,105</u>     |
| Total operating revenues                              | <u>35,169,659</u>                  | <u>34,681,309</u>    |
| <br><b>EXPENSES AND LOSSES</b>                        |                                    |                      |
| Program services                                      |                                    |                      |
| Contributions to and support<br>for Auburn University | 11,212,529                         | 13,157,617           |
| Other program services                                | <u>23,586,742</u>                  | <u>10,508,502</u>    |
| Total program services                                | <u>34,799,271</u>                  | <u>23,666,119</u>    |
| Support services                                      |                                    |                      |
| General and administrative                            | 1,015,323                          | 1,011,146            |
| Fund raising  | <u>6,696,726</u>                   | <u>6,191,663</u>     |
| Total support services                                | <u>7,712,049</u>                   | <u>7,202,809</u>     |
| Total expenses  | 42,511,320                         | 30,868,928           |
| Unrealized (gains) losses on investments, net         | 418,852                            | 213,590              |
| Realized (gains) losses on investments, net           | 1,422                              | 1,151                |
| Loss on write-off of contribution receivable          | <u>1,303,806</u>                   | <u>467,044</u>       |
| Total expenses, (gains) and losses                    | <u>44,235,400</u>                  | <u>31,550,713</u>    |
| <br>*Change in net assets                             | <br>(9,065,741)                    | <br>3,130,596        |
| <b>Net assets - beginning of year</b>                 | <u>54,041,321</u>                  | <u>50,910,725</u>    |
| <b>Net assets - end of year</b>                       | <u>\$ 44,975,580</u>               | <u>\$ 54,041,321</u> |
| <br>*Change in net assets                             |                                    |                      |
| Unrestricted  | \$ (11,201,085)                    | \$ 1,949,197         |
| Temporarily restricted                                | 2,114,115                          | 1,161,663            |
| Permanently restricted                                | <u>21,229</u>                      | <u>19,736</u>        |
| Total change in net assets                            | <u>\$ (9,065,741)</u>              | <u>\$ 3,130,596</u>  |

See accompanying notes to financial statements.

**AUBURN UNIVERSITY COMPONENT UNITS**  
**STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2013 AND 2012**

**Auburn Research and Technology Foundation**

|   | 2013                 | 2012                |
|---|----------------------|---------------------|
| <b>ASSETS</b>                           |                      |                     |
| Cash and cash equivalents               | \$ 596,616           | \$ 626,705          |
| Deposits                                | 39,486               | 27,113              |
| Other assets                            | 25,846               | 15,695              |
| Accounts receivable                     | 58,091               | 40,817              |
| Contributions receivable, net           | 1,127,444            | 357,010             |
| Property and equipment, net             | <u>8,860,973</u>     | <u>8,798,746</u>    |
| <b>Total assets</b>                     | <u>\$ 10,708,456</u> | <u>\$ 9,866,086</u> |
| <b>LIABILITIES</b>                      |                      |                     |
| Accounts payable                        | \$ 58,707            | \$ 55,015           |
| Deferred revenue                        | 151,507              | 119,179             |
| Deposits held in custody                | 39,486               | 27,113              |
| Interest payable                        | 37,924               | 39,310              |
| Loan payable to Auburn University       | 912,314              | 945,662             |
| Other payable to Auburn University      | <u>72,018</u>        | <u>96,156</u>       |
| <b>Total liabilities</b>                | <u>1,271,956</u>     | <u>1,282,435</u>    |
| <b>NET ASSETS</b>                       |                      |                     |
| Unrestricted                            | 8,309,016            | 8,226,601           |
| Temporarily restricted                  | <u>1,127,484</u>     | <u>357,050</u>      |
| <b>Total net assets</b>                 | <u>9,436,500</u>     | <u>8,583,651</u>    |
| <b>Total liabilities and net assets</b> | <u>\$ 10,708,456</u> | <u>\$ 9,866,086</u> |

*See accompanying notes to financial statements.*

**AUBURN UNIVERSITY COMPONENT UNITS**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

**Auburn Research and Technology Foundation**

**2013**

**2012**

**REVENUES AND OTHER SUPPORT**

|                          |                  |                |
|--------------------------|------------------|----------------|
| Rental income            | \$ 681,665       | \$ 655,030     |
| Other contracts          | 177,469          | 143,867        |
| Contributions            | <u>1,133,185</u> | <u>16,613</u>  |
| Total operating revenues | <u>1,992,319</u> | <u>815,510</u> |

**EXPENSES AND LOSSES**

|                            |                  |                  |
|----------------------------|------------------|------------------|
| Support services           |                  |                  |
| General and administrative | 787,392          | 757,072          |
| Amortization               | 28,313           | 22,214           |
| Depreciation               | 284,961          | 252,574          |
| Interest                   | <u>38,804</u>    | <u>40,220</u>    |
| Total support services     | <u>1,139,470</u> | <u>1,072,080</u> |
| Total expenses             | 1,139,470        | 1,072,080        |

\*Change in net assets 852,849 (256,570)

**Net assets - beginning of year** 8,583,651 8,840,221

**Net assets - end of year** \$ 9,436,500 \$ 8,583,651

|                            |                   |                     |
|----------------------------|-------------------|---------------------|
| *Change in net assets      |                   |                     |
| Unrestricted               | \$ 82,415         | \$ (236,420)        |
| Temporarily restricted     | <u>770,434</u>    | <u>(20,150)</u>     |
| Total change in net assets | <u>\$ 852,849</u> | <u>\$ (256,570)</u> |

*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 to Auburn University. The University has two campuses, Auburn and Montgomery, with a combined enrollment of 29,960 students for Fall Semester 2013. 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) who are 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). The accompanying financial statements include the following four divisions of the University:

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

### Reporting Entity

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

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

Auburn University Foundation and 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.

Auburn Research and Technology Foundation and 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.

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 Section 501(c)(3) of the Internal Revenue Code.

Contributions intended for the University's benefit are primarily received through Auburn University Foundation, Tigers Unlimited Foundation, Auburn Research and Technology Foundation, 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. During fiscal year 2013, the University adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an Amendment of GASB Statements No. 14 and No. 34*. Due to the fact that the exclusion of such organizations would render the entity's financial statements misleading or incomplete, the University has included statements for Auburn University Foundation, Tigers Unlimited Foundation, Auburn Alumni Association and Auburn Research and Technology Foundation in these financial statements. Auburn University Real Estate Foundation, Inc. has been consolidated into Auburn University Foundation's financial statements, as an affiliated supporting organization. The University's component units' financial statements are presented following the University's statements. Due to the immateriality of the Auburn Spirit Foundation for Scholarships, presentation and disclosure of its statements are not included. The component units are not GASB entities; therefore, their respective financial statements adhere to accounting principles under the Financial Accounting Standards Board (FASB) Accounting Standards Codification.

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.

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

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 University's campus. ARTF's activities are governed by its own Board of Directors.

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. ASFS's activities are governed by its own Board of Directors.

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

The component units are not-for-profit organizations that report financial results under principles prescribed by the FASB. Authoritative accounting guidance for these units' transactions is found under the Accounting Standards Codification (ASC).

The financial statements of the component units have been prepared on the accrual basis of accounting. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the component units 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 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, the component units 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, the Association, and ASFS may be obtained by writing to the applicable entity at 317 South College Street, Auburn University, Alabama 36849. Financial statements for TUF may be obtained by writing to Athletic Complex, 392 South Donahue Drive, Auburn University, Alabama 36849. Financial statements for ARTF may be obtained by writing to 570 Devall Drive, Suite 101, Auburn, Alabama 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*. During fiscal year 2013, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (see Note 2). 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 position categories.

- **Net investment in capital assets:** Capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred inflows and outflows of resources attributable to the acquisition, construction, or improvement of those assets or related debt would also be included in this component of net position. Unexpended related debt proceeds and the related debt attributable to the unspent amount, as well as deferred inflows of resources, if applicable, are not reported in net investment in capital assets, but in restricted or unrestricted net position.
- **Restricted net position:** The restricted component of net position consists of Nonexpendable and Expendable elements.  
**Nonexpendable** – Net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources subject to externally imposed stipulations that they be maintained permanently by the University. This element includes the University's permanent endowment funds.  
**Expendable** – Net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 position:** Net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not subject to externally imposed stipulations or included in the determination of net investment in capital assets. Unrestricted net position may be designated for specific purposes by action of management or the Board. Substantially all unrestricted net position is designated for academic and research programs and initiatives, capital projects, and auxiliary units.

GASB Statements No. 35 and No. 63 also require three statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

### Basis of Accounting

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

GASB Statement No. 35 requires the recording of depreciation on capital assets, accrual or deferral of revenue associated with certain grants and contracts, accrual of interest expense, accounting for certain scholarship

allowances as a reduction of revenue, classification of federal refundable loans as a liability, and capitalization and depreciation of equipment with a sponsor reversionary interest.

**Use of Estimates**

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

**(2) REVISION OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

During 2013, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as well as GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The adoption of these Statements require retroactive application. In addition, certain reclassifications have been made to the 2012 financial statements in order to conform them to the 2013 financial statement presentation. The impacts of the adoption of GASB Statements No. 63 and No. 65 as well as the reclassifications between financial statement line items on the previously published 2012 amounts are shown below (see Notes 9 and 15):

|  | Adoption/<br>Reclass | As Previously Reported<br>September 30, 2012 | Adoption<br>Adjustment/Reclass | New Presentation<br>September 30, 2012 |
|--|----------------------|--|--------------------------------|--|
| <b>ASSETS</b>  |                      |  |                                |  |
| Student accounts receivable, net   | Reclass              | \$ 36,106,557                                | \$ 40,239                      | \$ 36,146,796                          |
| Prepaid expenses   | Adoption             | \$ 40,068,511                                | \$ (4,854,260)                 | \$ 35,214,251                          |
| <b>Total assets</b>  |                      | <u>\$ 2,624,666,285</u>                      | <u>\$ (4,814,021)</u>          | <u>\$ 2,619,852,264</u>                |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>  |                      |  |                                |  |
| Loss on refunding of bonds   | Adoption             | \$ -   | \$ 12,813,756                  | \$ 12,813,756                          |
| <b>LIABILITIES</b>   |                      |  |                                |  |
| Student deposits   | Reclass              | \$ 2,238,003                                 | \$ 40,239                      | \$ 2,278,242                           |
| Unearned revenues (previously called "Deferred revenues")  | Adoption             | \$ 169,772,354                               | \$ (179,752)                   | \$ 169,592,602                         |
| Noncurrent liabilities-current portion   | Adoption             | \$ 21,045,075                                | \$ 1,741,766                   | \$ 22,786,841                          |
| Bonds and notes payable  | Adoption             | \$ 750,425,261                               | \$ 11,509,616                  | \$ 761,934,877                         |
| <b>Total liabilities</b>   |                      | <u>\$ 1,101,802,731</u>                      | <u>\$ 13,111,869</u>           | <u>\$ 1,114,914,600</u>                |
| <b>DEFERRED INFLOWS OF RESOURCES</b>   |                      |  |                                |  |
| Nonexchange transactions   | Adoption             | \$ -   | \$ 179,752                     | \$ 179,752                             |
| <b>NET POSITION</b>  |                      |  |                                |  |
| Net investment in capital assets (previously called "Invested in capital assets, net of related debt") | Adoption             | \$ 738,586,642                               | \$ (5,291,886)                 | \$ 733,294,756                         |
| <b>Total net position (previously shown as "net assets")</b>   |                      | <u>\$ 1,522,863,554</u>                      | <u>\$ (5,291,886)</u>          | <u>\$ 1,517,571,668</u>                |
| <b>OPERATING EXPENSES</b>  |                      |  |                                |  |
| Utilities  | Reclass              | \$ 23,425,151                                | \$ (277,997)                   | \$ 23,147,154                          |
| Other supplies and services  | Reclass              | \$ -   | \$ 277,997                     | \$ -                                   |
| Other supplies and services  | Reclass              | \$ -   | \$ 1,241,162                   | \$ -                                   |
| Other supplies and services  | Subtotal             | \$ 214,703,052                               | \$ 1,519,159                   | \$ 216,222,211                         |
| <b>Total operating expenses</b>  |                      | <u>\$ 856,818,917</u>                        | <u>\$ 1,241,162</u>            | <u>\$ 858,060,079</u>                  |
| <b>NONOPERATING REVENUES (EXPENSES)</b>  |                      |  |                                |  |
| Interest expense on capital debt   | Reclass              | \$ -   | \$ 1,241,162                   | \$ -                                   |
| Interest expense on capital debt   | Adoption             | \$ -   | \$ (202,265)                   | \$ -                                   |
| Interest expense on capital debt   | Subtotal             | \$ (10,344,360)                              | \$ 1,038,897                   | \$ (9,305,463)                         |
| <b>Total nonoperating revenues, net</b>  |                      | <u>\$ 324,055,631</u>                        | <u>\$ 1,038,897</u>            | <u>\$ 325,094,528</u>                  |
| <b>Net increase in net position</b>  | Adoption             | \$ 87,443,314                                | \$ (202,265)                   | \$ 87,241,049                          |
| Net position - beginning of year   | Adoption             | \$ 1,435,420,240                             | \$ (5,089,621)                 | \$ 1,430,330,619                       |
| Net position - end of year   | Adoption             | \$ 1,522,863,554                             | \$ (5,291,886)                 | \$ 1,517,571,668                       |

### (3) 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 Position, with all net realized and unrealized gains and losses reflected in the Statement of Revenues, Expenses and Changes in Net Position. 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 5). 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. This Statement defines custodial risk for deposits as “the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.” As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values which are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement are also required to be disclosed (see Note 5).

The University employs a custodian to hold, and external investment managers to administer, the majority of its endowed investments and records transactions related to these investments based upon the University’s review of the custodian’s 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 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, Scientific Supply Store, Chemistry Glass Shop, 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 and gifts of land, buildings and equipment are carried at cost at date of acquisition or, in the case of gifts, at fair 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.

Art collections and historical treasures are capitalized and valued at cost or fair 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 or changes in circumstance to determine whether an impairment loss should be recorded and whether any insurance recoveries should be offset against the impairment loss. The University did not incur any losses related to asset impairment during fiscal year 2013 or 2012.

#### Unearned Revenues

Unearned 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. Unearned revenues also consist of amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreements. Amounts received from grant sponsors for which the only unmet term of the agreement is timing (i.e. funds may not be spent until a certain date) are classified as deferred inflows of resources in accordance with GASB Statement No. 65. All other unearned revenue is classified as a current liability (see Note 14).

#### 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 to be recorded as nonoperating revenues. These revenues include state appropriations, private gifts, federal Pell grants 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 Position. 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.

### **(4) 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, the standard Federal Deposit Insurance Corporation (FDIC) is \$250,000 per depositor, per insured bank, for each account ownership category.

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

### **(5) 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 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, banker's acceptances, commercial paper, certificates of deposit, municipals, U.S. Treasury obligations, U.S. Agency securities and mortgage-backed securities.

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

Diversification through asset allocation is utilized as a fundamental risk strategy for endowed funds. These strategic allocations represent a blend of assets best suited, over the long term, to achieve maximum returns without violating the risk parameters established by the Board. The Endowment Investment Policy, approved April 20, 2012, authorizes investment of the endowment portfolio to include the following: cash and cash equivalents; global fixed income; global equity securities; global 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 April 20, 2012, 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 (4.0%) applied to the twelve month rolling average of the market values. Under previous approved policies, spending was calculated using different formulas. Accumulated net realized and unrealized gains on endowments and funds functioning as endowments total \$27,353,552 and \$22,542,978 at September 30, 2013 and 2012, respectively, and are recorded as restricted expendable net position.

The components of the accumulated net gains in the fair value of investments for the years ended September 30, 2013 and 2012, are as follows:

|   | 2013                 | 2012                 |
|---|----------------------|----------------------|
| Accumulated net realized gains on sale of investments | \$ 10,238,974        | \$ 14,275,265        |
| Accumulated net unrealized gains                      | 17,114,578           | 8,267,713            |
| Net increase in fair value of investments             | <u>\$ 27,353,552</u> | <u>\$ 22,542,978</u> |

### Investment Risks

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

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

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

The following segmented time distribution tables provide information as of September 30, 2013 and 2012, covering the fair value of investments by investment type and related maturity:

| Auburn University Investments<br>Investment Maturities at Fair Value (in Years)<br>September 30, 2013 |                      |                       |                       |                      |                       |
|---|----------------------|-----------------------|-----------------------|----------------------|-----------------------|
| Type of Investments   | < 1 year             | 1-5 years             | 6-10 years            | > 10 years           | Total Fair Value      |
| Fixed Maturity  |                      |                       |                       |                      |                       |
| Certificates of Deposit   | \$ -                 | \$ 709,668            | \$ -                  | \$ -                 | \$ 709,668            |
| U.S. Treasury Obligations   | 31,473,698           | 67,812,643            | 34,430,465            | -                    | 133,716,806           |
| U.S. Agency Securities  | 17,302,084           | 258,813,778           | 207,955,643           | 52,159,389           | 536,230,894           |
| Mortgage Backed Securities  | -                    | 3,039,442             | 13,442,648            | 22,176,896           | 38,658,986            |
| Municipals  | -                    | 395,568               | 990,468               | -                    | 1,386,036             |
|   | <u>\$ 48,775,782</u> | <u>\$ 330,771,099</u> | <u>\$ 256,819,224</u> | <u>\$ 74,336,285</u> | <u>\$ 710,702,390</u> |
| Domestic Equities   |                      |                       |                       |                      | 1,106,576             |
| Alternative Investments – at cost:  |                      |                       |                       |                      |                       |
| Hedge Funds   |                      |                       |                       |                      | 46,800,191            |
| Private Capital   |                      |                       |                       |                      | 12,849,926            |
| Real Assets   |                      |                       |                       |                      | 21,104,614            |
| Real Estate   |                      |                       |                       |                      | 740,750               |
| Mutual Funds  |                      |                       |                       |                      | 101,534,844           |
| Other   |                      |                       |                       |                      | 3,878,734             |
| Money Market  |                      |                       |                       |                      | 77,781,273            |
| Total investments   |                      |                       |                       |                      | <u>976,499,298</u>    |
| Less cash equivalents held in cash pool   |                      |                       |                       |                      | (67,950,000)          |
| Operating and noncurrent investments  |                      |                       |                       |                      | <u>\$ 908,549,298</u> |

**Auburn University Investments**  
**Investment Maturities at Fair Value (in Years)**  
**September 30, 2012**

| Type of Investments                     | < 1 year              | 1-5 years             | 6-10 years            | > 10 years           | Total Fair Value      |
|---|-----------------------|-----------------------|-----------------------|----------------------|-----------------------|
| Fixed Maturity                          |                       |                       |                       |                      |                       |
| Commercial Paper                        | \$ 58,962,307         | \$ -                  | \$ -                  | \$ -                 | \$ 58,962,307         |
| Certificates of Deposit                 | -                     | 722,627               | -                     | -                    | 722,627               |
| U.S. Treasury Obligations               | 34,799,347            | 27,106,732            | 44,728,908            | -                    | 106,634,987           |
| U.S. Agency Securities                  | 12,878,076            | 224,786,331           | 289,855,165           | 60,145,846           | 587,665,418           |
| Mortgage Backed Securities              | -                     | 26,797                | 10,890,908            | 36,641,807           | 47,559,512            |
| Municipals                              | -                     | -                     | 1,439,847             | -                    | 1,439,847             |
|   | <u>\$ 106,639,730</u> | <u>\$ 252,642,487</u> | <u>\$ 346,914,828</u> | <u>\$ 96,787,653</u> | <u>\$ 802,984,698</u> |
| Domestic Equities                       |                       |                       |                       |                      | 954,801               |
| Alternative Investments – at cost:      |                       |                       |                       |                      |                       |
| Hedge Funds                             |                       |                       |                       |                      | 56,843,085            |
| Private Capital                         |                       |                       |                       |                      | 13,071,882            |
| Real Assets                             |                       |                       |                       |                      | 21,119,918            |
| Real Estate                             |                       |                       |                       |                      | 740,750               |
| Mutual Funds                            |                       |                       |                       |                      | 73,729,429            |
| Other                                   |                       |                       |                       |                      | 3,467,027             |
| Money Market                            |                       |                       |                       |                      | 86,186,567            |
| Total investments                       |                       |                       |                       |                      | <u>1,059,098,157</u>  |
| Less cash equivalents held in cash pool |                       |                       |                       |                      | <u>(83,667,377)</u>   |
| Operating and noncurrent investments    |                       |                       |                       |                      | <u>\$ 975,430,780</u> |

- Custodial Credit Risk** – GASB Statement No. 40 defines investment custodial risk as “the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.” Although no formal policy has been adopted, the University requires its safekeeping agents to hold all securities in the University’s name for both the Cash Pool and the Endowment Pool. Certain limited partnership investments in Private Capital and Real Assets 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’s 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. Banker’s 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, 2013 and 2012, concerning credit quality risk:

| <b>Auburn University Investments</b><br><b>Ratings of Fixed Maturities</b> |                       |   |                       |   |
|--|-----------------------|---|-----------------------|---|
| Moody’s Rating   | Fair Value            | Fair Value as a % of Total Fixed Maturity |                       | Fair value as a % of Total Fixed Maturity |
|  |                       | Fair Value                                | Fair Value            |   |
|  |                       | 2013                                      | 2012                  |   |
| US Treasury  | \$ 133,716,806        | 18.81%                                    | \$ 106,634,987        | 13.28%                                    |
| Aaa  | 574,889,880           | 80.89%                                    | 635,224,930           | 79.11%                                    |
| Aa   | 1,386,036             | 0.20%                                     | 1,439,847             | 0.18%                                     |
| P1   | -                     | -   | 58,962,307            | 7.34%                                     |
| Not rated*   | 709,668               | 0.10%                                     | 722,627               | 0.09%                                     |
|  | <u>\$ 710,702,390</u> | <u>100.00%</u>                            | <u>\$ 802,984,698</u> | <u>100.00%</u>                            |

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

- **Concentration of Credit Risk** – GASB Statement No. 40 defines concentration of credit risk as “the risk of loss attributed to the magnitude of a government’s investment in a single issuer.” The University Non-Endowment Cash Pool Investment Policy does not limit the aggregate amounts that can be invested in U.S. Treasury securities with the explicit guarantee of the U.S. Government or U.S. Agency securities that carry the implicit guarantee of the U.S. Government. As of September 30, 2013 and 2012, 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, 2013 and 2012, the University held no investments in foreign currency.

#### Securities Lending Program

As of September 30, 2013 and 2012, there was no participation in any securities lending program.

#### Interest Sensitive Securities

As of September 30, 2013 and 2012, the University held \$38,658,986 and \$47,559,512, representing 4.0% and 4.5%, respectively, of its total investments in mortgage-backed securities. As of September 30, 2013

and 2012, the University held no investments in asset-backed securities. The mortgage-backed investments have embedded prepayment options that are expected to fluctuate with interest rate changes. Generally, this variance presents itself in variable repayment amounts, uncertain early or extended payments.

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, 2013 and 2012, the University Cash Pool held \$40,981,220 and \$14,966,250, representing 4.2% and 1.4%, respectively, of total investments in continuously callable fixed maturity investments. The University investment policies do not restrict the purchase of mortgage-backed securities, asset-backed securities, or bonds with call provisions.

The University owns shares in eleven mutual funds and three 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, 2013 and 2012:

| 2013   |                       |                       |                       |             |                     |                     |                     |                           |
|--|-----------------------|-----------------------|-----------------------|-------------|---------------------|---------------------|---------------------|---------------------------|
| Unfunded Commitment by Commitment Expiration |                       |                       |                       |             |                     |                     |                     |                           |
| Type of Alternative Investment               | Number of Commitments | Original Commitments  | Capital Contributions | < 1 Year    | 1-5 years           | 6-10 years          | >10 years           | Total Unfunded Commitment |
| Hedge Funds                                  | 9                     | \$ 47,750,000         | \$ 47,750,000         | \$ -        | \$ -                | \$ -                | \$ -                | \$ -                      |
| Private Capital                              | 12                    | 28,250,000            | 20,037,628            | -           | 2,657,317           | 1,976,321           | 3,578,734           | 8,212,372                 |
| Real Assets                                  | 12                    | 45,800,000            | 35,762,472            | -           | 2,264,031           | 5,749,909           | 2,023,588           | 10,037,528                |
|  | <u>33</u>             | <u>\$ 121,800,000</u> | <u>\$ 103,550,100</u> | <u>\$ -</u> | <u>\$ 4,921,348</u> | <u>\$ 7,726,230</u> | <u>\$ 5,602,322</u> | <u>\$ 18,249,900</u>      |

| 2012   |                       |                       |                       |             |                     |                      |                     |                           |
|--|-----------------------|-----------------------|-----------------------|-------------|---------------------|----------------------|---------------------|---------------------------|
| Unfunded Commitment by Commitment Expiration |                       |                       |                       |             |                     |                      |                     |                           |
| Type of Alternative Investment               | Number of Commitments | Original Commitments  | Capital Contributions | < 1 Year    | 1-5 years           | 6-10 years           | >10 years           | Total Unfunded Commitment |
| Hedge Funds                                  | 13                    | \$ 62,650,000         | \$ 62,650,000         | \$ -        | \$ -                | \$ -                 | \$ -                | \$ -                      |
| Private Capital                              | 11                    | 25,250,000            | 17,371,654            | -           | 780,041             | 2,979,035            | 4,119,270           | 7,878,346                 |
| Real Assets                                  | 13                    | 45,550,000            | 33,933,074            | -           | 1,084,224           | 8,098,166            | 2,434,536           | 11,616,926                |
|  | <u>37</u>             | <u>\$ 133,450,000</u> | <u>\$ 113,954,728</u> | <u>\$ -</u> | <u>\$ 1,864,265</u> | <u>\$ 11,077,201</u> | <u>\$ 6,553,806</u> | <u>\$ 19,495,272</u>      |

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

As of September 30, 2013 and 2012, 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, 2013 and 2012, the University was not a party in any swap or other derivative contracts.

The table entitled, "Auburn University Investments, Investment Maturities at Fair Value (in Years)", includes funds held for pending capital expenditures at September 30, 2013, as follows: \$6,176,976, 2006 General Fee Bond proceeds; \$15,562,174, 2011 General Fee Bond proceeds; \$3,995,414, 2012A General Fee Bond proceeds; and \$53,367,625, Deferred Maintenance Building Fund. The General Liability Account holds investments of \$5,728,852.

At September 30, 2012 funds held for pending capital expenditures were as follows: \$3,004,452, 2004 General Fee Bond proceeds; \$10,511,897, 2006 General Fee Bond proceeds; \$103,980,902, 2011 General Fee Bond proceeds; \$24,330,452, 2012A General Fee Bond proceeds; and \$55,220,002, Deferred Maintenance Building Fund. The General Liability Account held investments of \$5,737,303.

AUF holds endowments and distributes earnings from those endowments to the University. AUF investments at September 30, 2013 and 2012, include the following:

|   | 2013                  |                       | 2012                  |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | Fair Value            | Cost                  | Fair Value            | Cost                  |
| Cash and pooled investments                               | \$ 8,362,274          | \$ 8,362,274          | \$ 4,211,940          | \$ 4,211,940          |
| Government bonds, notes and other securities              | 22,324,015            | 19,365,409            | 25,592,374            | 22,068,941            |
| Corporate stocks  | 1,582,395             | 775,666               | 1,533,934             | 1,031,189             |
| Mutual funds, business trust funds and common trust funds | 166,040,460           | 140,809,806           | 121,344,380           | 112,168,645           |
| Hedge funds   | 106,918,600           | 75,274,504            | 109,310,489           | 89,838,443            |
| Private equity funds                                      | 26,891,437            | 23,013,712            | 25,704,037            | 23,126,058            |
| Real asset investment funds                               | 34,251,354            | 34,077,938            | 36,179,988            | 37,211,823            |
| Total investments   | <u>\$ 366,370,535</u> | <u>\$ 301,679,309</u> | <u>\$ 323,877,142</u> | <u>\$ 289,657,039</u> |

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

As of September 30, 2013, AUF had entered into subscription agreements with one corporate and thirty-six limited partnership investments. The aggregate amount of capital committed to these investments is \$166,072,200 of which capital contributions of \$136,802,538 have been invested. A net unrealized gain of \$15,849,572 has been recorded on these investments. Of these thirty-six commitments, eleven subscriptions relate to hedge funds, fourteen subscriptions relate to private equity funds, and eleven 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 AUF's Consolidated Statements of Activities and Changes in Net Assets net of estimated investment expenses of \$3,474,000 and \$3,282,000 for the fiscal years ended September 30, 2013 and 2012, 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, 2013. 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, 2013 and 2012, were \$168,061,391 and \$171,194,514, respectively.

## (6) FUNDS HELD IN TRUST

In addition to permanently restricted endowments 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 \$268,373,168 and \$258,388,087 and the market value was \$330,124,702 and \$290,802,761 at September 30, 2013 and

2012, respectively. The portion of endowment income received by the University from these funds was \$9,243,002 and \$6,761,012 for the fiscal years ended September 30, 2013 and 2012, 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 Position.

In addition, the University has been named as a beneficiary of a foundation with investments having a cost of \$2,305,701 and \$2,362,514 and a market value of \$3,308,192 and \$2,932,966 at September 30, 2013 and 2012, 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, 2013 and 2012. The income received from the two trusts was \$70,177 and \$75,492 for the fiscal years ended September 30, 2013 and 2012, respectively.

## (7) ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for doubtful accounts at September 30, 2013 and 2012, are summarized as follows:

|  | 2013                 | 2012                 |
|--|----------------------|----------------------|
| <b>NONSTUDENT ACCOUNTS RECEIVABLE</b>                              |                      |                      |
| Federal, state & local government, and other restricted expendable | \$ 31,621,335        | \$ 35,557,890        |
| Less allowance for doubtful accounts                               | (2,397,992)          | (2,759,726)          |
| Pledged receivables  | 597,519              | 1,187,284            |
| General  | 16,090,078           | 14,678,338           |
| Less allowance for doubtful accounts                               | (13,355,752)         | (12,532,675)         |
| Auxiliary  | 9,190,418            | 8,541,154            |
| Capital gifts and grants   | 5,593,972            | 6,639,512            |
| Total nonstudent accounts receivable                               | <u>\$ 47,339,578</u> | <u>\$ 51,311,777</u> |
| <b>STUDENT ACCOUNTS RECEIVABLE</b>                                 |                      |                      |
| Unrestricted general   | \$ 32,962,275        | \$ 34,732,855        |
| Less allowance for doubtful accounts                               | (496,853)            | (319,085)            |
| Unrestricted auxiliary   | 2,148,652            | 1,975,585            |
| Less allowance for doubtful accounts                               | (253,898)            | (242,559)            |
| Total student accounts receivable                                  | <u>\$ 34,360,176</u> | <u>\$ 36,146,796</u> |

**(8) CAPITAL ASSETS**

Capital assets at September 30, 2013 and 2012, are summarized as follows (dollars in thousands):

|   | September 30, 2012  | Additions/Transfers | Deletions/Transfers | September 30, 2013  |
|---|---------------------|---------------------|---------------------|---------------------|
| Capital assets not being depreciated        |                     |                     |                     |                     |
| Land  | \$ 16,983           | \$ 1,260            | \$ -                | \$ 18,243           |
| Art & collectibles                          | 8,971               | 363                 | -                   | 9,334               |
| Construction in progress                    | 184,355             | 205,586             | (305,310)           | 84,631              |
| Livestock                                   | 2,050               | 96                  | (209)               | 1,937               |
| Total capital assets not being depreciated  | <u>212,359</u>      | <u>207,305</u>      | <u>(305,519)</u>    | <u>114,145</u>      |
| Capital assets being depreciated            |                     |                     |                     |                     |
| Land improvements                           | 90,792              | 16,303              | -                   | 107,095             |
| Buildings                                   | 1,265,451           | 250,083             | (511)               | 1,515,023           |
| Equipment                                   | 228,427             | 15,342              | (3,263)             | 240,506             |
| Infrastructure                              | 178,819             | 13,742              | (34)                | 192,527             |
| Library books                               | 163,316             | 7,201               | (871)               | 169,646             |
| Software system implementation              | 14,448              | -                   | -                   | 14,448              |
| Total capital assets being depreciated      | <u>1,941,253</u>    | <u>302,671</u>      | <u>(4,679)</u>      | <u>2,239,245</u>    |
| Less accumulated depreciation for           |                     |                     |                     |                     |
| Land improvements                           | 32,092              | 6,142               | -                   | 38,234              |
| Buildings                                   | 371,636             | 28,730              | (474)               | 399,892             |
| Equipment                                   | 152,891             | 16,938              | (3,090)             | 166,739             |
| Infrastructure                              | 57,410              | 6,541               | (2)                 | 63,949              |
| Library books                               | 134,609             | 6,269               | (872)               | 140,006             |
| Software system implementation              | 7,886               | 1,445               | -                   | 9,331               |
| Total accumulated depreciation              | <u>756,524</u>      | <u>66,065</u>       | <u>(4,438)</u>      | <u>818,151</u>      |
| Total capital assets being depreciated, net | <u>1,184,729</u>    | <u>236,606</u>      | <u>(241)</u>        | <u>1,421,094</u>    |
| Capital assets, net                         | <u>\$ 1,397,088</u> | <u>\$ 443,911</u>   | <u>\$ (305,760)</u> | <u>\$ 1,535,239</u> |

Capital assets at September 30, 2012 and 2011, are summarized as follows (dollars in thousands):

|   | September 30, 2011  | Additions/Transfers | Deletions/Transfers | September 30, 2012  |
|---|---------------------|---------------------|---------------------|---------------------|
| <b>Capital assets not being depreciated</b> |                     |                     |                     |                     |
| Land  | \$ 16,314           | \$ 669              | \$ -                | \$ 16,983           |
| Art & collectibles                          | 8,363               | 608                 | -                   | 8,971               |
| Construction in progress                    | 82,528              | 199,511             | (97,684)            | 184,355             |
| Livestock                                   | 1,821               | 229                 | -                   | 2,050               |
| Total capital assets not being depreciated  | <u>109,026</u>      | <u>201,017</u>      | <u>(97,684)</u>     | <u>212,359</u>      |
| <b>Capital assets being depreciated</b>     |                     |                     |                     |                     |
| Land improvements                           | 82,744              | 8,048               | -                   | 90,792              |
| Buildings                                   | 1,209,300           | 62,801              | (6,650)             | 1,265,451           |
| Equipment                                   | 207,851             | 22,545              | (1,969)             | 228,427             |
| Infrastructure                              | 164,040             | 15,025              | (246)               | 178,819             |
| Library books                               | 157,490             | 7,016               | (1,190)             | 163,316             |
| Software system implementation              | 13,512              | 936                 | -                   | 14,448              |
| Total capital assets being depreciated      | <u>1,834,937</u>    | <u>116,371</u>      | <u>(10,055)</u>     | <u>1,941,253</u>    |
| <b>Less accumulated depreciation for</b>    |                     |                     |                     |                     |
| Land improvements                           | 26,257              | 5,835               | -                   | 32,092              |
| Buildings                                   | 349,851             | 27,139              | (5,354)             | 371,636             |
| Equipment                                   | 139,817             | 14,592              | (1,518)             | 152,891             |
| Infrastructure                              | 51,552              | 5,874               | (16)                | 57,410              |
| Library books                               | 128,470             | 6,217               | (78)                | 134,609             |
| Software system implementation              | 6,439               | 1,447               | -                   | 7,886               |
| Total accumulated depreciation              | <u>702,386</u>      | <u>61,104</u>       | <u>(6,966)</u>      | <u>756,524</u>      |
| Total capital assets being depreciated, net | <u>1,132,551</u>    | <u>55,267</u>       | <u>(3,089)</u>      | <u>1,184,729</u>    |
| Capital assets, net                         | <u>\$ 1,241,577</u> | <u>\$ 256,284</u>   | <u>\$ (100,773)</u> | <u>\$ 1,397,088</u> |

During the fiscal years ended September 30, 2013 and 2012, approximately \$0.1 million and \$1.8 million, respectively, was 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 Position.

#### (9) DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources are a consumption of net assets that is applicable to a future reporting period. In 2010 and 2012, the University defeased certain outstanding bonds. These refundings resulted in

a loss (the difference between the acquisition price of the new debt and the net carrying amount of the old debt). In accordance with the adoption of GASB Statements No. 63 and No. 65, this loss is presented as a deferred outflow of resources. Implementation of these standards requires retroactive application and comparative values for the prior year(s) presented. The decrease in the deferred outflows of resources is the current year amortization of the loss on refunding of the bond, which is amortized over the life of the old or new bonds, whichever is shorter. The University is amortizing over the life of the defeased bonds. Deferred outflows of resources are summarized below:

|                             | September 30, 2013   | September 30, 2012   |
|-----------------------------|----------------------|----------------------|
| <b>Loss on refunding</b>    |                      |                      |
| 2009 General Fee refunding  | \$ 3,274,279         | \$ 3,822,846         |
| 2012A General Fee refunding | 7,260,353            | 8,564,363            |
| 2012B General Fee refunding | 376,842              | 426,547              |
|                             | <u>\$ 10,911,474</u> | <u>\$ 12,813,756</u> |

**(10) LONG-TERM DEBT**

Bonds, notes and lease obligations are collateralized by certain real estate, equipment and pledged revenues (See Note 11).

| Bonds and notes payable   | Balance at<br>September 30, 2012 | Principal<br>New Debt | Repayment              | Balance at<br>September 30, 2013 |
|---|----------------------------------|-----------------------|------------------------|----------------------------------|
| 1978 Auburn University at Montgomery Dormitory Revenue Bonds, \$3,279,000 face value, 3.0%, due annually through 2018, a reserve of \$146,538 and a \$138,389 contingency fund. | \$ 910,000                       | \$ -                  | \$ (120,000)           | \$ 790,000                       |
| 2001A Athletic Revenue Bonds, \$24,412,607 face value, 2.125% to 5.49%, due annually through 2021.  | 16,039,329                       | -                     | (2,250,538)            | 13,788,791                       |
| 2004 General Fee Revenue Bonds, \$76,875,000 face value, 3.0% to 5.25%, due annually through 2034.  | 3,515,000                        | -                     | (1,715,000)            | 1,800,000                        |
| 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.                                   | 1,320,000                        | -                     | (650,000)              | 670,000                          |
| 2006A General Fee Revenue Bonds, \$60,000,000 face value, 3.5% to 5.0%, due annually from 2008 through 2037.  | 54,630,000                       | -                     | (1,195,000)            | 53,435,000                       |
| 2007A General Fee Revenue Bonds, \$162,530,000 face value, 3.6% to 5.0%, due annually from 2009 through 2038.   | 159,895,000                      | -                     | (725,000)              | 159,170,000                      |
| 2007B General Fee Revenue Bonds, \$14,465,000 face value, 4.625% to 5.125%, due annually from 2010 through 2014.  | 6,200,000                        | -                     | (3,025,000)            | 3,175,000                        |
| 2008 General Fee Revenue Bonds, \$92,500,000 face value, 3.0% to 5.0%, due annually from 2010 through 2038.   | 87,185,000                       | -                     | (1,875,000)            | 85,310,000                       |
| 2009 General Fee Revenue Bonds, \$79,500,000 face value, 2.0% to 5.0%, due annually from 2011 through 2026.   | 75,525,000                       | -                     | (2,735,000)            | 72,790,000                       |
| 2011A General Fee Revenue Bonds, \$226,035,000 face value, 4.0% to 5.0%, due annually from 2015 through 2041.   | 226,035,000                      | -                     | -                      | 226,035,000                      |
| 2012A General Fee Revenue Bonds, \$120,135,000 face value, 2.0% to 5.0%, due annually from 2013 through 2042.   | 120,135,000                      | -                     | (4,725,000)            | 115,410,000                      |
| 2012B General Fee Revenue Bonds, \$3,505,000 face value, 2.9%, due annually from 2013 through 2024.   | 3,505,000                        | -                     | (60,000)               | 3,445,000                        |
| <b>Total bonds payable</b>  | <b>754,894,329</b>               | <b>-</b>              | <b>(19,075,538)</b>    | <b>735,818,791</b>               |
| Plus unamortized bond premium   | 29,605,291                       | -                     | (3,481,036)            | 26,124,255                       |
| Less unamortized bond discount  | (15,864)                         | -                     | 7,695                  | (8,169)                          |
|   | <u>784,483,756</u>               | <u>\$ -</u>           | <u>\$ (22,548,879)</u> | <u>761,934,877</u>               |
| Less: current portion   |                                  |                       |                        |                                  |
| Bonds payable   | (19,075,538)                     |                       |                        | (19,302,349)                     |
| Unamortized bond premium  | (3,481,036)                      |                       |                        | (3,385,117)                      |
| Unamortized bond discount   | <u>7,695</u>                     |                       |                        | <u>8,169</u>                     |
| <b>Total noncurrent bonds and notes payable</b>   | <b>\$ <u>761,934,877</u></b>     |                       |                        | <b>\$ <u>739,255,580</u></b>     |

| <b>Bonds and notes payable</b>  | <b>Balance at<br/>September 30, 2011</b> | <b>Principal<br/>New Debt</b> | <b>Repayment</b>        | <b>Balance at<br/>September 30, 2012</b> |
|---|--|-------------------------------|-------------------------|--|
| 1978 Auburn University at Montgomery Dormitory Revenue Bonds, \$3,279,000 face value, 3.0%, due annually through 2018, a reserve of \$146,442 and a \$138,299 contingency fund. | \$ 1,025,000                             | \$ -                          | \$ (115,000)            | \$ 910,000                               |
| 2001A Athletic Revenue Bonds, \$24,412,607 face value, 2.125% to 5.49%, due annually through 2021.  | 18,429,162                               | -                             | (2,389,833)             | 16,039,329                               |
| 2003 General Fee Revenue Bonds, \$49,460,000 face value, 1.45% to 5.25%, due annually through 2016.   | 21,975,000                               | -                             | (21,975,000)            | -  |
| 2003 Housing and Dining Revenue Bonds, \$15,645,000 face value, 1.4% to 5.0%, due annually through 2012.  | 1,875,000                                | -                             | (1,875,000)             | -  |
| 2004 General Fee Revenue Bonds, \$76,875,000 face value, 3.0% to 5.25%, due annually through 2034.  | 66,120,000                               | -                             | (62,605,000)            | 3,515,000                                |
| 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.                                   | 21,460,000                               | -                             | (20,140,000)            | 1,320,000                                |
| 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.  | 55,785,000                               | -                             | (1,155,000)             | 54,630,000                               |
| 2007A General Fee Revenue Bonds, \$162,530,000 face value, 3.6% to 5.0%, due annually from 2009 through 2038.   | 160,590,000                              | -                             | (695,000)               | 159,895,000                              |
| 2007B General Fee Revenue Bonds, \$14,465,000 face value, 4.625% to 5.125%, due annually from 2010 through 2014.  | 9,090,000                                | -                             | (2,890,000)             | 6,200,000                                |
| 2008 General Fee Revenue Bonds, \$92,500,000 face value, 3.0% to 5.0%, due annually from 2010 through 2038.   | 89,010,000                               | -                             | (1,825,000)             | 87,185,000                               |
| 2009 General Fee Revenue Bonds, \$79,500,000 face value, 2.0% to 5.0%, due annually from 2011 through 2026.   | 77,985,000                               | -                             | (2,460,000)             | 75,525,000                               |
| 2011A General Fee Revenue Bonds, \$226,035,000 face value, 4.0% to 5.0%, due annually from 2015 through 2041.   | 226,035,000                              | -                             | -                       | 226,035,000                              |
| 2012A General Fee Revenue Bonds, \$120,135,000 face value, 2.0% to 5.0%, due annually from 2013 through 2042.   | -  | 120,135,000                   | -                       | 120,135,000                              |
| 2012B General Fee Revenue Bonds, \$3,505,000 face value, 2.9%, due annually from 2013 through 2024.   | -  | 3,505,000                     | -                       | 3,505,000                                |
| <b>Total bonds payable</b>  | <b>752,429,162</b>                       | <b>123,640,000</b>            | <b>(121,174,833)</b>    | <b>754,894,329</b>                       |
| Plus unamortized bond premium   | 14,620,893                               | 19,362,869                    | (4,378,471)             | 29,605,291                               |
| Less unamortized bond discount  | (245,630)                                | -                             | 229,766                 | (15,864)                                 |
|   | <b>766,804,425</b>                       | <b>\$ 143,002,869</b>         | <b>\$ (125,323,538)</b> | <b>784,483,756</b>                       |
| Less: current portion   |  |                               |                         |  |
| Bonds payable   | (20,314,832)                             |                               |                         | (19,075,538)                             |
| Unamortized bond premium  | (1,937,261)                              |                               |                         | (3,481,036)                              |
| Unamortized bond discount   | 25,788                                   |                               |                         | 7,695                                    |
| <b>Total noncurrent bonds and notes payable</b>   | <b>\$ 744,578,120</b>                    |                               |                         | <b>\$ 761,934,877</b>                    |

On March 27, 2012, the University issued the 2012A General Fee Bonds with a par value of \$120,135,000 and interest rates ranging from 2.0% to 5.0% to advance refund \$97,810,000 of outstanding 2003 General Fee, 2004A General Fee, and 2004A Athletic Bonds with interest rates ranging from 1.45% to 5.25% and to finance certain capital improvements at AUM. The portion of the net proceeds of this new bond issue to be used for refunding 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 \$9,868,373 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 23 years by \$21,386,601 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 \$18,721,021.

to advance refund \$3,050,000 of outstanding 2004B Athletic Bonds with an interest rate of 5.75%. The net proceeds of this 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 \$476,253 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 13 years by \$530,135 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 \$418,242.

These losses on refunding, combined with previous losses, have been classified as deferred outflows of resources on the Statements of Net Position. The University recognized \$1,902,282 and \$1,978,165 of interest cost associated with the amortization of these deferred outflows in 2013 and 2012, respectively.

On March 27, 2012, the University issued the 2012B General Fee Bonds with a par value of \$3,505,000 and an interest rate of 2.9%

#### Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to September 30, 2013, and thereafter, are as follows:

| Year Ending<br>September 30      | Bonds Payable         |                       |
|----------------------------------|-----------------------|-----------------------|
|                                  | Principal             | Interest              |
| 2014                             | \$ 19,302,349         | \$ 36,470,352         |
| 2015                             | 24,108,361            | 35,940,069            |
| 2016                             | 24,958,719            | 35,097,477            |
| 2017                             | 21,998,501            | 34,183,323            |
| 2018                             | 23,217,554            | 33,361,615            |
| 2019-2023                        | 127,493,307           | 146,982,131           |
| 2024-2028                        | 138,560,000           | 108,442,855           |
| 2029-2033                        | 149,055,000           | 74,543,869            |
| 2034-2038                        | 158,770,000           | 35,518,719            |
| 2039-2042                        | 48,355,000            | 5,084,000             |
| <b>Total future debt service</b> | <b>\$ 735,818,791</b> | <b>\$ 545,624,410</b> |

#### Capital Lease Obligations

AUM acquired 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<br>September 30, 2012 | New<br>Lease Obligations | Principal<br>Repayment | Balance at<br>September 30, 2013 |
|--------------------------------|----------------------------------|--------------------------|------------------------|----------------------------------|
| Building                       | \$ 580,000                       | \$ -                     | \$ (185,000)           | \$ 395,000                       |
| Equipment                      | 98,965                           | -                        | -                      | 98,965                           |
| <b>Total lease obligations</b> | <b>\$ 678,965</b>                | <b>\$ -</b>              | <b>\$ (185,000)</b>    | <b>\$ 493,965</b>                |

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      |
|---|------------|------------|------------|
| 2013-2014                               | \$ 214,750 | \$ 101,068 | \$ 315,818 |
| 2014-2015                               | 210,000    | -          | 210,000    |
| 2015-2016                               | -          | -          | -          |
| 2016-2017                               | -          | -          | -          |
| 2017-2018                               | -          | -          | -          |
| Minimum lease payments                  | 424,750    | 101,068    | 525,818    |
| Less interest                           | (29,750)   | (2,103)    | (31,853)   |
| Present value of minimum lease payments | 395,000    | 98,965     | 493,965    |
| Less current portion                    | (195,000)  | (98,965)   | (293,965)  |
| Noncurrent obligations                  | \$ 200,000 | \$ -       | \$ 200,000 |

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, 2013 and 2012, amounted to approximately \$4.2 million and \$4.0 million, respectively.

#### (11) PLEDGED REVENUES

Pledged revenue for 2013 and 2012 as defined by the **Series 2003, 2004, 2006A, 2007A, 2007B, 2008, 2009, 2011A, 2012A and 2012B General Fee Revenue Trust Indentures** is as follows:

|  | 2013           | 2012           |
|--|----------------|----------------|
| Student fees collected   | \$ 398,180,878 | \$ 373,770,328 |
| Less fees pledged for specific purposes:                                 |                |                |
| Athletic fees (\$96 per student per semester)                            | (4,320,269)    | (4,224,442)    |
| Transit fees (\$135/\$129 as of Fall 2013/2012 per student per semester) | (5,827,995)    | (5,316,099)    |
| Student activities fees (\$15 per student per semester)                  | (673,987)      | (662,885)      |
| Total general fees pledged   | \$ 387,358,627 | \$ 363,566,902 |

The Series 2011A Bonds expands the definition of pledged revenues. "General Fees" pledged to secure the Series 2011A Bonds and all other Parity Bonds now or hereafter outstanding under the General Fee Revenue Indenture will include the general fees levied against the University's students at both the Auburn Main Campus and the Auburn University at Montgomery campus. "Housing Revenues" pledged to secure the Series 2011A Bonds and all other Parity Bonds now or hereafter outstanding under the General Fee Revenue Indenture will include the University's housing and dining revenues from the operation of housing and dining facilities on both the Auburn Main Campus and the Auburn University at Montgomery campus. The pledge of housing and dining revenues under the General Fee

Revenue Indenture is subordinate in all respects to the University's prior pledge of certain dormitory revenues on the Auburn University at Montgomery campus to secure payment of the 1978 Dormitory Revenue Bonds and the University's prior pledge of the housing and dining revenues under the Housing and Dining Revenue Indenture to secure the University's Housing and Dining Revenue Bonds, Series 2003 and any other bonds hereafter issued on a parity basis with such Series 2003 Bonds under the terms and conditions of the Housing and Dining Revenue Indenture.

See section on Series 2003 Housing and Dining Revenue Trust Indenture below for information on main campus housing and dining revenues.

AUM housing and dining revenue pledged for 2013 and 2012 subordinate to prior pledges of such revenues as defined by the Series 2011A General Fee Revenue Trust Indenture is as follows:

|   | 2013         | 2012         |
|---|--------------|--------------|
| AUM housing revenues                          |              |              |
| Room rental                                   | \$ 3,463,967 | \$ 2,855,495 |
| Other income                                  | 303,578      | 216,945      |
| Total housing                                 | 3,767,545    | 3,072,440    |
| AUM dining revenue                            | 1,606,301    | 1,373,413    |
| Total AUM housing and dining revenues pledged | \$ 5,373,846 | \$ 4,445,853 |

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 Bonds as described below.

Pledged revenue for 2013 and 2012 as defined by the **Series 2001A and 2004 Athletic A & B Revenue Trust Indentures** is as follows:

|  | 2013                 | 2012                 |
|--|----------------------|----------------------|
| Jordan Hare and other revenues:            |                      |                      |
| Television and broadcast revenues          | \$ 6,121,751         | \$ 5,750,212         |
| Conference and NCAA distributions          | 21,317,678           | 20,024,728           |
| Sales and services revenues                | 29,808,653           | 29,098,531           |
| Student fees                               | 4,320,269            | 4,224,442            |
| Royalties, advertisements and sponsorships | 5,217,605            | 6,886,435            |
| Other income                               | 2,954,597            | 4,609,698            |
| Total athletic revenues pledged            | <u>\$ 69,740,553</u> | <u>\$ 70,594,046</u> |

The Series 2004 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 was 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 2013 and 2012 as defined by the **Series 2003 Housing and Dining Revenue Trust Indenture** is as follows:

|  | 2013                 | 2012                 |
|--|----------------------|----------------------|
| Housing revenues:                                |                      |                      |
| Room rental                                      | \$ 23,706,546        | \$ 21,383,293        |
| Other income                                     | 1,646,492            | 1,635,711            |
| Total housing revenues pledged                   | 25,353,038           | 23,019,004           |
| Food services commission revenue                 | 3,692,126            | 3,048,371            |
| Total housing and food services revenues pledged | <u>\$ 29,045,164</u> | <u>\$ 26,067,375</u> |

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

The Auburn University dormitory occupancy rate for Fall Semester 2013 and Fall Semester 2012 was 96.9% and 97.4%, respectively (unaudited).

Pledged revenues and related expenses for 2013 and 2012 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 West Dormitories of AUM for the years ended September 30, 2013 and 2012.

|  | 2013             | 2012                |
|--|------------------|---------------------|
| Revenues:  |                  |                     |
| Room rental  | \$ 1,230,943     | \$ 1,175,081        |
| Other income   | 19,244           | 95,283              |
| Total revenues   | <u>1,250,187</u> | <u>1,270,364</u>    |
| Expenses and transfers:                                  |                  |                     |
| Personnel costs  | 304,519          | 302,469             |
| Operating expenses                                       | 332,209          | 278,484             |
| Transfers  | 248,567          | 147,067             |
| Total expenses and transfers                             | <u>885,295</u>   | <u>728,020</u>      |
| Surplus of revenues over expenses and transfers          | 364,892          | 542,344             |
| AUM Student Housing net deficit at beginning of year     | (266,954)        | (809,298)           |
| AUM Student Housing net surplus (deficit) at end of year | <u>\$ 97,938</u> | <u>\$ (266,954)</u> |

The AUM dormitory occupancy rate for Fall Semester 2013 and Fall Semester 2012 was 93.5% and 97.0% respectively (unaudited).

## (12) RETIREMENT PROGRAMS

The employees of the University are participants in three benefit plans; a 401(a) defined benefit plan, 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. During the 2012 regular session of the Alabama Legislature, Act 2012-377 created a new defined benefit plan tier for employees hired on or after January 1, 2013, with no previous creditable service ("Tier 2"). Employees hired or with creditable service prior to that date are "Tier 1" participants.

Benefits vest after ten years of creditable service. Vested Tier 1 employees may retire with full benefits at age 60 with 10 years of service or at any age with 25 years of service. Retirement benefits for Tier 1 employees are calculated by the formula method by which retirees are allowed 2.0125% of their final salary (average of the highest three of the last ten years) for each year of service. Vested Tier 2 employees may retire with full benefits at age 62 with 10 years of service. For Tier 2 employees, the percentage is 1.65% of their final salary (average of the highest five of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner for both Tier 1 and Tier 2 employees. 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, 2012, 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

Tier 1 employees are required by statute to contribute 7.5% of their salary to the Teachers' Retirement System. Tier 2 employees contribute 6.0% of their salary. 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, for both Tier 1 and Tier 2 employees, respectively, equal the required contributions for each year as follows:

| Fiscal year ended September 30,         | 2013                 | 2012                 | 2011                 |
|---|----------------------|----------------------|----------------------|
| Total percentage of covered payroll     | 17.58%/15.44%        | 17.25%               | 17.51%               |
| Contributions:                          |                      |                      |                      |
| Percentage contributed by the employer  | 10.08%/9.44%         | 10.00%               | 12.51%               |
| Percentage contributed by the employees | 7.50%/6.00%          | 7.25%                | 5.00%                |
| Contributed by the employer             | \$ 35,742,024        | \$ 34,144,425        | \$ 41,773,908        |
| Contributed by the employees            | <u>26,543,214</u>    | <u>24,761,049</u>    | <u>16,703,108</u>    |
| Total contributions                     | <u>\$ 62,285,238</u> | <u>\$ 58,905,474</u> | <u>\$ 58,477,016</u> |

### B. Employees' Retirement System of Alabama

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

### Funding Policy

Tier 1 employees are required by statute to contribute 3.75% of their salary to the Employees' Retirement System. Tier 2 employees contribute 3.0% of their salary. 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 appropriations bill. The percentages of the contributions and the amount of contributions made by the University and the University's employees, for Tier 1 and Tier 2 employees, respectively, equal the required contributions for each year as follows:

| Fiscal year ended September 30,         | 2013                | 2012                | 2011                |
|---|---------------------|---------------------|---------------------|
| Total percentage of covered payroll     | 50.59%/49.80%       | 39.67%              | 40.38%              |
| Contributions:                          |                     |                     |                     |
| Percentage contributed by the employer  | 46.84%/46.80%       | 36.04%              | 37.88%              |
| Percentage contributed by the employees | 3.75%/3.00%         | 3.63%               | 2.50%               |
| Contributed by the employer             | \$ 1,807,654        | \$ 1,589,969        | \$ 1,863,377        |
| Contributed by the employees            | 144,705             | 159,923             | 122,963             |
| Total contributions                     | <u>\$ 1,952,359</u> | <u>\$ 1,749,892</u> | <u>\$ 1,986,340</u> |

### C. Tax Deferred Annuity Plans

This plan is a defined contribution plan under section 403(b) of the Internal Revenue Code. Accordingly, benefits depend solely on amounts contributed to the plan plus investment earnings. This is provided as a supplement to the aforementioned programs. All full-time regular or probationary employees are eligible to participate. Full-time temporary employees are also eligible if their employment period is for a minimum of one year. The University will match 100.0% of elective deferral contributions up to 5.0% of the employee's plan compensation. The matching contributions cannot exceed \$1,650 for any plan year (calendar 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, 2013 and 2012, 3,264 and 3,373 employees, respectively, participated in the tax deferred annuity program. The contribution for 2013 was \$18,928,378 which includes \$4,879,216 from the University and \$14,049,162 from its employees. The contribution for 2012 was \$17,796,298, which includes \$5,484,638 from the University and \$12,311,660 from its employees. Total salaries and wages during the fiscal year for covered employees participating in the plan were \$235,219,284 and \$219,242,408 for the fiscal years ended September 30, 2013 and 2012, respectively.

### D. Deferred Compensation Plans

The University follows the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-a rescission of GASB Statement No. 2 and an amendment of GASB Statement No. 31*. As of September 30, 2013 and 2012, 201 and 227 employees, respectively, participated in the plans. Contributions of \$2,358,162 and \$2,180,227 for fiscal years 2013 and 2012, respectively, were funded by employees and no employer contribution was funded. The 457(b) plans include Valic, TIAA-CREF and Fidelity Investments.

### (13) 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

Tier 1 employees begins at age 60 with at least 10 years of service or at any age with 25 years of service. For Tier 2 employees, eligibility begins at age 62 with at least 10 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 Employees' Health Insurance Board (PEEHIB). 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.

The *Code of Alabama 1975*, Section 16-25A-4 provides the PEEHIP with the authority to amend the benefit provisions for the plan, and Section 16-25A-8 provides the authority to set the contribution for retirees and employers.

The required contribution rate of the employer was \$336 and \$370 per employee per month in the years ended September 30, 2013 and 2012, respectively. The University paid \$8,633,554 and \$9,394,450 for 2,141 and 2,112 retirees for the years ended September 30, 2013 and 2012, respectively. 100% of the required contributions were paid by PEEHIP. The required contribution rate is determined by PEEHIP in accordance with state statute.

The required monthly contribution rates for fiscal year 2013 are as follows:

#### Retired Member Rates

- Individual Coverage/Non-Medicare Eligible - \$151.00
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$391.00
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$250.00
- Individual Coverage/Medicare Eligible Retired Member - \$10.00
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$250.00
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - \$109.00
- Tobacco surcharge - \$28.00 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. Otherwise, they can purchase the Optional Plans at the normal monthly rate of \$38.00 or \$45.00 for family dental.

Members who retired on or after October 1, 2005, and before January 1, 2012, pay 2% of the employer premium for each year under 25 years of service, and for each year over 25 years of service, the retiree premium is reduced by 2%.

Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012, are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium will no longer apply. However, the years of service (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a five year period.

#### **Surviving Spouse Rates**

- Surviving Spouse Non-Medicare Eligible - \$671.00
- Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible - \$860.00
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible - \$829.00
- Surviving Spouse Medicare Eligible - \$317.00
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible - \$506.00
- Surviving Spouse Medicare Eligible and Dependent Medicare Eligible - \$475.00

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 and will be available at the end of January 2014.

#### **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 eligible Civil Service employees and those retirees who elected the PEEHIP plan on or prior to October 1, 1997, for whom the University pays a subsidy. 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 \$933,287 and \$930,342 for fiscal years ended September 30, 2013 and 2012, 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 \$1,329,425 and \$1,567,505 in retiree healthcare expense during fiscal years 2013 and 2012, respectively.

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

The required schedule of funding progress, contained in the Required Supplemental Information immediately following the divisional financial statements (see page 72), 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 for Retiree Medical Plan

| Cost Element  | Fiscal Year Ended September 30, 2013 |                                 |
|---|--------------------------------------|---------------------------------|
|   | Amount                               | Percent of Payroll <sup>1</sup> |
| 1. Unfunded actuarial accrued liability at Oct. 1, 2012   | \$ 58,200,833                        | 1,476.3%                        |
| <b>Annual Required Contribution (ARC)</b>   |                                      |                                 |
| 2. Normal cost  | \$ 80,583                            |                                 |
| 3. Amortization of the unfunded actuarial accrued liability over 15 years using level dollar amortization | 4,474,833                            |                                 |
| 4. Annual Required Contribution (ARC = 2 + 3)   | <u>\$ 4,555,416</u>                  | 115.5%                          |
| <b>Annual OPEB Cost (Expense)</b>   |                                      |                                 |
| 5. ARC  | \$ 4,555,416                         |                                 |
| 6. Interest on beginning of year accrual  | 264,694                              |                                 |
| 7. Adjustment to ARC  | <u>(1,009,801)</u>                   |                                 |
| 8. Fiscal year 2013 OPEB cost (5 + 6 + 7)   | <u>\$ 3,810,309</u>                  | 96.6%                           |
| <b>End of Year Accrual (Net OPEB Obligation)<sup>2</sup></b>  |                                      |                                 |
| 9. Beginning of year accrual <sup>1</sup>   | \$ 13,234,687                        |                                 |
| 10. Annual OPEB cost  | 3,810,309                            |                                 |
| 11. Employer contribution (benefit payments) <sup>2</sup>   | <u>(2,480,884)</u>                   |                                 |
| 12. End of year CAFR accrual (9 + 10 + 11) <sup>2</sup>   | <u>\$ 14,564,112</u>                 | 369.4%                          |

<sup>1</sup> Annual payroll for 46 participants as of September 30, 2013, was \$3,942,432.

<sup>2</sup> Actual amounts paid in fiscal year 2013 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 <sup>3</sup> | Net OPEB Obligation |
|--------------------|------------------|--|---------------------|
| September 30, 2011 | \$ 4,740,817     | 56.0%  | \$ 11,667,182       |
| September 30, 2012 | \$ 4,044,529     | 61.2%  | \$ 13,234,687       |
| September 30, 2013 | \$ 3,810,309     | 65.1%  | \$ 14,564,112       |

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

### Summary of Key Actuarial Methods and Assumptions

|                                      |   |
|--------------------------------------|---|
| <b>Valuation year</b>                | October 1, 2012 – September 30, 2013                  |
| <b>Actuarial cost method</b>         | Unit Credit, Actuarial Cost Method                    |
| <b>Amortization method</b>           | 15 years, level dollar open amortization <sup>4</sup> |
| <b>Asset valuation method</b>        | Not applicable  |
| <b>Discount rate</b>                 | 2.0%  |
| <b>Projected payroll growth rate</b> | Not applicable  |

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

### Health care cost trend rate for medical and prescription drugs

9.0% in fiscal year 2014, decreasing by one-half percentage point per year to an ultimate of 5.0% in fiscal year 2022 and later.

**Valuation Date** October 1, 2012

**Monthly Per Capita Claim Costs**

| <u>Age</u> | <u>Medical</u> |
|------------|----------------|
| 55         | \$719          |
| 60         | \$862          |
| 65         | \$350          |
| 70         | \$388          |
| 75         | \$413          |

Claim costs were increased by 6% over last year based on a weighted average of benefit plan premiums. Future claim costs are increased by health care cost trend.

**Retiree Premiums**

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

|                | <u>As of 1/1/13</u> | <u>As of 1/1/12</u> |
|----------------|---------------------|---------------------|
| Pre-65 Single  | \$472               | \$458               |
| Pre-65 Family  | \$1,062             | \$1,008             |
| Post-65 Single | \$142               | \$139               |
| Post-65 Family | \$742               | \$638               |

Note: There are several other categories of premiums.

**Administrative Expenses**

Included in claim cost.

**Assumed Health Care Trend Rate**

| <u>Fiscal Year</u> | <u>Medical and Rx Combined Rate</u> |
|--------------------|-------------------------------------|
| 2014               | 9.0%                                |
| 2015               | 8.5%                                |
| 2016               | 8.0%                                |
| 2017               | 7.5%                                |
| 2018               | 7.0%                                |
| 2019               | 6.5%                                |
| 2020               | 6.0%                                |
| 2021               | 5.5%                                |
| 2022+              | 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:

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

**Withdrawal Rates**

None assumed since all are long service Civil Service employees.

**Disability Rates**

Sample rates are shown below, percent assumed to terminate within one year:

| 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%  |

**(14) 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, 2013 and 2012, was \$434,682 and \$443,204, respectively.

The On-The-Job-Injury program provides benefits for job-related injuries or death related from work at the University. This program is designed to cover out-of-pocket expenses of any employee who is not covered by insurance. The program will also pay for medically evidenced disability claims and provide death benefits arising from a job-related death of an employee. This self-funded program is provided to employees since the University is not subject to the workers' compensation laws of the State of Alabama. The liability at September 30, 2013 and 2012, was \$1,996,978 and \$2,023,455, 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

Unearned revenues at September 30, 2013 and 2012, are as follows:

|  | 2013                  | 2012                  |
|--|-----------------------|-----------------------|
| Tuition and fees, net                                    | \$ 127,082,274        | \$ 124,577,576        |
| Federal, state and local government grants and contracts | 11,822,527            | 10,788,320            |
| Auxiliary, net   | 34,436,664            | 33,688,568            |
| Plant  | 522,311               | 538,138               |
| Total unearned revenue                                   | <u>\$ 173,863,776</u> | <u>\$ 169,592,602</u> |

**Pollution Remediation Obligations**

The University follows GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which requires recognition of liabilities, recoveries, and related disclosures, as appropriate.

insurance claims, the University would be liable for such claims. The accompanying Statements of Net Position include a self-insurance liability for health insurance as of September 30, 2013 and 2012, of \$10,161,839 and \$8,741,124, respectively.

**Other Liabilities**

Other liabilities include compensated absences, deposits held in custody and unearned 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 \$17,532,178 and \$17,070,517 at September 30, 2013 and 2012, 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 \$16,763,334 and \$16,503,837 at September 30, 2013 and 2012, respectively. Also included in deposits held in custody of others are the agency funds. These amounts totaled \$4,331,498 and \$4,645,284 for September 30, 2013 and 2012, respectively. The remaining difference relates to immaterial rental deposits.

Unearned 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.

The University conducts groundwater monitoring, monitored natural attenuation and clean-up in accordance with the Resource Conservation and Recovery Act (RCRA) and the Toxic Substances and Control Act. Additionally, asbestos abatement is necessary as older buildings

on campus are demolished or renovated. During fiscal year 2011, the University, with the assistance of an outside consultant, prepared a 30-year Post Closure Cost Estimate related to all active and inactive solid waste management units managed through the University RCRA Facility permit.

As of September 30, 2013 and 2012, the total estimated pollution remediation liability (estimated using the expected cash-flow technique) is \$6,774,397 and \$6,831,665, respectively. The current portion of

this amount (\$3,220,087 and \$327,355, respectively) is included in other accrued liabilities and the long-term portion (\$3,554,310 and \$6,504,310, respectively) is included in other noncurrent liabilities in the accompanying Statements of Net Position. This estimate may change in future periods as additional information is obtained. The University does not expect to recover any funds from insurance or other third parties related to these obligations.



**(15) DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources are an acquisition of net assets that is applicable to a future reporting period. The University engages in certain voluntary nonexchange transactions (grants). Grant funds received for which all eligibility requirements have been met, other than

time requirements, are presented as deferred inflows of resources in accordance with the adoption of GASB Statements No. 63 and No. 65. Implementation of these standards requires retroactive application and comparative values for the prior year(s) presented. Deferred outflows of resources are summarized below:

|                          | September 30, 2013 | September 30, 2012 |
|--------------------------|--------------------|--------------------|
| Nonexchange transactions | \$ 346,994         | \$ 179,752         |

**(16) CONTRACTS AND GRANTS**

The University has been awarded approximately \$3.9 million (unaudited) and \$8.3 million (unaudited) in contracts and grants that have not been received or expended as of September 30, 2013 and 2012, respectively. These awards, which represent commitments of sponsors to provide funds for research and training projects, have not been reflected in the financial statements.

**(18) CONSTRUCTION COMMITMENTS AND FINANCING**

The University has entered into projects for the construction and renovation of various facilities that are estimated to cost approximately \$427.7 million (unaudited). At September 30, 2013, the estimated remaining cost to complete the projects is approximately \$69.9 million (unaudited) which will be funded from University funds and bond proceeds.

**(17) 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 Statements of Revenues, Expenses and Changes in Net Position within contract and grant operating revenues. The University recognized \$17,624,581 and \$16,692,646 in facilities and administrative cost recovery for the years ended September 30, 2013 and 2012, respectively.

**(19) OPERATING EXPENSES BY FUNCTION**

Operating expenses by functional classification for the years ended September 30, 2013 and 2012, 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, 2013**

|                              | Compensation<br>and Benefits | Scholarships<br>and Fellowships | Utilities            | Other Supplies<br>and Services | Depreciation         | Total                 |
|------------------------------|------------------------------|---------------------------------|----------------------|--------------------------------|----------------------|-----------------------|
| Instruction                  | \$ 207,837,651               | \$ 761,287                      | \$ -                 | \$ 34,017,145                  | \$ -                 | \$ 242,616,083        |
| Research                     | 67,298,382                   | 1,395,995                       | 10,068               | 28,715,022                     | -                    | 97,419,467            |
| Public Service               | 62,847,491                   | 2,500                           | 102,448              | 41,770,586                     | -                    | 104,723,025           |
| Academic Support             | 37,177,725                   | -                               | -                    | 6,475,153                      | -                    | 43,652,878            |
| Library                      | 7,118,913                    | -                               | -                    | 1,218,631                      | -                    | 8,337,544             |
| Student Services             | 18,857,371                   | -                               | -                    | 8,708,410                      | -                    | 27,565,781            |
| Institutional Support        | 63,944,107                   | -                               | -                    | 4,744,518                      | -                    | 68,688,625            |
| Operation and Maintenance    | 26,866,013                   | -                               | 18,223,525           | 39,370,969                     | -                    | 84,460,507            |
| Scholarships and Fellowships | 19,749,940                   | 15,191,230                      | -                    | 306,108                        | -                    | 35,247,278            |
| Auxiliaries                  | 46,281,831                   | -                               | 4,506,835            | 56,110,881                     | -                    | 106,899,547           |
| Depreciation                 | -                            | -                               | -                    | -                              | 66,064,924           | 66,064,924            |
|                              | <u>\$ 557,979,424</u>        | <u>\$ 17,351,012</u>            | <u>\$ 22,842,876</u> | <u>\$ 221,437,423</u>          | <u>\$ 66,064,924</u> | <u>\$ 885,675,659</u> |

|                              | Compensation<br>and Benefits | Scholarships<br>and Fellowships | Utilities            | Other Supplies<br>and Services | Depreciation         | Total                 |
|------------------------------|------------------------------|---------------------------------|----------------------|--------------------------------|----------------------|-----------------------|
| Instruction                  | \$ 207,364,653               | \$ 1,125,249                    | \$ -                 | \$ 31,026,179                  | \$ -                 | \$ 239,516,081        |
| Research                     | 64,426,343                   | 813,360                         | 8,182                | 37,404,840                     | -                    | 102,652,725           |
| Public Service               | 62,875,756                   | 5,154                           | 115,931              | 44,384,611                     | -                    | 107,381,452           |
| Academic Support             | 33,383,234                   | -                               | -                    | 5,392,578                      | -                    | 38,775,812            |
| Library                      | 7,182,707                    | -                               | -                    | 2,879,270                      | -                    | 10,061,977            |
| Student Services             | 17,185,082                   | -                               | -                    | 7,685,922                      | -                    | 24,871,004            |
| Institutional Support        | 62,587,059                   | -                               | -                    | 10,733,278                     | -                    | 73,320,337            |
| Operation and Maintenance    | 26,339,343                   | -                               | 18,356,531           | 21,554,942                     | -                    | 66,250,816            |
| Scholarships and Fellowships | 18,670,225                   | 16,233,438                      | -                    | 66,385                         | -                    | 34,970,048            |
| Auxiliaries                  | 39,218,237                   | 176,873                         | 4,666,510            | 55,094,206                     | -                    | 99,155,826            |
| Depreciation                 | -                            | -                               | -                    | -                              | 61,104,001           | 61,104,001            |
|                              | <u>\$ 539,232,639</u>        | <u>\$ 18,354,074</u>            | <u>\$ 23,147,154</u> | <u>\$ 216,222,211</u>          | <u>\$ 61,104,001</u> | <u>\$ 858,060,079</u> |

## (20) 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.

## (21) RELATED PARTY TRANSACTIONS

### Auburn University Foundation

The majority of funds that 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 \$30,552,177 and \$29,708,151 during the years ended September 30, 2013 and 2012, respectively. Net undistributed grants to the University totaled \$48,270 and \$10,215 at September 30, 2013 and 2012, 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 AUF Agreement), which addresses the general and administrative and development financial relationships between these two entities. In summary, the AUF 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 the relative allocable share of these costs and transfer funds as necessary. AUF and the University review the AUF Agreement annually and 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, 2013 and 2012, all personnel costs were incurred by the University, and AUF reimbursed the University \$1,376,034 and \$1,385,242, respectively, for its share of these central development services in accordance with the AUF Agreement.
- Nonsalary development costs were incurred and paid primarily by AUF. The University provided for its share of these operating costs by establishing budgets within the University's budgetary system whereby it paid a portion of these costs. The amount directly incurred by the University or reimbursed to AUF totaled \$2,480,551 and \$1,835,408, while the actual University's expenditures for these costs were only \$1,338,423 and \$791,115 for the years ended September 30, 2013 and 2012, respectively. AUF paid more than its share of the nonpersonnel costs and applied the excess toward its allocable share of personnel costs. In fiscal years 2013 and 2012, AUF paid the University \$233,905 and \$340,949, respectively, as settlement in accordance with the agreement.
- Constituency development operations, which are fund raising programs restricted to one school, college or program of the University, are funded jointly by the University unit involved and the AUF gifts restricted to that unit. These costs are the responsibility of the respective constituency's unit.

During 2013 and 2012, AUF granted AUREFI \$177,073 and \$150,000, respectively, for operations and projects. AUREFI reimbursed AUF \$4,293 and \$7,079 for operating expenses paid on behalf of AUREFI during 2013 and 2012, respectively. During the year 2013, AUF received \$49,669 from the Real Estate Foundation for the Samuel Ginn College of Engineering and \$122,734 to endow scholarships for University freshmen who graduated from Wetumpka High School, respectively. These inter-entity transactions are eliminated in consolidation.

AUREFI and the University entered into an agreement with the University to provide certain services and facilities. AUREFI reimbursed the University \$113,851 and \$100,978 during the years ended September 30, 2013 and 2012, respectively, for agreement-related services and facilities. The reimbursements are accrued and reflected in the payable due to the University on the Consolidated Statements of Financial Position. AUREFI reimbursed the University \$790 during fiscal year 2013 for general and administrative expenses. AUREFI provided a cash grant to the University of \$443,627 to the Samuel Ginn College of Engineering for capital construction during fiscal year 2012.

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, 2013 and 2012, AUF was committed to the Association for \$8,452,093 and \$7,523,855, respectively. Of the amount for the year ended September 30, 2013 and 2012, \$386 and \$1,907 relates to payables and receivables between the Association and AUF for reimbursement of miscellaneous general and administrative expenses, respectively. AUF distributed \$287,029 and \$279,984 during fiscal years 2013 and 2012, respectively.

AUF provided the Association grants of \$1,650 and \$5,008 during fiscal years 2013 and 2012, respectively, for alumni relations. The Association provided AUF grants of \$626,027 of which \$625,892 was added to the corpus of AUF's endowments during fiscal year 2013. The Association provided grants of \$443,242 which was added to the corpus of AUF's endowments during fiscal year 2012. AUF paid \$62,612 and \$222,206 to the Association for general and administrative expenses during fiscal years 2013 and 2012, respectively. The Association paid \$49,492 and \$66,515 to AUF for similar expenses during fiscal years 2013 and 2012, respectively.

The amount due from AUF to TUF consists of funds which are invested with AUF's pooled endowment. Of these amounts, \$5,195 and \$3,692 related to receivables between TUF and AUF for routine, operating transactions as of September 30, 2013 and 2012, respectively. 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 TUF on an annual basis. As of September 30, 2013 and 2012, AUF was committed to TUF for \$7,984,570 and \$7,081,653, respectively. AUF annually remits a distribution to the University on behalf of TUF. AUF distributed \$233,300 and \$197,061 during fiscal years 2013 and 2012, respectively.

AUF provided TUF grants of \$110,883 and \$23,751 during fiscal years 2013 and 2012, respectively, for intercollegiate athletics. AUF paid \$323,757 and \$322,839 to TUF for costs incurred in the cultivation, solicitation and stewardship of contributions during fiscal years 2013 and 2012, respectively. TUF paid \$7,186 and \$3,699 for general and administrative expenses during fiscal years 2013 and 2012, respectively.

#### **Tigers Unlimited Foundation**

The funds that TUF raises are restricted for athletic-related programs of the University. These may be transferred to the University for its use, expended for the benefit of athletic programs or, in the case of endowments, invested according to donor restriction and the earnings

transferred to, or expended for, the University's benefit. Amounts transferred to the University, or expended on behalf of its programs, totaled \$34,799,271 and \$23,666,119 during the years ended June 30, 2013 and 2012, respectively. Included in these amounts is a current year accrual of severance payments due to terminated employees totaling \$8,779,544 and \$0, respectively.

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

During the years ended June 30, 2013 and 2012, the University contributed \$504,245 each year to TUF for the use of executive suites at University athletic events. Of this amount, \$499,125 is recorded as public support-contributions revenue and \$5,120 is recorded as other revenue on the Statements of Activities and Changes in Net Assets. At June 30, 2013, a receivable of \$504,245 related to these transactions was outstanding. The University paid the 2012 obligation during fiscal year 2012 and intends to pay the 2013 obligation during fiscal year 2014.

During the years ended June 30, 2013 and 2012, 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, 2013 and 2012, obligations of \$2,508,750 and \$2,565,950 related to these transactions, respectively, were outstanding. TUF paid the 2012 obligation during fiscal year 2013, and it intends to pay the 2013 obligation during fiscal year 2014.

As indicated, the above TUF balances are as of June 30, 2013 and 2012; however, the University believes these figures are not materially different than September 30, 2013 and 2012, 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, 2013 and 2012, the Association had a salary reimbursement expense of \$989,349 and \$957,096, respectively, to the University under the service and facilities agreement. Of these amounts, all had been paid at September 30, 2013 and September 30, 2012, respectively.

Rental income recorded by the Association from the University totaled \$368,358 and \$222,500, respectively, for the years ended September 30, 2013 and 2012. Rental income recorded by the Association from AUF totaled \$4,840 and \$116,588 for the years ended September 30, 2013 and 2012, respectively.

During the years ended September 30, 2013 and 2012, 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 \$688,000 and \$640,000 for the years ended September 30, 2013 and 2012, respectively.

During the year ended September 30, 2013, the Association contributed \$198,200 to the Auburn Alumni Association Endowment for Scholarships held with AUF. During the year ended September 30, 2012, the Association contributed \$96,863 to the Auburn Alumni Association Endowment for Scholarships held with AUF. As of September 30, 2013, the Association accrued \$205,700 to support alumni scholarships.

#### **Auburn Research and Technology Foundation**

ARTF's mission is to facilitate the acquisition, construction and equipping of a technology and research park on the University's campus in order to create new academic and entrepreneurial opportunities for the University's faculty and students. Consideration received by the University from ARTF includes the traditional benefits enjoyed by a University from an affiliated research park, including but not limited to increased exposure for development and commercialization of the University's intellectual property and technologies, increased research opportunities for the University's students and professors, and heightened exposure within the commercial world of the technological campus offerings.

The Vice President for Research of the University serves as the President of ARTF and is a member of the ARTF Board of Directors with full voting powers. Contributed services in the amount of approximately \$15,000 were recognized by ARTF during fiscal 2013 and 2012, related to services provided by the Vice President for Research serving as the President of ARTF. Additionally, ARTF's accounting records are maintained as a subsystem within the University's accounting system.

ARTF and the University entered into an Operating Agreement (the ARTF Agreement), which governs the general and administrative and development financial relationships between these two entities. In summary, the ARTF Agreement states that in return for certain services and facilities that are within the capability and control of the

University, ARTF will reimburse and compensate the University for the cost of such services and facilities. ARTF will make an annual determination of its allocable share of these costs and records the transaction in the financial statements. ARTF and the University review the ARTF Agreement annually and 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.

In accordance with the ARTF Agreement for fiscal years 2013 and 2012, personnel costs incurred by the University and charged to ARTF were \$59,611 and \$48,190, respectively. These amounts are included in "Other payables to Auburn University" at September 30, 2013 and 2012.

ARTF held lease agreements with two University departments and three University departments in fiscal years 2013 and 2012, respectively, whereby the departments lease office space from ARTF. As leasing tenants, the University departments remit a monthly rental fee to ARTF in accordance with their lease agreements.

ARTF entered into a contract with the University during fiscal year 2011 to develop and manage a full service business incubator. Revenues of \$139,969 and \$142,902 related to this contract were recognized at September 30, 2013 and 2012, respectively. The remaining amounts of \$10,031 and \$7,098 are shown as deferred revenue and will be recognized when the expenditures are incurred.

#### **(22) DIRECT LOAN PROGRAM**

The Federal Direct Loan Program (DL) enables an eligible student or parent to obtain a loan directly through the Department of Education. Under DL, files are transmitted via the Federal Common Originator and Disbursement System (COD). Funds are received via G5, a federal website. The Department of Education is responsible for the collection of these loans.

The University's Main Campus disbursed approximately \$127.2 million and \$127.1 million under this program during the fiscal years ended September 30, 2013 and 2012, respectively. AUM disbursed approximately \$34.3 million and \$27.7 million under this program during the fiscal years ended September 30, 2013 and 2012, respectively.

#### **(23) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

Statement No. 66, *Technical Corrections –2012—an amendment of GASB Statements No. 10 and No. 62* was issued in March 2012. This Statement resolves conflicting guidance from the issuance of previous Statements, including guidance regarding fund-type classification of risk financing activities as well as operating lease payments, the difference between purchase price and principal amount of purchased loans, and service fees related to mortgage loans that are sold. The provisions of this statement are effective for periods beginning after December 15, 2012. Earlier application is encouraged. The University is currently evaluating the financial statement impact of the adoption of this Statement.

Statement No. 68, *Accounting and Financial Reporting for Pensions –an amendment of GASB Statement No. 27* was issued in June 2012. This Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans administered through trusts. It establishes standards for measuring and recognizing liabilities, deferred outflows

and inflows of resources, and expenses. It also identifies methods and assumptions used to project benefit payments, their net present value, and to attribute it to periods of employee service. Additionally, it addresses disclosure requirements regarding pensions. This Statement is effective for periods beginning after June 15, 2014. Earlier application is encouraged. The University is currently evaluating the financial statement impact of this Statement, but expects to record a liability upon adoption.

Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued in January 2013. This Statement establishes new accounting and financial reporting standards related to government mergers, acquisitions, and transfers of operations and to disposals of government operations. This Statement is effective for periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged. The University does not believe the adoption of this Statement will have an effect on the University's financial statements.

Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* was issued in April 2013. This Statement improves accounting and financial reporting by state and local governments that extend or receive nonexchange financial guarantees. This Statement is effective for periods beginning after June 15, 2013. Earlier application is encouraged. The University is currently evaluating the financial statement impact of this Statement.

Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* was issued in November 2013. This Statement addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The provisions of this Statement are required to be applied simultaneously with Statement No. 68. The University is currently evaluating the financial statement impact of this Statement.





AUBURN  

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UNIVERSITY

FINANCIAL REPORT  
2013

UNAUDITED DIVISIONAL  
FINANCIAL STATEMENTS

**AUBURN UNIVERSITY MAIN CAMPUS**  
**STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2013 AND 2012**  
**(UNAUDITED)**

|  | 2013                    | 2012                    |
|--|-------------------------|-------------------------|
| <b>ASSETS</b>                              |                         |                         |
| Current assets                             |                         |                         |
| Cash and cash equivalents                  | \$ 65,420,672           | \$ 87,928,815           |
| Operating investments                      | 54,841,430              | 43,293,364              |
| Accounts receivable, net                   | 35,890,279              | 40,098,573              |
| Student accounts receivable, net           | 30,208,202              | 31,509,539              |
| Loans receivable, net                      | 2,182,507               | 2,092,830               |
| Accrued interest receivable                | 1,558,852               | 1,792,563               |
| Inventories                                | 4,010,334               | 4,141,885               |
| Prepaid expenses                           | 33,869,886              | 33,906,620              |
| Due from other funds                       | 1,154,958               | 611,532                 |
| Total current assets                       | 229,137,120             | 245,375,721             |
| Noncurrent assets                          |                         |                         |
| Investments                                | 777,153,154             | 833,899,310             |
| Loans receivable, net                      | 14,432,677              | 15,755,655              |
| Investment in plant, net                   | 1,436,342,758           | 1,320,164,475           |
| Due from other funds                       | 89,120,280              | 91,513,898              |
| Total noncurrent assets                    | 2,317,048,869           | 2,261,333,338           |
| <b>Total assets</b>                        | <b>2,546,185,989</b>    | <b>2,506,709,059</b>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>      |                         |                         |
| Loss on refunding of bonds                 | 10,911,474              | 12,813,756              |
| <b>LIABILITIES</b>                         |                         |                         |
| Current liabilities                        |                         |                         |
| Accounts payable                           | 53,488,848              | 58,212,625              |
| Accrued salaries and wages                 | 2,042,033               | 1,855,575               |
| Accrued compensated absences               | 12,501,645              | 12,069,758              |
| Accrued interest payable                   | 12,453,249              | 12,593,218              |
| Other accrued liabilities                  | 7,699,964               | 4,245,267               |
| Student deposits                           | 2,532,680               | 2,238,003               |
| Deposits held in custody                   | 18,378,001              | 18,143,081              |
| Unearned revenues                          | 155,982,895             | 152,167,495             |
| Noncurrent liabilities-current portion     | 22,653,262              | 22,481,841              |
| Total current liabilities                  | 287,732,577             | 284,006,863             |
| Noncurrent liabilities                     |                         |                         |
| Bonds and notes payable                    | 738,590,580             | 761,144,877             |
| Lease obligations                          | -                       | 46,003                  |
| Other noncurrent liabilities               | 19,998,527              | 24,562,877              |
| Due to other funds                         | 29,340,767              | 28,407,654              |
| Total noncurrent liabilities               | 787,929,874             | 814,161,411             |
| <b>Total liabilities</b>                   | <b>1,075,662,451</b>    | <b>1,098,168,274</b>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>       |                         |                         |
| Nonexchange transactions                   | 346,994                 | 179,752                 |
| <b>NET POSITION</b>                        |                         |                         |
| Net investment in capital assets           | 771,445,940             | 718,956,266             |
| Restricted                                 |                         |                         |
| Nonexpendable                              | 22,579,300              | 20,897,433              |
| Expendable:                                |                         |                         |
| Scholarships, research, instruction, other | 129,359,354             | 131,489,490             |
| Loans                                      | 3,553,430               | 4,801,093               |
| Capital projects                           | 9,214,337               | 14,029,084              |
| Unrestricted                               | 544,935,657             | 531,001,423             |
| <b>Total net position</b>                  | <b>\$ 1,481,088,018</b> | <b>\$ 1,421,174,789</b> |

**AUBURN UNIVERSITY MAIN CAMPUS**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**  
**(UNAUDITED)**

|   | 2013                    | 2012                    |
|---|-------------------------|-------------------------|
| <b>OPERATING REVENUES</b>   |                         |                         |
| Tuition and fees, net of scholarship allowances of \$97,464,758<br>and \$97,643,046, respectively | \$ 314,028,163          | \$ 293,827,903          |
| Federal appropriations  | 29,167                  | 28,916                  |
| Federal grants & contracts, net   | 43,403,864              | 56,108,144              |
| State & local grants & contracts, net   | 4,836,145               | 5,924,256               |
| Nongovernmental grants & contracts, net   | 6,442,240               | 6,401,663               |
| Sales & services of educational departments   | 35,492,764              | 31,065,802              |
| Auxiliary revenue, net of scholarship allowances of \$6,113,436<br>and \$5,438,040, respectively  | 97,970,439              | 95,661,278              |
| Other operating revenues  | 13,569,837              | 12,463,067              |
| Total operating revenues  | <u>515,772,619</u>      | <u>501,481,029</u>      |
| <b>OPERATING EXPENSES</b>   |                         |                         |
| Compensation & benefits   | 430,520,119             | 414,706,941             |
| Scholarships & fellowships  | 14,353,194              | 14,971,678              |
| Utilities   | 19,349,095              | 19,874,496              |
| Other supplies & services   | 161,434,069             | 152,394,970             |
| Depreciation  | 61,171,136              | 57,661,537              |
| Total operating expenses  | <u>686,827,613</u>      | <u>659,609,622</u>      |
| Operating loss  | <u>(171,054,994)</u>    | <u>(158,128,593)</u>    |
| <b>NONOPERATING REVENUES (EXPENSES)</b>   |                         |                         |
| State appropriations  | 155,480,564             | 161,292,380             |
| Gifts   | 33,575,342              | 35,218,471              |
| Grants  | 13,690,726              | 14,321,518              |
| Net investment income   | 10,908,843              | 26,058,859              |
| Interest expense on capital debt  | (12,541,080)            | (8,124,861)             |
| Nonoperating revenues, net  | <u>201,114,395</u>      | <u>228,766,367</u>      |
| Income before other changes in net position   | 30,059,401              | 70,637,774              |
| <b>OTHER CHANGES IN NET POSITION</b>  |                         |                         |
| Capital appropriations  | 91,922                  | 1,801,433               |
| Capital gifts & grants  | 28,080,039              | 15,386,463              |
| Additions to permanent endowments   | 1,681,867               | 518,337                 |
| Net increase in net position  | <u>59,913,229</u>       | <u>88,344,007</u>       |
| <b>Net position - beginning of year</b>   | <u>1,421,174,789</u>    | <u>1,332,830,782</u>    |
| <b>Net position - end of year</b>   | <u>\$ 1,481,088,018</u> | <u>\$ 1,421,174,789</u> |

**AUBURN UNIVERSITY AT MONTGOMERY**  
**STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2013 AND 2012**  
**(UNAUDITED)**

|  | 2013                 | 2012                 |
|--|----------------------|----------------------|
| <b>ASSETS</b>                              |                      |                      |
| Current assets                             |                      |                      |
| Cash and cash equivalents                  | \$ 1,517,561         | \$ 3,869,098         |
| Operating investments                      | 1,279,652            | 2,251,970            |
| Accounts receivable, net                   | 2,819,973            | 3,504,256            |
| Student accounts receivable, net           | 4,151,974            | 4,637,257            |
| Loans receivable, net                      | 326,517              | 285,184              |
| Accrued interest receivable                | 154,762              | 139,920              |
| Inventories                                | 507,158              | 549,661              |
| Prepaid expenses                           | 1,383,567            | 1,307,631            |
| Total current assets                       | 12,141,164           | 16,544,977           |
| Noncurrent assets                          |                      |                      |
| Investments                                | 18,133,838           | 43,376,540           |
| Loans receivable, net                      | 2,465,340            | 2,546,741            |
| Investment in plant, net                   | 98,896,175           | 76,923,425           |
| Due from other funds                       | 29,340,767           | 28,407,654           |
| Total noncurrent assets                    | 148,836,120          | 151,254,360          |
| <b>Total assets</b>                        | <b>160,977,284</b>   | <b>167,799,337</b>   |
| <b>LIABILITIES</b>                         |                      |                      |
| Current liabilities                        |                      |                      |
| Accounts payable                           | 2,658,256            | 4,070,108            |
| Accrued salaries and wages                 | 248,634              | 247,398              |
| Accrued compensated absences               | 1,596,889            | 1,552,784            |
| Accrued interest payable                   | 7,275                | 8,500                |
| Student deposits                           | 1,640                | 40,239               |
| Deposits held in custody                   | 2,779,652            | 3,036,011            |
| Unearned revenues                          | 12,181,737           | 12,033,282           |
| Noncurrent liabilities-current portion     | 320,000              | 305,000              |
| Due to other funds                         | 1,154,958            | 611,532              |
| Total current liabilities                  | 20,949,041           | 21,904,854           |
| Noncurrent liabilities                     |                      |                      |
| Bonds and notes payable                    | 665,000              | 790,000              |
| Lease obligations                          | 200,000              | 395,000              |
| Other noncurrent liabilities               | 255,368              | 115,500              |
| Due to other funds                         | 89,120,280           | 91,513,898           |
| Total noncurrent liabilities               | 90,240,648           | 92,814,398           |
| <b>Total liabilities</b>                   | <b>111,189,689</b>   | <b>114,719,252</b>   |
| <b>NET POSITION</b>                        |                      |                      |
| Net investment in capital assets           | 16,021,458           | 14,338,490           |
| Restricted                                 |                      |                      |
| Nonexpendable                              | 5,117,263            | 5,079,843            |
| Expendable:                                |                      |                      |
| Scholarships, research, instruction, other | 24,262,044           | 23,859,132           |
| Loans                                      | 355,264              | 359,529              |
| Capital projects                           | 137,543              | 138,120              |
| Unrestricted                               | 3,894,023            | 9,304,971            |
| <b>Total net position</b>                  | <b>\$ 49,787,595</b> | <b>\$ 53,080,085</b> |

**AUBURN UNIVERSITY AT MONTGOMERY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**  
**(UNAUDITED)**

|   | 2013                 | 2012                 |
|---|----------------------|----------------------|
| <b>OPERATING REVENUES</b>   |                      |                      |
| Tuition and fees, net of scholarship allowances of \$10,230,725 and \$9,059,775, respectively | \$ 31,202,849        | \$ 29,308,236        |
| Federal grants & contracts, net   | 3,162,680            | 2,900,747            |
| State & local grants & contracts, net   | 8,921,273            | 10,016,639           |
| Nongovernmental grants & contracts, net   | 580,422              | 238,482              |
| Sales & services of educational departments   | 2,735,000            | 2,474,035            |
| Auxiliary revenue, net of scholarship allowances of \$927,675 and \$769,238, respectively     | 6,571,827            | 5,876,072            |
| Other operating revenues  | 1,431,981            | 765,936              |
| Total operating revenues  | <u>54,606,032</u>    | <u>51,580,147</u>    |
| <b>OPERATING EXPENSES</b>   |                      |                      |
| Compensation & benefits   | 51,194,533           | 49,027,651           |
| Scholarships & fellowships  | 2,956,593            | 3,369,498            |
| Utilities   | 2,368,712            | 2,174,172            |
| Other supplies & services   | 26,767,833           | 26,203,447           |
| Depreciation  | 4,893,788            | 3,442,464            |
| Total operating expenses  | <u>88,181,459</u>    | <u>84,217,232</u>    |
| Operating loss  | <u>(33,575,427)</u>  | <u>(32,637,085)</u>  |
| <b>NONOPERATING REVENUES (EXPENSES)</b>   |                      |                      |
| State appropriations  | 21,947,664           | 22,863,408           |
| Gifts   | 571,691              | 479,950              |
| Grants  | 7,235,288            | 7,298,811            |
| Net investment income   | 1,625,695            | 1,733,819            |
| Interest expense on capital debt  | (1,162,205)          | (1,180,602)          |
| Nonoperating revenues, net  | <u>30,218,133</u>    | <u>31,195,386</u>    |
| Loss before other changes in net position   | <u>(3,357,294)</u>   | <u>(1,441,699)</u>   |
| <b>OTHER CHANGES IN NET POSITION</b>  |                      |                      |
| Capital appropriations  | 22,266               | -                    |
| Capital gifts & grants  | 5,118                | 5,520                |
| Additions to permanent endowments   | 37,420               | 51,530               |
| Net decrease in net position  | <u>(3,292,490)</u>   | <u>(1,384,649)</u>   |
| <b>Net position - beginning of year</b>   | <u>53,080,085</u>    | <u>54,464,734</u>    |
| <b>Net position - end of year</b>   | <u>\$ 49,787,595</u> | <u>\$ 53,080,085</u> |

**ALABAMA AGRICULTURAL EXPERIMENT STATION**  
**STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2013 AND 2012**  
**(UNAUDITED)**

|  | 2013                 | 2012                 |
|--|----------------------|----------------------|
| <b>ASSETS</b>                              |                      |                      |
| Current assets                             |                      |                      |
| Cash and cash equivalents                  | \$ 2,398,421         | \$ 2,474,491         |
| Operating investments                      | 2,010,838            | 1,223,614            |
| Accounts receivable, net                   | <u>5,087,803</u>     | <u>4,859,974</u>     |
| Total current assets                       | <u>9,497,062</u>     | <u>8,558,079</u>     |
| Noncurrent assets                          |                      |                      |
| Investments                                | <u>28,495,418</u>    | <u>23,568,761</u>    |
| Total noncurrent assets                    | <u>28,495,418</u>    | <u>23,568,761</u>    |
| <b>Total assets</b>                        | <u>37,992,480</u>    | <u>32,126,840</u>    |
| <b>LIABILITIES</b>                         |                      |                      |
| Current liabilities                        |                      |                      |
| Accounts payable                           | 881,700              | 1,091,016            |
| Accrued salaries and wages                 | 152,697              | 135,930              |
| Accrued compensated absences               | 1,539,911            | 1,573,823            |
| Deposits held in custody                   | 6,800                | 3,400                |
| Unearned revenues                          | <u>4,725,637</u>     | <u>4,872,410</u>     |
| Total current liabilities                  | <u>7,306,745</u>     | <u>7,676,579</u>     |
| Noncurrent liabilities                     |                      |                      |
| Other noncurrent liabilities               | <u>98,769</u>        | <u>344,218</u>       |
| Total noncurrent liabilities               | <u>98,769</u>        | <u>344,218</u>       |
| <b>Total liabilities</b>                   | <u>7,405,514</u>     | <u>8,020,797</u>     |
| <b>NET POSITION</b>                        |                      |                      |
| Restricted                                 |                      |                      |
| Expendable:                                |                      |                      |
| Scholarships, research, instruction, other | 1,295,317            | 937,593              |
| Unrestricted                               | <u>29,291,649</u>    | <u>23,168,450</u>    |
| <b>Total net position</b>                  | <u>\$ 30,586,966</u> | <u>\$ 24,106,043</u> |

**ALABAMA AGRICULTURAL EXPERIMENT STATION**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**  
**(UNAUDITED)**

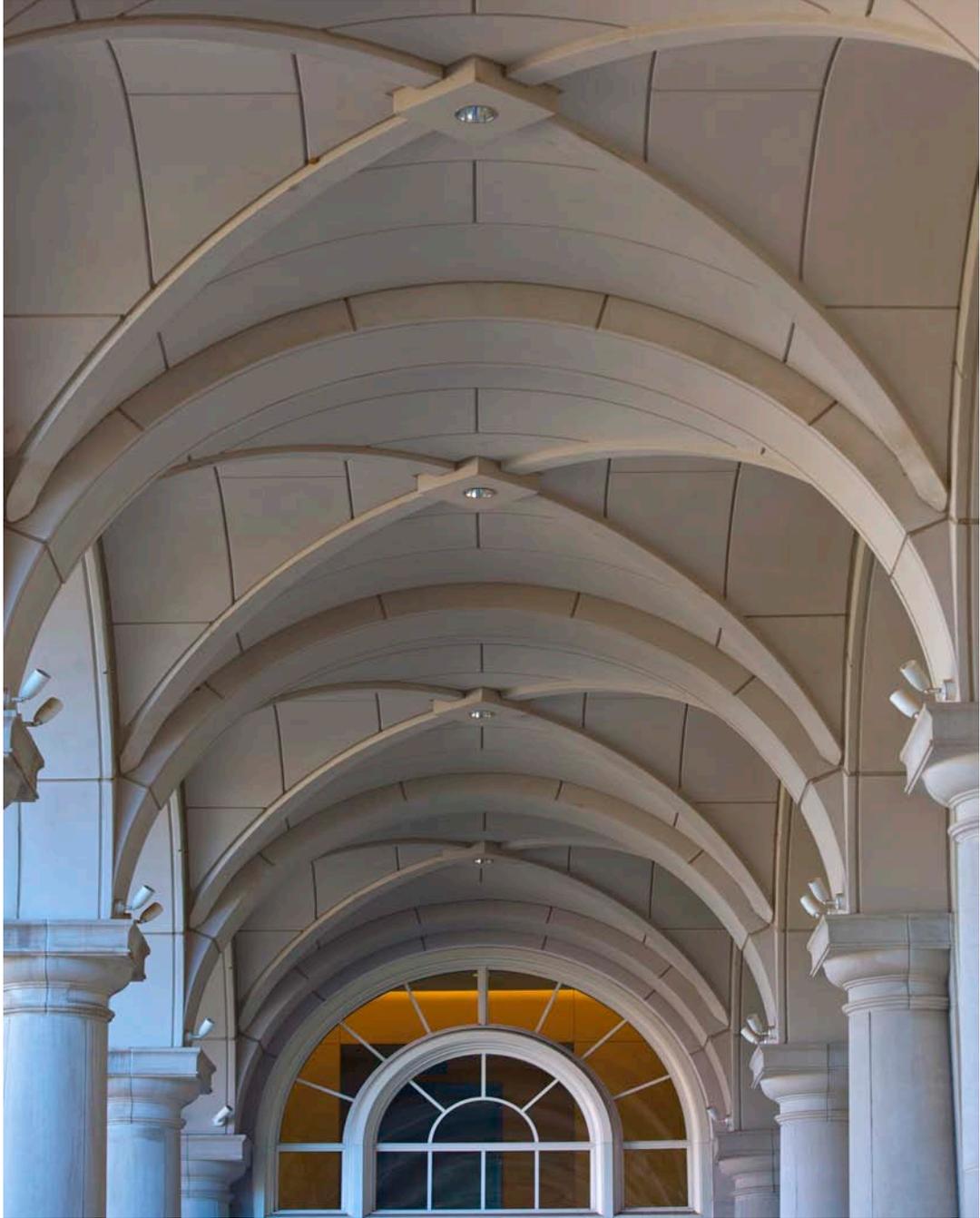
|   | 2013          | 2012          |
|---|---------------|---------------|
| <b>OPERATING REVENUES</b>                   |               |               |
| Federal appropriations                      | \$ 6,585,926  | \$ 5,547,083  |
| Federal grants & contracts                  | 16,461,051    | 16,196,003    |
| State & local grants & contracts            | 884,165       | 509,471       |
| Nongovernmental grants & contracts          | 5,050,244     | 4,048,964     |
| Sales & services of educational departments | 3,360,518     | 3,339,704     |
| Other operating revenues                    | 157,134       | 690,764       |
| Total operating revenues                    | 32,499,038    | 30,331,989    |
| <b>OPERATING EXPENSES</b>                   |               |               |
| Compensation & benefits                     | 36,517,308    | 36,277,787    |
| Scholarships & fellowships                  | 41,225        | 12,898        |
| Utilities                                   | 974,655       | 924,179       |
| Other supplies & services                   | 19,840,021    | 25,576,873    |
| Total operating expenses                    | 57,373,209    | 62,791,737    |
| Operating loss                              | (24,874,171)  | (32,459,748)  |
| <b>NONOPERATING REVENUES</b>                |               |               |
| State appropriations                        | 29,995,596    | 31,183,956    |
| Gifts                                       | 1,112,235     | 865,573       |
| Net investment income                       | 247,263       | 201,170       |
| Nonoperating revenues, net                  | 31,355,094    | 32,250,699    |
| Net increase (decrease) in net position     | 6,480,923     | (209,049)     |
| <b>Net position - beginning of year</b>     | 24,106,043    | 24,315,092    |
| <b>Net position - end of year</b>           | \$ 30,586,966 | \$ 24,106,043 |

**ALABAMA COOPERATIVE EXTENSION SYSTEM**  
**STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2013 AND 2012**  
**(UNAUDITED)**

|  | 2013                        | 2012                        |
|--|-----------------------------|-----------------------------|
| <b>ASSETS</b>                              |                             |                             |
| Current assets                             |                             |                             |
| Cash and cash equivalents                  | \$ 2,094,058                | \$ 3,083,917                |
| Operating investments                      | 1,755,660                   | 1,372,904                   |
| Accounts receivable, net                   | <u>3,541,523</u>            | <u>2,848,974</u>            |
| Total current assets                       | <u>7,391,241</u>            | <u>7,305,795</u>            |
| Noncurrent assets                          |                             |                             |
| Investments                                | <u>24,879,308</u>           | <u>26,444,317</u>           |
| Total noncurrent assets                    | <u>24,879,308</u>           | <u>26,444,317</u>           |
| <b>Total assets</b>                        | <u><b>32,270,549</b></u>    | <u><b>33,750,112</b></u>    |
| <b>LIABILITIES</b>                         |                             |                             |
| Current liabilities                        |                             |                             |
| Accounts payable                           | 614,269                     | 850,559                     |
| Accrued salaries and wages                 | 194,028                     | 162,185                     |
| Accrued compensated absences               | 1,893,734                   | 1,874,152                   |
| Unearned revenues                          | <u>973,507</u>              | <u>519,415</u>              |
| Total current liabilities                  | <u>3,675,538</u>            | <u>3,406,311</u>            |
| Noncurrent liabilities                     |                             |                             |
| Other noncurrent liabilities               | <u>12,791,417</u>           | <u>11,133,050</u>           |
| Total noncurrent liabilities               | <u>12,791,417</u>           | <u>11,133,050</u>           |
| <b>Total liabilities</b>                   | <u><b>16,466,955</b></u>    | <u><b>14,539,361</b></u>    |
| <b>NET POSITION</b>                        |                             |                             |
| Restricted                                 |                             |                             |
| Expendable:                                |                             |                             |
| Scholarships, research, instruction, other | 4,970,586                   | 5,209,119                   |
| Capital projects                           | 35,858                      | 34,614                      |
| Unrestricted                               | <u>10,797,150</u>           | <u>13,967,018</u>           |
| <b>Total net position</b>                  | <u><b>\$ 15,803,594</b></u> | <u><b>\$ 19,210,751</b></u> |

**ALABAMA COOPERATIVE EXTENSION SYSTEM**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**  
**(UNAUDITED)**

|  | <b>2013</b>   | <b>2012</b>   |
|--|---------------|---------------|
| <b>OPERATING REVENUES</b>                          |               |               |
| Federal appropriations                             | \$ 6,388,290  | \$ 6,264,436  |
| Federal grants & contracts                         | 6,684,543     | 7,294,824     |
| State & local grants & contracts                   | 2,816,326     | 2,618,757     |
| Nongovernmental grants & contracts                 | 892,670       | 628,412       |
| Sales & services of educational departments        | 377,528       | 182,187       |
| Other operating revenue                            | 1,105,004     | 2,060,316     |
| Total operating revenues                           | 18,264,361    | 19,048,932    |
| <b>OPERATING EXPENSES</b>                          |               |               |
| Compensation & benefits                            | 39,747,464    | 39,220,260    |
| Utilities  | 150,414       | 174,307       |
| Other supplies & services                          | 13,395,500    | 12,046,921    |
| Total operating expenses                           | 53,293,378    | 51,441,488    |
| Operating loss                                     | (35,029,017)  | (32,392,556)  |
| <b>NONOPERATING REVENUES</b>                       |               |               |
| State appropriations                               | 31,177,356    | 32,476,404    |
| Gifts  | 95,078        | 39,698        |
| Net investment income                              | 348,181       | 365,974       |
| Nonoperating revenues, net                         | 31,620,615    | 32,882,076    |
| (Loss) income before other changes in net position | (3,408,402)   | 489,520       |
| <b>OTHER CHANGES IN NET POSITION</b>               |               |               |
| Capital gifts and grants                           | 1,245         | 1,220         |
| Net (decrease) increase in net position            | (3,407,157)   | 490,740       |
| Net position - beginning of year                   | 19,210,751    | 18,720,011    |
| Net position - end of year                         | \$ 15,803,594 | \$ 19,210,751 |





FINANCIAL REPORT  
2013

REQUIRED SUPPLEMENTAL  
INFORMATION

## REQUIRED SUPPLEMENTAL INFORMATION

### Determination of Annual Required Contribution (ARC) and End of Year Accrual for Retiree Medical Plan

| Cost Element  | Fiscal Year Ended September 30, 2013 |                                 |
|---|--------------------------------------|---------------------------------|
|   | Amount                               | Percent of Payroll <sup>1</sup> |
| 1. Unfunded actuarial accrued liability at Oct. 1, 2012   | \$ 58,200,833                        | 1,476.3%                        |
| <b>Annual Required Contribution (ARC)</b>   |                                      |                                 |
| 2. Normal cost  | \$ 80,583                            |                                 |
| 3. Amortization of the unfunded actuarial accrued liability over 15 years using level dollar amortization | <u>4,474,833</u>                     |                                 |
| 4. Annual Required Contribution (ARC = 2 + 3)   | <u>\$ 4,555,416</u>                  | 115.5%                          |
| <b>Annual OPEB Cost (Expense)</b>   |                                      |                                 |
| 5. ARC  | \$ 4,555,416                         |                                 |
| 6. Interest on beginning of year accrual  | 264,694                              |                                 |
| 7. Adjustment to ARC  | <u>(1,009,801)</u>                   |                                 |
| 8. Fiscal year 2013 OPEB cost (5 + 6 + 7)   | <u>\$ 3,810,309</u>                  | 96.6%                           |
| <b>End of Year Accrual (Net OPEB Obligation)<sup>2</sup></b>  |                                      |                                 |
| 9. Beginning of year accrual <sup>1</sup>   | \$ 13,234,687                        |                                 |
| 10. Annual OPEB cost  | 3,810,309                            |                                 |
| 11. Employer contribution (benefit payments) <sup>2</sup>   | <u>(2,480,884)</u>                   |                                 |
| 12. End of year CAFR accrual (9 + 10 + 11) <sup>2</sup>   | <u>\$ 14,564,112</u>                 | 369.4%                          |

<sup>1</sup> Annual payroll for 46 participants as of September 30, 2013, was \$3,942,432.

<sup>2</sup> Actual amounts paid in fiscal year 2013 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 <sup>3</sup> | Net OPEB Obligation |
|--------------------|------------------|--|---------------------|
| September 30, 2011 | \$ 4,740,817     | 56.0%  | \$ 11,667,182       |
| September 30, 2012 | \$ 4,044,529     | 61.2%  | \$ 13,234,687       |
| September 30, 2013 | \$ 3,810,309     | 65.1%  | \$ 14,564,112       |

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

### Summary of Key Actuarial Methods and Assumptions

|                                      |   |
|--------------------------------------|---|
| <b>Valuation year</b>                | October 1, 2012 – September 30, 2013                  |
| <b>Actuarial cost method</b>         | Unit Credit, Actuarial Cost Method                    |
| <b>Amortization method</b>           | 15 years, level dollar open amortization <sup>4</sup> |
| <b>Asset valuation method</b>        | Not applicable  |
| <b>Discount rate</b>                 | 2.0%  |
| <b>Projected payroll growth rate</b> | Not applicable  |

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

### Health care cost trend rate for medical and prescription drugs

9.0% in fiscal year 2014, decreasing by one-half percentage point per year to an ultimate of 5.0% in fiscal year 2022 and later.

Valuation Date October 1, 2012

**Monthly Per Capita Claim Costs**

| <u>Age</u> | <u>Medical</u> |
|------------|----------------|
| 55         | \$719          |
| 60         | \$862          |
| 65         | \$350          |
| 70         | \$388          |
| 75         | \$413          |

Claim costs were increased by 6% over last year based on a weighted average of benefit plan premiums. Future claim costs are increased by health care cost trend.

**Retiree Premiums**

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

|                | <u>As of 1/1/13</u> | <u>As of 1/1/12</u> |
|----------------|---------------------|---------------------|
| Pre-65 Single  | \$472               | \$458               |
| Pre-65 Family  | \$1,062             | \$1,008             |
| Post-65 Single | \$142               | \$139               |
| Post-65 Family | \$742               | \$638               |

Note: There are several other categories of premiums.

**Administrative Expenses**

Included in claim cost.

**Assumed Health Care Trend Rate**

| <u>Fiscal Year</u> | <u>Medical and Rx Combined Rate</u> |
|--------------------|-------------------------------------|
| 2014               | 9.0%                                |
| 2015               | 8.5%                                |
| 2016               | 8.0%                                |
| 2017               | 7.5%                                |
| 2018               | 7.0%                                |
| 2019               | 6.5%                                |
| 2020               | 6.0%                                |
| 2021               | 5.5%                                |
| 2022+              | 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:

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

**Withdrawal Rates**

None assumed since all are long service Civil Service employees.

**Disability Rates**

Sample rates are shown below, percent assumed to terminate within one year:

| 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%  |

**Schedule of Funding Progress**

Schedule of Funding Progress at 2%

| Year Ended         | Annual Required Contribution | Interest on NOO | ARC Adjustment | Amortization Factor |
|--------------------|------------------------------|-----------------|----------------|---------------------|
| September 30, 2007 | \$ 5,394,900                 | \$ -            | \$ -           | 11.5631             |
| September 30, 2008 | \$ 4,386,200                 | \$ 109,508      | \$ 236,761     | 11.5631             |
| September 30, 2009 | \$ 5,429,570                 | \$ 95,020       | \$ 362,499     | 13.1062             |
| September 30, 2010 | \$ 5,264,830                 | \$ 147,204      | \$ 561,580     | 13.1062             |
| September 30, 2011 | \$ 5,280,202                 | \$ 191,613      | \$ 730,998     | 13.1062             |
| September 30, 2012 | \$ 4,701,384                 | \$ 233,344      | \$ 890,199     | 13.1062             |
| September 30, 2013 | \$ 4,555,416                 | \$ 264,694      | \$ 1,009,801   | 13.1062             |

| Year Ended         | OPEB Cost    | Contributions | Change in Net OPEB Obligation | NET OPEB Obligation Balance |
|--------------------|--------------|---------------|-------------------------------|-----------------------------|
| September 30, 2007 | \$ 5,394,900 | \$ 2,657,200  | \$ 2,737,700                  | 2,737,700                   |
| September 30, 2008 | \$ 4,258,947 | \$ 2,245,000  | \$ 2,013,947                  | 4,751,000                   |
| September 30, 2009 | \$ 5,162,091 | \$ 2,552,888  | \$ 2,609,204                  | 7,360,204                   |
| September 30, 2010 | \$ 4,850,454 | \$ 2,630,017  | \$ 2,220,437                  | 9,580,641                   |
| September 30, 2011 | \$ 4,740,817 | \$ 2,654,276  | \$ 2,086,541                  | 11,667,182                  |
| September 30, 2012 | \$ 4,044,529 | \$ 2,477,024  | \$ 1,567,505                  | 13,234,687                  |
| September 30, 2013 | \$ 3,810,309 | \$ 2,480,884  | \$ 1,329,425                  | 14,564,112                  |

# 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.



**Robert Bentley**  
Governor of Alabama  
President, Montgomery



**James W. Rane**  
Abbeville, Third  
Congressional District  
President Pro Tempore



**B.T. Roberts**  
Mobile, First  
Congressional District



**Clark Sahlie**  
Montgomery, Second  
Congressional District



**Bob Dumas**  
Auburn, Third  
Congressional District



**Jimmy Sanford**  
Prattville, Fourth  
Congressional District



**D. Gaines Lanier**  
Lanett, Fifth  
Congressional District



**Elizabeth Huntley**  
Clanton, Sixth  
Congressional District



**Sarah B. Newton**  
Fayette, Seventh  
Congressional District



**Michael A. DeMaioribus**  
Huntsville, Eighth  
Congressional District



**James Pratt**  
Birmingham, Ninth  
Congressional District



**Raymond J. Harbert**  
At-Large Member



**Charles D. McCrary**  
At-Large Member



**Wayne T. Smith**  
At-Large Member

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