

A U B U R N U N I V E R S I T Y  
2004 COMPREHENSIVE ANNUAL FINANCIAL REPORT



**INSTRUCTION**



**RESEARCH**



**OUTREACH**

For the year ended September 30, 2004  
Auburn University Enterprise Fund of the State of Alabama



This report was prepared by the Office of Financial Reporting in cooperation with the Office of Assistant Vice President for Business & Finance and Controller. This book was printed and insides designed by CopyCat.

# A U B U R N U N I V E R S I T Y

## 2 0 0 4 C O M P R E H E N S I V E A N N U A L F I N A N C I A L R E P O R T

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## INTRODUCTORY SECTION



# Auburn University

Auburn University, Alabama 36849-5113

Office of the President  
107 Sanford Hall

Telephone: (334) 844-4650  
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February 25, 2005

Dear Members of the Auburn Community and Alabama Citizens,

The Annual Financial Report presented on the following pages briefly summarizes the University's financial position at September 30, 2004, and financial activity for the year then ended. I am pleased to note that, through the commitment of faculty, administration, students and the Board of Trustees, the University has finished the year in strong financial condition.

Quality measures continue to reveal the strength of Auburn University. *U. S News and World Report* has ranked Auburn 42 among the nation's top public universities for 2004-2005, an improvement from a rank of 44 the prior year. In order to maintain total enrollment at manageable levels given the available resources and funding, we continue to be selective on freshmen acceptances. As a result, ACT scores and high school grade point averages for new freshmen are at record highs.

While state funding remains a critical issue to the continuation and growth of many programs at Auburn University, we are emphasizing accountability measures and cultivation of new sources of financial support as strategies we can use to respond to the state funding challenges. Extramural funding for sponsored programs is at record levels with the future even brighter with the Board of Trustees recent approval of a new research park.

We remain committed to serving the State of Alabama toward economic growth and to its citizens by way of our quality programs and emphasis on access and diversity.

Sincerely,



Ed Richardson  
Interim President

# Auburn University

Auburn University, Alabama 36849-5113

Office of the President  
107 Samford Hall

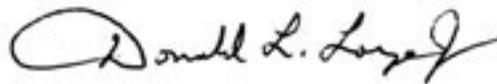
Telephone: (334) 844-4650  
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February 25, 2005

The comprehensive annual financial report for Auburn University for 2004 provides comparative financial statements for the years ended September 30, 2004 and September 30, 2003. Again this year, the financial statements have a new look. Governmental Accounting Standards Board Statement No. 39 requires the presentation of audited financial information for component units. Consequently, the statements of financial position and statements of activities are presented for Auburn University Foundation, Auburn Alumni Association, and the newly formed Tigers Unlimited Foundation. Management's Discussion and Analysis and the Notes to Financial Statements provide additional discussion and detail regarding the inclusion of these component units.

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

Sincerely,



Donald L. Large, Jr.  
Executive Vice President

# 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, 2004 with comparisons to the years ended September 30, 2003 and September 30, 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements, footnotes and this discussion are the responsibility of University management.

Auburn University is a land-grant institution and is classified by the Carnegie Foundation as "Doctoral/Research-Extensive," while Auburn University at Montgomery (AUM) is classified as "Master's I." Fall 2004 enrollment included 28,051 total students at the main campus at Auburn and at AUM. The University offers a diverse range of degree programs in 12 colleges and schools and has approximately 4,937 full-time employees, including 1,350 faculty members, who contribute to the University's mission of serving the citizens of the State of Alabama through its instructional, research and outreach programs.

## Using the Annual Report

The University's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on an entity-wide basis to focus on the University as a whole.

The University's financial statements are summarized as follows:

**The Statement of Net Assets** presents entity-wide assets, liabilities and net assets (assets minus liabilities) on the last day of the fiscal year. Distinctions are made in current and noncurrent assets and liabilities. Net assets are segregated by unrestricted, restricted (expendable and nonexpendable), and capital net assets. The University's net assets are one indicator of the University's financial health. An increase or decrease in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.

**The Statement of Revenues, Expenses and Changes in Net Assets** presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB requires state appropriations, gifts and investment earnings to be classified as nonoperating revenues. As a result, the University will typically realize a significant operating loss. The utilization of long-lived assets, referred to as capital assets, is reflected in the Statement of Revenues, Expenses and Changes in Net Assets as depreciation expense, which amortizes the cost of an asset over its expected useful life. All references to the years 2004, 2003, and 2002 refer to the years ended September 30, 2004, 2003, and 2002 respectively.

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

In addition to the University financial statements, related component unit Statements of Financial Position and Statements of Activities have been included in this annual report. Effective for fiscal years beginning after June 15, 2003, GASB Statement No. 39 *Determining Whether Certain Organizations Are Component Units*, provides criteria for determining which related organizations should be reported as component units based on the nature and significance of their relationship with the primary government, the University. GASB 39 also clarifies reporting requirements for those organizations as amendments to GASB Statement No. 14, *The Financial Reporting Entity*. The University has identified these significant related organizations that are required to be reported as component units. The three component units of the University reported herein are:

(1) **Auburn University Foundation (AUF)**. AUF is the fund raising foundation for Auburn University organized on February 9, 1960. As of September 30, 2004 AUF holds approximately \$173 million in University endowments and distributes earnings from those endowments to the University. AUF is incorporated as a legally separate, tax-exempt nonprofit organization established to solicit individual and corporate donations for the direct benefit of the University. AUF financial reports are presented according to the Financial Accounting Standards Board (FASB) Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. FASB 117 requires three classes of net assets to be reported: unrestricted, temporarily restricted and permanently restricted.

**(2) Tigers Unlimited Foundation (TUF).** TUF is a legally separate nonprofit organization incorporated in December, 2002, which began operations on April 21, 2004. TUF was organized exclusively for charitable purposes, pursuant to Sections 501(a) and 501(c)(3) to support athletic fund raising and athletic programs. TUF presents its financial statements in accordance with FASB 117. The component unit statements shown for 2004 include approximately 2 months of activity for this organization, which has a June 30 fiscal year end. Prior to beginning operations in this fundraising, support foundation, the activities of Tigers Unlimited were consolidated into the AUF financial statements. Therefore, there is no prior year comparison available for fiscal year ended June 30, 2004. TUF is considered a financially related organization, and provides economic resources to the University for athletic scholarships, athletic building maintenance or new construction, and for athletic department programs.

**(3) Auburn Alumni Association (AAA).** AAA is a nonprofit corporation organized on April 14, 1945 to promote mutually beneficial relationships between Auburn University and its alumni, to encourage loyalty among alumni, and to undertake various other actions for the benefit of Auburn University, its alumni and the State of Alabama. Membership is comprised of alumni, friends and students of Auburn University. AAA financial statements are presented in accordance with FASB 117. The Auburn Alumni Association provides monetary support to the University in the form of faculty awards, and student scholarships.

The organizations identified above as component units have been discretely presented on separate pages from the University's financial statements.

## FINANCIAL HIGHLIGHTS

### Statement of Net Assets

The University's financial position is strong at September 30, 2004 and 2003 with assets of \$1.2 billion and liabilities of \$462 million and assets of \$1 billion and liabilities of \$365.5 million, respectively. The University experienced an increase in net assets of \$67.5 million in 2004, primarily attributable to a \$52.9 million increase in capital assets, net of related debt. Net assets increased by \$55 million at the end of 2003 from 2002. A summary of assets, liabilities and net assets as of September 30, 2004, 2003 and 2002 is as follows:

	2004	2003	2002
Current assets	\$ 171,629,860	157,157,444	142,558,241
Capital assets	539,026,448	448,654,801	389,712,153
Other noncurrent assets	488,918,479	429,616,445	441,883,484
Total assets	\$ 1,199,574,787	1,035,428,690	974,153,878
Current liabilities	\$ 167,667,539	162,054,330	153,523,362
Noncurrent liabilities	294,497,152	203,463,796	205,734,160
Total liabilities	\$ 462,164,691	365,518,126	359,257,522
Net assets			
Invested in capital assets, net of related debt	\$ 352,560,185	299,683,084	264,777,947
Restricted – Nonexpendable	19,573,378	16,690,881	15,365,724
Restricted – Expendable	86,435,161	94,193,629	89,113,464
Unrestricted	278,841,372	259,342,970	245,639,221
Total net assets	\$ 737,410,096	669,910,564	614,896,356

### The University's Assets

Current assets consist of cash and cash equivalents, operating investments (those investments which are expected to be liquidated during the course of normal operations), accounts receivable (primarily amounts due from the federal and state governments and other agencies as reimbursements for sponsored programs), net student accounts receivable (including amounts due from third parties on behalf of the students), loans receivable, accrued interest receivable, inventories, and prepaid expenses. These assets increased \$14.5

million, or 9.2%, from September 30, 2003 to September 30, 2004. This increase was primarily attributable to an increase in operating investments of \$10.3 million of which \$9.9 million was an increase in the University's cash pool investments.

Current assets increased \$14.6 million, or 10.2%, from 2002 to 2003. The most significant factor was the increase in operating investments of \$12.9 million of which \$12.7 million was an increase in the University's cash pool investments. Other current assets with increases were student accounts receivable, which increased \$1 million, and prepaid expenses of \$1.1 million mainly attributable to the increase in athletic scholarship expenditures for the 2003 fall football season.

Capital assets represent the historical cost, less any accumulated depreciation, of land improvements, buildings, construction in progress, infrastructure, equipment, library books, and livestock, with buildings constituting over 60% of the total capital asset value. Capital assets, net of depreciation, shown as Investment in Plant, Net on the Statement of Net Assets increased \$90.4 million, or 20.1% from September 30, 2003 to September 30, 2004. This increase was mainly due to an increase of \$33.5 million in construction in progress on the AU campus and \$52.9 million in capitalized buildings, which includes:

Poultry Science Building	\$15.5 million
Auburn University Hotel and Dixon Conference Center	\$ 7.8 million
Beef Teaching and Meat Laboratory	\$ 5.5 million
Health Center	\$ 5.0 million
Hot and Chilled Water Plant	\$ 4.2 million
Tatum Athletic Academic Support Center	\$ 3.1 million
AUM Dorm	\$ 2.0 million
Telfair Peet Theatre	\$ 1.9 million
Wiregrass Research and Extension Center	\$ 1.3 million
Small projects total	\$ 6.6 million

Capital assets, net of depreciation, increased \$58.9 million, or 15.1% from 2002 to 2003. The following accounted for a \$56 million increase in new construction and renovation projects: Large Animal Teaching Hospital, \$12.4 million; Jule Collins Smith Art Museum, \$12.6 million; Hot and Chilled Water Plants, \$5.5 million; Biggin Hall renovation, \$4.6 million; ALFA Agriculture Research Center, \$4.6 million; AUM Dormitory, \$14 million, and other smaller projects totaling \$2.3 million.

Other noncurrent assets consist of nonoperating investments, including investments restricted or designated for capital construction, permanent endowment funds and net loans receivable. These noncurrent assets increased by \$59.3 million, or 13.8% from September 30, 2003 to September 30, 2004. A majority of this increase was due to the increase in nonoperating investments from proceeds of the 2004 General Fee and 2004 Athletic Revenue bond issues of \$69.9 million and \$16.8 million, respectively, less expenditures from prior issues of \$27.1 million for capital projects. Nonoperating investments also increased \$10.5 million due to additions to endowment funds.

Other noncurrent assets decreased by \$12.3 million, or 2.8% from 2002 to 2003. A majority of this decrease was due to the decrease in nonoperating investments, mainly from the use of bond proceeds for capital projects. Expenditures of the 2001A General Fee and 2001A Athletic Revenue bond issues of \$28.3 million and \$6.3 million, respectively, reduced prior-year investments set aside for construction. These reductions were partially offset by additions to permanent endowment funds of \$14.8 million, as well as a \$7 million addition to the University's cash pool from gains due to improved financial market conditions in 2003.

### The University's Liabilities

Current liabilities consist of accounts payable, compensation related liabilities, advances, accrued interest payable, student and other deposits (including Perkins and Health Professions loan liability), deferred revenues, current portion of noncurrent liabilities, and outstanding checks in excess of bank balance and other accrued liabilities. Current liabilities increased by \$5.6 million, or 3.5% from September 30, 2003 to September 30, 2004. This increase was primarily due to increases in amounts due to vendors, student deposits held for program fees, and an increase in the current portion of long-term debt due to the issuance of the General Fee and Athletic Revenue bonds in 2004. Deferred revenue decreased \$7.6 million due to the change in reporting the athletic year end from June 30 to September 30.

Current liabilities increased by \$8.5 million, or 5.6% from 2002 to 2003. This increase mainly consisted of an increase in deferred revenues from tuition, housing, and athletic events of \$9 million, an increase of outstanding checks in excess of bank balances of \$5.9 million, as well as, increases for student deposits and deposits held in custody for others, and amounts received from grant and

contract sponsors which have not been earned. Decreases in current liabilities mainly consisted of a decrease of \$3.1 million for the current portion of long-term debt due to refinancing the 1993 General Fee, Housing & Dining, and Athletic bond issues in 2003, and a decrease of \$1.4 million in compensation-related liabilities and other accrued liabilities as well as decreased payments to vendors.

Noncurrent liabilities include principal amounts due on University bonds and notes payable, accrued compensated absences and other compensation-related liabilities that are payable beyond September 30, 2005. Noncurrent liabilities increased by \$91 million, or 44.7% from September 30, 2003 to September 30, 2004, primarily due to additional borrowings. During 2004, the University issued \$76,875,000 in General Fee Revenue bonds, and \$27,910,000 in Athletic Revenue bonds. Proceeds from the 2004 General Fee Revenue bonds are to be used for financing the cost of certain capital improvements to the Auburn campus specifically, for the construction of a transportation technology building, central utility plant, building to house the Office of Information Technology, the renovation of Ross Hall and various infrastructure projects. Proceeds from the 2004 Athletic Revenue bonds are to be used for financing a portion of the cost of the renovation and expansion of Jordan-Hare Stadium and the expansion of the James T. Tatum, Jr. Strength & Conditioning Center.

Noncurrent liabilities decreased by \$2.3 million or 1.1% from 2002 to 2003. Accrued sick and vacation leave increased by \$2.2 million, but was offset by decreases in bonds, notes payable and lease obligations of \$3.3 million. Additionally, noncurrent liabilities decreased \$1.2 million when the University transferred its self-insured, nonbudgeted pension plan to The Hartford, effective May 1, 2003. During fiscal year 2003, the University issued \$49,460,000 in new General Fee Revenue bonds, \$21,900,000 in new Athletic Revenue bonds, and \$15,645,000 in new Housing & Dining Revenue bonds. Proceeds from the 2003 Athletic and Housing & Dining bonds were used to currently refund the 1993 Athletic bonds and the 1993 Housing & Dining bonds. Proceeds from the 2003 General Fee bonds were used to currently refund the 1993 General Fee bonds and also provided an additional \$12,011,660 to fund certain capital improvements at the Auburn Campus. These improvements include the rehabilitation and improvement of various classroom and administrative buildings, landscaping, roadway and parking facility upgrades and security system upgrades as well as acquisition, construction, and rehabilitation of other real personal property.

Also during fiscal year 2003, the University defeased two bond issues related to the debt on the Auburn University Hotel and Dixon Conference Center. These bonds were defeased from current operating funds. The defeased bonds reduced the current and noncurrent bonds payable liability by \$9.8 million.

### The University's Net Assets

Net assets invested in capital assets represent the University's capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. These net assets increased \$52.9 million, or 17.6% from September 30, 2003 to September 30, 2004. This increase is due to the capitalization of assets as described previously. Net assets invested in capital increased \$34.9 million, or 13.2% from 2002 to 2003. This increase is due to the capitalization of assets as described in Footnote 7 of the 2003 Financial Report.

Restricted-Nonexpendable net assets are subject to external restrictions governing their use and primarily include the University's permanent endowment funds. These net assets increased \$2.9 million, or 17.3% from September 30, 2003 to September 30, 2004, primarily due to receipt of a new endowed scholarship for Auburn University at Montgomery. These net assets increased \$1.3 million, or 8.6% from 2002 to 2003, primarily due to the addition of several new endowed scholarships.

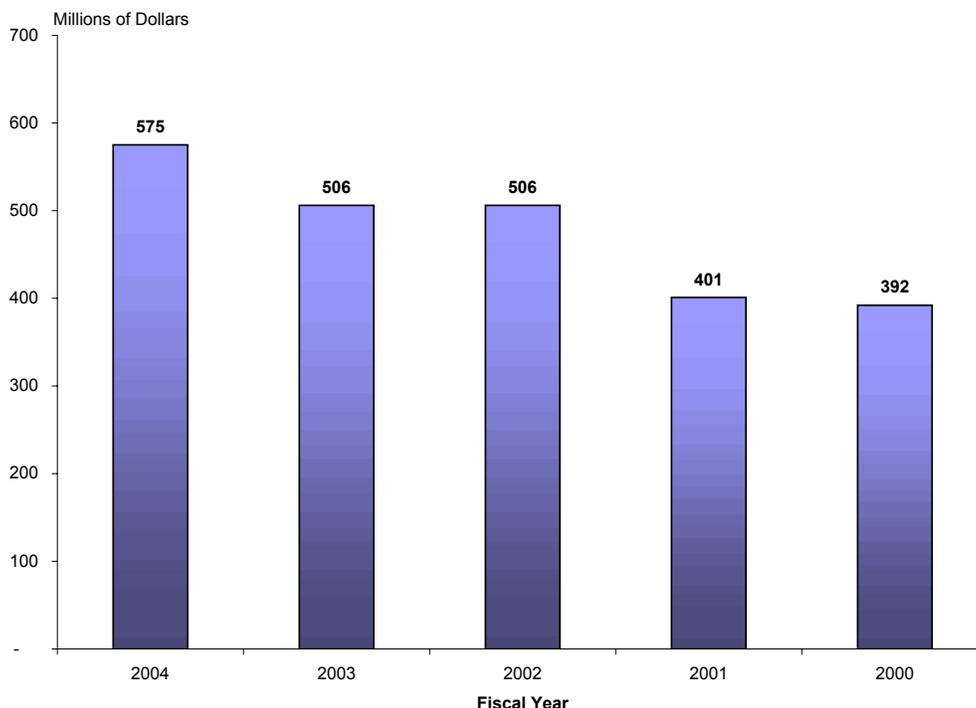
Restricted-Expendable net assets are also subject to external restrictions governing their use. Such net assets include gifts, and contracts and grants restricted by federal, state, or local governments and private sources, which are restricted for a specific purpose or unit within the University, or net assets that are externally restricted and internally designated as funds acting like endowments. Also included in this category are funds available for student loans, and construction purposes. These net assets decreased by \$7.8 million or 8.2% from September 30, 2003 to September 30, 2004. The majority of the decrease is due to use of funds for construction purposes during 2004. Restricted-Expendable net assets increased by \$5.1 million or 5.7% from 2002 to 2003. The majority of the increase is due to increases in contracts and grants, endowments, and construction funds of \$1.9 million, \$1.4 million, and \$1.6 million, respectively.

Unrestricted net assets are not subject to externally imposed stipulations; however, the majority of the University's unrestricted net assets have been internally designated for various mission-related purposes. These assets include funds for general operations of the University, for auxiliary operations (including athletics, housing, and food services), for endowments and for capital projects. Unrestricted net assets increased \$19.5 million, or 7.5%, to \$278.8 million from \$259.3 million at September 30, 2003. Increases to

quasi-endowments of \$6.2 million attributable to net realized and unrealized gains in 2004, an increase in funds from general University operations of \$11 million, and an increase of approximately \$2 million in auxiliary enterprise activities due to change in Athletic Department fiscal year end accounted for a majority of the increase.

Unrestricted net assets increased \$13.7 million, or 5.6%, to \$259.3 million from \$245.6 million at September 30, 2002. Expenditures for a number of new construction and building repairs and maintenance projects reduced the funds available for capital projects by \$13.7 million. Expenditures for auxiliary enterprise activities exceeded revenues by \$3.4 million, primarily due to planned capital expenditures. Offsetting these reductions in funds available were increases to endowments of \$11.8 million attributable to net realized and unrealized gains in 2003. In addition there was an increase in funds for general university operations of \$19 million.

### TOTAL INVESTMENTS AT MARKET VALUE



### Statement of Revenues, Expenses and Changes in Net Assets

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

A condensed statement is provided below:

	2004	2003	2002
Operating revenues	\$ 391,616,209	344,347,552	324,442,402
Operating expenses	601,278,396	558,837,806	519,620,714
Operating loss	\$ (209,662,187)	(214,490,254)	(195,178,312)
Net nonoperating revenues and other changes in net assets	\$ 277,161,719	269,504,462	246,204,620
Increase in net assets	\$ 67,499,532	55,014,208	51,026,308
Net assets:			
Beginning of year	\$ 669,910,564	614,896,356	563,870,048
End of year	\$ 737,410,096	669,910,564	614,896,356

The 2004 Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in net assets at the end of the year of \$67.5 million as discussed above. Operating revenues increased \$47.3 million from 2003 to 2004. Student tuition and fee revenue, net of discounts, increased \$21.9 million, as a result of Board approved tuition increases of 9% and 16% in the 2003-2004 and 2002-2003 academic years, respectively. Because the University's fiscal year crosses fall semester, tuition revenues in the fiscal year ending September 30, 2004 include 60% of fall semester of 2003, spring semester of 2004 and summer term of 2004, as well as 40% of fall semester of 2004.

The 2003 Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in net assets at the end of the year of \$55 million as discussed above. Operating revenues increased \$19.9 million from 2002 to 2003. Student tuition and fee revenue, net of discounts, increased \$15.4 million, as a result of Board approved tuition increases of 12% and 16% in the 2002-2003 and 2003-2004 academic years, respectively, as well as record enrollment in Fall 2002. Tuition revenues in the fiscal year ending September 30, 2003 include 60% of Fall of 2002, Spring of 2003 semesters and Summer of 2003 term tuition revenues, as well as 40% of Fall of 2003 tuition revenues.

Operating expenses increased \$42.4 million from 2003 to 2004. Expenses for compensation and employee benefits increased \$39.2 million as a result of a one time salary supplement and associated benefits. Benefit costs also increased due to the increase in the retirement rate assessed by the Teacher's Retirement System of Alabama and costs associated with retiree health care charged to the University for the Public Education Employees Health Insurance Plan. Other supplies and services expense increased \$6 million as a result of increased payments to vendors for supplies and non-capital building and infrastructure maintenance. Depreciation expense increased \$1.7 million from the previous year, which is the result of \$85.8 million in new depreciable assets placed in service during 2004. Loss on impairments and disposals decreased \$7.9 million. In 2003, an impairment loss on the Auburn University Hotel and Dixon Conference Center was recorded for \$2.3 million and a \$5.6 million capital asset impairment and write off adjustment for the AUM campus resulted in a \$7.9 million expense.

Operating expenses increased \$39.2 million from 2002 to 2003. Expenses for compensation and employee benefits increased \$27.7 million as a result of a Board approved average salary increase of 6%. Other supplies and services expense increased \$18.7 million as a result of increased payments to vendors for supplies and non-capital building and infrastructure maintenance. Depreciation expense increased \$3.1 million from the previous year, which is the result of \$97 million in new depreciable assets placed in service during fiscal year 2003. Loss on impairments and disposals decreased \$8.8 million. In 2002 the University's capital asset threshold was increased to \$2,500 from \$1,000 resulting in a writeoff of \$16.9 million.

Net nonoperating revenues decreased \$2.7 million from 2003 to 2004. State appropriations increased \$1.4 million. Net investment income decreased \$2.3 million as a result of a decrease in the endowment investment spending rate distribution from 4% in 2003 to 3.75% in 2004. Other nonoperating expenses decreased \$2.2 million from 2003 to 2004. In 2003, the Auburn University Hotel and Dixon Conference Center bonds of \$12 million were paid off, resulting in a \$2 million expense on the retirement of debt. In addition, the refunding of General Fee, Athletic, and Housing and Dining bond issues resulted in a loss on defeasance of \$3.2 million in 2003.

Net nonoperating revenues increased \$18.7 million from 2002 to 2003. State appropriations increased \$6.2 million. Net investment income increased \$17 million as a result of improved market conditions over the prior year. Other nonoperating expenses increased \$5.8 million, due to significant large transactions occurring in each of the fiscal years. These significant transactions include the pay off of Auburn University Hotel and Dixon Conference Center bonds as well as a loss on defeased bonds in 2003 as described above. Finally, in the fiscal year ended September 30, 2002, the University received \$3.6 million in revenue from the sale of stock received from the demutualization of Prudential Insurance Company.

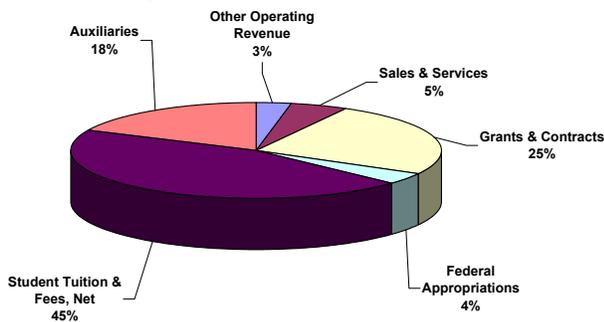
Capital gifts, grants, appropriations, and additions to permanent endowments increased \$10.3 million for 2004 to \$37 million from \$26.7 million in 2003. The University received capital appropriations of \$15.1 million in 2004. The building projects that received these funds are:

The Science Lab Center	\$7.3 million
The Forestry Building	\$2.8 million
AUM Dormitory	\$2.0 million
Wiregrass Research & Extension Center	\$1.3 million
Poultry Science Building	\$1.0 million
Beef Teaching & Meat Lab Building	\$ .7 million

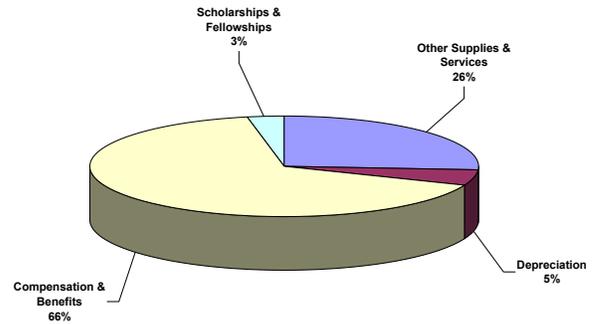
Capital gifts and grants increased \$9.1 million from 2003 to 2004. Most of this increase is comprised of gifts to the Jule Collins Smith Art Museum, the Athletic Department and the M. Miller Gorrie Center for the Department of Building Science. Additions to permanent endowments increased by \$.5 million in 2004.

Capital gifts, grants, appropriations, and additions to permanent endowments increased \$4.6 million for the fiscal year ending September 30, 2003 to \$26.6 million from \$22 million in 2002. The University received a \$2.9 million increase in capital improvement bond proceeds from the State Agricultural Bond Funds, a \$1.3 million increase in gifts earmarked for capital projects and a \$.3 million increase in additions to permanent endowments.

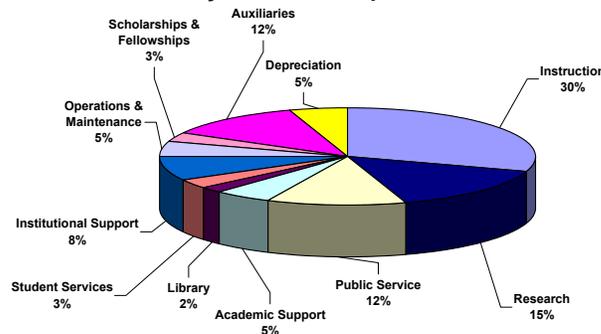
**OPERATING REVENUES SUPPORTING CORE ACTIVITIES**  
For the year ended September 30, 2004



**OPERATING EXPENSES BY NATURAL CLASSIFICATION**  
For the year ended September 30, 2004



**OPERATING EXPENSES BY FUNCTION**  
For the year ended September 30, 2004



**Statement of Cash Flows**

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

The University's cash flows are summarized below:

	2004	2003	2002
Cash provided by (used in):			
Operating activities	\$ (181,539,946)	(178,005,414)	(144,251,173)
Net noncapital financing activities	225,307,458	233,294,220	216,928,291
Net capital and related financing activities	186,258	(82,386,047)	13,347,537
Net investing activities	(43,916,185)	27,087,644	(86,190,888)
Net increase (decrease) in cash	37,585	(9,597)	(166,233)
Cash and cash equivalents beginning of year	\$ 803,108	812,705	978,938
Cash and cash equivalents end of year	\$ 840,693	803,108	812,705

Due to the restructuring of the 1993 General Fee Revenue, Athletic, and Housing and Dining bonds in 2003, there was a one time reduction in principal paid on debt in 2004. Cash inflows for capital acquisitions from state appropriations, gifts and grants, and bonds issued during the year were used to help fund the University's equipment needs and ongoing renovation and construction initiatives, along with the new bond proceeds. The University's cash and cash equivalents decreased \$9,597 in 2003 due to the outflow of funds for capital and related financing activities. Cash inflows for capital acquisitions from state appropriations, gifts and grants, and bonds issued during the year were used to help fund the University's equipment needs and ongoing renovation and construction initiatives, along with the new bond proceeds.

In 2004, net cash used in operating activities was \$181.5 million. Significant cash used includes \$393.1 million for employee compensation and benefits in 2004 which exceeded cash used in 2003 by \$44.1 million. Payments to suppliers were \$156 million, which was down from 2003 payments by \$4.8 million. Significant cash provided from operations includes \$174.7 million from tuition and fees, an increase of \$22.7 million over 2003; \$94.3 million for contracts and grants, an increase of \$1.4 million over the prior year; and \$64.8 million from auxiliary enterprises, an increase of \$9.7 million over the prior year. Net cash used in operating activities increased \$3.5 million from 2003 to 2004 mainly due to increased employee benefit expense.

In 2003, net cash used in operating activities was \$178 million. Significant cash used includes \$349 million for employee compensation and benefits and \$160.7 million for payments to suppliers which exceeded outflows in 2002 for compensation and supplies by \$62.4 million. Significant cash provided from operations include \$152 million from tuition and fees, an increase of \$17.3 million over 2002; \$92.9 million for contracts and grants, an increase of \$15.2 million over the prior year; and \$55.1 million from auxiliary enterprises, a decrease of \$5.7 million over the prior year. Net cash used in operating activities increased \$33.8 million from 2002 to 2003.

Net cash provided by noncapital financing activities of \$225.3 million in 2004, included state appropriations of \$208.6 million, gifts for other than capital purposes of \$15.4 million, and an increase in outstanding checks in excess of bank balance of \$1.3 million representing a decrease in net cash provided by non-capital financing activities of \$8 million in 2004 as compared to 2003.

Net cash provided by noncapital financing activities of \$233.3 million in 2003, included state appropriations of \$207.2 million, gifts for other than capital purposes of \$20.2 million, and an increase in outstanding checks in excess of bank balance of \$5.9 million representing an increase of \$16.4 million in 2003 as compared to 2002.

Net cash used in capital and related financing activities for 2004 of \$.2 million represents a decrease of \$82.2 million as compared to 2003. During 2004, the University received \$103.3 million in new debt proceeds. The debt proceeds will be used for capital improvements. Capital asset purchases of \$116.6 million increased \$25.6 million over the prior year due to an expanded campus building program.

Net cash used in capital and related financing activities for 2003 of \$82.4 million represents an increase of \$95.7 million as compared to 2002. During 2003, the University received \$90.5 million in new debt proceeds. The debt proceeds were used to refund bonds for \$78.5 million, and provided \$12 million for capital improvements. In addition, the University paid \$11.6 million to defease outstanding debt on the Auburn University Hotel and Dixon Conference Center. Purchases of capital assets increased \$8.4 million as compared to 2002.

Net cash used in investing activities totaled \$43.9 million in 2004 compared to cash provided by investing activities of \$27.1 million in 2003. Net cash used reflects the bond proceeds which were invested and remain unspent at September 30, 2004.

Cash provided by investing activities totaled \$27.1 million in 2003 compared to cash used in investing activities of \$86.2 million in 2002. Proceeds from the sale of investments increased \$327.8 million offset by purchases of investments which increased \$208.9 million. This increase in the sale of investments was mainly due to the increase in capital project expenditures and increased cash needs for the payoff of the AU Hotel and Dixon Conference Center bond debt of approximately \$12 million.

### **Economic factors that will affect the future**

Looking toward the future, management believes that the University is well positioned to continue its strong financial condition and level of excellence in service to students, sponsors, the State of Alabama and other constituents. The University's strong financial position and internal financial planning process provide Auburn University some protection against adverse economic conditions. Nonetheless, as a labor intensive organization, the University faces competitive pressures related to attracting and retaining faculty and staff. With dramatic increases in health care costs, the University's health benefits are of particular concern. In addition, the University's cost

of providing retirement benefits is expected to increase significantly in future fiscal years. The University is also undergoing a large construction program and the costs of operating the new facilities will place additional resource demands on the institution.

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

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

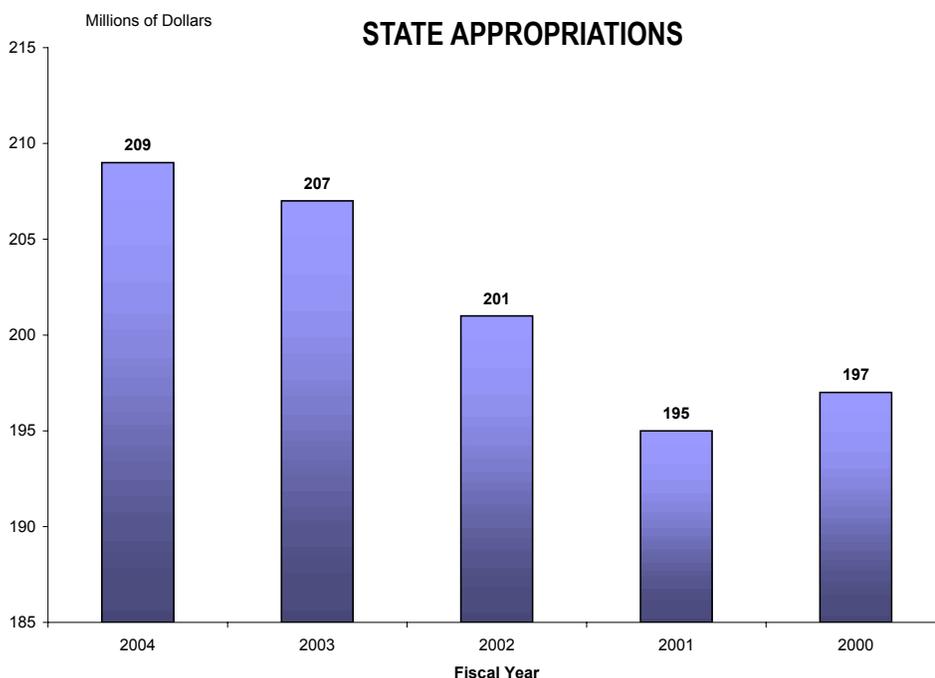
The University will continue to employ its long-term investment strategy to maximize total returns at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility.

Following the close of the 2003 fiscal year, the University was notified by its accrediting agency, the Southern Association of Colleges and Schools (SACS), that it had been placed on probation for issues primarily related to university governance. On December 7, 2004, the University received notice that SACS has lifted probation. There were no financial consequences to the year long probation and the University does not expect that the probation will have any financial impact in the future.

### Cautionary note regarding forward-looking statements

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

In reviewing such information it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The University does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.



## UNDERGRADUATE TUITION FOR THE ACADEMIC YEAR

	2004-05	2003-04	2002-03	2001-02	2000-01
Auburn Main Campus and Auburn University at Montgomery					
Full-Time Students					
In-State	\$ 4,828/4,230	\$ 4,426/3,900	\$ 3,784/3,390	\$ 3,380/3,210	\$ 3,154/3,000
Out-of-State	\$ 14,048/12,690	\$ 12,866/11,170	\$ 11,084/10,170	\$ 9,900/9,630	\$ 9,254/9,000

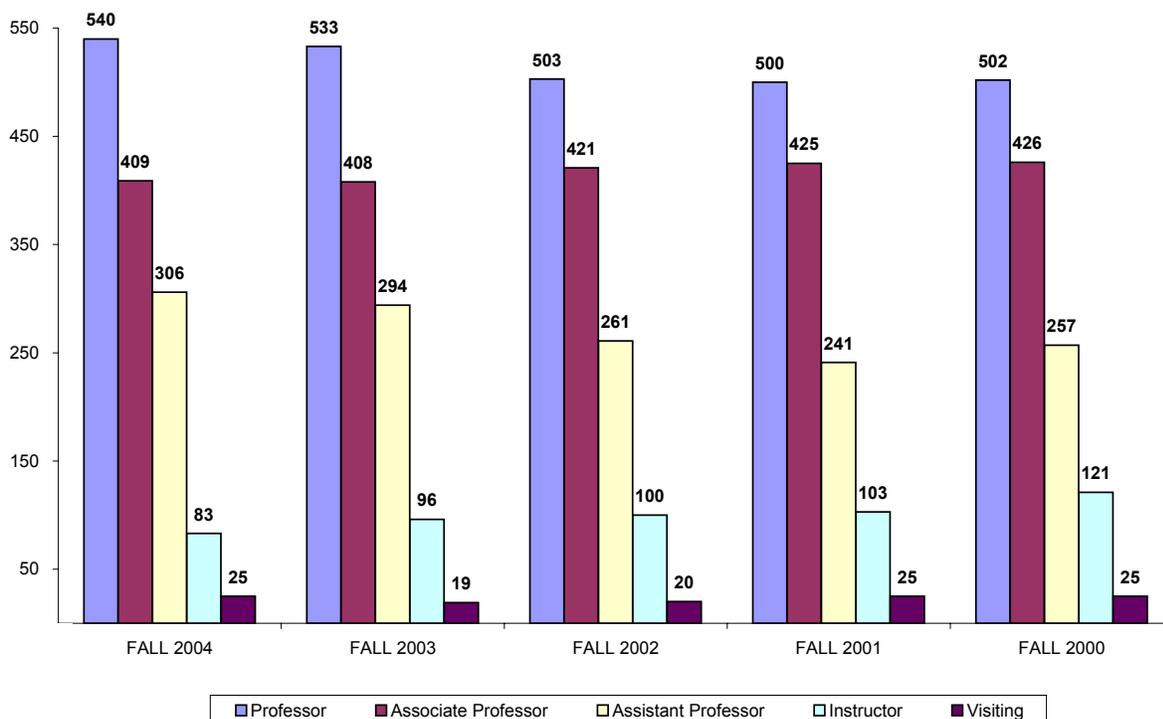
## FALL STUDENT ENROLLMENT

	2004	2003	2002	2001	2000
Auburn Main Campus and Auburn University at Montgomery					
Undergraduate/Professional	24,120	24,540	24,675	24,512	23,748
Graduate	3,931	3,910	3,705	3,746	3,621

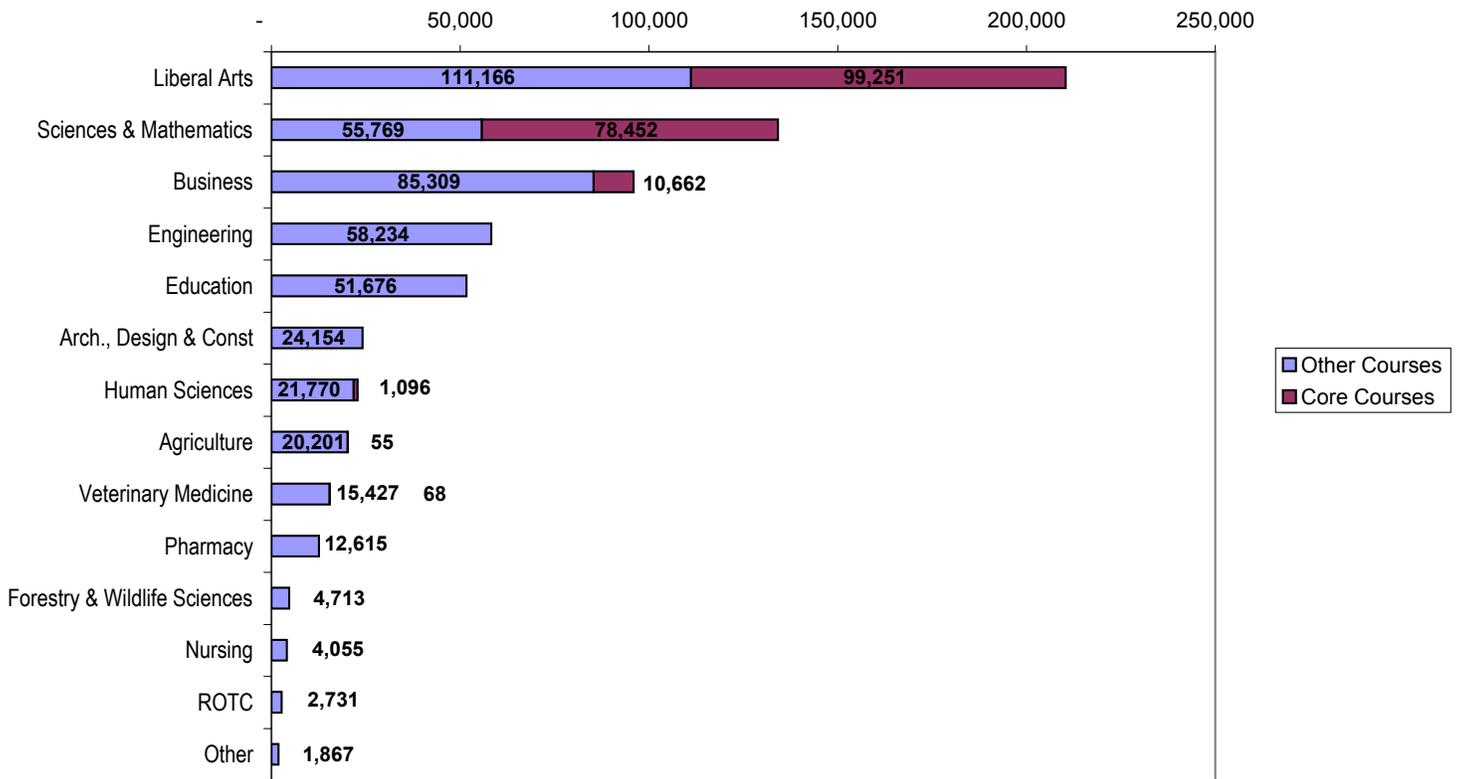
## DEGREES AWARDED FOR THE ACADEMIC YEAR

	2003-04	2002-03	2001-02	2000-01	1999-00
Auburn Main Campus and Auburn University at Montgomery					
Bachelor	4,525	4,304	4,269	4,582	4,929
Advanced	1,359	1,271	1,305	1,322	1,356

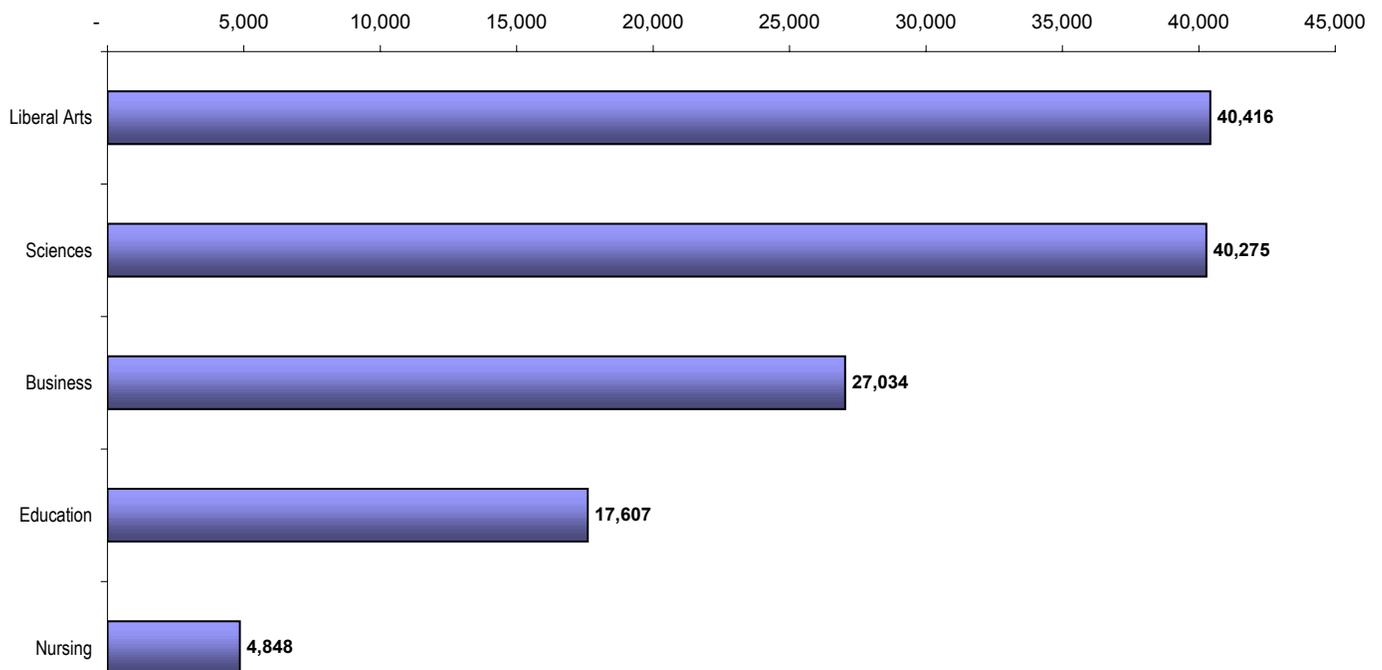
## AUBURN UNIVERSITY MAIN CAMPUS AND AUBURN UNIVERSITY AT MONTGOMERY FULL-TIME FACULTY BY RANK



## AUBURN UNIVERSITY MAIN CAMPUS TOTAL STUDENT CREDIT HOURS BY COLLEGE/SCHOOL 2003-04



## AUBURN UNIVERSITY AT MONTGOMERY TOTAL STUDENT CREDIT HOURS BY COLLEGE/SCHOOL 2003-04

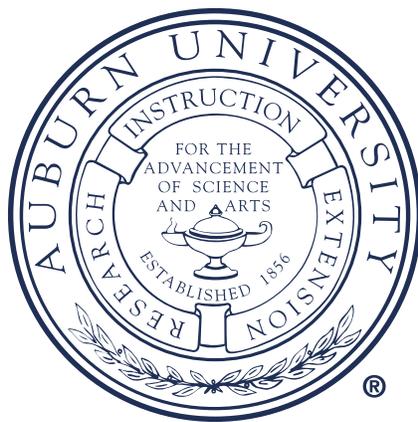


A U B U R N U N I V E R S I T Y  
2004 COMPREHENSIVE ANNUAL FINANCIAL REPORT



**FINANCIAL SECTION**





## Report of Independent Auditors

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

In our opinion, based upon our audits and the reports of other auditors, the financial statements listed in the accompanying table of contents on page 2, which collectively comprise the financial statements of Auburn University, a component unit of the State of Alabama, present fairly, in all material respects, the financial position of the University and its discretely presented component units at September 30, 2004 and 2003, and the changes in net assets and its cash flows of the University and its discretely presented component units for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Auburn University Alumni Association (the Association). Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, expressed herein, insofar as it relates to the amounts included for the Association, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, as of October 1, 2003, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and has restated prior year financial statements as of October 1, 2002 to include the Auburn University Foundation, the Tigers Unlimited Foundation, and the Auburn Alumni Association as component units of the University.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental divisional financial statements as set forth on pages 52 through 59 are presented for purposes of additional analysis rather than to present the financial position and changes in net assets and other changes of the individual divisions and statements and are not a part of the basic financial statements. Accordingly, we do not express an opinion on the financial position and changes in net assets of the individual divisions. However, the supplemental information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 25, 2005, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*PricewaterhouseCoopers LLP*

**AUBURN UNIVERSITY**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 840,693	\$ 803,108
Operating investments	102,862,458	92,526,814
Accounts receivable, net	29,790,977	23,442,996
Student accounts receivable, net	28,526,477	23,076,607
Loans receivable, net	2,603,093	2,286,408
Accrued interest receivable	3,029,308	3,017,439
Inventories	3,674,232	3,848,281
Prepaid expenses	302,622	8,155,791
Total current assets	<u>171,629,860</u>	<u>157,157,444</u>
Noncurrent assets		
Investments	471,957,058	413,607,087
Loans receivable, net	16,961,421	16,009,358
Investment in plant, net	539,026,448	448,654,801
Total noncurrent assets	<u>1,027,944,927</u>	<u>878,271,246</u>
Total assets	<u>1,199,574,787</u>	<u>1,035,428,690</u>
<b>LIABILITIES</b>		
Current liabilities		
Outstanding checks in excess of bank balance	16,742,044	15,457,227
Advances	467,704	2,038,049
Accounts payable	17,396,492	14,482,094
Accrued salaries and wages	3,669,796	2,282,019
Accrued compensated absences	14,405,091	13,873,552
Accrued interest payable	3,804,863	2,865,818
Other accrued liabilities	2,474,948	1,589,826
Student deposits	2,363,407	1,152,392
Deposits held in custody	18,633,788	17,342,915
Deferred revenues	76,461,992	84,040,191
Noncurrent liabilities-current portion	11,247,414	6,930,247
Total current liabilities	<u>167,667,539</u>	<u>162,054,330</u>
Noncurrent liabilities		
Accrued compensated absences	5,723,565	6,255,103
Bonds and notes payable	284,885,130	191,802,690
Lease obligations	1,931,534	2,176,478
Other noncurrent liabilities	1,956,923	3,229,525
Total noncurrent liabilities	<u>294,497,152</u>	<u>203,463,796</u>
Total liabilities	<u>462,164,691</u>	<u>365,518,126</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	352,560,185	299,683,084
Restricted		
Nonexpendable	19,573,378	16,690,881
Expendable:		
Scholarships, research, instruction, other	77,565,641	76,196,374
Loans	4,734,262	4,408,640
Capital projects	4,135,258	13,588,615
Unrestricted	<u>278,841,372</u>	<u>259,342,970</u>
Total net assets	<u>\$ 737,410,096</u>	<u>\$ 669,910,564</u>

**AUBURN UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	2004	2003
<b>OPERATING REVENUES</b>		
Tuition & fees, net of scholarship allowances of \$36,683,251 and \$33,649,909, respectively	\$ 173,780,931	\$ 151,888,652
Federal appropriations	15,719,079	13,252,854
Federal grants & contracts	79,502,360	71,474,245
State & local grants & contracts	9,266,798	11,100,345
Nongovernmental grants & contracts	9,155,791	8,977,548
Sales & services of educational departments	20,549,884	19,687,423
Auxiliary revenue, net of scholarship allowances of \$1,834,235 and \$1,692,715, respectively	71,854,263	54,666,430
Other operating revenue	11,787,103	13,300,055
Total operating revenues	<u>391,616,209</u>	<u>344,347,552</u>
<b>OPERATING EXPENSES</b>		
Compensation & benefits	395,377,752	356,203,593
Scholarships & fellowships	16,439,940	13,029,317
Other supplies & services	161,024,068	154,999,327
Depreciation	28,436,636	26,724,468
Loss on impairments & disposals		7,881,101
Total operating expenses	<u>601,278,396</u>	<u>558,837,806</u>
Operating loss	<u>(209,662,187)</u>	<u>(214,490,254)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	208,584,178	207,158,067
Gifts	15,885,620	17,911,527
Net investment income	24,781,301	27,124,292
Interest expense on capital debt	(9,104,736)	(7,169,293)
Other nonoperating expenses, net		(2,214,561)
Nonoperating revenues, net	<u>240,146,363</u>	<u>242,810,032</u>
Income before other changes in net assets	30,484,176	28,319,778
<b>OTHER CHANGES IN NET ASSETS</b>		
Capital appropriations	15,082,744	14,355,168
Capital gifts & grants	18,661,188	9,571,770
Additions to permanent endowments	3,271,424	2,767,492
Net increase in net assets	<u>67,499,532</u>	<u>55,014,208</u>
<b>Net assets - beginning of year</b>	<u>669,910,564</u>	<u>614,896,356</u>
<b>Net assets - end of year</b>	<u>\$ 737,410,096</u>	<u>\$ 669,910,564</u>

See accompanying notes to financial statements.

**AUBURN UNIVERSITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition & fees	\$ 174,697,044	\$ 151,970,543
Federal appropriations	17,944,668	13,252,854
Grants & contracts	94,251,184	92,846,132
Sales & service of educational departments	20,439,543	19,930,455
Auxiliary enterprises	64,765,433	55,056,181
Other operating revenues	12,868,062	12,409,561
Payments to suppliers	(155,966,475)	(160,744,046)
Payments for employee compensation & benefits	(393,128,570)	(349,027,740)
Payments for scholarships & fellowships	(16,439,940)	(13,029,317)
Student loans issued	(4,302,779)	(4,087,029)
Student loans collected	3,331,884	3,416,992
Net cash used in operating activities	<u>(181,539,946)</u>	<u>(178,005,414)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	208,584,178	207,158,067
Gifts for other than capital purposes	15,438,463	20,220,785
Increase in outstanding checks in excess of bank balance	<u>1,284,817</u>	<u>5,915,368</u>
Net cash provided by noncapital financing activities	<u>225,307,458</u>	<u>233,294,220</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt, net of cost of issuance	103,296,000	90,480,882
Capital appropriations	15,082,744	14,355,168
Capital grants & gifts received	14,831,980	6,553,719
Purchases of capital assets	(116,603,136)	(91,036,758)
Proceeds received from sale of capital assets	190,281	626,250
Principal paid on debt & capital leases	(7,428,979)	(94,112,928)
Interest paid on debt & capital leases	<u>(9,182,632)</u>	<u>(9,252,380)</u>
Net cash provided by (used in) capital and related financing activities	<u>186,258</u>	<u>(82,386,047)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments and reinvestments	885,494,884	1,131,171,709
Investment income	15,680,345	18,647,718
Purchases of investments	<u>(945,091,414)</u>	<u>(1,122,731,783)</u>
Net cash provided by (used in) investing activities	<u>(43,916,185)</u>	<u>27,087,644</u>
Net increase (decrease) in cash and cash equivalents	37,585	(9,597)
Cash and cash equivalents, beginning of year	<u>803,108</u>	<u>812,705</u>
Cash and cash equivalents, end of year	<u>\$ 840,693</u>	<u>\$ 803,108</u>

**AUBURN UNIVERSITY**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	2004	2003
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Operating loss	\$ (209,662,187)	\$ (214,490,254)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and net asset adjustment	28,660,133	26,724,468
Loss on impairments & disposals		7,881,101
Writeoff (reinstatement) of loans receivable	(297,853)	336,885
Changes in assets and liabilities:		
Accounts receivable	(506,545)	701,351
Student accounts receivable	(5,449,870)	(1,000,043)
Advances	(1,570,345)	492,760
Inventories	174,049	(367,677)
Deferred revenue	(7,578,199)	9,023,988
Accounts payable	2,695,375	(6,477,464)
Prepaid expenses	7,853,169	(1,075,799)
Accrued salaries, wages and compensated absences	1,387,777	1,759,790
Student deposits and deposits held in custody	2,501,888	864,922
Loans to students	(970,895)	(670,037)
Other accrued liabilities	885,122	(399,548)
Noncurrent liabilities - current portion	111,037	(176,454)
Other noncurrent liabilities	227,398	(1,133,403)
Net cash used in operating activities	\$ <u>(181,539,946)</u>	\$ <u>(178,005,414)</u>

**SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION**

Capital assets acquired with a liability at year-end	3,219,136	3,003,745
Gifts of capital assets	2,337,348	2,788,258
Capital assets acquired through capital leases	145,682	304,935

*See accompanying notes to financial statements.*

**AUBURN UNIVERSITY COMPONENT UNITS  
STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2004 AND 2003**

	Auburn University Foundation		Auburn Alumni Association	
	2004	2003	2004	2003
<b>ASSETS</b>				
Cash and cash equivalents	\$ 418,592	\$ 439,951	\$ 15,321	\$ 118,537
Investments	175,379,440	165,522,380	8,889,177	7,479,045
Accrued interest receivable	588,545	809,333	32,148	48,894
Contributions receivable, net	18,362,743	26,418,573	462,070	638,078
Notes receivable	7,031	3,802		
Other receivables	85,923	38,834	90,227	89,150
Other assets	15,974			
Investment in real estate	6,062,604	6,159,890	674,799	674,799
Property and equipment, net	1,138,640	1,257,087	2,392,225	2,512,256
Prepaid rent			35	36
Total assets	<u>\$ 202,059,492</u>	<u>\$ 200,649,850</u>	<u>\$ 12,556,002</u>	<u>\$ 11,560,795</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 707,335	\$ 1,075,580	\$ 31,887	\$ 49,920
Notes payable	617,547	2,811,017		
Annuities payable	6,209,032	5,916,225		
Due to Auburn University	1,599,203	3,300,542	671,664	
Due to Auburn Alumni Association	5,890,212	5,031,344		
Due to Tigers Unlimited Foundation	4,920,575			
Deferred revenue			6,576,584	6,583,806
Total liabilities	<u>19,943,904</u>	<u>18,134,708</u>	<u>7,280,135</u>	<u>6,633,726</u>
<b>NET ASSETS</b>				
Unrestricted	19,131,019	18,878,982	5,275,867	4,927,069
Temporarily restricted	32,404,050	36,787,558		
Permanently restricted	130,580,519	126,848,602		
Total net assets	<u>182,115,588</u>	<u>182,515,142</u>	<u>5,275,867</u>	<u>4,927,069</u>
Total liabilities and net assets	<u>\$ 202,059,492</u>	<u>\$ 200,649,850</u>	<u>\$ 12,556,002</u>	<u>\$ 11,560,795</u>

See accompanying notes to financial statements.

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

	<b>Tigers Unlimited Foundation</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 387,052
Investments	25,610,783
Accrued interest receivable	129,148
Contributions receivable, net	10,404,778
Property and equipment, net	3,034
Total assets	<u>\$ 36,534,795</u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ 1,495,065
Deferred Revenue	1,310,917
Notes payable	978,318
Due to Auburn University	<u>4,806,066</u>
Total liabilities	<u>8,590,366</u>
<b>NET ASSETS</b>	
Unrestricted	12,651,418
Temporarily restricted	10,852,252
Permanently restricted	<u>4,440,759</u>
Total net assets	<u>27,944,429</u>
Total liabilities and net assets	<u>\$ 36,534,795</u>

*See accompanying notes to financial statements.*

**AUBURN UNIVERSITY COMPONENT UNITS  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	Auburn University Foundation		Auburn Alumni Association	
	2004	2003	2004	2003
<b>REVENUES AND OTHER SUPPORT</b>				
Public support-contributions	\$ 39,061,525	\$ 40,539,846	\$ 697,179	\$ 705,762
Investment income	2,908,755	3,320,252	265,188	270,309
Other revenues	3,062,585	3,731,656	1,621,648	1,434,753
Total revenues and other support	<u>45,032,865</u>	<u>47,591,754</u>	<u>2,584,015</u>	<u>2,410,824</u>
<b>EXPENSES (GAINS) AND LOSSES</b>				
Program services				
Contributions to and support for Auburn University	15,168,097	23,570,706		
Other program services	<u>5,396,322</u>	<u>6,156,727</u>	<u>1,102,701</u>	<u>754,636</u>
Total program services	<u>20,564,419</u>	<u>29,727,433</u>	<u>1,102,701</u>	<u>754,636</u>
Supporting services				
General and administrative	1,352,999	2,018,643	1,329,968	1,553,590
Fund raising	<u>2,758,401</u>	<u>3,337,082</u>	<u>175,853</u>	<u>113,338</u>
Total supporting services	<u>4,111,400</u>	<u>5,355,725</u>	<u>1,505,821</u>	<u>1,666,928</u>
Total expenses	<u>24,675,819</u>	<u>35,083,158</u>	<u>2,608,522</u>	<u>2,421,564</u>
Unrealized (gains) on investments	(3,462,559)	(22,410,632)	(373,305)	(404,968)
Realized (gains) losses on investments	(9,751,801)	7,502,373		
Change in valuation of split-interest agreements	<u>(355,870)</u>	<u>405,021</u>		
Total expenses (gains) and losses	<u>11,105,589</u>	<u>20,579,920</u>	<u>2,235,217</u>	<u>2,016,596</u>
Transfer to Tigers Unlimited Foundation	<u>(34,326,830)</u>			
Change in net assets	(399,554)	27,011,834	348,798	394,228
<b>NET ASSETS</b>				
Beginning of year	<u>182,515,142</u>	<u>155,503,308</u>	<u>4,927,069</u>	<u>4,532,841</u>
End of Year	\$ <u>182,115,588</u>	\$ <u>182,515,142</u>	\$ <u>5,275,867</u>	\$ <u>4,927,069</u>

See accompanying notes to financial statements.

**AUBURN UNIVERSITY COMPONENT UNIT  
STATEMENT OF ACTIVITIES  
PERIOD FROM APRIL 21, 2004 (DATE OF INCEPTION) TO JUNE 30, 2004**

	<b>Tigers Unlimited Foundation</b>
<b>REVENUES AND OTHER SUPPORT</b>	
Public support - contributions	\$ 2,356,206
Investment income	251,835
Other revenues	<u>407,408</u>
Total revenues and other support	<u>3,015,449</u>
<b>EXPENSES (GAINS) AND LOSSES</b>	
Program services	
Contribution to and support for Auburn University	7,345,325
Other program services	<u>860,484</u>
Total program services	<u>8,205,809</u>
Supporting services	
General and administrative	137,544
Fund raising	<u>913,627</u>
Total supporting services	<u>1,051,171</u>
Total expenses	9,256,980
Unrealized losses on investments	140,795
Realized losses on investments	<u>75</u>
Total expenses and losses	<u>9,397,850</u>
Transfer from Auburn University Foundation	<u>34,326,830</u>
Change in net assets	<u>27,944,429</u>
<b>NET ASSETS</b>	
<b>Beginning of period</b>	<u>-</u>
<b>End of period</b>	<u>\$ 27,944,429</u>

*See accompanying notes to financial statements.*

# NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

## (1) NATURE OF OPERATIONS

Auburn University (the University) is a land grant university originally chartered on February 1, 1856 as the East Alabama Male College. The Federal Land Grant Act of 1862, by which the University was established as a land-grant university, donated public lands to several states and territories with the intent that the states would use these properties for the benefit of agriculture and the mechanical arts. Several pertinent laws dictate specific purposes for which the land may be used. In 1960, the Alabama State Legislature officially changed the name of the University to Auburn University. The University has two campuses, Auburn and Montgomery, with a combined enrollment of 28,051 students for Fall Semester, 2004. It serves the State of Alabama, the nation and international business communities through instruction of students and the advancement of research and outreach programs. By statutory laws of the State of Alabama, the University is governed by the Board of Trustees (the Board) appointed by the Governor of the State of Alabama and approved by the Alabama State Senate.

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

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

## Reporting Entity

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

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

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

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

## Component Units

For the year ended September 30, 2004 the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement provides criteria for determining whether such organizations for which a government is not financially accountable should be reported as component units. Due to the fact that the exclusion of such organizations would render the entity's financial statements to be misleading or incomplete, the University has included statements for the Auburn University Foundation, the Tigers Unlimited Foundation and the Auburn Alumni Association in the Financial Statement Section. These three affiliated organization's financial statements are presented following the University statements. Footnotes disclosing account balances and transactions for each component unit are also included within each similarly respective University footnote. The component units are not GASB entities and therefore their respective financial statements adhere to FASB accounting principles.

Auburn University Foundation (AUF) is a qualified charitable organization established in 1960, existing solely for the purpose of receiving and administering funds for the use of the University. AUF's activities are governed by its own board of directors and it is considered a component unit of the University

Tigers Unlimited Foundation (TUF) is an independent corporation which 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 the Athletics Department's June 30 fiscal year end date.

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

Financial statements for AUF, TUF and the Association may be obtained by writing to Auburn University Foundation, Tigers Unlimited Foundation or Auburn Alumni Association at 317 South College Street, Auburn, Alabama 36849.

### Financial Statement Presentation

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

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted net assets:**
  - Nonexpendable** – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.
  - Expendable** – Net assets whose use by the University are subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations, or that expire by the passage of time.
- **Unrestricted net assets:** Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, capital programs, and auxiliary units.

When an expense is incurred for purposes for which both unrestricted and restricted net assets are available, it is the University's policy to consider each transaction individually in making a decision about whether the expense will be paid from unrestricted or restricted net assets.

GASB Statement No. 35 also requires three statements: the statement of net assets, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows.

### Basis of Accounting

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

GASB Statement No. 35 requires the recording of depreciation on capital assets, accrual or deferral of revenue associated with certain grants and contracts, accrual of interest expense, accounting for certain scholarship allowances as a reduction of revenue, classification of federal refundable loans as a liability, and capitalization and depreciation of equipment with a sponsor reversionary interest. The basis of accounting and presentation as well as other significant accounting policies of AUF, TUF and the Association are discussed in Note 3.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America

requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Reclassifications**

Certain reclassifications have been made to the 2003 financial statements in order to conform them to the 2004 financial statement presentation. The reclassifications had no impact on total net assets.

## **(2) SIGNIFICANT ACCOUNTING POLICIES OF AUBURN UNIVERSITY**

### **Cash & Cash Equivalents**

Cash and cash equivalents are defined as currency on hand, funds in demand depository accounts at banks or other financial institutions, and deposits in cash management pools that have the characteristics of a demand deposit account and that is to be used for a current purpose.

### **Investments**

The University records investments at market value in accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*. In accordance with the provisions of this pronouncement, investments are recorded at their fair market value with all investment income, including changes in the fair value of investments, reported as revenue in the financial statements.

Operating investments consist of cash and investments designated for current operations. Investments for capital and student loan activities are those funds that are intended to be used for the related specific activities. Investments recorded as endowment and life income are those funds that are considered by management to be of long duration. Investments received by gift are recorded at fair market value or appraised value on the date of receipt. Investments in real estate are stated at cost except those received by gift, which are stated at appraised value on date of receipt. Investment income is recorded on the accrual basis of accounting.

Cash equivalents, included in investments, are defined as highly liquid debt instruments readily convertible into cash and with maturities at date of acquisition of three months or less. Cash and cash equivalents can be both current and noncurrent with endowment, life income, and other long-term investments classified as noncurrent. Cash restricted or designated for payment of noncurrent obligations and investments is not available for current purpose.

### **Inventories**

Units currently holding inventories include Facilities, Chemistry Supply Store, Animal Clinic Pharmacy, Bookstores, Campus Mall, Copycat Duplicating Service, and Ralph Draughon and AUM Libraries. All inventories are valued at the lower of cost or market and are considered to be current assets.

### **Capital Assets**

Capital expenditures for, and gifts of, land, buildings and equipment are carried at cost at date of acquisition or, in the case of gifts, at fair market value at the date of donation. Depreciation is computed on a straight line basis over the estimated useful lives of buildings and building improvements (40 years), land improvements and infrastructure (10 – 40 years), library collection (10 years) and inventoried equipment (5 – 18 years). The threshold for capitalizing buildings and infrastructure is \$25,000. Expenditures for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized if they meet the \$25,000 threshold. Equipment is capitalized if the cost exceeds \$2,500 and has a useful life of more than one year. All buildings are insured through the State of Alabama Property Insurance Fund.

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

### **Deferred Revenues**

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

## Classification of Revenues

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

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

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

## Student Tuition, Fees and Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances represent the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf.

## Auxiliary Enterprises Revenues

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

## Change in Intercollegiate Athletic Department Fiscal Year End

During fiscal 2004, management made the decision to report Athletic Department revenues and expenditures on the Statement of Revenues, Expenditures and Changes in Net Assets, on a September 30 year end reversing a policy dating back to 1994 to report Athletics on a June 30 year end. The result of this decision is an increase in Athletic revenues and expenditures reported on the Statement of Revenues, Expenditures and Changes in Net Assets due to reporting transactions for the fifteen month period from July 1, 2003 to September 30, 2004. Conversely, there will also be a decrease in the reported prepaid expenditures and deferred revenues due to recognizing transactions for the July 1 through September 30 period which would have been deferred under the previous policy. The increase in Athletic revenues with corresponding decrease in deferred Athletic revenues is \$15,631,720 at September 30, 2004. The increase in Athletic expenditures and decrease in prepaid expenses is \$9,622,142 at September 30, 2004.

## 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 statement date to be classified as a current liability. Because this amount cannot be known reliably in advance, the current liability is estimated, based on a three year average cost of annual and sick leave taken by eligible employees.

## Pledged Revenue

The University normally does not receive gift pledges. All pledged revenue representing unconditional promises to give is received by AUF or TUF and later disbursed in accordance with the donors' wishes for the benefit of the University.

## (3) SIGNIFICANT ACCOUNTING POLICIES OF COMPONENT UNITS

In most cases the component units follow the accounting policies of the University with the following additional policies.

### Basis of Accounting and Presentation

The University's component units' financial statements have been prepared on the accrual basis of accounting. The AUF, TUF and Association's net assets are segregated into three groups as follows:

- **Unrestricted Net Assets:** Net assets that are not subject to donor-imposed restrictions. Items included in this net asset category include receipt of unrestricted gifts and earnings on unrestricted endowments, and idle funds.
- **Temporarily Restricted Net Assets:** Net assets subject to donor imposed restrictions that may or will be met by actions of AUF, TUF or the Association or the passage of time. Items included in this net asset category include restricted gifts and earnings on endowment funds expendable for purposes stipulated by the donor. These amounts are reclassified to unrestricted net assets when such restrictions, primarily purpose restrictions, are met or have expired.
- **Permanently Restricted Net Assets:** Net assets subject to donor-imposed restrictions to be maintained permanently by AUF, TUF or the Association. Items included in this net asset category include gifts wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment) and only the income be made available for expenditure.

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of unrestricted funds held in demand deposit accounts. Cash restricted or designated for investment is included in investments.

### **AUF and TUF Investments**

Investments consist primarily of stocks, bonds and mutual funds. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the statement of financial position, with all net realized and unrealized gains (losses) reflected in the statement of activities. The Foundation employs a custodian to hold, and an external manager to administer, the majority of its investments and reflects transactions concerning investments based upon their records.

AUF serves as agent for TUF's endowments and any other funds designated by TUF's Board of Directors to be invested as an endowment (a quasi-endowment).

### **Association Investments**

The Association adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Pursuant to SFAS No. 124, investments in marketable securities with readily determinable fair values are valued at their fair value in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

### **Split-Interest Agreements**

AUF holds certain assets received under charitable remainder annuity trusts and charitable remainder unitrusts. Contribution revenue under these split-interest agreements is recognized when the agreement is executed at the fair value of the assets contributed less the present value of the payments expected to be made to other beneficiaries. Assets received under split-interest agreements are recorded at their fair value. Liabilities under split-interest agreements are recorded at the present value of the expected future payments to be made in accordance with the terms of the agreement. Assets reported under split-interest agreements amounted to \$11,565,473 and \$11,300,044 at September 30, 2004 and 2003, respectively, and are included in investments in the AUF statement of financial position.

### **Contributions**

Contribution revenue is recorded at the fair value of the asset or service received or the fair value of the liabilities satisfied. Unconditional promises to give cash and other assets are recorded at the date the promise is received at its net realizable value. The contributions are recorded as unrestricted revenue in the period the asset is received or the unconditional promise is received if there are no donor stipulations that limit the use of the asset. The contributions are recorded as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, either when a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Effective October 1, 2003, AUF changed its capitalization policy for pledges receivable, eliminating a \$50,000 capitalization threshold. The change in accounting policy increased fiscal 2004 contributions revenue in the amount of \$2,175,000.

### **Auburn Alumni Association**

#### **Annual dues**

Annual dues are received throughout the year and membership benefits continue for one year after receipt. Annual dues are deferred and recognized as income over twelve months.

## **Life membership dues**

Life membership dues are estimated to benefit the member for an average of 45 years and are deferred and recognized as income over that period of time. Currently, the excess of Life Membership assets over the deferral amount is retained in the Life Membership Fund and requires Association Board approval for use.

## **(4) CASH**

The Board is authorized to invest all available cash. The University maintains a cash pool that is available for use by all funds with the exception of the endowment funds which are separately invested with outside investment managers. These cash pool assets are invested in money market accounts and fixed income securities such as U. S. Treasury obligations, federal agency obligations, municipal bonds, commercial paper, banker's acceptances, repurchase agreements and certificates of deposit.

The Board approves all banks or other institutions as depositories for University funds. The depository must provide annual evidence of its continuing designation as a qualified public depository under the Security for Alabama Fund Enhancement Act (SAFE). 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.

## **(5) INVESTMENTS**

The Board is responsible for the management of the University's investments. The endowment funds and the cash pool assets are invested in accordance with policies established by the Board. The Board has delegated the authority for investment of the endowment funds' assets to professional investment managers while maintaining centralized management of the cash pool.

Preservation of capital is regarded as the highest priority in investing of the cash pool. It is assumed that all investments will be suitable to be held to maturity. The portfolio is structured in such a manner to provide sufficient liquidity to pay obligations as they become due. The portfolio strives to provide a stable return consistent with the University's investment policy. University entities that are authorized to participate in the University's cash pool receive monthly distributions based on 80% of the cash pool's monthly yield rate.

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

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. Authorized investments of endowment portfolios include the following: cash and cash equivalents; fixed income securities, both domestic and foreign; equity securities, both domestic and foreign; and mutual funds.

Earnings distributions are made annually from endowed funds. Pursuant to the Uniform Management of Institutional Funds Act, the Board has adopted the total return concept that allows for the expenditure of "net appreciation, realized and unrealized, in the fair value of the assets of endowment funds over the historical dollar value of the funds." In order to conform to the standards for fiduciary management of investments, the Board has also adopted a spending plan which limits the distribution of endowment income and net appreciation to not less than 3% or more than 6% of the average market value of endowment assets over the previous three years. The distribution rate approved by the Board for the September 30, 2004 fiscal year was 3.75%. In addition, the Board approved the utilization, if necessary, of realized endowment gains to meet the spending rate with all remaining endowment gains reinvested in the pool. Net realized and unrealized gains and (losses) on endowments and funds functioning as endowments total \$27,887,977 and \$20,744,875 for the years ended September 30, 2004 and September 30, 2003 respectively, and they are recorded as changes to unrestricted net assets.

At September 30, 2004, the University's investments are all in Category 1 or are noncategorized. Category 1 includes investments that are insured or registered, or are held by the University or its agent in the University's name. Noncategorized investments include mutual funds and real estate.

**Auburn University investments at September 30, 2004 and 2003 include the following:**

	2004 Fair Value	2003 Fair Value
<b>Current Assets</b>		
Operating investments	\$ 102,862,458	92,526,814
Total investments classified as current	<u>\$ 102,862,458</u>	<u>92,526,814</u>
<b>Noncurrent Assets</b>		
Money market funds	\$ 9,146,460	19,877,880
U.S. Government securities	360,132,788	304,934,639
Bonds and preferred stock	18,099,840	19,355,427
Index fund	61,935,385	27,065,077
Common stock and convertible securities	21,613,962	41,344,608
Total Category 1 investments classified as noncurrent	<u>\$ 470,928,435</u>	<u>412,577,631</u>
Total Category 1 investments	<u>\$ 573,790,893</u>	<u>505,104,445</u>
Noncategorized real estate investments	\$ 740,750	740,750
Noncategorized mutual fund investments	287,873	288,706
Total noncategorized investments	<u>\$ 1,028,623</u>	<u>1,029,456</u>
Total investments	<u>\$ 574,819,516</u>	<u>506,133,901</u>

Included in the above amounts are funds held for pending capital expenditures as follows at September 30, 2004: \$4,929,688, Forestry Building; \$8,981,756, 2001A General Fee Bond Proceeds; \$1,997,292, 2001A Athletic Bond Proceeds; \$2,987,086, 2003 General Fee Bond proceeds; \$69,868,730, 2004 General Fee Bonds Proceeds; \$16,821,613, Athletic Bond Proceeds; \$28,329,979, deferred maintenance building fund. The General Liability Trust holds investments of \$7,940,807.

At September 30, 2003, the above amounts included funds held for pending capital expenditures as follows: \$10,951,816, Forestry Building; \$26,999,796, 2001A General Fee Bond Proceeds; \$5,070,000, 2001A Athletic Bond Proceeds; \$9,003,623, 2003 General Fee Bond Proceeds; \$33,268,674, deferred maintenance building fund. The General Liability Trust holds investments of \$7,492,324.

Market risk is the potential for changes in the value of financial instruments due to market changes. The Board understands that in order to achieve its objectives, investments can experience volatility of returns and fluctuations of market value. The Board will tolerate volatility as measured against the risk/return analysis of the appropriate market indices. The indices serve as a measure of performance.

**Auburn University Foundation investments at September 30, 2004 and 2003 include the following:**

	2004		2003	
	Fair Value	Cost	Fair Value	Cost
Cash and pooled investments	\$ 20,757,595	\$ 20,757,595	\$ 6,803,024	\$ 6,802,129
Government bonds, notes and other securities	17,888,530	17,533,379	63,023,754	62,758,746
Corporate bonds and debentures	6,880,822	6,866,605	655,231	601,295
Corporate stocks	3,721,217	3,961,724	59,298,023	60,065,444
Mutual funds	125,875,477	120,298,529	35,425,874	33,714,747
Other investments	255,799	255,799	316,474	316,474
Total investments	<u>\$ 175,379,440</u>	<u>\$ 169,673,631</u>	<u>\$ 165,522,380</u>	<u>\$ 164,258,835</u>

	2004	2003
Real estate held for investment	\$ 6,062,604	\$ 6,159,890
Total	<u>\$ 6,062,604</u>	<u>\$ 6,159,890</u>

Real estate received by gift is recorded at the appraised value at the date of contribution.

**Tigers Unlimited Foundation investments at June 30, 2004 include the following:**

	2004	
	Fair Value	Cost
Cash and pooled investments	\$ 25,603,783	\$ 24,491,243
Real estate	<u>7,000</u>	<u>7,000</u>
Total investments	<u>\$ 25,610,783</u>	<u>\$ 24,498,243</u>

Real estate received by gift is recorded at the appraised value at the date of contribution. During 2004, there were no gifts of real estate.

**Auburn Alumni Association investments**

Investments at September 30, 2004 and 2003 include the following: repurchase agreements backed by U.S. Treasury bills and notes and obligations of other agencies of the U.S. Government and municipal bonds. Beginning in 1992, shared cash and investments from all Association funds deposited in the Operating Fund bank account have been treated as an investment pool and the earnings allocated back to the respective funds. The Life Membership fund also owns units in the endowment pool of AUF which is not a part of the Association's internal cash and investment pool. Actual distributions plus the Association's share of unrealized market value gains in this pool have been recorded as income. At September 30, 2004 and 2003, investments were held in the following funds.

	2004		2003	
	Fair Value	Cost	Fair Value	Cost
Operational cash and investment pool investments				
Repurchase agreements	\$ 50,000	\$ 50,000	\$ -	\$ -
Money market securities	-	-	550,000	550,000
U. S. Government securities	<u>3,020,797</u>	<u>3,021,547</u>	<u>1,986,851</u>	<u>1,984,721</u>
Total current investments	<u>\$ 3,070,797</u>	<u>\$ 3,071,547</u>	<u>\$ 2,536,851</u>	<u>\$ 2,534,721</u>

	2004		2003	
Life membership funds invested through AUF	\$ 5,818,380	\$ 4,942,194		
Investment in real estate	<u>674,799</u>	<u>674,799</u>		
Total noncurrent investments	<u>\$ 6,493,179</u>	<u>\$ 5,616,993</u>		

**(6) FUNDS HELD IN TRUST**

In addition to endowment and similar funds 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 \$144,731,830 and \$121,825,689 and the market value was \$149,982,014 and \$123,204,883 at September 30, 2004 and September 30, 2003, respectively. The portion of endowment income received by the University from these funds was \$3,727,433 and \$4,325,304 for the fiscal years ended September 30, 2004 and September 30, 2003, respectively. Endowment earnings are distributed annually in January, based on the AUF endowment distribution spending rate.

In addition, the University has been named as a beneficiary of a foundation with investments having a cost of \$2,804,244 and \$2,898,004 and a market value of \$2,893,520 and \$2,819,419 at September 30, 2004 and September 30, 2003, 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, 2004 and 2003. The income received from the two trusts was \$20,280 and \$21,970 for the years ended September 30, 2004 and 2003, respectively.

## (7) ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Accounts receivable and the allowances for doubtful accounts at September 30, 2004 and 2003 are summarized as follows:

	2004	2003
Federal, State & Local Government	\$ 19,223,766	20,587,787
Less Allowance for Doubtful Accounts	(825,000)	-
General	5,057,398	1,227,098
Less Allowance for Doubtful Accounts	(145,327)	(45,908)
Auxiliary	4,710,709	1,396,448
Capital	1,769,431	277,571
Total	\$ <u>29,790,977</u>	<u>23,442,996</u>

## STUDENT ACCOUNTS RECEIVABLE

	2004	2003
Unrestricted General	\$ 24,786,914	19,906,116
Less Allowance for Doubtful Accounts	(868,985)	(347,159)
Unrestricted Auxiliary	4,649,592	3,621,869
Less Allowance for Doubtful Accounts	(41,044)	(104,219)
Total	\$ <u>28,526,477</u>	<u>23,076,607</u>

AUF contributions receivable at September 30, 2004 and 2003 are summarized as follows:

## AUF CONTRIBUTIONS RECEIVABLE

	2004	2003
Estimated future cash flows from unconditional promises to give	\$ 19,377,328	28,203,973
Less unamortized discount	(1,014,585)	(1,785,400)
Net unconditional promises to give	\$ <u>18,362,743</u>	<u>26,418,573</u>

	2004	2003
Amounts due in		
less than one year	\$ 8,796,754	10,869,915
one to five years	9,565,989	15,213,658
more than five years	-	335,000
Total	\$ <u>18,362,743</u>	<u>26,418,573</u>

TUF contributions receivable at June 30, 2004 are summarized as follows:

## TUF CONTRIBUTIONS RECEIVABLE

	2004
Estimated future cash flows from unconditional promises to give	\$ 11,462,780
Less unamortized discount	(1,058,002)
Net unconditional promises to give	\$ <u>10,404,778</u>
Amounts due in:	
Less than one year	\$ 3,414,082
One to five years	6,894,778
More than five years	95,918
Total	\$ <u>10,404,778</u>

## (8) CAPITAL ASSETS

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

	Sept. 30, 2003	Additions	Deletions	Sept. 30, 2004
Capital assets not being depreciated				
Land	\$ 15,196	\$ -	\$ (2)	\$ 15,194
Art & Collectibles	2,536	2,104	-	4,640
Construction in Progress	40,369	62,114	(28,570)	73,913
Livestock	<u>1,443</u>	<u>495</u>	<u>(619)</u>	<u>1,319</u>
Total capital assets not being depreciated	<u>59,544</u>	<u>64,713</u>	<u>(29,191)</u>	<u>95,066</u>
Capital assets being depreciated				
Land Improvements	20,663	2,115	-	22,778
Buildings	512,424	52,940	(627)	564,737
Equipment	141,907	12,838	(9,702)	145,043
Infrastructure	69,391	10,450	-	79,841
Library Books	<u>107,556</u>	<u>5,991</u>	<u>(115)</u>	<u>113,432</u>
Total capital assets being depreciated	<u>851,941</u>	<u>84,334</u>	<u>(10,444)</u>	<u>925,831</u>
Less accumulated depreciation for				
Land Improvements	6,365	1,292	-	7,657
Buildings	237,508	10,309	(564)	247,253
Equipment	94,940	10,883	(8,718)	97,105
Infrastructure	34,978	1,873	-	36,851
Library Books	<u>89,039</u>	<u>4,080</u>	<u>(114)</u>	<u>93,005</u>
Total accumulated depreciation	<u>462,830</u>	<u>28,437</u>	<u>(9,396)</u>	<u>481,871</u>
Total capital assets being depreciated, net	<u>389,111</u>	<u>55,897</u>	<u>(1,048)</u>	<u>443,960</u>
Capital assets, net	\$ <u>448,655</u>	\$ <u>120,610</u>	\$ <u>(30,239)</u>	\$ <u>539,026</u>

During the fiscal years ended September 30, 2004 and, 2003, the University received \$15.1 million and \$14.4 million, respectively, from the State of Alabama to fund construction. These revenues are classified as capital appropriations on the Statement of Revenues, Expenses and Changes in Net Assets.

During fiscal year 2003, the AU Hotel and Dixon Conference Center identified problems with the exterior brick work on the facility due to the original construction methods employed in 1986 and, as a result, the exterior of the building underwent extensive repair and remediation. The University recognized an impairment charge associated with the net book value of the replaced assets in the amount of approximately \$2.3 million in fiscal 2003.

## (9) LONG-TERM DEBT

Bonds, notes and lease obligations are collateralized by certain real estate, equipment and pledged revenues (See Note 10.)

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

<b>Bonds Payable</b>	<b>Balance at Sept. 30, 2003</b>	<b>New Debt</b>	<b>Principal Repayment</b>	<b>Balance at Sept. 30, 2004</b>
1971 Auburn University at Montgomery Student Facilities bonds, \$950,000 face value, 7.0%, due annually through 2005, a reserve of \$64,615 and an annual Housing and Urban Development debt service grant of \$20,536.	80,000	-	(40,000)	40,000
1978 Auburn University at Montgomery Dormitory Revenue bonds, \$3,279,000 face value, 3.0%, due annually through 2018, a reserve of \$176,412 and a \$126,428 contingency fund.	1,835,000	-	(90,000)	1,745,000
2001 General Fee Revenue bonds, \$19,460,000 face value, 3.25% to 5.0%, due annually through 2011.	16,340,000	-	(1,725,000)	14,615,000
2001A General Fee Revenue bonds, \$74,750,000 face value, 5.0% to 6.0%, due annually through 2026.	74,750,000	-	-	74,750,000
2001A Athletic Revenue bonds, \$24,412,607 face value, 2.125% to 5.49%, due annually through 2021.	23,629,347	-	(371,832)	23,257,515
2003 General Fee Revenue bonds, \$49,460,000 face value, 1.45% to 5.25%, due annually through 2016.	47,060,000	-	-	47,060,000
2003 Athletic Revenue bonds, \$21,900,000 face value, 2.25% to 5.0%, due annually through 2010.	19,285,000	-	(2,460,000)	16,825,000
2003 Housing and Dining Revenue bonds, \$15,645,000 face value, 1.4% to 5.0%, due annually through 2012.	14,960,000	-	(1,490,000)	13,470,000
2004 General Fee Revenue bonds, \$16,875,000 face value, 3.0% to 5.25%, due annually through 2034.	-	76,875,000	-	76,875,000
2004A Athletic Revenue bonds, \$24,860,000 face value, 2.0% to 5.0%, due annually from 2006 through 2021 and annually from 2025 through 2034.	-	24,860,000	-	24,860,000
2004B Athletic Revenue bonds, \$3,050,000 face value, 5.75%, due annually from 2022 through 2024.	-	3,050,000	-	3,050,000

Bonds Payable	Balance at Sept. 30, 2003	New Debt	Principal Repayment	Balance at Sept. 30, 2004
<b>Total Bonds Payable</b>	<u>198,119,347</u>	<u>104,785,000</u>	<u>(6,356,832)</u>	<u>296,547,515</u>
Plus unamortized bond premium	5,405,991	1,538,082	(965,208)	5,978,865
Less unamortized bond discount	(1,027,124)	(412,789)	79,180	(1,360,733)
Less unamortized cost of issuance	(2,376,888)	(1,544,693)	429,059	(3,492,522)
Less unamortized loss on refunding	<u>(2,435,590)</u>	<u>-</u>	<u>529,329</u>	<u>(1,906,261)</u>
	<u>197,685,736</u>	<u>104,365,600</u>	<u>(6,284,472)</u>	<u>295,766,864</u>
<b>Notes Payable</b>				
1998 Alabama Higher Education Equipment Loan Authority notes, \$2,500,000 face value, 3.67% to 4.18%.	<u>684,378</u>	<u>-</u>	<u>(684,378)</u>	<u>-</u>
<b>Total Notes Payable</b>	<u>684,378</u>	<u>-</u>	<u>(684,378)</u>	<u>-</u>
Less: Current Portion				
Bonds Payable	(6,356,832)			(10,876,144)
Notes Payable	(316,039)			-
Bond Premium	(800,693)			(922,230)
Bond Discount	56,877			79,178
Cost of Issuance	319,934			391,406
Loss on Refunding	<u>529,329</u>			<u>446,056</u>
<b>Total Noncurrent Bonds and Notes Payable</b>	<u>\$ 191,802,690</u>			<u>\$ 284,885,130</u>

The University has defeased certain indebtedness by depositing funds in escrow trust accounts sufficient to provide for the subsequent payment of principal and interest on the defeased indebtedness. Under the trust agreements, funds deposited in the trust accounts were invested in obligations of the U. S. Government. Neither the assets of the trust accounts nor the defeased indebtedness are included in the accompanying Statement of Net Assets. The principal outstanding on the defeased Industrial Development Board Series A and Series B issues at September 30, 2004 was \$8,655,000 and \$705,000, respectively.

### Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to September 30, 2004, and thereafter, are as follows:

Year Ending Sept. 30	Bonds Payable	
	Principal	Interest
2005	\$ 10,876,144	\$ 11,812,019
2006	11,936,942	12,509,259
2007	12,287,903	12,128,008
2008	12,742,440	11,744,577
2009	13,148,294	11,275,471
2010-2014	64,209,350	54,322,360
2015-2019	53,922,258	45,917,262
2020-2024	51,324,184	29,045,877
2025-2029	37,205,000	11,783,800
2030-2034	<u>28,895,000</u>	<u>4,437,213</u>
<b>Total Future Debt Service</b>	<u>\$ 296,547,515</u>	<u>\$ 204,975,846</u>

## Capital Lease Obligations

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

Lease Obligations	Balance at Sept. 30, 2003	New Debt	Principal Repayment	Balance at Sept. 30, 2004
Building	\$ 1,910,000	\$ -	\$ (120,000)	\$ 1,790,000
Equipment	629,301	145,682	(267,769)	507,214
Total lease obligations	<u>\$ 2,539,301</u>	<u>\$ 145,682</u>	<u>\$ (387,769)</u>	<u>\$ 2,297,214</u>

Minimum lease payments under capital leases together with the present value of the net minimum lease payments are shown in the table below:

	Building	Equipment	Total
2004-05	\$ 214,842	\$ 258,797	\$ 473,639
2005-06	214,122	193,448	407,570
2006-07	218,048	78,742	296,790
2007-08	211,450	13,671	225,121
2008-09	214,780	-	214,780
2009-2014	1,063,406	-	1,063,406
2014-2019	<u>210,000</u>	<u>-</u>	<u>210,000</u>
Minimum lease payments	2,346,648	544,658	2,891,306
Less interest	<u>(556,648)</u>	<u>(37,444)</u>	<u>(594,092)</u>
Present value of minimum lease payments	1,790,000	507,214	2,297,214
Less current portion	<u>(130,000)</u>	<u>(235,680)</u>	<u>(365,680)</u>
Noncurrent obligations	<u>\$ 1,660,000</u>	<u>\$ 271,534</u>	<u>\$ 1,931,534</u>

The University has entered into various operating leases for equipment. It is expected that, in the normal course of business, such leases will continue to be required. Net expenditures for rentals under operating leases for the years ended September 30, 2004 and 2003, amounted to approximately \$3.3 million and \$2.3 million, respectively.

Tigers Unlimited Foundation notes payable includes a \$5,000,000 line of credit established on June 3, 1998 with an external lender. The proceeds from advances can be used by the Tigers Unlimited Foundation for any University athletics-related need. The advances are collateralized by pledges receivable from donors. Advances are borrowed at a variable interest rate which was 3.75% at June 30, 2004. The expiration date of the line of credit is July 26, 2005. On April 21, 2004 AUF assigned this loan to TUF. The outstanding balance of the loan at TUF's fiscal year end date of June 30, 2004 was \$978,318.

As of September 30, Auburn University Foundation notes payable consisted of the following:

Notes Payable	Interest Rates	Maturity Date	2004	2003
Line of credit		June 27, 2004	\$ -	\$ 1,991,017

Capital lease obligation for computer equipment, aggregate yearly payments of \$180,092 commencing on November 1, 2002. Collateralized

Notes Payable	Interest Rates	Maturity Date	2004	2003
by computer equipment having a net book value of \$530,976 at September 30, 2004.	5.42% to 7.41%	December 1, 2006	484,876	628,947
Miscellaneous loan agreements for vehicles, requiring various monthly payments ranging from \$343 to \$711. These obligations are collateralized by vehicles with a net book value of \$168,750 as of September 30, 2004.	various to 6.99%	various through 2007	132,671	191,053
			<u>\$ 617,547</u>	<u>\$ 2,811,017</u>

Future maturities of Auburn University Foundation notes payable at September 30, 2004 are as follows:

2005	\$	245,771
2006		224,826
2007		217,204
2008		<u>3,247</u>
		691,048
Less amounts representing interest		<u>(73,501)</u>
Total	\$	<u>617,547</u>

#### (10) PLEDGED REVENUES

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

	2004	2003
Student fees collected	\$ 182,042,524	158,534,178
Less AUM fees	(16,008,133)	(13,852,195)
Less fees pledged for specific purposes:		
Student Union Building (\$10.50 per student per semester)	(557,844)	(558,225)
Athletic fees (\$18 per student per semester)	<u>(941,958)</u>	<u>(959,057)</u>
Total general fees pledged	<u>\$ 164,534,589</u>	<u>143,164,701</u>

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

	2004	2003
Jordan Hare and Other Revenues:		
Television and broadcast revenues	\$ 6,704,658	5,850,852
Conference and NCAA distributions	8,204,510	6,167,945
Sales and services revenues	25,556,951	16,594,213
Student fees	1,343,340	959,057
Game settlements	1,250,000	1,315,000
Other income	<u>3,379,544</u>	<u>2,950,498</u>
Total Athletic revenues pledged	<u>\$ 46,439,003</u>	<u>33,837,565</u>

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

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

	2004	2003
Housing Revenues:		
Room rental	\$ 8,402,098	7,969,332
Other income	<u>225,902</u>	<u>269,602</u>
Total Housing revenues pledged	\$ <u>8,628,000</u>	<u>8,238,934</u>

The Auburn University dormitory occupancy rate for Fall Semester, 2004 and Fall Semester, 2003 was 98.7% and 96.2%, respectively (unaudited).

	2004	2003
Food Services Revenues:		
Other income	\$ <u>544,406</u>	<u>416,545</u>
Total Food Services revenues pledged	\$ <u>544,406</u>	<u>416,545</u>

Pledged revenues and related expenses for 2004 and 2003 as defined by the **Series 1972A Auburn University Student Facilities Trust Resolution** are as follows:

Student fees noted below represent pledged fees and are commingled with revenues from other sources. All expenditures and transfers are made from total revenues of combined sources; therefore, the following statement of revenues, transfers and expenditures of the combined sources is presented for the years ended September 30, 2004 and September 30, 2003.

	2004	2003
Revenues:		
Student fees (\$10.50 per student per semester)	\$ 557,844	558,225
Sales and services	307,774	357,262
Other revenue	<u>8,765</u>	<u>6,615</u>
Total revenues	<u>874,383</u>	<u>922,102</u>
Expenditures and Transfers:		
Personnel cost	820,453	654,176
Operating expenditures	5,174	29,445
Transfers	<u>(80,072)</u>	<u>-</u>
Total expenditures and transfers	<u>745,555</u>	<u>683,621</u>
Excess of revenues over expenditures and transfers	128,828	238,481
Net assets at beginning of year	<u>939,397</u>	<u>700,916</u>
Net assets at end of year	\$ <u>1,068,225</u>	<u>939,397</u>

Pledged revenues and related expenses for 2004 and 2003 as defined by the **1978 Auburn University at Montgomery Trust Indenture** are as follows:

The following summary shows the revenues, expenditures and transfers from operations of the dormitories of Auburn University at Montgomery (AUM) for the years ended September 30, 2004 and September 30, 2003.

	2004	2003
Revenues:		
Room rental	\$ 541,430	605,120
Other income	4,571	5,740
Total revenues	<u>546,001</u>	<u>610,860</u>
Expenditures and Transfers:		
Personnel cost	330,850	265,245
Operating expenditures	433,015	281,743
Transfers	145,210	150,041
Total expenditures and transfers	<u>909,075</u>	<u>697,029</u>
Deficit of revenues over expenditures and transfers	(363,074)	(86,169)
Net assets (deficit) at beginning of year	<u>(79,591)</u>	<u>6,578</u>
Net deficit at end of year	<u>\$ (442,665)</u>	<u>(79,591)</u>

The AUM dormitory occupancy rate for Fall Semester, 2004 and Fall Semester, 2003 was 80.52% and 96%, respectively (unaudited).

The University levies a \$20 fee against all students enrolled at AUM as a pledge for payments of principal and interest on the Student Facilities Bonds of 1971. A separate statement of the pledged fees is not available as these fees are commingled with revenues from other sources including an additional fee of \$7 per student levied for additional construction costs. Funds are transferred from the combined revenues to the Student Facilities Bond Fund for servicing debt as considered necessary. During 2004, principal and interest payments of \$33,932 were made from the 1971 AUM Student Facilities Bond Reserve.

## (11) RETIREMENT PROGRAMS

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

### A. Teachers' Retirement System of Alabama

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

Substantially all employees are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees. Benefits vest after ten years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by three methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) minimum guaranteed, (2) money purchase or (3) formula, of which the formula method usually produces the highest monthly benefit. Under the formula method, retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death, is 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 actuarial accrued liability (AAL), which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The actuarial value of assets, which is the actuarial present value of assets, is a standardized disclosure measure of the present value of accumulated assets, adjusted for projected investment performance and contributions. TRS does not make separate measurements of assets and the AAL for individual employers. The AAL and the actuarial valuation of assets at June 30, 2003 (the most recent valuation date) for TRS as a whole, determined through actuarial valuations performed as of that date, were approximately \$19,357,735,000 and \$18,110,470,000

respectively, resulting in an underfunded AAL of approximately \$1,247,265,000. Complete financial presentation and disclosure of the financial position and activities of the TRS is presented in the September 30, 2003 annual financial report of the Teachers' Retirement System of Alabama.

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, 2003 annual financial report of the Teachers' Retirement System of Alabama.

The Retirement System of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to the Retirement System of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

### Funding Policy

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

Fiscal year ended September 30,	2004	2003	2002
Total percentage of covered payroll	11.56%	10.02%	10.96%
Contributions:			
Percentage contributed by the employer	6.56%	5.02%	5.96%
Percentage contributed by the employees	5.00%	5.00%	5.00%
Contributed by the employer	\$ 17,165,528	\$ 12,108,451	\$ 13,251,150
Contributed by the employees	<u>13,095,207</u>	<u>12,074,427</u>	<u>10,936,261</u>
Total contributions	\$ <u>30,260,735</u>	\$ <u>24,182,878</u>	\$ <u>24,187,411</u>

### B. Employees' Retirement System of Alabama

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

### Funding Policy

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

Fiscal year ended September 30,	2004	2003	2002
Total percentage of covered payroll	25.57%	25.57%	23.87%
Contributions:			
Percentage contributed by the employer	23.07%	23.07%	21.37%
Percentage contributed by the employees	2.50%	2.50%	2.50%
Contributed by the employer	\$ 1,774,424	\$ 2,241,796	\$ 2,062,628
Contributed by the employees	<u>192,287</u>	<u>242,934</u>	<u>240,105</u>
Total contributions	\$ <u>1,966,711</u>	\$ <u>2,484,730</u>	\$ <u>2,302,733</u>

### **C. Nonbudgeted Pension Plan**

In April, 2003 the University entered into a buyout agreement with The Hartford and is no longer self-insured for the Nonbudgeted Pension Plan. The plan was transferred to The Hartford with cash payment from the University for participants in the pension plan effective May 1, 2003.

### **D. Tax Deferred Annuity Plans**

This plan is a defined contribution plan under section 403(b) of the Internal Revenue Code. Accordingly, benefits depend solely on amounts contributed to the plan plus investment earnings. This is provided as a supplement to the aforementioned programs. All full-time regular or probationary employees are eligible to participate. Full-time temporary employees are also eligible if their employment period is for a minimum of one year. Auburn University will match up to \$1,200 per year of a qualifying employee's contribution. This equates to five percent of gross salary with a maximum covered salary of \$24,000 per year. An employee enrolling in one of the University's tax deferred annuity plans will not vest in the University's matching portion until he/she has completed five years of full-time continuous service. Upon the employee's completion of the five year requirement, the University's matching contribution and interest earned will be vested to the participant. Nonparticipating employees with continuous service will be given credit toward the five year requirement upon joining the tax deferred annuity program. The total investment in the annuities is determined by Section 403(b) and Section 457(b) of the Internal Revenue Code. There are several investment options including fixed and variable annuities and mutual funds. The University-approved investment firms employees may select are Valic, TIAA-CREF and Johnson, Sterling, Paul and Company. At September 30, 2004, 3,240 employees participated in the tax deferred annuity program. The contribution for 2004 was \$14,495,687, which includes \$3,410,455 from the University and \$11,085,232 from its employees. Total salaries and wages during the fiscal year for covered employees participating in the plan were approximately \$200,714,000.

### **E. Deferred Compensation Plan**

The University follows the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plan*. In accordance with the provisions of this pronouncement, the RSA-1 deferred compensation plan is a separate trust and therefore, not reflected in the University's financial statements.

## **(12) OTHER POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 11, the University provides postemployment health care benefits to all employees who officially retire from the University. Retirees must have had ten years of continuous service and must have been enrolled in the plan for the last six of those years. The health insurance plan is self-insured. As of September 30, 2004, 372 retirees have health care protection. The University's health care plan consists of hospital benefits, major medical benefits, a prescription drug program and a preferred care program. The health care benefits cover medical and hospitalization costs for retirees and their dependents. If the retiree is eligible for Medicare, University coverage is secondary. Eligible retired employees may elect to participate in the Public Education Employees Health Insurance Plan with TRS, in which case the retirees pay their premiums directly to TRS. Expenditures for postretirement health care benefits are recognized monthly. During the fiscal year ended September 30, 2004, the University funded approximately 60% of the postretirement healthcare premium expenditures, which totaled \$999,736. The retirees are responsible for funding approximately 40% of the healthcare premium expenditures with the exception of a few retirees who were eligible but elected not to enroll in the University's healthcare program.

In April, 2003 the University entered into a buyout agreement with Prudential Insurance Company (Prudential) and funds in the amount of \$355,326 were paid by the University to Prudential for the retiree's life insurance coverage. Effective April 1, 2003 the University was no longer self-insured for postretirement life insurance.

## **(13) SELF INSURANCE PROGRAMS AND OTHER LIABILITIES**

An actuarially determined rate is used to provide funding for retained risk in the University's self-insurance program. An allocated share of the self-insurance reserves 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 which protects the University, its faculty, staff and volunteers against claims brought by third parties arising from bodily injury, property damage and personal liability (libel, slander, etc.) Funds are held in a separate trust account with Compass Bank to be used to pay claims for which the University may become legally liable. The liability at September 30, 2004 and 2003 was \$1,049,204 and \$2,298,089, respectively.

The On-The-Job-Injury program provides benefits for job-related injuries or death related from work at the University. This program is designed to cover out-of-pocket expenses of any employee who is not covered by insurance. The program will also pay for medically evidenced disability claims and provide death benefits arising from a job-related death of an employee. This self-funded program is provided to employees since the University is not subject to the worker's compensation laws of the State of Alabama. The liability at September 30, 2004 and 2003 was \$215,996 and \$272,268, respectively.

The University self-insures its health insurance program for all eligible employees. Assets have been set aside to fund the related claims of this program. Should the assets be insufficient to pay the insurance claims, the University would be liable for such claims. The accompanying Statement of Net Assets includes a self-insurance reserve for health insurance as of September 30, 2004 and 2003 of \$2,474,948 and \$1,589,826, respectively.

Other liabilities include compensated absences and Federal Perkins Student Loan Funds. The University allows employees to accrue and carryover annual and sick leave up to certain maximum amounts depending on years of service. Employees will be compensated for accrued annual leave at time of separation from University employment (termination or retirement) up to a maximum of one month's additional compensation. All eligible employees hired before October 1, 1990 may be compensated for unused sick leave at the rate of 25% of their respective balances, subject to a maximum of one month's additional compensation. The liability was \$20,128,656 at September 30, 2004 and 2003.

The Federal Perkins Student Loan Funds and Health Professional Student Loans are included in deposits held in custody. The refundable amounts were \$14,851,669 and \$13,986,264, at September 30, 2004 and 2003, respectively.

#### **(14) CONTRACTS AND GRANTS**

The University has been awarded approximately \$3,260,000 in contracts and grants that had not been received or expended as of September 30, 2004. These awards, which represent commitments of sponsors to provide funds for research and training projects, have not been reflected in the financial statements. Advances include amounts received from grant and contract sponsors which have not yet been earned under the terms of the agreements and, therefore, have not yet been included in net assets.

#### **(15) RECOVERY OF FACILITIES AND ADMINISTRATIVE COST FOR SPONSORED PROGRAMS**

The portion of revenue recognized for all grants and contracts which represents facilities and administrative cost recovery is recognized on the Statement of Revenues, Expenses and Changes in Net Assets. The University recognized \$12,268,438 and \$10,538,197 in facilities and administrative cost recovery for the years ended September 30, 2004 and 2003, respectively.

#### **(16) CONSTRUCTION COMMITMENTS AND FINANCING**

The University has entered into contracts for the construction and renovation of various facilities which are estimated to cost approximately \$39,000,000. At September 30, 2004, the estimated remaining cost to complete the projects is approximately \$26,000,000, which will be funded from University funds.

#### **(17) OPERATING EXPENSES BY FUNCTION**

Operating expenses by functional classification for the years ended September 30, 2004 and 2003 are listed below. In preparing the financial statements, all significant transactions and balances between auxiliary units and other funds have been eliminated.

	<b>2004</b>	<b>2003</b>
Instruction	\$ 183,527,428	\$ 162,767,801
Research	91,706,996	85,433,084
Public Service	72,183,017	69,917,258
Academic Support	29,124,337	28,945,689
Library	13,763,760	12,729,464
Student Services	15,896,697	16,206,332
Institutional Support	46,236,441	35,276,513
Operation and Maintenance	32,723,991	42,342,161
Scholarships and Fellowships	16,439,940	13,029,317
Auxiliaries	<u>71,239,153</u>	<u>65,465,719</u>
Total all functions	572,841,760	532,113,338
Add: depreciation expense	<u>28,436,636</u>	<u>26,724,468</u>
Total operating expenses	<u>\$ 601,278,396</u>	<u>\$ 558,837,806</u>

## **(18) 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.

## **(19) RELATED PARTY TRANSACTIONS**

### **Auburn University Foundation**

The majority of funds the AUF raises are restricted for specific schools, colleges or programs of the University. These may be transferred to the University for its use, expended for the benefit of University schools, colleges or programs, or in the case of endowments, invested according to donor restriction and the earnings transferred to or expended for the University's benefit. Amounts transferred to the University or expended on behalf of its programs totaled \$20,564,419 and \$29,727,433 during the years ended September 30, 2004 and 2003, respectively. Cumulative undistributed earnings on endowed funds were \$1,596,623 and \$2,053,567 at September 30, 2004 and 2003, respectively.

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

Effective October 1, 2003, the Foundation and the University entered into a Services and Facilities Agreement (the Agreement), which contemplates the general and administrative and development financial relationships between these two entities. In summary, the Agreement states that the University will provide certain services and facilities to the Foundation, which primarily consist of personnel and other administrative support. The cost of all such services and facilities is estimated to be approximately \$2.8 million. The Agreement also states that the Foundation is incurring costs on behalf of the University, which primarily consist of development operations and maintenance costs and that the cost of these services is similarly estimated to be approximately \$2.8 million. As the estimated costs of general and administrative services and facilities received by and provided to the University approximate each other, there is no net impact to fiscal 2004 general and administrative expense. The Agreement commenced on October 1, 2003 and expired on September 30, 2004 and requires the Foundation and the University to review the services and facilities to be provided and the consideration to be paid at least annually.

Applicable to fiscal 2003, the Foundation had a format contract with the University, whereby the University performed certain support services on behalf of the Foundation for which the University was reimbursed. The Foundation reimbursed the University approximately \$1,561,000 for such expenditures during fiscal 2003.

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

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

### **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 \$8,205,809 during the period from April 21, 2004 (date of inception) to June 30, 2004. Included in accounts payable and accrued liabilities is approximately \$913,000 in accruals to current and former University employees. During the period ended June 30, 2004, the University contributed \$335,775 to TUF for the use of executive suites at University athletic events. This amount is recorded as other revenues on TUF's statement of activities and as an operating expense in other supplies and services for the university.

### **Auburn Alumni Association**

The Secretary of the Association is an employee of the University, providing services to the Association under a services and facilities contract. She also serves as the Vice President for Alumni Affairs for Auburn University. All personnel supporting the Association are employees of the University and provide services to the Association under the services and facilities agreement. A portion of the Association's investments have been pooled with AUF investments and are invested and managed by AUF. Cash

receipts and disbursements records of the Association are maintained within the University accounting system. During the year ended September 30, 2004, the Association had a salary reimbursement expense of \$1,128,937 owed to the University under the service and facilities agreement. Of this amount, \$457,273 had been paid and \$671,664 was accrued as an amount payable on September 30, 2004. Payments received by the Association from the University and the AUF for rent totaled \$129,449 and \$102,304, respectively.

In previous years, the Association has operated under a services and facilities contract with the University. The agreement covering the period ended September 30, 2004, was terminated on September 30, 2004. A new agreement, to be effective on and as of October 1, 2004, is currently being negotiated. The new agreement has not been signed at the date of issuance of these financial statements. If an agreement is not reached, there could be a significant effect on the continued operations of the Association.

### Allocated Costs

AUF, TUF, the Association and the Offices of Alumni and Development and their related support units jointly utilize operational facilities, personnel and other assets in order to effectively and efficiently carry out their required activities. The growth of these organizations in recent years has resulted in a complex interrelationship of asset and cost allocation. All of the employees are employed by the University and their services are provided to the other organizations under contractual agreements. Other operational costs are paid from budgets of each organization. The combined expenditures are analyzed periodically and, based on each entity's utilization of the facilities, supplies and services any necessary reimbursements are made among the organizations. In the statements of activities, amounts received by the Operating Fund from other organizations are shown as support revenue.

## (20) COMPONENT UNIT INFORMATION

### Auburn University Foundation Temporarily Restricted Net Assets

Temporarily restricted net assets of AUF at September 30, 2004 and 2003 are available for the following purposes:

	2004	2003
Contributions available for the support of Auburn University		
Academic units	\$ 5,347,681	2,246,360
Faculty support	2,031,605	1,208,404
Student aid	6,213,512	2,504,323
Program support	5,189,705	16,047,528
Research	395,064	203,769
Capital purchases	11,255,427	12,847,883
Administration	1,574,324	635,876
Other	396,732	1,093,415
Total temporarily restricted net assets	<u>\$ 32,404,050</u>	<u>36,787,558</u>

Permanently restricted net assets represent accumulated principal of endowment gifts which are to be invested in perpetuity and the income and gains from which are expendable in accordance with donor-imposed restrictions, if any.

### Tigers Unlimited Foundation Temporarily Restricted Net Assets

Temporarily restricted net assets of TUF at June 30, 2004 are available for the following purposes:

	2004
Contributions available for the support of Auburn University	
Student aid	\$ 176,574
Program support	6,630,889
Capital purchases	4,008,597
Other	36,192
Total temporarily restricted net assets	<u>\$ 10,852,252</u>

## Transfer of Tigers Unlimited Fund

Effective as of the close of business on April 20, 2004, all assets and liabilities of the Tigers Unlimited Funds, along with the responsibilities for future athletic fund raising and gift administration, were transferred to the new Tigers Unlimited Foundation. Prior to this transfer, the assets and liabilities of the Tigers Unlimited Fund were maintained in AUF. This transfer comprised the following:

Cash and cash equivalents	\$	777,275
Investments		27,941,748
Accrued interest receivable		83,145
Contributions receivable, net		10,527,898
Other receivables		260
Property and equipment, net		3,317
Accounts payable and accrued liabilities		(1,432,814)
Deferred revenue		(1,436,874)
Notes payable		(924,718)
Due to Auburn University		(1,091,500)
Due to Auburn University Foundation		(120,907)
Total net assets	\$	<u>34,326,830</u>

### (21) DIRECT LOAN PROGRAMS

The Federal Family Education Loan Program (FFELP) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FFELP enables an eligible student or parent to obtain a loan directly through FFELP lenders. Alabama's designated state guarantor for FFELP loans is Kentucky Higher Education Assistance Authority (KHEAA). KHEAA is responsible for handling the complete loan process, including funds management as well as promissory note functions. The FFELP lenders, and not the University, are responsible for the collection of these loans. The University disbursed approximately \$75,835,000 and \$67,394,000 under the FFELP during the fiscal years ended September 30, 2004 and September 30, 2003, respectively.

### (22) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In March, 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, effective for financial statement periods beginning after June 15, 2004. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement are also required to be disclosed. GASB 40 should not have a significant impact on the University's financial statements.

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

Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*, was issued by the GASB in June, 2004. This statement requires governmental entities to recognize and match other post retirement benefit costs, for example health and life insurance expense, with related services received and also to provide information regarding the actuarial accrued liability and funding level of the benefits associated with past services. GASB 45 will be effective for financial statement periods beginning after June 15, 2005. The impact of GASB 45 will have on the University's financial statements is currently being evaluated.

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A U B U R N U N I V E R S I T Y

2004 COMPREHENSIVE ANNUAL FINANCIAL REPORT



**DIVISIONAL FINANCIAL STATEMENTS**



**AUBURN UNIVERSITY MAIN CAMPUS  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004 AND 2003**

<b>ASSETS</b>	<b>2004</b>	<b>2003</b>
Current assets		
Cash and cash equivalents	\$ 38,338	\$ (6,981)
Operating investments	87,710,175	77,671,257
Accounts receivable, net	23,290,912	16,841,314
Student accounts receivable, net	25,241,978	19,153,405
Loans receivable, net	2,564,827	2,252,413
Accrued interest receivable	3,028,482	3,016,009
Inventories	3,191,732	3,302,872
Prepaid expenses	302,622	8,155,791
Due from other funds	320,481	350,794
Total current assets	<u>145,689,547</u>	<u>130,736,874</u>
Noncurrent assets		
Investments	448,425,756	391,685,096
Loans receivable, net	14,319,277	13,495,121
Investment in plant, net	499,434,117	409,043,376
Due from other funds	1,668,933	1,944,042
Total noncurrent assets	<u>963,848,083</u>	<u>816,167,635</u>
Total assets	<u>1,109,537,630</u>	<u>946,904,509</u>
<b>LIABILITIES</b>		
Current liabilities		
Outstanding checks in excess of bank balance	16,742,044	15,457,227
Advances	187,721	170,105
Accounts payable	16,431,421	13,236,050
Accrued salaries and wages	2,817,437	1,954,837
Accrued compensated absences	11,423,237	11,001,727
Accrued interest payable	3,787,181	2,847,004
Other accrued liabilities	2,474,948	1,589,826
Student deposits	2,249,871	1,040,192
Deposits held in custody	15,462,066	14,298,611
Deferred revenues	69,480,700	75,673,015
Noncurrent liabilities-current portion	10,982,414	6,680,247
Total current liabilities	<u>152,039,040</u>	<u>143,948,841</u>
Noncurrent liabilities		
Accrued compensated absences	4,538,754	4,960,263
Bonds and notes payable	283,235,130	190,017,690
Lease obligations	271,534	386,478
Other noncurrent liabilities	1,956,923	3,229,525
Due to other funds	10,669,369	7,841,455
Total noncurrent liabilities	<u>300,671,710</u>	<u>206,435,411</u>
Total liabilities	<u>452,710,750</u>	<u>350,384,252</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	316,242,810	263,812,443
Restricted		
Nonexpendable	14,504,182	14,196,276
Expendable:		
Scholarships, research, instruction, other	68,168,712	69,327,846
Loans	4,386,792	4,084,832
Capital projects	4,008,830	13,588,615
Unrestricted	<u>249,515,554</u>	<u>231,510,245</u>
52 Total net assets	<u>\$ 656,826,880</u>	<u>\$ 596,520,257</u>

**AUBURN UNIVERSITY MAIN CAMPUS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	2004	2003
<b>OPERATING REVENUES</b>		
Tuition and fees, net of scholarship allowances of \$33,261,857 and \$30,480,724, respectively	\$ 158,155,906	\$ 138,360,971
Federal appropriations	39,238	40,957
Federal grants & contracts	50,929,061	46,343,412
State & local grants & contracts	1,813,592	2,389,939
Nongovernmental grants & contracts	7,197,578	6,296,458
Sales & services of educational departments	16,303,318	15,557,426
Auxiliary revenue, net of scholarship allowances of \$1,476,597 and \$1,407,471, respectively	67,865,607	51,321,899
Other operating revenue	8,927,068	10,561,640
Total operating revenues	<u>311,231,368</u>	<u>270,872,702</u>
<b>OPERATING EXPENSES</b>		
Compensation & benefits	293,121,876	259,018,124
Scholarships & fellowships	13,150,540	9,760,402
Other supplies & services	117,734,595	124,762,055
Depreciation	25,845,493	23,993,054
Loss on impairments & disposals		2,752,910
Total operating expenses	<u>449,852,504</u>	<u>420,286,545</u>
Operating loss	<u>(138,621,136)</u>	<u>(149,413,843)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	137,034,075	136,383,190
Gifts	15,044,155	17,115,962
Net investment income	23,491,011	25,787,771
Interest expense on capital debt	(9,047,968)	(7,107,025)
Other nonoperating expenses, net		(2,214,561)
Nonoperating revenues, net	<u>166,521,273</u>	<u>169,965,337</u>
Income before other changes in net assets	27,900,137	20,551,494
<b>OTHER CHANGES IN NET ASSETS</b>		
Capital appropriations	13,071,484	13,084,555
Capital gifts & grants	18,638,910	9,543,511
Additions to permanent endowments	696,092	2,718,200
Net increase in net assets	<u>60,306,623</u>	<u>45,897,760</u>
<b>Net assets - beginning of year</b>	<u>596,520,257</u>	<u>550,622,497</u>
<b>Net assets - end of year</b>	\$ <u>656,826,880</u>	\$ <u>596,520,257</u>

**AUBURN UNIVERSITY AT MONTGOMERY**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 85,921	\$ 76,974
Operating investments	2,476,616	2,762,407
Accounts receivable, net	997,307	1,020,551
Student accounts receivable, net	3,284,499	3,923,202
Loans receivable, net	38,266	33,995
Accrued interest receivable	826	1,430
Inventories	482,500	545,409
Total current assets	<u>7,365,935</u>	<u>8,363,968</u>
Noncurrent assets		
Investments	11,363,294	12,348,323
Loans receivable, net	2,642,144	2,514,237
Investment in plant, net	39,592,331	39,611,425
Due from other funds	10,669,369	7,841,455
Total noncurrent assets	<u>64,267,138</u>	<u>62,315,440</u>
Total assets	<u>71,633,073</u>	<u>70,679,408</u>
<b>LIABILITIES</b>		
Current liabilities		
Advances	189,664	
Accounts payable	341,304	686,553
Accrued salaries and wages	445,132	160,609
Accrued compensated absences	1,224,433	1,179,252
Accrued interest payable	17,682	18,814
Student deposits	113,536	112,200
Deposits held in custody	3,171,722	3,044,304
Deferred revenues	5,631,186	6,850,562
Noncurrent liabilities-current portion	265,000	250,000
Due to other funds	49,861	64,261
Total current liabilities	<u>11,449,520</u>	<u>12,366,555</u>
Noncurrent liabilities		
Accrued compensated absences	485,670	530,851
Bonds and notes payable	1,650,000	1,785,000
Lease obligations	1,660,000	1,790,000
Due to other funds	106,129	155,991
Total noncurrent liabilities	<u>3,901,799</u>	<u>4,261,842</u>
Total liabilities	<u>15,351,319</u>	<u>16,628,397</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	36,317,375	35,870,641
Restricted		
Nonexpendable	5,069,196	2,494,605
Expendable:		
Scholarships, research, instruction, other	4,167,583	3,998,079
Loans	347,470	323,808
Capital projects	126,428	
Unrestricted	<u>10,253,702</u>	<u>11,363,878</u>
Total net assets	<u>\$ 56,281,754</u>	<u>\$ 54,051,011</u>

**AUBURN UNIVERSITY AT MONTGOMERY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	2004	2003
<b>OPERATING REVENUES</b>		
Tuition and fees, net of scholarship allowances of \$3,421,394 and \$3,169,185, respectively	\$ 15,625,025	\$ 13,527,681
Federal grants & contracts	8,004,145	8,088,181
State & local grants & contracts	3,842,416	4,271,099
Nongovernmental grants & contracts	150,851	463,256
Sales & services of educational departments	1,870,633	1,847,587
Auxiliary revenue, net of scholarship allowances of \$357,638 and \$285,244, respectively	3,988,656	3,344,531
Other operating revenue	825,873	555,333
Total operating revenues	<u>34,307,599</u>	<u>32,097,668</u>
<b>OPERATING EXPENSES</b>		
Compensation & benefits	35,508,902	33,353,013
Scholarships & fellowships	3,259,769	3,215,028
Other supplies & services	16,080,527	3,697,288
Depreciation	2,591,143	2,731,414
Loss on impairments & disposals		5,128,191
Total operating expenses	<u>57,440,341</u>	<u>48,124,934</u>
Operating loss	<u>(23,132,742)</u>	<u>(16,027,266)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	19,569,737	19,310,724
Gifts	228,055	186,438
Net investment income	1,013,591	1,060,173
Interest expense on capital debt	(56,768)	(62,268)
Nonoperating revenues, net	<u>20,754,615</u>	<u>20,495,067</u>
Income before other changes in net assets	(2,378,127)	4,467,801
<b>OTHER CHANGES IN NET ASSETS</b>		
Capital appropriations	2,011,260	1,270,613
Capital gifts & grants	22,278	28,259
Additions to permanent endowments	2,575,332	49,292
Net increase in net assets	<u>2,230,743</u>	<u>5,815,965</u>
Net assets - beginning of year	<u>54,051,011</u>	<u>48,235,046</u>
Net assets - end of year	\$ <u>56,281,754</u>	\$ <u>54,051,011</u>

**ALABAMA AGRICULTURAL EXPERIMENT STATION**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2004 AND 2003**

	2004	2003
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 32,000	\$ 32,000
Operating investments	6,354,003	6,136,098
Accounts receivable, net	<u>3,087,830</u>	<u>3,268,205</u>
Total current assets	<u>9,473,833</u>	<u>9,436,303</u>
Noncurrent assets		
Investments	<u>7,810,359</u>	<u>6,347,342</u>
Total noncurrent assets	<u>7,810,359</u>	<u>6,347,342</u>
Total assets	<u>17,284,192</u>	<u>15,783,645</u>
<b>LIABILITIES</b>		
Current liabilities		
Advances	56,074	45,117
Accounts payable	275,955	264,830
Accrued salaries and wages	154,436	100,737
Accrued compensated absences	893,116	860,160
Deferred revenues	1,229,252	1,253,909
Due to other funds	<u>270,620</u>	<u>286,533</u>
Total current liabilities	<u>2,879,453</u>	<u>2,811,286</u>
Noncurrent liabilities		
Accrued compensated absences	346,853	379,809
Due to other funds	<u>1,562,804</u>	<u>1,788,051</u>
Total noncurrent liabilities	<u>1,909,657</u>	<u>2,167,860</u>
Total liabilities	<u>4,789,110</u>	<u>4,979,146</u>
<b>NET ASSETS</b>		
Restricted		
Expendable:		
Scholarships, research, instruction, other	404,157	479,549
Unrestricted	<u>12,090,925</u>	<u>10,324,950</u>
Total net assets	<u>\$ 12,495,082</u>	<u>\$ 10,804,499</u>

**ALABAMA AGRICULTURAL EXPERIMENT STATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	2004	2003
<b>OPERATING REVENUES</b>		
Federal appropriations	\$ 4,445,150	\$ 4,495,182
Federal grants & contracts	13,003,215	9,698,416
State & local grants & contracts	765,090	682,224
Nongovernmental grants & contracts	1,550,087	2,008,422
Sales & services of educational departments	2,316,284	2,187,285
Total operating revenues	<u>22,079,826</u>	<u>19,071,529</u>
<b>OPERATING EXPENSES</b>		
Compensation & benefits	29,553,935	27,702,427
Scholarships & fellowships	7,215	46,844
Other supplies & services	16,321,897	14,710,661
Total operating expenses	<u>45,883,047</u>	<u>42,459,932</u>
Operating loss	<u>(23,803,221)</u>	<u>(23,388,403)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	24,896,841	24,663,937
Gifts	393,296	340,766
Net investment income	203,667	240,727
Nonoperating revenues, net	<u>25,493,804</u>	<u>25,245,430</u>
Income before other changes in net assets	1,690,583	1,857,027
<b>Net assets - beginning of year</b>	<u>10,804,499</u>	<u>8,947,472</u>
<b>Net assets - end of year</b>	\$ <u>12,495,082</u>	\$ <u>10,804,499</u>

**ALABAMA COOPERATIVE EXTENSION SYSTEM**  
**STATEMENTS OF NET ASSETS**  
**SEPTEMBER 30, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 684,434	\$ 701,115
Operating investments	6,321,664	5,957,052
Accounts receivable, net	<u>2,414,928</u>	<u>2,312,926</u>
Total current assets	<u>9,421,026</u>	<u>8,971,093</u>
Noncurrent assets		
Investments	<u>4,357,649</u>	<u>3,226,326</u>
Total noncurrent assets	<u>4,357,649</u>	<u>3,226,326</u>
Total assets	<u>13,778,675</u>	<u>12,197,419</u>
<b>LIABILITIES</b>		
Current liabilities		
Advances	34,245	1,822,827
Accounts payable	347,812	294,661
Accrued salaries and wages	252,791	65,836
Accrued compensated absences	864,305	832,413
Deferred revenues	<u>120,854</u>	<u>262,705</u>
Total current liabilities	<u>1,620,007</u>	<u>3,278,442</u>
Noncurrent liabilities		
Accrued compensated absences	<u>352,288</u>	<u>384,180</u>
Total noncurrent liabilities	<u>352,288</u>	<u>384,180</u>
Total liabilities	<u>1,972,295</u>	<u>3,662,622</u>
<b>NET ASSETS</b>		
Restricted		
Expendable:		
Scholarships, research, instruction, other	4,825,189	2,390,900
Unrestricted	<u>6,981,191</u>	<u>6,143,897</u>
Total net assets	\$ <u>11,806,380</u>	\$ <u>8,534,797</u>

**ALABAMA COOPERATIVE EXTENSION SYSTEM**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>OPERATING REVENUES</b>		
Federal appropriations	\$ 11,234,691	\$ 8,716,715
Federal grants & contracts	7,565,939	7,344,236
State & local grants & contracts	2,845,700	3,757,083
Nongovernmental grants & contracts	257,275	209,412
Sales & services of educational departments	59,649	95,125
Other operating revenue	<u>2,034,162</u>	<u>2,183,082</u>
Total operating revenues	<u>23,997,416</u>	<u>22,305,653</u>
<b>OPERATING EXPENSES</b>		
Compensation & benefits	37,193,039	36,130,029
Scholarships & fellowships	22,416	7,043
Other supplies & services	<u>10,887,049</u>	<u>11,829,323</u>
Total operating expenses	<u>48,102,504</u>	<u>47,966,395</u>
Operating loss	<u>(24,105,088)</u>	<u>(25,660,742)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	27,083,525	26,800,216
Gifts	220,114	268,361
Net investment income	<u>73,032</u>	<u>35,621</u>
Nonoperating revenues, net	<u>27,376,671</u>	<u>27,104,198</u>
Income before other changes in net assets	3,271,583	1,443,456
<b>Net assets - beginning of year</b>	<u>8,534,797</u>	<u>7,091,341</u>
<b>Net assets - end of year</b>	\$ <u>11,806,380</u>	\$ <u>8,534,797</u>

**BOARD OF TRUSTEES**

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



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Governor of Alabama  
President, Montgomery



**Earlon C. McWhorter**  
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