

2017 FINANCIAL REPORT



AUBURN
UNIVERSITY

Annual Financial Report for the year ended September 30, 2017



FINANCIAL REPORT 2017

Annual Financial Report for the year ended September 30, 2017

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FINANCIAL REPORT

2017

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FINANCIAL REPORT 2017

INTRODUCTORY SECTION



AUBURN UNIVERSITY

OFFICE OF THE VICE PRESIDENT FOR
BUSINESS & FINANCE AND CFO

January 24, 2018

The management of Auburn University (the "University") is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements. The financial statements, presented on pages 24 through 27, have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on judgments and estimates by management.

The consolidated financial statements have been audited by our independent auditor PricewaterhouseCoopers, LLP, which was given unconditional access to all financial records and related data including minutes of all meetings of the Board of Trustees. The University believes that all representations made to the independent auditors during their audit were valid and appropriate. PricewaterhouseCoopers' audit opinion is presented on pages 8 and 9.

The University maintains a system of internal controls over financial reporting, designed to provide reasonable assurance to the University's management and Board of Trustees regarding the preparation of reliable published financial statements. Such controls are designed to identify internal control weaknesses in order to permit management to take appropriate corrective action on a timely basis. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls.

The Board of Trustees, through its Audit and Compliance Committee, is responsible for engaging the independent auditors. The Audit and Compliance Committee provides oversight of the internal and external audit functions of University. Both internal auditors and the independent auditors have full and free access to the Audit and Compliance Committee.

Based on the above, we certify that the information contained in the accompanying financial statements fairly presents, in all material respects, the financial condition, changes in net position and cash flows of the University, which is a component of the State of Alabama, as of and for the years presented in this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Kelli D. Shomaker".

Kelli D. Shomaker, CPA

Vice President for Business and Finance and CFO

A handwritten signature in black ink, appearing to read "Amy R. Douglas".

Amy R. Douglas, CPA

Controller



FINANCIAL REPORT 2017

FINANCIAL SECTION



Report of Independent Auditors

To the Board of Trustees of Auburn University:

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Auburn University (the "University"), a component unit of the State of Alabama, which comprise the statements of net position as of September 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and of cash flows (where applicable) for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on the financial statements based on our audits. We did not audit the financial statements of Auburn University Foundation (the "Foundation") and Auburn Alumni Association (the "Association"), two of the University's discretely presented component units, as of and for the years ended September 30, 2017 and 2016. We also did not audit the financial statements of Tigers Unlimited Foundation ("TUF"), one of the University's discretely presented component units, as of and for the years ended June 30, 2017 and 2016. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the above mentioned discretely presented component units of the University, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

PricewaterhouseCoopers LLP, 569 Brookwood Village, Suite 851, Birmingham, AL 35209
T: (205) 414 4000, F: (205) 414 4001, www.pwc.com/us



Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Auburn University as of September 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis and the required supplemental information on pages 10 through 23 and 81 through 86, respectively, are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The University has omitted the management's discussion and analysis for the year ended September 30, 2016 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The introductory information on pages 5 and 6 and the supplemental divisional financial statements on pages 71 to 79 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements by us or other auditors, and accordingly, we do not express an opinion or provide any assurance on them.

PricewaterhouseCoopers LLP

January 24, 2018

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, 2017, with a comparison to the year ended September 30, 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements, footnotes, and this discussion are the responsibility of University management.

The University is a land-grant institution with two campuses, Auburn (main campus) and Montgomery (AUM). Main campus is classified by the Carnegie Foundation as "Doctoral/Research-Extensive," while AUM is classified as "Master's I." Fall 2017 enrollment totaled 34,670 students at main campus and AUM. The University offers a diverse range of degree programs in 12 colleges and schools and has approximately 5,700 full-time employees, including approximately 1,500 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 statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. The financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. All references to "2017," "2016," or another year refer to the fiscal year ended September 30, unless otherwise noted.

The University's financial statements are summarized as follows:

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

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

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

In addition to the University's financial statements, related component unit Statements of Financial Position and Statements of Activities and Changes in Net Assets have been included in this annual report. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units-an amendment of GASB Statement No. 14*, provides criteria for determining which related organizations should be reported as component units based on the nature and significance of their relationship with the primary government, which is the University. GASB Statement No. 39 clarifies financial reporting requirements for those organizations as amendments to GASB Statement No. 14, *The Financial Reporting Entity*. The University also evaluated GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, as well as GASB Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*, to ensure proper presentation and disclosure. The component units report financial results under principles prescribed by the Financial Accounting Standards Board (FASB) and are subject to standards under the Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles and present net assets in three classes: unrestricted, temporarily restricted, and permanently restricted. The four component units of the University reported herein are as follows:

- (1) **Auburn University Foundation (AUF)** - AUF was organized on February 9, 1960, and is the fundraising foundation for the University. AUF holds endowments and distributes earnings from those endowments to the University. AUF is incorporated as a legally separate, tax-exempt nonprofit organization established to solicit individual and corporate donations for the direct benefit of the University. The Auburn University Real Estate Foundation, Inc. (AUREFI) has been consolidated into AUF's financial statements.
- (2) **Auburn Alumni Association (the Association)** - The Association is a nonprofit corporation organized on April 14, 1945, which was created to promote mutually beneficial relationships between the University and its alumni, to encourage loyalty among alumni, and to undertake various other actions for the benefit of the University, its alumni, and the State of Alabama. Membership is comprised of alumni, friends, and students of the University. The Association provides monetary support to the University in the form of faculty awards and student scholarships.
- (3) **Tigers Unlimited Foundation (TUF)** - TUF is a legally separate nonprofit organization incorporated in December 2002, which began operations on April 21, 2004. TUF was organized exclusively for charitable purposes, pursuant to Sections 501(a) and 501(c)(3) of the Internal Revenue Code to support athletic fundraising and athletic programs. TUF has a June 30 fiscal year end. TUF provides economic resources to the University for athletic scholarships, athletic building maintenance or new construction, and for athletic department programs.
- (4) **Auburn Research and Technology Foundation (ARTF)** - ARTF was organized on August 24, 2004, as a separate nonprofit organization to develop and operate the Auburn Research Park and to assist the University with the attraction, development, and commercialization of technology. The vision of ARTF is to establish an entrepreneurial atmosphere for businesses to foster economic diversification and vitality of the local community, state, and region.

Financial Highlights**Statement of Net Position**

A summary of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of September 30, 2017 and 2016, is as follows:

	2017	2016
Assets		
Current assets	\$ 489,596,014	\$ 268,441,791
Investment in plant, net	1,695,125,478	1,609,592,167
Other noncurrent assets	877,916,301	1,058,132,170
Total assets	<u>3,062,637,793</u>	<u>2,936,166,128</u>
Deferred Outflows of Resources		
Loss on refunding of bonds	50,847,256	55,805,159
Pension	141,570,011	114,158,400
Total deferred outflows of resources	<u>192,417,267</u>	<u>169,963,559</u>
Liabilities		
Current liabilities	385,367,091	350,511,471
Noncurrent liabilities	1,435,383,896	1,414,483,340
Total liabilities	<u>1,820,750,987</u>	<u>1,764,994,811</u>
Deferred Inflows of Resources		
Nonexchange transactions	383,344	281,953
Pensions	17,148,582	3,407,593
Total deferred inflows of resources	<u>17,531,926</u>	<u>3,689,546</u>
Net Position		
Net investment in capital assets	1,023,902,946	923,568,302
Restricted-nonexpendable	28,918,454	28,723,093
Restricted-expendable	210,555,812	203,813,861
Unrestricted	153,394,935	181,340,074
Total net position	<u>\$ 1,416,772,147</u>	<u>\$ 1,337,445,330</u>

The University's Assets

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

The University's current assets increased \$221.2 million from 2016 to 2017. Of this increase, cash and cash equivalents and operating investments increased \$190.0 million. The majority of this increase was due to investing in short-term items, such as money market instruments, at year end. Correspondingly, the University's long-term investments decreased by \$180.0 million at the end of September. The additional funds available will be used to pay expenses incurred prior to year end that are reflected in accounts payable at September 30, 2017. The University's receivables increased \$16.3 million, primarily due to increased spending

The following building construction projects totaling \$106.5 million were either completed and placed into service or additional work was performed on a previously completed project during the current fiscal year:

Mell Central Classroom Building	\$ 45.6 million
Nursing Building	25.5 million
Pharmacy Research Building	16.2 million
Student Recreation and Wellness Center	4.1 million
Band Practice Field, Dressing Room, and Storage Facility	2.7 million
Risk Management Building	2.3 million
AU Arena Build Out for Volleyball	1.8 million
Jordan Hare Stadium North Main Concourse	1.4 million
Auburn University Hotel and Dixon Conference Center Covered Entrance and Walkway	1.0 million
Other Small Projects	5.9 million
	<u>\$ 106.5 million</u>

prior to year end on federal, state, and other sponsored projects. The remaining increases in accounts receivable are due to athletic television and radio distributions as a result of an additional home football game in September 2017. Student accounts receivables increased \$9.4 million due to several factors. The Board of Trustees approved a 3.0% tuition increase beginning Fall 2017; the University's Fall enrollment increased approximately 4.5%, and the mix of out-of-state students increased by approximately 1.0%.

The University's capital assets, net of depreciation, shown as "Investment in plant, net," on the Statement of Net Position increased \$85.5 million from 2016 to 2017. Capital assets generally represent the historical cost of land, land improvements, buildings, construction in progress, infrastructure, equipment, library books, art and collectibles, software implementation, and livestock, less any accumulated depreciation, with buildings comprising approximately 74.6% of the total net capital asset value. The increase, offset by disposal activity, depreciation, and transfers, was the result of \$166.4 million of new additions to property, plant, and equipment, net of construction in progress transfers. The University expended \$159.8 million in new construction during fiscal year 2017.

The University's Deferred Outflows of Resources

Deferred outflows of resources are a consumption of net assets that are applicable to a future reporting period. Deferred outflows of resources increased \$22.5 million. In 2010, 2012, 2014, 2015, and 2016, the University defeased certain outstanding bonds. These refundings resulted in losses (the difference between the acquisition price of the new debt and the net carrying amount of the old debt). In accordance with GASB Statements No. 63 and No. 65, these losses are presented as deferred outflows of resources. The loss on refunding is amortized over the life of the old or new bonds, whichever is shorter. The University amortizes the losses over the life of the defeased bonds (see Note 8). During fiscal year 2017, the amount amortized was \$4.9 million.

In addition, in accordance with GASB Statement No. 68, deferred outflows of resources are a component of accounting and reporting of pensions (see Note 11). During fiscal year 2017, the deferred outflows of resources increased \$27.4 million relating to current year pension activity.

The University's Liabilities

Current liabilities consist of accounts payable, compensation-related liabilities, accrued interest payable, other accrued liabilities, student and other deposits (including Perkins and Health Professions loan liability), unearned revenues, and the current portion of noncurrent liabilities. Current liabilities increased \$34.9 million from 2016 to 2017.

At year end, the University accrued an additional \$8.4 million in accounts payable, \$1.4 million in compensation-related liabilities, and \$1.0 million in other accrued liabilities. The majority of the increase in current liabilities is reflected in unearned revenue, which increased \$23.5 million. Unearned revenue is comprised of tuition, room and board revenue that relates to fiscal year 2018, contracts and grants funding received prior to expenditure as well as athletic revenue related to games played subsequent to September 30. For Fall 2017, the Board of Trustees approved a 3.0% tuition increase for both main campus and AUM. Sixty percent of Fall tuition is reported as unearned revenue due to the fiscal year end of September 30. Along with the tuition increase, the University increased Fall enrollment by approximately 4.5%, and the percentage of out-of-state students increased approximately 1.0%. There were also increases in unearned revenue for athletic ticket sales relating to football and basketball games played after September 30, 2017.

Noncurrent liabilities include principal amounts due on University bonds payable, capital lease obligations, pension, other post-employment benefit obligations, pollution remediation, and self-insured liabilities that are payable beyond September 30, 2018. Noncurrent liabilities increased \$20.9 million from 2016 to 2017. The majority of the increase was due to the increase in the net pension obligation for pension plans provided by the University to its employees, in accordance with GASB Statement No. 68. Based on actuarial data, the University's pension obligation increased \$41.7 million. An additional \$1.0 million was accrued for the University's post-employment medical plan, in accordance with GASB Statement No. 45. The remaining increase was the result of the University entering into a capital lease of \$10.0 million for land and a proposed building to establish the Auburn University Educational Complex in Gulf Shores, Alabama. These increases were offset with \$30.2 million of principal payments on the University's outstanding bond obligations and reductions in other noncurrent liabilities of \$1.6 million related to the amortization of accrued interest payable on athletic bonds.

The University's Deferred Inflows of Resources

Deferred inflows of resources are an acquisition of net assets that are applicable to a future reporting period. The University engages in certain voluntary nonexchange transactions (grants). Grant funds received for which all eligibility requirements have been met, other than time requirements, are presented as deferred inflows of resources in accordance with GASB Statements No. 63 and No. 65. In addition, in accordance with GASB Statement No. 68, the University reports deferred inflows of resources relating to the accounting and reporting of pensions.

The University's deferred inflows of resources increased \$13.8 million from 2016 to 2017. This increase was primarily the result of the accounting and reporting of current year pension activity, in accordance with GASB Statement No. 68 (see Note 11).

The University's Net Position

The three major net position categories are discussed below:

Net investment in capital assets represents the University's capital assets, net of accumulated depreciation and outstanding principal balances of debt as well as any deferred inflows or outflows of resources, attributable to the acquisition, construction, or improvement of those assets. Net investment in capital assets increased 10.9% from 2016 to 2017. This increase was due to capitalization of assets as previously described and payments made on outstanding debt.

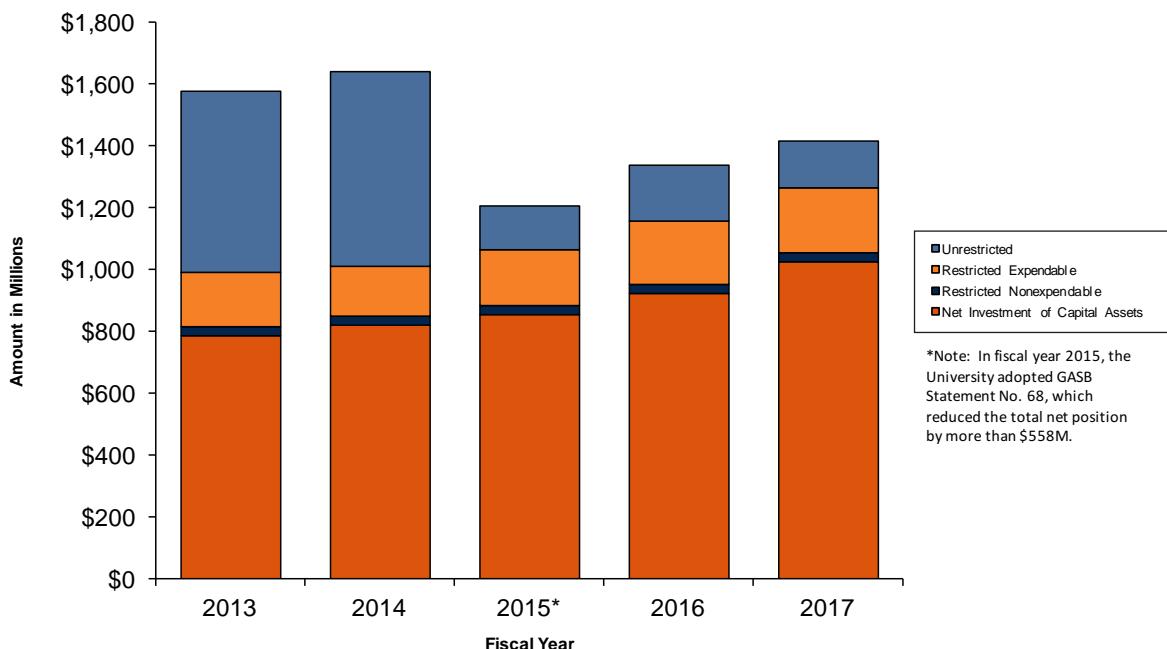
Restricted (nonexpendable and expendable) net position:

Restricted-nonexpendable net position is subject to external restrictions governing its use and consists of the University's permanent endowment funds. This net position increased 0.7% from 2016 to 2017. This increase was the result of additional gifts to permanently endowed funds as well as investment earnings that were added back to current permanent endowments.

Restricted-expendable net position is also subject to external restrictions governing its use. Items of this nature include gifts, contracts and grants restricted by federal, state, local governments, or private sources for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Restricted funds functioning as endowments, restricted funds available for student loans, and funds restricted for construction purposes are also included in this category. Restricted-expendable net position increased 3.3% from 2016 to 2017. The majority of the increase was due to additional gift receipts in fiscal year 2017.

Unrestricted net position is the third major class of net position, and it is not subject to externally imposed stipulations; however, the majority of the University's unrestricted net position has been internally designated for various mission-related purposes. This category includes funds for general operations of the University, auxiliary operations (including athletics, housing, and the bookstores), unrestricted quasi-endowments, and capital projects. Unrestricted net position decreased 15.4% from 2016 to 2017. The decrease in unrestricted net position was mainly due to the increase in the net pension obligation as well as utilizing unrestricted funds for capital projects such as the Mell Classroom Building and deferred maintenance needs.

TOTAL NET POSITION



Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position are the result of activity presented in the Statement of Revenues, Expenses and Changes in Net Position. The purpose of this statement is to present the operating and nonoperating

revenues, operating and nonoperating expenses, other revenues, expenses, gains, losses, and changes in net position. A condensed statement for the years ended September 30, 2017 and 2016, is provided below:

	2017	2016
Operating revenues	\$ 805,240,207	\$ 775,067,471
Operating expenses	<u>1,093,184,229</u>	<u>1,009,079,696</u>
Operating loss	<u>(287,944,022)</u>	<u>(234,012,225)</u>
Net nonoperating revenues and other changes in net position	<u>367,270,839</u>	<u>364,005,660</u>
Net increase in net position	79,326,817	129,993,435
Net position - beginning of year	<u>1,337,445,330</u>	<u>1,207,451,895</u>
Net position - end of year	<u>\$ 1,416,772,147</u>	<u>\$ 1,337,445,330</u>

The 2017 Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in net position at the end of the year of \$79.3 million. Operating revenues increased 3.9% from 2016 to 2017. The majority of this increase is attributable to the increase in student tuition and fee revenue, net of discounts. The \$36.8 million tuition and fee increase over 2016 was the result of the Board-approved increase in tuition for both main campus and AUM, an increase in enrollment, as well as an increase in out-of-state students. The University saw a net increase in federal appropriations, federal, state, and nongovernmental contract and grant revenues of \$3.6 million, which was primarily the result of an increase in spending of federal grant funds appropriated and awarded for research. These increases were offset by a decrease in auxiliary revenue of \$16.8 million. During fiscal year 2016, auxiliary revenue included two larger SEC football games, while corresponding revenue for fiscal year 2017 was deferred at year end. Fiscal year 2016 also included a \$5.0 million signing bonus relating to the athletic multi-media contract.

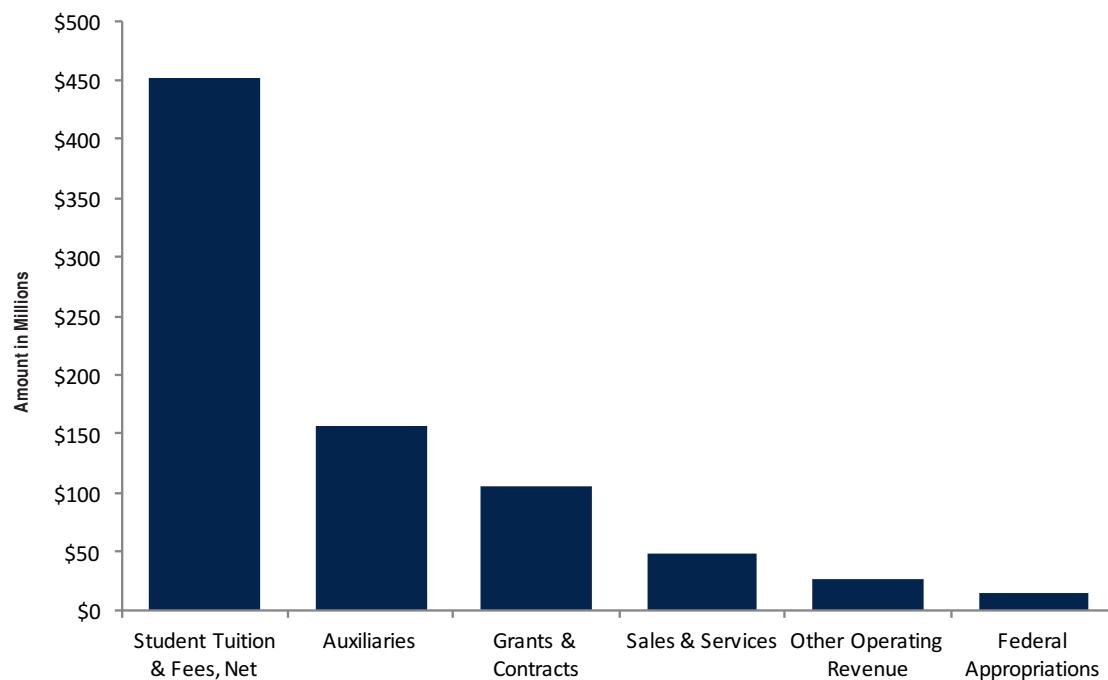
Operating expenses increased 8.3% from 2016 to 2017. Multiple factors contributed to this net increase. Compensation and benefit costs increased \$61.6 million, or 9.8%. This was the result of Board-

approved salary increases and one-time supplement payments as well as additional hires both for administrative and academic employees. Scholarship and fellowship expense slightly increased 1.7%. Other supplies and services increased 7.6%; the majority of the increase was related to repair and maintenance expenditures as well as purchases of non-capital equipment. Depreciation expense increased 2.1% in 2017. This increase was the result of recording depreciation beginning in fiscal year 2017 on projects completed in 2016. The largest addition in fiscal year 2016 was the AUM residence hall.

Net nonoperating revenues and other changes in net position increased \$3.3 million from 2016 to 2017. This modest increase was primarily the result of a 2.7% increase in annual appropriations from the State of Alabama. The University's net investment income increased approximately \$1.0 million from fiscal year 2016 to fiscal year 2017. The University also saw a slight increase in the revenue recognized on Pell grants awarded to students in fiscal year 2017. Although the University has surpassed its comprehensive gift campaign goal of \$1.0 billion, the University's gift revenue decreased from prior years due to the conclusion of the campaign.

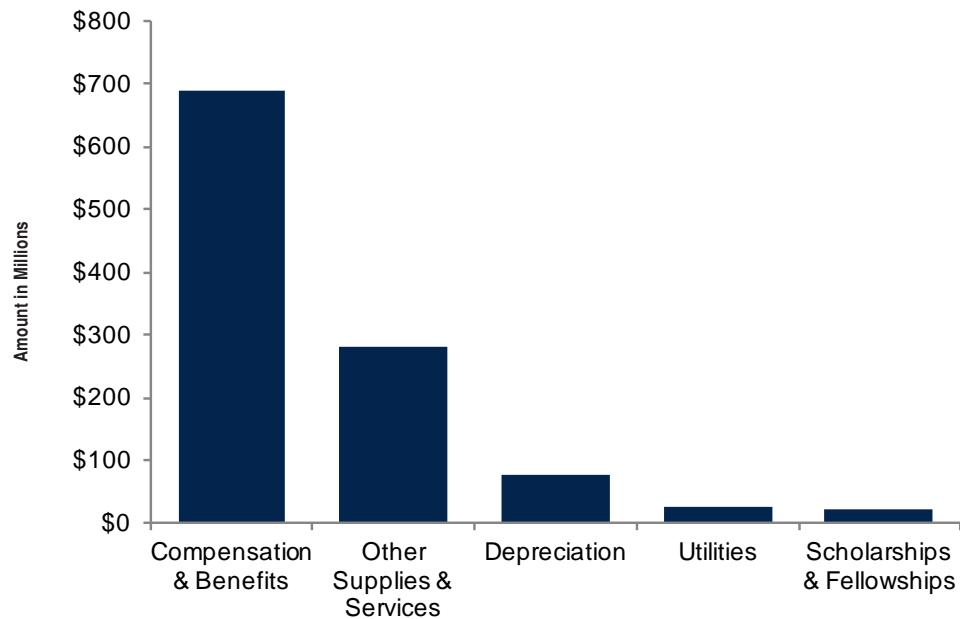
OPERATING REVENUES SUPPORTING CORE ACTIVITIES

For the year ended September 30, 2017



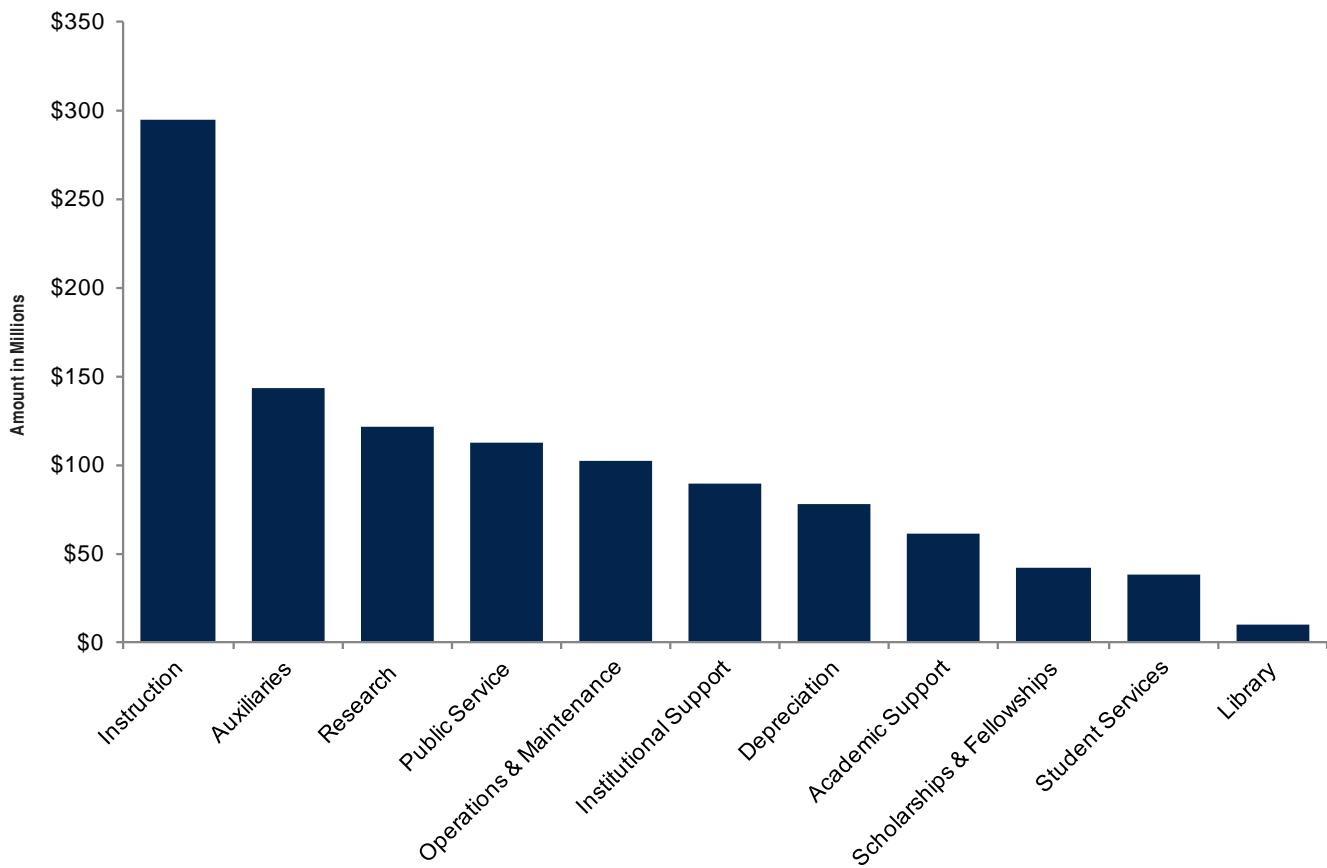
OPERATING EXPENSES BY NATURAL CLASSIFICATION

For the year ended September 30, 2017



OPERATING EXPENSES BY FUNCTION

For the year ended September 30, 2017



Statement of Cash Flows

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

contributions; capital and related financing, including bond proceeds from debt issued to purchase or construct buildings; and investing activities. Operating activity uses of cash significantly exceed operating activity sources of cash due to classification of state appropriations and gifts as noncapital financing activities.

The University's cash flows for the years ended September 30, 2017 and 2016, are summarized below:

	2017	2016
Net cash provided by (used in):		
Operating activities	\$ (181,160,474)	\$ (143,440,787)
Noncapital financing activities	326,878,944	319,359,943
Capital and related financing activities	(179,981,251)	(153,772,101)
Investing activities	<u>111,149,574</u>	<u>(29,912,628)</u>
Net increase (decrease) in cash and cash equivalents	76,886,793	(7,765,573)
Cash and cash equivalents - beginning of year	<u>66,904,416</u>	<u>74,669,989</u>
Cash and cash equivalents - end of year	<u>\$ 143,791,209</u>	<u>\$ 66,904,416</u>

Net cash used in operating activities increased from 2016 to 2017 by 26.3%. The majority of this increase was due to additional payments for employee compensation and benefits of \$38.1 million, as a result of the Board-approved salary increases and one-time supplement payments as well as additional hires both for administrative and academic employees, payments to suppliers of \$31.3 million, and additional payments for scholarships and fellowships of \$2.0 million. These outflows were offset by additional cash provided from tuition and fees of \$34.8 million, sales and services of educational departments of \$4.1 million and auxiliary enterprises of \$2.4 million. In addition, the University received \$7.9 million less from grants and contracts in fiscal year 2017.

Net cash provided by noncapital financing activities increased \$7.5 million. This increase was primarily due to the increase in appropriations provided by the State of Alabama of 2.7%. Although the University received \$3.9 million less in gift funds during fiscal year 2017, there was \$4.6 million of direct and other loan receipts greater than disbursements in fiscal year 2017.

The University saw an increase in net cash used in capital and related financing activities of \$26.2 million. This was primarily the result of the University expending \$29.7 million more for capital assets in 2017 than in 2016. This increase in use of cash was offset by \$3.9 million more of capital gifts and grants funding.

Net cash provided by investing activities was \$111.1 million in fiscal year 2017 compared to utilizing \$29.9 million in fiscal year 2016. During fiscal year 2017, the University received \$425.9 million of proceeds from sales and maturities of investments/reinvestments and purchased \$339.8 million of new investments. The remaining cash provided by investing activities came from investment income in the amount of \$25.0 million.

Economic factors that will affect the future

While the University is impacted by general economic conditions, management believes the University will continue its high level of excellence in service to students, sponsors, the State of Alabama, and other constituents. The University's strong financial position and internal planning processes provide the University some protection against funding reductions and adverse economic conditions. Nonetheless, future reductions in state support must be anticipated and managed carefully to maintain excellence. Neither external nor internal efforts to mitigate the impact, however, are intended to eliminate the effects of future proration or decrease in state funding. As a labor intensive organization, the University faces competitive pressures related to

attracting and retaining faculty and staff. The rising cost of health care remains a concern, particularly in light of the post-retirement health care benefits offered to retirees.

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

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

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

On December 22, 2017, President Trump signed the *Tax Cuts and Jobs Act of 2017* (TCJA), a tax reform bill, which will take effect in fiscal year 2018. The University is currently evaluating the financial statement impact of the new tax law.

Cautionary note regarding forward-looking statements

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

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

UNDERGRADUATE TUITION FOR THE ACADEMIC YEAR

	2013-14	2014-15	2015-16	2016-17	2017-18
Auburn Main Campus/ Auburn University at Montgomery					
Full Time Students:					
In-State	\$9,852/\$8,750	\$10,200/\$9,080	\$10,424/\$9,350	\$10,696/\$9,640	\$10,968/\$9,910
Out-of-State	\$26,364/\$24,950	\$27,384/\$19,640	\$28,040/\$20,210	\$28,840/\$20,710	\$29,640/\$21,310

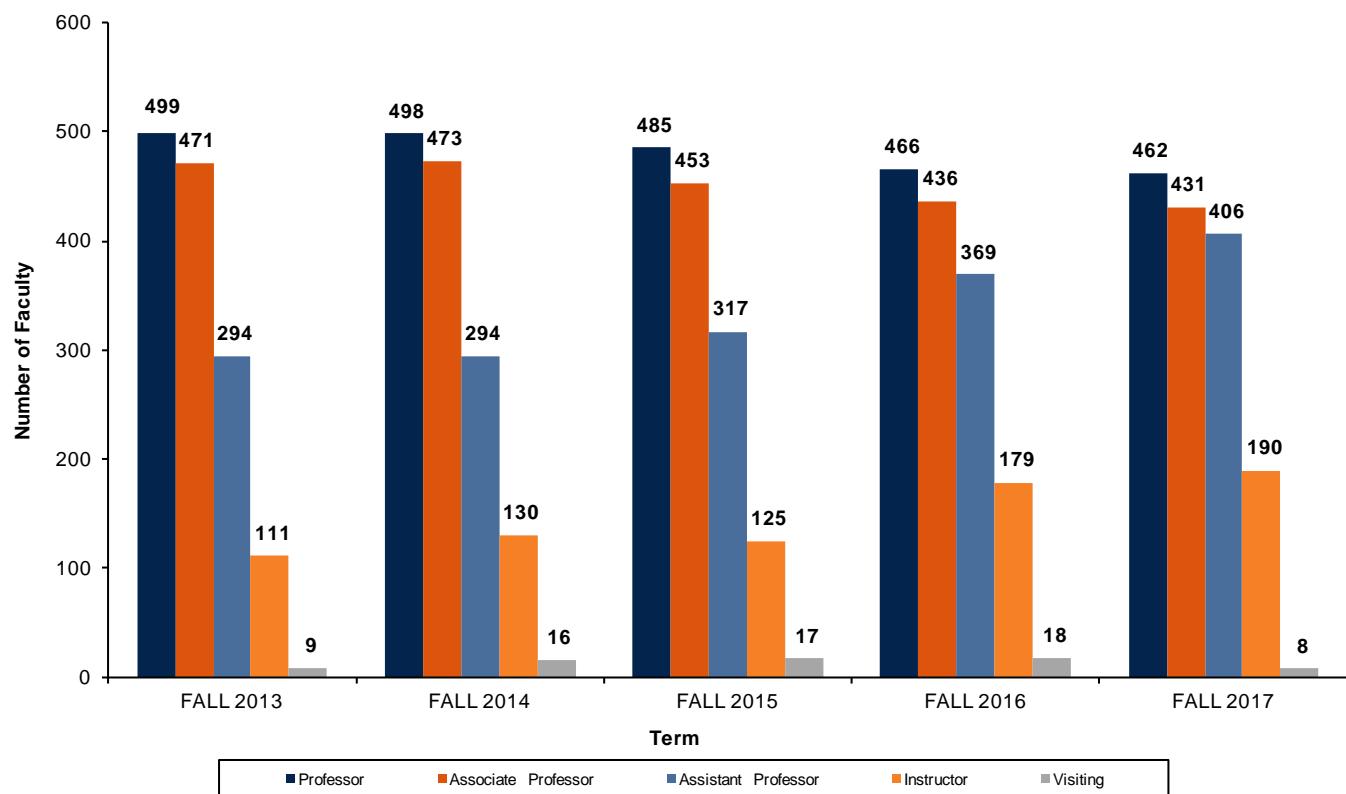
FALL STUDENT ENROLLMENT

	2013	2014	2015	2016	2017
Auburn Main Campus and Auburn University at Montgomery					
Undergraduate	24,133	25,006	26,043	26,931	28,277
Graduate and Professional	5,827	5,963	6,163	6,237	6,393

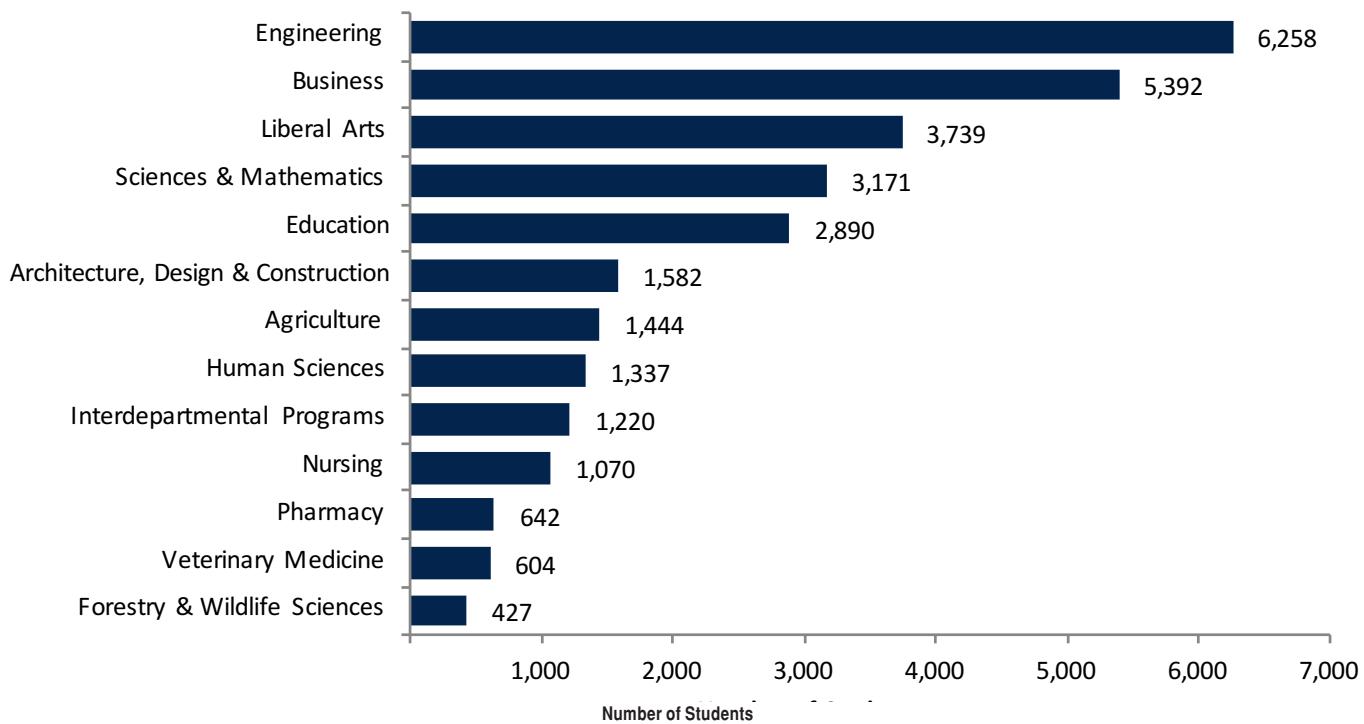
DEGREES AWARDED FOR THE ACADEMIC YEAR

	2012-13	2013-14	2014-15	2015-16	2016-17
Auburn Main Campus and Auburn University at Montgomery					
Bachelor	4,834	5,090	5,115	5,019	5,049
Advanced	1,835	1,869	1,905	2,007	2,061

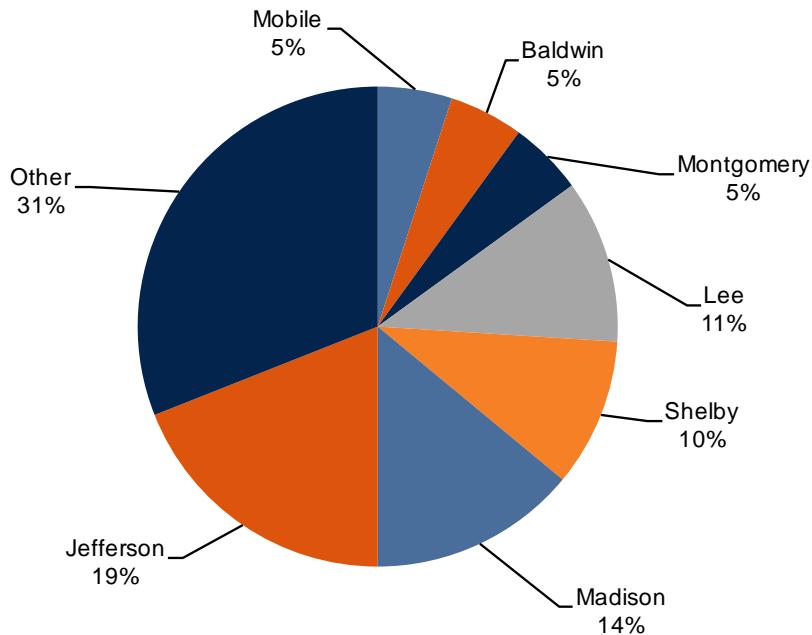
**AUBURN UNIVERSITY MAIN CAMPUS AND AUBURN UNIVERSITY AT MONTGOMERY
FULL-TIME FACULTY BY RANK**



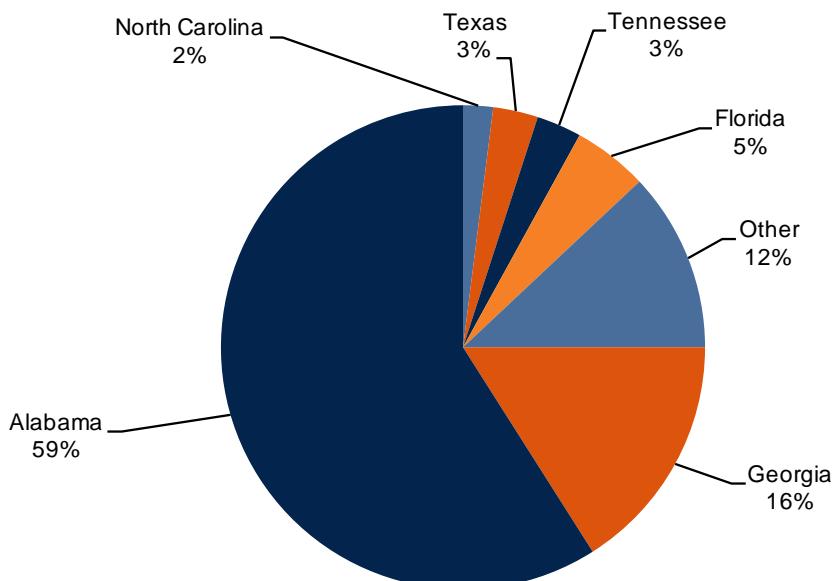
**AUBURN UNIVERSITY MAIN CAMPUS
ENROLLMENT BY COLLEGE/SCHOOL FALL 2017**



AUBURN UNIVERSITY MAIN CAMPUS FRESHMEN
ENROLLMENT BY ALABAMA COUNTIES
SUMMER/FALL TERMS 2017



AUBURN UNIVERSITY MAIN CAMPUS FRESHMEN
ENROLLMENT BY STATE
SUMMER/FALL TERMS 2017



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

	2008	2009	2010
Revenues by Source			
Tuition and fees, net	\$ 235.3	\$ 257.6	\$ 276.2
Federal appropriations	15.7	10.9	30.3*
State appropriations	336.9	261.7	236.2
Grants and contracts, net	118.8	115.6	132.3
Gifts	28.5	29.9	31.5
Capital gifts and grants	23.5	18.4	47.6
Sales and services, investments and other income, net of interest expense	47.2	68.6	59.8
Auxiliary revenue, net	75.5	80.8	87.5
Total Revenues by Source	<u>\$ 881.4</u>	<u>\$ 843.5</u>	<u>\$ 901.4</u>
Expenditures by Function			
Instruction	\$ 212.6	\$ 215.3	\$ 220.6
Research	101.1	99.6	97.5
Public service	108.0	101.3	99.2
Academic support	32.0	34.5	37.5
Library	9.4	8.6	10.2
Student services	19.4	20.4	21.9
Institutional support	62.2	71.8	58.8
Operation and maintenance	70.9	74.6	70.1
Scholarships and fellowships	30.9	31.2	31.8
Auxiliaries	78.8	82.5	89.3
Depreciation	41.3	44.2	49.3
Total Expenditures by Function	<u>\$ 766.6</u>	<u>\$ 784.0</u>	<u>\$ 786.2</u>
Expenditures by Natural Classification			
Compensation	\$ 489.6	\$ 507.9	\$ 510.9
Scholarships & fellowships	18.9	17.9	17.8
Utilities	22.9	23.7	22.9
Other supplies and services	193.9	190.3	185.3
Depreciation	41.3	44.2	49.3
Total Expenditures by Natural Classification	<u>\$ 766.6</u>	<u>\$ 784.0</u>	<u>\$ 786.2</u>

*Includes appropriation from The American Recovery and Reinvestment Act of 2009.

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

2011		2012		2013		2014		2015		2016		2017	
\$ 294.7	\$ 323.1	\$ 349.2	\$ 365.9	\$ 395.6	\$ 414.8	\$ 451.7							
38.8*	11.8	13.0	12.9	14.3	13.2	15.3							
235.7	247.8	238.6	243.0	245.5	248.1	254.7							
136.6	134.5	121.1	118.4	120.5	126.8	130.2							
32.3	36.6	35.4	36.6	43.9	50.6	46.0							
48.2	17.2	28.2	3.8	4.8	22.8	21.5							
58.8	72.8	60.7	89.2	79.6	88.4	95.6							
106.2	101.5	104.8	123.4	136.3	174.3	157.5							
<u>\$ 951.3</u>	<u>\$ 945.3</u>	<u>\$ 951.0</u>	<u>\$ 993.2</u>	<u>\$ 1,040.5</u>	<u>\$ 1,139.0</u>	<u>\$ 1,172.5</u>							
\$ 230.4	\$ 239.5	\$ 242.6	\$ 249.0	\$ 254.6	\$ 270.1	\$ 295.0							
102.8	102.6	97.4	99.2	97.3	110.1	122.1							
106.0	107.4	104.7	102.5	106.7	107.6	112.9							
38.8	38.8	43.7	53.3	55.4	56.2	61.5							
8.3	10.1	8.3	9.7	9.0	7.9	9.6							
23.6	24.9	27.6	30.2	33.0	35.0	38.0							
74.1	73.3	70.0	70.5	78.5	87.3	88.9							
77.8	66.3	84.5	78.8	78.8	85.4	102.2							
33.7	35.0	39.5	40.2	39.3	42.0	42.4							
102.5	99.1	106.9	123.1	122.6	131.8	143.2							
53.8	61.1	66.1	71.8	74.3	75.7	77.4							
<u>\$ 851.8</u>	<u>\$ 858.1</u>	<u>\$ 891.3</u>	<u>\$ 928.3</u>	<u>\$ 949.5</u>	<u>\$ 1,009.1</u>	<u>\$ 1,093.2</u>							
\$ 536.6	\$ 539.2	\$ 558.0	\$ 578.2	\$ 598.4	\$ 627.2	\$ 688.8							
17.3	18.4	21.6	22.7	20.7	22.4	22.7							
23.3	23.2	22.8	26.0	24.5	24.1	24.9							
220.8	216.2	222.8	229.6	231.6	259.6	279.4							
53.8	61.1	66.1	71.8	74.3	75.8	77.4							
<u>\$ 851.8</u>	<u>\$ 858.1</u>	<u>\$ 891.3</u>	<u>\$ 928.3</u>	<u>\$ 949.5</u>	<u>\$ 1,009.1</u>	<u>\$ 1,093.2</u>							

*Includes appropriation from The American Recovery and Reinvestment Act of 2009.

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

Debt Service Coverage Ratio

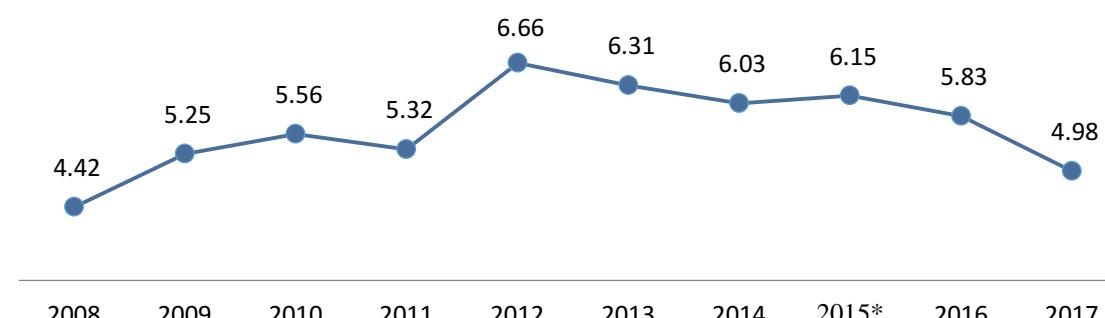
The debt service coverage ratio measures the ability to cover annual debt service obligations from current year operating cash flows. A ratio of at least 1.0 is desirable.



From 2011 through 2013, the University's debt service coverage ratio decreased due to new debt issuances. The ratio began rebounding as the University paid down portions of the outstanding amounts. The ratio remains sufficiently above the desired 1.0 in all years presented and was not affected by the implementation of GASB Statement No. 68.

Debt Service Burden

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



The University's debt service burden increased in fiscal year 2012 due to new debt issuances in 2011 and 2012. In 2013 and 2014, debt service remained relatively consistent, while operating expenses increased. The ratio increased slightly in fiscal year 2015, as debt service increased. Management strategically planned for debt service to increase as certain projects funded by the debt became revenue-generating. The ratio was not affected by the implementation of GASB Statement No. 68 and continues to improve as debt service decreases.

Primary Reserve Ratio

The Primary Reserve Ratio measures the financial strength of the institution by indicating how many years it could operate using expendable net position without relying on additional revenue. It is generally recommended that the ratio be at least 0.40.



Although the primary reserve ratio was significantly impacted by the implementation of GASB Statement No. 68, management believes the University has sufficient expendable net position to continue to operate.

*In fiscal year 2015, the University adopted GASB Statement No. 68, which reduced the total net position by more than \$558 million.

**These financial ratios are presented for purposes of additional analysis and are not a required part of the basic financial statements.

These ratios include only the University's financial statements and may not be comparable to other institutions.

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

Viability Ratio

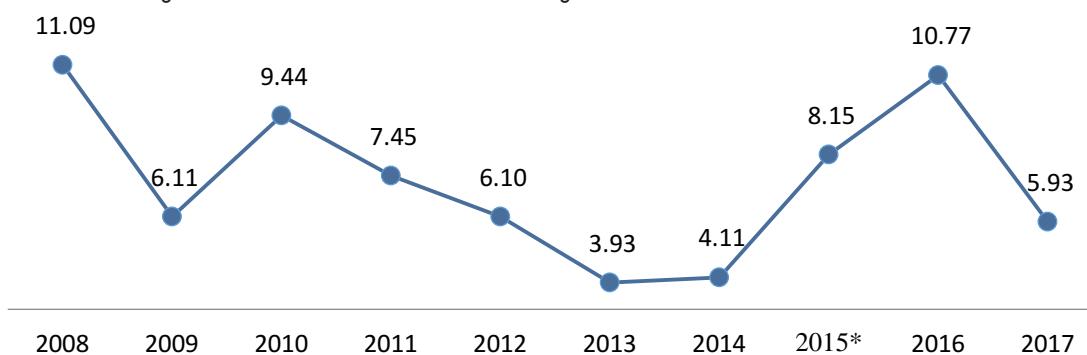
This ratio measures the availability of expendable net position to cover debt obligations should the institution be required to settle them immediately. A ratio of 1.0 indicates that the institution could pay off all debts.



New debt issuances in 2011 dropped the ratio below 1.0%. The ratio rebounded in 2012 through 2014, and then was significantly impacted by the implementation of GASB Statement No. 68. Management believes the University has sufficient expendable net position to cover debt obligations.

Return on Net Position Ratio

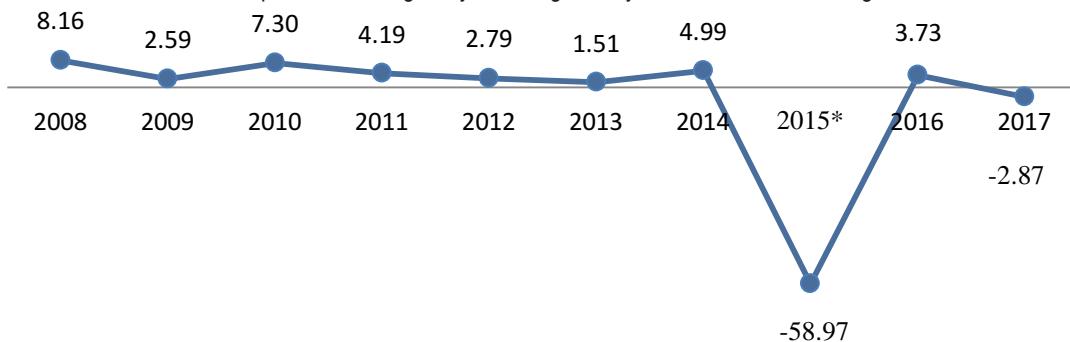
This ratio measures total economic return and can be used to indicate whether the institution is financially stronger or weaker over time. It is generally recommended that the goal be a 3.0% - 4.0% return over the long-term.



The University's return on net position ratio remains strong. The implementation of GASB Statement No. 68 lowered the beginning net position, which resulted in a higher ratio for 2015. In 2017, an increase in net pension obligations and the use of unrestricted net position for capital projects, such as the Mell Classroom Building and deferred maintenance needs, led to a 15.4% decrease in Unrestricted Net Position, which impacted this ratio; however, the ratio remains well above the recommended levels.

Net Income Ratio

This ratio measures the success of financial operations for a given year. It is generally recommended that the goal be 2.0% - 4.0% return over the long-term.



The University's net income ratio was significantly impacted by the implementation of GASB Statement No. 68 in fiscal year 2015. It rebounded to the recommended levels in 2016. Like the Return on Net Position ratio, this ratio was impacted by the decrease in Unrestricted Net Position. Management believes the University will continue to operate successfully within available resources.

*In fiscal year 2015, the University adopted GASB Statement No. 68, which reduced the total net position by more than \$558 million.

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

AUBURN UNIVERSITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2017 AND 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 143,791,209	\$ 66,904,416
Operating investments	181,866,216	68,807,582
Accounts receivable, net	60,915,472	44,610,933
Student accounts receivable, net	48,166,556	38,758,068
Loans receivable, net	3,223,098	3,098,475
Accrued interest receivable	2,283,313	2,142,114
Inventories	5,947,700	5,186,914
Prepaid expenses	43,402,450	38,933,289
Total current assets	<u>489,596,014</u>	<u>268,441,791</u>
Noncurrent assets		
Investments	860,774,752	1,041,185,914
Loans receivable, net	17,141,549	16,946,256
Investment in plant, net	1,695,125,478	1,609,592,167
Total noncurrent assets	<u>2,573,041,779</u>	<u>2,667,724,337</u>
Total assets	<u>3,062,637,793</u>	<u>2,936,166,128</u>
DEFERRED OUTFLOWS OF RESOURCES		
Loss on refunding of bonds	50,847,256	55,805,159
Pension	<u>141,570,011</u>	<u>114,158,400</u>
Total deferred outflows of resources	<u>192,417,267</u>	<u>169,963,559</u>
LIABILITIES		
Current liabilities		
Accounts payable	63,761,889	55,351,039
Accrued salaries and wages	4,800,082	4,342,829
Accrued compensated absences	20,543,222	19,552,096
Accrued interest payable	10,688,108	10,234,089
Other accrued liabilities	7,557,603	6,564,338
Student deposits	3,715,077	2,868,318
Deposits held in custody	22,899,292	22,875,943
Unearned revenues	220,866,776	197,364,536
Noncurrent liabilities-current portion	30,535,042	31,358,283
Total current liabilities	<u>385,367,091</u>	<u>350,511,471</u>
Noncurrent liabilities		
Bonds and notes payable	672,946,675	703,126,406
Lease obligation	10,007,133	231,563
Pension and OPEB	733,508,860	690,786,283
Other noncurrent liabilities	18,921,228	20,339,088
Total noncurrent liabilities	<u>1,435,383,896</u>	<u>1,414,483,340</u>
Total liabilities	<u>1,820,750,987</u>	<u>1,764,994,811</u>
DEFERRED INFLOWS OF RESOURCES		
Nonexchange transactions	383,344	281,953
Pension	<u>17,148,582</u>	<u>3,407,593</u>
Total deferred inflows of resources	<u>17,531,926</u>	<u>3,689,546</u>
NET POSITION		
Net investment in capital assets	1,023,902,946	923,568,302
Restricted		
Nonexpendable	28,918,454	28,723,093
Expendable:		
Scholarships, research, instruction, other	175,177,067	177,136,439
Loans	5,154,388	5,266,326
Capital projects	30,224,357	21,411,096
Unrestricted	153,394,935	181,340,074
Total net position	<u>\$ 1,416,772,147</u>	<u>\$ 1,337,445,330</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Tuition & fees, net of scholarship allowances of \$118,742,409 and \$108,877,663, respectively	\$ 451,678,570	\$ 414,838,476
Federal appropriations	15,282,047	13,234,511
Federal grants & contracts, net	72,394,812	69,649,076
State & local grants & contracts, net	18,410,311	19,002,186
Nongovernmental grants & contracts, net	14,987,923	15,544,192
Sales & services of educational departments	48,550,211	43,662,091
Auxiliary revenue, net of scholarship allowances of \$8,592,089 and \$8,324,782, respectively	157,472,983	174,285,849
Other operating revenues	<u>26,463,350</u>	<u>24,851,090</u>
Total operating revenues	<u>805,240,207</u>	<u>775,067,471</u>
OPERATING EXPENSES		
Compensation & benefits	688,796,153	627,243,338
Scholarships & fellowships	22,749,526	22,373,846
Utilities	24,915,549	24,147,541
Other supplies & services	279,365,253	259,577,884
Depreciation	<u>77,357,748</u>	<u>75,737,087</u>
Total operating expenses	<u>1,093,184,229</u>	<u>1,009,079,696</u>
Operating loss	<u>(287,944,022)</u>	<u>(234,012,225)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	254,675,996	248,061,501
Gifts	46,023,481	50,643,047
Grants	24,377,403	22,601,056
Net investment income	43,938,247	42,955,903
Interest expense on capital debt	<u>(23,457,640)</u>	<u>(23,232,182)</u>
Nonoperating revenues, net	<u>345,557,487</u>	<u>341,029,325</u>
Income before other changes in net position	57,613,465	107,017,100
OTHER CHANGES IN NET POSITION		
Capital gifts and grants	21,517,991	22,791,101
Additions to permanent endowments	<u>195,361</u>	<u>185,234</u>
Net increase in net position	<u>79,326,817</u>	<u>129,993,435</u>
Net position - beginning of year	<u>1,337,445,330</u>	<u>1,207,451,895</u>
Net position - end of year	<u>\$ 1,416,772,147</u>	<u>\$ 1,337,445,330</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition & fees	\$ 460,319,165	\$ 425,540,480
Federal appropriations	15,380,041	14,541,166
Grants & contracts	98,678,249	106,579,669
Sales & services of educational departments	46,544,661	42,489,354
Auxiliary enterprises	164,967,867	162,525,027
Other operating revenues	21,570,371	21,390,870
Payments to suppliers	(280,075,232)	(248,774,808)
Payments for utilities	(24,915,549)	(24,147,541)
Payments for employee compensation & benefits	(656,982,671)	(618,868,664)
Payments for scholarships & fellowships	(26,350,945)	(24,385,010)
Student loans issued	(3,271,552)	(3,302,474)
Student loans collected	2,975,121	2,971,144
Net cash used in operating activities	<u>(181,160,474)</u>	<u>(143,440,787)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	254,731,812	248,005,685
Gifts and grants for other than capital purposes	70,039,225	73,889,325
Direct and other loan receipts	199,323,512	183,134,124
Direct and other loan disbursements	(197,215,605)	(185,669,191)
Net cash provided by noncapital financing activities	<u>326,878,944</u>	<u>319,359,943</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from advanced refunding of debt, net of issuance cost	-	256,629,560
Capital gifts & grants received	18,676,991	14,733,304
Purchases of capital assets	(147,629,591)	(117,931,754)
Proceeds received from sale of capital assets	62,388	101,777
Principal paid on debt & capital leases	(24,976,541)	(25,403,719)
Interest paid on debt & capital leases	(26,114,498)	(29,591,987)
Payment to escrow on advanced refunding of debt	-	(252,309,282)
Net cash used in capital and related financing activities	<u>(179,981,251)</u>	<u>(153,772,101)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments and reinvestments	425,936,470	798,915,967
Investment income	24,982,838	23,413,089
Purchases of investments	(339,769,734)	(852,241,684)
Net cash provided by (used in) investing activities	<u>111,149,574</u>	<u>(29,912,628)</u>
Net increase (decrease) in cash and cash equivalents	76,886,793	(7,765,573)
Cash and cash equivalents - beginning of year	<u>66,904,416</u>	<u>74,669,989</u>
Cash and cash equivalents - end of year	<u>\$ 143,791,209</u>	<u>\$ 66,904,416</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss		
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	77,357,748	75,737,087
Reserve for recovery of loans receivable	(23,485)	296,694
Loss on sale of capital assets	2,857,169	3,564,684
Changes in assets and liabilities:		
Accounts receivable	(15,571,886)	150,069
Student accounts receivable	(9,408,488)	2,508,976
Inventories	(760,786)	(325,791)
Unearned revenues	23,502,240	(2,187,309)
Accounts payable	3,159,427	519,914
Prepaid expenses	(4,472,747)	(2,895,772)
Accrued salaries, wages and compensated absences	1,448,379	1,369,477
Student deposits and deposits held in custody	(1,426,440)	5,021,221
Loans receivable	(296,431)	(331,330)
Other accrued liabilities	993,265	1,115,077
Nonexchange transactions	101,391	75,794
Pension obligation	29,051,955	5,518,533
Other noncurrent liabilities	272,237	434,114
Net cash used in operating activities	<u>\$ (181,160,474)</u>	<u>\$ (143,440,787)</u>

SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION

Capital assets acquired with a liability at year-end	\$ 22,097,548	\$ 6,796,125
Gifts of capital assets	2,798,719	8,414,079
Capitalized interest	3,485,448	7,992,894

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016

	Auburn University Foundation		Auburn Alumni Association	
	2017	2016	2017	2016
ASSETS				
Cash and cash equivalents	\$ 3,950,818	\$ 1,732,518	\$ 136,816	\$ 100,124
Investments	531,374,575	477,810,737	3,795,608	4,155,659
Investment in Auburn University Foundation Securities Pool	-	-	9,100,435	8,539,734
Accrued interest receivable	133,047	104,918	20,350	23,363
Contributions receivable, net	110,453,942	105,552,139	197,764	237,185
Other assets	-	12,281	6	14
Investment in real estate	3,702,688	4,289,617	674,799	674,799
Cash surrender value of life insurance	6,631,482	5,921,585	-	-
Beneficial interest in outside trusts	4,517,688	4,700,111	-	-
Property and equipment, net	231,837	268,618	1,877,671	1,799,962
Prepaid items	-	-	50	2,862
Due from Auburn University	136,641	305,156	-	-
Due from Auburn University Foundation	-	-	45,402	1,409
Due from Auburn Alumni Association	247,164	421,059	-	-
Total assets	\$ 661,379,882	\$ 601,118,739	\$ 15,848,901	\$ 15,535,111
LIABILITIES				
Accounts payable and accrued liabilities	\$ 795,623	\$ 760,398	\$ 123,377	\$ 76,980
Annuities payable	9,814,639	9,169,984	-	-
Due to Auburn University	-	-	21,060	33,517
Due to Auburn University Foundation	-	-	247,952	421,221
Due to Auburn Alumni Association	9,145,539	8,541,039	-	-
Due to Tigers Unlimited Foundation	9,420,560	8,398,825	-	-
Retained life commitment	516,968	559,539	-	-
Deferred revenue	5,000	85,374	8,338,085	8,415,919
Total liabilities	29,698,329	27,515,159	8,730,474	8,947,637
NET ASSETS				
Unrestricted	26,474,960	23,674,148	7,118,427	6,587,474
Temporarily restricted	203,671,312	164,551,138	-	-
Permanently restricted	401,535,281	385,378,294	-	-
Total net assets	631,681,553	573,603,580	7,118,427	6,587,474
Total liabilities and net assets	\$ 661,379,882	\$ 601,118,739	\$ 15,848,901	\$ 15,535,111

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	Auburn University Foundation		Auburn Alumni Association	
	2017	2016	2017	2016
REVENUES AND OTHER SUPPORT				
Public support - contributions	\$ 66,951,403	\$ 75,675,200	\$ 1,817,890	\$ 1,769,980
Investment income	2,543,450	1,825,926	382,337	376,807
Other revenues	2,595,854	2,436,699	958,836	831,217
Total revenues	<u>72,090,707</u>	<u>79,937,825</u>	<u>3,159,063</u>	<u>2,978,004</u>
EXPENSES AND LOSSES				
Program services				
Contributions to and support for Auburn University	54,286,615	57,821,107	-	-
Other program services	5,179,175	4,403,015	1,400,289	1,206,380
Total program services	<u>59,465,790</u>	<u>62,224,122</u>	<u>1,400,289</u>	<u>1,206,380</u>
Support services				
General and administrative	1,622,738	1,944,984	1,556,176	1,541,451
Fund raising	3,519,418	3,388,517	192,600	178,784
Total support services	<u>5,142,156</u>	<u>5,333,501</u>	<u>1,748,776</u>	<u>1,720,235</u>
Total expenses	64,607,946	67,557,623	3,149,065	2,926,615
Unrealized gains on investments	(36,251,181)	(30,796,527)	(520,955)	(328,531)
Realized gains on investments	(12,727,282)	(3,131,170)	-	-
Change in valuation of split-interest agreements	(1,616,749)	(1,351,634)	-	-
Total expenses, (gains) and losses	<u>14,012,734</u>	<u>32,278,292</u>	<u>2,628,110</u>	<u>2,598,084</u>
*Change in net assets	58,077,973	47,659,533	530,953	379,920
Net assets - beginning of year	<u>573,603,580</u>	<u>525,944,047</u>	<u>6,587,474</u>	<u>6,207,554</u>
Net assets - end of year	<u>\$ 631,681,553</u>	<u>\$ 573,603,580</u>	<u>\$ 7,118,427</u>	<u>\$ 6,587,474</u>
 *Change in net assets				
Unrestricted	\$ 2,800,812	\$ 4,054,761	\$ 530,953	\$ 379,920
Temporarily restricted	39,120,174	20,406,199	-	-
Permanently restricted	16,156,987	23,198,573	-	-
Total change in net assets	<u>\$ 58,077,973</u>	<u>\$ 47,659,533</u>	<u>\$ 530,953</u>	<u>\$ 379,920</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	Tigers Unlimited Foundation	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 1,134,983	\$ 4,196,603
Investments	41,853,210	35,056,130
Investment in Auburn University Foundation Securities Pool	8,794,174	8,020,846
Due from Auburn University Foundation	10,120	147,325
Accrued interest receivable	143,949	79,008
Contributions receivable, net	17,206,467	11,295,674
Other receivables	493,837	447,976
Other assets	117,907	268,025
Property and equipment, net	26,875	18,782
Total assets	\$ 69,781,522	\$ 59,530,369
LIABILITIES		
Accounts payable and accrued liabilities	\$ 483,247	\$ 521,595
Contracts payable, net	-	2,135,610
Deferred revenue	2,239,377	2,144,240
Due to Auburn University	3,967,990	3,875,247
Due to Auburn University Foundation	-	250,000
Total liabilities	6,690,614	8,926,692
NET ASSETS		
Unrestricted	25,529,759	24,992,806
Temporarily restricted	30,239,679	18,443,211
Permanently restricted	7,321,470	7,167,660
Total net assets	63,090,908	50,603,677
Total liabilities and net assets	\$ 69,781,522	\$ 59,530,369

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	Tigers Unlimited Foundation	
	2017	2016
REVENUES AND OTHER SUPPORT		
Public support - contributions	\$ 47,621,526	\$ 40,006,691
Investment income	780,274	783,977
Other revenues	<u>7,173,526</u>	<u>6,736,641</u>
Total revenues	<u>55,575,326</u>	<u>47,527,309</u>
EXPENSES AND LOSSES		
Program services		
Contributions to and support for Auburn University	16,034,228	17,089,771
Other program services	<u>16,625,770</u>	<u>15,866,112</u>
Total program services	<u>32,659,998</u>	<u>32,955,883</u>
Support services		
General and administrative	1,836,391	1,699,522
Fund raising	<u>8,377,896</u>	<u>8,136,809</u>
Total support services	<u>10,214,287</u>	<u>9,836,331</u>
Total expenses	42,874,285	42,792,214
Unrealized (gains) losses on investments, net	(294,445)	368,394
Realized losses (gains) on investments, net	516	(38,348)
Loss on write-off of contribution receivable	<u>507,739</u>	<u>629,214</u>
Total expenses, (gains) and losses	<u>43,088,095</u>	<u>43,751,474</u>
*Change in net assets	12,487,231	3,775,835
Net assets - beginning of year	<u>50,603,677</u>	<u>46,827,842</u>
Net assets - end of year	<u>\$ 63,090,908</u>	<u>\$ 50,603,677</u>
*Change in net assets		
Unrestricted	\$ 536,953	\$ 1,378,801
Temporarily restricted	11,796,468	2,382,246
Permanently restricted	<u>153,810</u>	<u>14,788</u>
Total change in net assets	<u>\$ 12,487,231</u>	<u>\$ 3,775,835</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016

Auburn Research and Technology Foundation

2017 2016

ASSETS

Cash and cash equivalents	\$ 519,980	\$ 673,338
Deposits	28,489	35,285
Prepaid expenses and other assets	25,638	25,306
Accounts receivable	1,180,882	986,948
Contributions receivable, net	904,250	951,661
Property, plant, and equipment, net	<u>7,813,270</u>	<u>8,034,696</u>
Total assets	<u>\$ 10,472,509</u>	<u>\$ 10,707,234</u>

LIABILITIES

Accounts payable	\$ 101,582	\$ 103,434
Deferred revenue	270,273	259,025
Deposits held in custody	28,489	35,285
Interest payable	31,764	33,401
Capital lease obligation	72,050	-
Other payable to Auburn University	122,419	288,361
Note payable to Auburn University	<u>764,133</u>	<u>803,522</u>
Total liabilities	<u>1,390,710</u>	<u>1,523,028</u>

NET ASSETS

Unrestricted	8,177,508	8,232,504
Temporarily restricted	<u>904,291</u>	<u>951,702</u>
Total net assets	<u>9,081,799</u>	<u>9,184,206</u>
Total liabilities and net assets	<u>\$ 10,472,509</u>	<u>\$ 10,707,234</u>

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

Auburn Research and Technology Foundation
2017 2016

REVENUES AND OTHER SUPPORT

Rental income	\$ 1,087,312	\$ 1,066,034
Interest income	-	1,145
Other contracts	692,543	682,626
Royalty income	114	6,194
Contributions	<u>35,662</u>	<u>17,880</u>
Total revenues	<u>1,815,631</u>	<u>1,773,879</u>

EXPENSES AND LOSSES

Support services		
General and administrative	1,473,890	1,704,973
Amortization	87,265	64,055
Depreciation	320,811	316,424
Interest	<u>36,072</u>	<u>34,185</u>
Total support services	<u>1,918,038</u>	<u>2,119,637</u>
Total expenses	<u>1,918,038</u>	<u>2,119,637</u>
 *Change in net assets	 (102,407)	 (345,758)
 Net assets - beginning of year	 <u>9,184,206</u>	 <u>9,529,964</u>
 Net assets - end of year	 <u>\$ 9,081,799</u>	 <u>\$ 9,184,206</u>

*Change in net assets

Unrestricted	\$ (54,996)	\$ (281,471)
Temporarily restricted	<u>(47,411)</u>	<u>(64,287)</u>
Total change in net assets	<u>\$ (102,407)</u>	<u>\$ (345,758)</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) NATURE OF OPERATIONS

Auburn University (the University) is a land grant university originally chartered on February 1, 1856, as the East Alabama Male College. The Federal Land Grant Act of 1862, by which the University was established as a land grant university, donated public lands to several states and territories with the intent that the states would use these properties for the benefit of agriculture and the mechanical arts. Several pertinent laws dictate specific purposes for which the land may be used. In 1960, the Alabama State Legislature officially changed the name to Auburn University. The University has two campuses, Auburn and Montgomery, with a combined enrollment of 34,670 students for Fall semester 2017. The University serves the State of Alabama, the nation and international business communities through instruction of students and the advancement of research and outreach programs. By statutory laws of the State of Alabama, the University is governed by the Board of Trustees (the Board) who are appointed by the Governor of Alabama, a committee consisting of two trustees and two Alumni Association board members and approved by the Alabama State Senate.

The accompanying financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements include the following four divisions of the University:

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

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

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

Contributions intended for the University's benefit are primarily received through the University's component units and are deductible by donors as provided under Section 170 of the Internal Revenue Code, consistent with the provisions under Section 501(c)(3) and corresponding state law.

Component Units

The University adheres to GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*. This statement clarifies GASB Statement No. 14, *The Financial Reporting Entity*, which provides criteria for determining whether such organizations for which a government is not financially accountable should be reported as component units. In accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, the University has included statements for its discretely presented component units, Auburn

University Foundation, Auburn Alumni Association, Tigers Unlimited Foundation and Auburn Research and Technology Foundation in these financial statements, as exclusion of such organizations would render the entity's financial statements misleading or incomplete. Auburn University Real Estate Foundation, Inc. has been consolidated into Auburn University Foundation's financial statements, as an affiliated supporting organization. The University's component units' financial statements are presented following the University's statements. The component units are not GASB entities; therefore, their respective financial statements adhere to accounting principles under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

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

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

Tigers Unlimited Foundation (TUF) is an independent corporation that began operations on April 21, 2004. It was formed for the sole purpose of obtaining and disbursing funds for the University's Intercollegiate Athletics Department. TUF is exempt from federal income taxes under Section 501(a) as an organization described in Section 501(c)(3). Therefore, no provision has been made for income taxes in their respective financial statements. TUF's activities are governed by its own Board of Directors with transactions being maintained using a June 30 fiscal year end date.

Auburn Research and Technology Foundation (ARTF) is an independent corporation organized on August 24, 2004, to facilitate the acquisition, construction and equipping of a technology and research park on the University's campus. ARTF was organized under Internal Revenue Code 509(a)(3). ARTF is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. ARTF's activities are governed by its own Board of Directors.

Auburn University Real Estate Foundation, Inc. (AUREFI) is a qualified charitable organization created on July 5, 2005, solely for the purpose of receiving and administering real estate gifts. AUREFI was organized under Internal Revenue Code 170(b)(1)(A)(vi). This real estate holding corporation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. AUREFI is owned and controlled by AUF, and its financial statements are consolidated with AUF's financial statements. AUREFI's activities are governed by its own Board of Directors.

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

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

Financial statements for AUF and the Association may be obtained by writing to the applicable entity at 317 South College Street, Auburn University, Alabama 36849. Financial statements for TUF may be obtained by writing to Athletic Complex, 392 South Donahue Drive, Auburn University, Alabama 36849. Financial statements for ARTF may be obtained by writing to 570 Devall Drive, Suite 101, Auburn, Alabama 36832.

Financial Statement Presentation

For financial reporting purposes, the University adheres to the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis-for Public Colleges and Universities-an amendment of GASB Statement No. 34*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements establish standards for external financial reporting for public colleges and universities on an entity-wide perspective which require that resources be classified in three net position categories.

- **Net investment in capital assets:**

This category is defined as capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred inflows and outflows of resources attributable to the acquisition, construction, or improvement of those assets or related debt also would be included in this component of net position. Unexpended related debt proceeds and the related debt attributable to the unspent amount as well as deferred inflows of resources, if applicable, are not reported in net investment in capital assets, but in restricted or unrestricted net position.

- **Restricted net position:**

The restricted component of net position consists of Nonexpendable and Expendable elements.

Nonexpendable – Nonexpendable restricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources subject to externally imposed stipulations that they be maintained permanently by the University. This element includes the University's permanent endowment funds.

Expendable – Expendable restricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources whose use by the University are subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations, or that expire by the passage of time.

- **Unrestricted net position:**

This category is defined as the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not subject to externally imposed stipulations or included in the determination of net investment in capital assets. Unrestricted net position may be designated for specific purposes by action of management or the Board. Substantially all unrestricted net position is designated for academic and research programs and initiatives, capital projects, and auxiliary units.

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

During fiscal year 2016, the University adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement changes certain accounting and financial reporting matters related to fair value measurements and generally requires investments to be measured at fair value. It also requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques (see Note 4).

Basis of Accounting

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

The University records depreciation on capital assets, accrues or defers revenue associated with certain grants and contracts, accrues interest expense, accounts for certain scholarship allowances as a reduction of revenue, classifies federal refundable loans as a liability, and capitalizes and depreciates equipment.

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 assets and liabilities at the date of the financial statements and the

reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) SIGNIFICANT ACCOUNTING POLICIES OF AUBURN UNIVERSITY

Cash & Cash Equivalents

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

Investments

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

GASB Statement No. 72 defines fair value and establishes a framework for measuring fair value that includes a three-tiered hierarchy of valuation inputs, placing a priority on those which are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the University's own assumptions about how market participants would value an asset or liability based on the best information available. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. The three levels of inputs, of which the first two are considered observable and the last unobservable, are as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date
- Level 2 – Other significant observable inputs, either direct or indirect, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or market corroborated inputs
- Level 3 – Unobservable inputs

GASB Statement No. 72 allows for the use of Net Asset Value (NAV) as a practical expedient for valuation purposes. Investments that use NAV in determining fair value are disclosed separately from the valuation hierarchy (see Note 4).

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

The University uses NAV reported by the investment managers as a practical expedient to estimate fair value for certain investments. The NAV is applied to certain investments that do not have readily determinable fair values including business trust, common trust, hedge, private equity and real asset investment funds. As these investments are

not readily marketable the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed. While these investments may contain varying degrees of risk, the University's risk with respect to such transactions is limited to its capital balance in each investment and the amounts of any unfunded commitments.

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

Inventories

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

Capital Assets

Capital expenditures of land, buildings and equipment are carried at cost at date of acquisition. Gifts of capital assets are recorded at acquisition value at the date of donation. Depreciation is computed on a straight line basis over the estimated useful lives of buildings and building improvements (40 years), land improvements and infrastructure (10 – 40 years), library collection and software costs (10 years) and inventoried equipment (5 – 18 years). Land and construction in progress are not depreciated. The threshold for capitalizing buildings and infrastructure is \$25,000. Expenditures for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized if they meet the \$25,000 threshold. Construction in progress expense is capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on bond proceeds. Capitalized interest of \$3.5 million and \$8.0 million was recorded during fiscal years 2017 and 2016, respectively. Equipment is capitalized if the cost exceeds \$5,000 and has a useful life of more than one year. All buildings are insured through the State of Alabama Property Insurance Fund.

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

Livestock is capitalized and valued at cost or acquisition value at the date of purchase or gift, respectively, but not depreciated. Annually, livestock inventories are adjusted to actual livestock counts, valued in various manners depending on the type and purpose of the livestock.

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance*

Recoveries, the University continues to evaluate prominent events or changes in circumstance to determine whether an impairment loss should be recorded and whether any insurance recoveries should be offset against the impairment loss. The University did not record any losses related to asset impairment during fiscal year 2017 or 2016.

Unearned Revenues

Unearned revenues include funds received in advance of an event, such as tuition and fees and advance ticket sales for athletic events. Net student tuition and fee revenues and housing revenues for the fall semester are recognized in the fiscal year in which the related revenues are earned. Ticket sale revenues for athletic events are recognized as the related games are played. Unearned revenues also consist of amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreements. Amounts received from grant sponsors for which the only unmet term of the agreement is timing (i.e. funds may not be spent until a certain date) are classified as deferred inflows of resources in accordance with GASB Statement No. 65. All other unearned revenue is classified as a current liability (see Note 13).

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 student tuition and fees, net of scholarship discounts and allowances, sales and services of auxiliary enterprises, net of scholarship discounts and allowances, most federal, state, local, private grants and contracts and federal appropriations, and interest on institutional student loans.
- **Nonoperating Revenues:** Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues. In accordance with GASB Statement No. 35, certain significant revenues on which the University relies to support its operational mission are required to be recorded as nonoperating revenues. These revenues include state appropriations, private gifts, federal Pell grants and investment income, including realized and unrealized gains and losses on investments.

Student Tuition, Fees and Scholarship Discounts and Allowances

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

Auxiliary Revenues

Sales and services of auxiliary enterprises primarily consist of revenues generated by athletics, bookstore, housing, dining, printing and telecommunications, which are substantially self-supporting activities

that primarily provide services to students, faculty, administrative and professional employees and staff.

Grants and Contracts Revenues

The University receives sponsored funding from governmental and private sources. Revenues from these projects are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, based on the terms of the individual grant or contract. Pell grants are recorded as nonoperating revenues in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Compensated Absences

The University reports employees' accrued annual leave and sick leave at varying rates depending upon employee classification and length of service, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rates of pay up to a designated maximum number of days. GASB Statement No. 35 requires the amount of compensated absences that are due within one year of the fiscal year end to be classified as a current liability. Annually, University employees utilize vacation and sick leave in an amount greater than the compensated absence liability at September 30; therefore, the entire accrual is considered to be a current liability.

Donor Pledges

The University normally does not receive gift pledges. Pledged revenue representing unconditional promises to give is normally received by AUF or TUF and later disbursed in accordance with the donors' wishes for the benefit of the University. Pledges are recorded at their discounted amounts.

(3) CASH AND CASH EQUIVALENTS

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

Effective January 1, 2001, any depository of University funds must provide annual evidence of its continuing designation as a qualified public depository under the Security for Alabama Fund Enhancement Act (SAFE). The enactment of the SAFE program changed the way all Alabama public deposits are collateralized. In the past, the bank pledged collateral directly to each individual public entity. Under the mandatory SAFE program, each qualified public depository (QPD) is required to hold collateral for all its public deposits on a pooled basis in a custody account established for the State Treasurer as SAFE administrator. In the unlikely event a public entity should suffer a loss due to QPD insolvency or default, a claim form would be filed with the State Treasurer who would use the SAFE pool collateral or other means to reimburse the loss. As a result, the University believes its custodial risk related to cash is remote. In addition, the standard Federal Deposit Insurance Corporation (FDIC) is \$250,000 per depositor, per insured bank, for each account ownership category.

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

(4) INVESTMENTS

The Board is authorized to invest all available cash and is responsible for the management of the University's investments. The endowment funds and the cash pool assets are invested in accordance with policies established by the Board. The Board has engaged a custodian and professional investment managers to manage the investment of the endowment funds while maintaining centralized management of the cash pool. The University monitors these investments through an on-going review of investment strategy, performance, valuation, risk management practices and operational activities.

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

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

Diversification through asset allocation is utilized as a fundamental risk strategy for endowed funds. These strategic allocations represent a blend of assets best suited, over the long term, to achieve maximum returns without violating the risk parameters established by the Board. The Endowment Investment Policy, approved April 17, 2015, authorizes investment of the endowment portfolio to include the following: cash and cash equivalents; global fixed income; global equity securities; global private capital; absolute return/hedge funds; and real assets, collectively referred to as the endowment pool.

The Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted by the Legislature of the State of Alabama and signed into law effective January 1, 2009. UPMIFA prescribes guidelines for expenditure of donor-restricted endowment funds (in the absence of overriding, explicit donor stipulations). UPMIFA focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. UPMIFA includes a robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund.

The earnings distributions are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by UPMIFA. In order to conform to the standards for prudent fiduciary management of investments, the Board has adopted a spending plan whose long term objective is to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations. In the policy approved on April 17, 2015, spending for a given year equals 80% of spending in the previous year, adjusted for inflation (Consumer Price Index (CPI) within a range of 0.0% and 6.0%), plus 20% of the long-term spending rate (4.0%) applied to the twelve month rolling average of the market values. The net appreciation on endowments and funds functioning as endowments available for authorization for expenditure by the Board amounted to \$71,630,402 and \$53,804,356 at September 30, 2017 and 2016, respectively, and are recorded as restricted expendable net position.

Investment Risks

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

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

The following segmented time distribution tables provide information as of September 30, 2017 and 2016, covering the fair value of investments by investment type and related maturity:

Auburn University Investments Investment Maturities at Fair Value (in Years) September 30, 2017						
Type of Investments	< 1 year	1-5 years	6-10 years	> 10 years	Total Fair Value	
Fixed Maturity						
Certificates of Deposit	\$ -	\$ 512,997	\$ -	\$ -	\$ 512,997	
U.S. Treasury Obligations	50,750,001	24,526,552	-	-	75,276,553	
U.S. Agency Securities	129,145,528	508,925,277	56,366,658	-	694,437,463	
Mortgage Backed Securities	-	-	6,503,646	-	6,503,646	
Municipals	400,428	997,690	-	-	1,398,118	
	\$ 180,295,957	\$ 534,962,516	\$ 62,870,304	\$ -	\$ 778,128,777	
Global Equities					1,843,960	
Alternative Investments						
Hedge Funds					79,929,995	
Private Capital					19,519,266	
Real Assets					21,240,497	
Real Estate					740,750	
Mutual Funds, Common Trust Funds and Business Trust Funds					126,438,883	
Funds Held in Trust					3,528,293	
Cash Surrender Value-Life Insurance					757,597	
Money Market, Cash and Pooled Investments					137,812,950	
Total investments					1,169,940,968	
Less cash equivalents held in cash pool					(127,300,000)	
Operating and noncurrent investments					\$ 1,042,640,968	

Auburn University Investments Investment Maturities at Fair Value (in Years) September 30, 2016						
Type of Investments	< 1 year	1-5 years	6-10 years	> 10 years	Total Fair Value	
Fixed Maturity						
Certificates of Deposit	\$ -	\$ 550,371	\$ -	\$ -	\$ 550,371	
U.S. Treasury Obligations	23,027,753	81,252,250	6,120,750	-	110,400,753	
U.S. Agency Securities	42,437,704	679,697,053	35,706,838	-	757,841,595	
Municipals	-	405,964	1,031,130	-	1,437,094	
	\$ 65,465,457	\$ 761,905,638	\$ 42,858,718	\$ -	\$ 870,229,813	
Global Equities					1,285,208	
Alternative Investments						
Hedge Funds					72,665,308	
Private Capital					19,612,336	
Real Assets					22,789,047	
Real Estate					740,750	
Mutual Funds, Common Trust Funds and Business Trust Funds					113,944,549	
Funds Held in Trust					3,472,723	
Cash Surrender Value-Life Insurance					701,318	
Money Market, Cash and Pooled Investments					59,152,444	
Total investments					1,164,593,496	
Less cash equivalents held in cash pool					(54,600,000)	
Operating and noncurrent investments					\$ 1,109,993,496	

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

The following table provides information as of September 30, 2017 and 2016, concerning credit quality risk:

Auburn University Investments Ratings of Fixed Maturities					
Moody's Rating	Fair Value	Fair Value as a % of Total Fixed Maturity		Fair value as a % of Total Fixed Maturity	
		2017	Fair Value	2016	Fair Value
US Treasury	\$ 78,238,720		10.05%	\$ 110,400,753	12.68%
Aaa	697,978,942		89.70%	757,841,595	87.09%
Aa	1,398,118		0.18%	1,437,094	0.17%
Not rated*	512,997		0.07%	550,371	0.06%
	\$ 778,128,777		100.00%	\$ 870,229,813	100.00%

*Certificates of deposit are included in the "Not rated" category.

- Concentration of Credit Risk** – GASB Statement No. 40 defines concentration of credit risk as “the risk of loss attributed to the magnitude of a government’s investment in a single issuer.” The University Non-Endowment Cash Pool Investment Policy does not limit the aggregate amounts that can be invested in U.S. Treasury securities with the explicit guarantee of the U.S. Government or U.S. Agency securities that carry the implicit guarantee of the U.S. Government. As of September 30, 2017 and 2016, the University Cash Pool and the University Endowment Pool were in compliance with their respective policies.

The University Endowment Investment Policy provides for diversification by identifying asset allocation classes and ranges to provide reasonable assurance that no single security, or class of securities, will have a disproportionate impact on the performance of the total Endowment Pool.

- Foreign Currency Risk** – GASB Statement No. 40 defines foreign currency risk as “the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.” No formal University policy has been adopted addressing foreign currency risk. As of September 30, 2017 and 2016, the University held no investments in foreign currency.

Securities Lending Program

As of September 30, 2017 and 2016, there was no participation in any securities lending program.

Interest Sensitive Securities

As of September 30, 2017, the University held investments totaling \$6,503,646 in mortgage-backed securities. As of September 30, 2016, the University held no investments in mortgage-backed securities. As of September 30, 2017 and 2016, the University held no investments in asset-backed securities. The mortgage-backed investments have

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

embedded prepayment options that are expected to fluctuate with interest rate changes. Generally, this variance presents itself in variable repayment amounts, uncertain early or extended payments.

Certain fixed maturity investments have call provisions that could result in shorter maturity periods. However, it is the intent that the University’s Cash Pool fixed maturity investments be held to maturity; therefore, the fixed maturity investments are classified in the above table as if they were held to maturity. As of September 30, 2017 and 2016, the University Cash Pool held \$27,735,714 and \$14,646,691, representing 2.7% and 1.3%, respectively, of total investments in continuously callable fixed maturity investments. The University investment policies do not restrict the purchase of mortgage-backed securities, asset-backed securities, or bonds with call provisions.

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

On September 30, 2017 and 2016, the University was not a party in any swap or other derivative contracts.

The table entitled, “Auburn University Investments, Investment Maturities at Fair Value (in Years)”, includes funds held for pending capital expenditures at September 30, 2017, as follows: \$100,000, 2011 General

Fee Bond proceeds, and \$19,842,139, Deferred Maintenance Building Fund. The General Liability Account holds investments of \$5,759,909.

At September 30, 2016, funds held for pending capital expenditures were as follows: \$100,000, 2011 General Fee Bond proceeds, and \$18,759,871, Deferred Maintenance Building Fund. The General Liability Account held investments of \$5,759,695.

The University carries its limited partnership investments at estimated fair value as determined by the fund manager or general partner. The University records its initial investment and subsequent contributions at cost and adjusts for its share of income/appreciation, losses/depreciation, and distributions received from the investments. The University believes that the carrying amount of these investments using NAV is a reasonable estimate of fair value as of September 30, 2017 and 2016. Because these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore may differ from the value that would have been used had a ready market for the investments existed and such difference could be material. These investments are made in accordance with the University's investment policy that approves the allocation of

funds to various asset classes (i.e., global equity, private capital, hedge funds, real assets, global fixed income, and cash) in order to ensure the proper level of diversification within the endowment pool. Investments in limited partnerships (private equity, hedge funds, and real assets) and the corporation are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated by the general partner of each limited partnership and corporation using various valuation techniques.

GASB Statement No. 72 establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. At September 30, 2017 and 2016, the fair value of the University's investments based on the inputs used to value them is summarized in the tables below. Note that the Money Market, Cash Surrender Value of Life Insurance, and Investments measured using the NAV are presented in these tables to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying Statements of Net Position.

Auburn University Investments Investments at Fair Value September 30, 2017					
Type of Investments	Total Fair Value	Level 1	Level 2	Level 3	
Cash and Pooled Investments	\$ 10,176,942	\$ 10,176,942	\$ -	\$ -	
Fixed Maturity	778,128,777	512,998	777,615,779		
Global Equities	1,843,960	1,843,960	-		
Real Estate	740,750	-	-		740,750
Mutual Funds	61,323,409	61,323,409	-		
Total investments in the fair value hierarchy	\$ 852,213,838	\$ 73,857,309	\$ 777,615,779	\$ 740,750	
Investments measured at NAV	189,333,524				
Money Market	336,009				
Cash Surrender Value-Life Insurance	757,597				
Operating and noncurrent investments	\$ 1,042,640,968				

Auburn University Investments Investments at Fair Value September 30, 2016					
Type of Investments	Total Fair Value	Level 1	Level 2	Level 3	
Cash and Pooled Investments	\$ 4,123,173	\$ 4,123,173	\$ -	\$ -	
Fixed Maturity	870,229,813	-	870,229,813		
Global Equities	1,285,208	1,285,208	-		
Real Estate	740,750	-	-		740,750
Mutual Funds	58,162,263	58,162,263	-		
Total investments in the fair value hierarchy	\$ 934,541,207	\$ 63,570,644	\$ 870,229,813	\$ 740,750	
Investments measured at NAV	174,321,700				
Money Market	429,271				
Cash Surrender Value-Life Insurance	701,318				
Operating and noncurrent investments	\$ 1,109,993,496				

Investments categorized as Level 1 are valued using prices quoted in active markets for those companies. Fixed income securities categorized as Level 2 represent investments valued using a matrix pricing technique from a pricing service, which values debt securities based on their

relationship to a benchmark and the relative spread to that benchmark. Real estate categorized as Level 3 is valued from periodic valuations prepared by independent appraisers or property tax valuation.

Liquidity Disclosures for Investments Measured Using Net Asset Value as of September 30, 2017

Description	Fair Value	Unfunded Commitments	Remaining Life	Redemption Frequency (If Currently Eligible)	Redemption Notice Period	Remaining Restriction
Investments Measured Using Net Asset Value:						
Funds Held in Trust						
Global Bond Fund	\$ 3,528,293	\$ 11,920,104	-	N/A	Daily	3 business days
Business Trust Funds and Common Trust Funds	53,195,369		-	N/A	Semi-Monthly	5 business days
Global Equity Hedge Fund	28,831,912		-	N/A	Monthly	6-10 business days
Global Long/Short Hedge Funds	29,080,614		-	N/A	Quarterly	60 days
Absolute Return Hedge Funds	22,017,469		-	N/A	Quarterly, Annually	30 - 60 days
Private Equity Funds	19,519,266	15,580,475	1 mo. -14 yrs.	Illiquid	Quarterly, Annually	3 months
Real Asset Investment Funds	21,240,497	14,099,959	1-10 yrs.	Monthly or Illiquid	45 - 90 days	6 - 9 months
Total	<u>\$ 189,333,524</u>	<u>\$ 29,680,434</u>			15 days, Illiquid	N/A
Investments Measured Using Level 3 inputs:						
Real Estate	\$ 740,750		-	N/A	Illiquid	Illiquid

Liquidity Disclosures for Investments Measured Using Net Asset Value as of September 30, 2016

Description	Fair Value	Unfunded Commitments	Remaining Life	Redemption Frequency (If Currently Eligible)	Redemption Notice Period	Remaining Restriction
Investments Measured Using Net Asset Value:						
Funds Held in Trust						
Global Bond Fund	\$ 3,472,723	\$ 11,427,098	-	N/A	Daily	3 business days
Business Trust Funds and Common Trust Funds	11,427,098		-	N/A	Monthly	10 business days
Global Equity Hedge Fund	44,355,188		-	N/A	6-10 business days	N/A
Global Long/Short Hedge Funds	24,234,110		-	N/A	Quarterly	60 days
Absolute Return Hedge Funds	23,979,917		-	N/A	Quarterly, Annually	45 - 60 days
Private Equity Funds	24,451,281		-	N/A	45 - 90 days	4 months
Real Asset Investment Funds	19,612,336	14,099,663	1 mo.-14yrs.	Illiquid	5-9 months	
Total	<u>\$ 22,789,047</u>	<u>\$ 9,679,744</u>	1-10 yrs.	Monthly or Illiquid	15 days, Illiquid	N/A
<u>\$ 174,321,700</u>	<u>\$ 23,779,407</u>					
Investments Measured Using Level 3 inputs:						
Real Estate	\$ 740,750		-	N/A	Illiquid	Illiquid

Funds held in trust represent a foundation with the University as the named beneficiary (see Note 5).

The global bond fund includes investments in a globally diversified portfolio of primarily debt or debt-like securities. The fund invests in government debt securities.

The business trust funds and common trust funds include investments in international and emerging markets equity securities, investment grade credit securities, mortgage-backed securities and government securities. Exposure by market is approximately: 6% domestic, 62% developed international, and 32% emerging markets.

The global equity hedge fund includes investments in long/short equities. Long exposure ranges from 140-170%, while short exposure ranges from 40-70%. Management of the hedge fund's stated process is a risk-controlled, industry-neutral, analyst-driven approach to large cap equity investing.

Global long/short hedge funds include investments primarily in U.S. equities, with some international exposure. These funds are invested in various sectors including consumer, healthcare, technology, media, telecom, financials, industrials, and materials.

Absolute return hedge funds include investments in multiple strategies to diversify risk and reduce volatility, including but not limited to event-driven, arbitrage, distressed debt, and special situations.

Private equity funds predominantly consist of limited partnership funds that invest in private equity, venture capital, distressed opportunities, natural resources and real estate.

Real asset investment funds include limited partnership and corporate investments in commercial and residential real estate and land, natural resources, and commodities.

Under the terms of these private equity and real asset investment agreements, the University is obligated to remit additional funding periodically as capital calls are exercised. Depending on market conditions, the ability or inability of a fund to execute its strategy and other factors, the fund may request an extension of terms beyond its

originally anticipated existence or may liquidate the fund prematurely. The University cannot anticipate such changes, because they are based on unforeseen events. These investments cannot be redeemed at NAV; however, periodic distributions may be made to the University at the managers' discretion as underlying portfolio assets are liquidated.

Real estate includes land in Birmingham, Alabama and Washington, D.C. The land in Birmingham is an undeveloped lot that is listed for sale. The land in Washington, D.C. is subject to a building lease ending in 2145.

AUF holds endowments and distributes earnings from those endowments to the University. AUF investments at September 30, 2017 and 2016, include the following:

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Cash and pooled investments	\$ 21,650,773	\$ 21,650,773	\$ 13,781,330	\$ 13,781,330
Government bonds, notes and other securities	36,252,773	31,978,523	40,288,878	35,828,584
Corporate stocks	1,362,633	121,020	1,090,708	121,014
Mutual funds, business trust funds, common trust funds and family limited partnerships	241,342,317	185,288,523	211,917,785	181,992,266
Hedge funds	154,562,622	97,215,455	137,676,459	93,305,905
Private equity funds	34,210,462	28,916,578	33,339,398	28,225,454
Real asset investment funds	41,992,995	39,513,558	39,716,179	35,421,296
Total investments	<u>\$ 531,374,575</u>	<u>\$ 404,684,430</u>	<u>\$ 477,810,737</u>	<u>\$ 388,675,849</u>

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

As of September 30, 2017, AUF had entered into subscription agreements with one corporate and fifty-four limited partnership investments. The aggregate amount of capital committed to these investments is \$258,962,200 of which capital contributions of \$207,983,626 have been invested. A cumulative net unrealized gain of \$65,134,469 has been recorded on these investments. Of these fifty-four commitments, fifteen subscriptions relate to hedge funds, twenty-three subscriptions relate to private equity funds, and sixteen subscriptions relate to real estate asset funds. The hedge funds are primarily invested in long/short equities, arbitrage, distressed debt, special situations and other event-driven strategies through various investment managers, investment partnerships and offshore funds. The private equity fund commitments are for investment in private equity, venture capital, distressed opportunities, natural resources and real estate. The real assets funds include limited partnership and corporate investments in commercial and residential real estate, natural resources, and commodities.

Investment income, realized gains and losses, unrealized gains and losses, and changes in values of split-interest agreements are

reported on AUF's Consolidated Statements of Activities and Changes in Net Assets net of estimated investment expenses of \$5,265,000 and \$4,765,000 for the fiscal years ended September 30, 2017 and 2016, respectively.

AUF carries its investments in limited partnership interests, including an ownership interest in a family limited partnership and a corporation, at estimated fair value as determined by the fund manager or general partner. AUF records its initial investment and subsequent contributions at cost and adjusts for its share of income/appreciation, losses/depreciation, and distributions received from the investments. AUF believes that the carrying amount of these investments is a reasonable estimate of fair value as of September 30, 2017 and 2016. Because these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore may differ from the value that would have been used had a ready market for the investments existed and such difference could be material. These investments are made in accordance with AUF's investment policy that approves the allocation of funds to various asset classes (i.e., global equity, private capital, hedge funds, real assets, global fixed income, and cash) in order to ensure the proper level of diversification within the endowment pool. Investments in limited partnerships (private equity, hedge funds, and real assets) and the corporation are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated by the general partner of each limited partnership and corporation using various valuation techniques. The fair values of these investments were \$353,664,695 and \$315,391,482 as of September 30, 2017 and 2016, respectively.

(5) FUNDS HELD IN TRUST

In addition to permanently restricted endowments carried on the University's financial statements, the University is the beneficiary of income earned on a number of AUF endowments. The cost of these funds was \$368,137,343 and \$344,957,463 and the market value was \$490,587,557 and \$430,823,694 at September 30, 2017 and 2016, respectively. The portion of endowment income received by the University from these funds was \$14,057,620 and \$12,838,007 for the fiscal years ended September 30, 2017 and 2016, respectively.

Endowment earnings are distributed annually in March, based on the AUF endowment distribution spending rate. These amounts are reported as investment income on the Statements of Revenues, Expenses and Changes in Net Position.

(6) ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for doubtful accounts at September 30, 2017 and 2016, are summarized as follows:

	2017	2016
NONSTUDENT ACCOUNTS RECEIVABLE		
Federal, state & local government, and other restricted expendable	\$ 33,318,628	\$ 27,009,932
Less allowance for doubtful accounts	(2,179,148)	(1,803,950)
Pledged receivables	654,688	195,825
General	23,761,023	18,588,712
Less allowance for doubtful accounts	(13,038,378)	(12,761,338)
Auxiliary	16,850,824	11,876,199
Capital gifts and grants	<u>1,547,835</u>	<u>1,505,553</u>
Total nonstudent accounts receivable	<u>\$ 60,915,472</u>	<u>\$ 44,610,933</u>

	2017	2016
STUDENT ACCOUNTS RECEIVABLE		
Unrestricted general	\$ 46,506,010	\$ 38,270,306
Less allowance for doubtful accounts	(1,201,742)	(1,910,412)
Unrestricted auxiliary	2,916,534	2,439,340
Less allowance for doubtful accounts	(54,246)	(41,166)
Total student accounts receivable	<u>\$ 48,166,556</u>	<u>\$ 38,758,068</u>

In addition, the University has been named as a beneficiary of a foundation with investments having a cost of \$2,423,165 and \$2,493,689 and a market value of \$3,528,293 and \$3,472,723 at September 30, 2017 and 2016, 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, 2017 and 2016. The income received from the two trusts was \$61,243 and \$77,908 for the fiscal years ended September 30, 2017 and 2016, respectively.



(7) CAPITAL ASSETS

Capital assets at September 30, 2017 and 2016, are summarized as follows (dollars in thousands):

	September 30, 2016	Additions/Transfers	Deletions/Transfers	September 30, 2017
Capital assets not being depreciated				
Land	\$ 31,879	\$ 723	\$ (1,531)	\$ 31,071
Art & collectibles	11,129	438	-	11,567
Construction in progress	59,729	159,828	(153,209)	66,348
Livestock	2,737	1,073	(1,418)	2,392
Other non-current assets	-	6,340	-	6,340
Total capital assets not being depreciated	105,474	168,402	(156,158)	117,718
Capital assets being depreciated				
Land improvements	122,039	5,968	-	128,007
Buildings	1,704,363	107,277	(1,182)	1,810,458
Equipment	234,912	17,655	(10,850)	241,717
Infrastructure	216,538	12,980	(185)	229,333
Library books	190,439	6,767	(36)	197,170
Software system implementation	15,178	531	-	15,709
Total capital assets being depreciated	2,483,469	151,178	(12,253)	2,622,394
Less accumulated depreciation for				
Land improvements	58,729	6,556	-	65,285
Buildings	508,156	38,582	(1,054)	545,684
Equipment	156,179	16,700	(10,510)	162,369
Infrastructure	86,587	8,204	(122)	94,669
Library books	156,931	6,655	(36)	163,550
Software system implementation	12,769	661	-	13,430
Total accumulated depreciation	979,351	77,358	(11,722)	1,044,987
Total capital assets being depreciated, net	1,504,118	73,820	(531)	1,577,407
Capital assets, net	\$ 1,609,592	\$ 242,222	\$ (156,689)	\$ 1,695,125

Capital assets at September 30, 2016 and 2015, are summarized as follows (dollars in thousands):

	September 30, 2015	Additions/Transfers	Deletions/Transfers	September 30, 2016
Capital assets not being depreciated				
Land	\$ 19,460	\$ 12,455	\$ (36)	\$ 31,879
Art & collectibles	10,663	469	(3)	11,129
Construction in progress	32,990	96,906	(70,167)	59,729
Livestock	2,595	1,872	(1,730)	2,737
Total assets not being depreciated	65,708	111,702	(71,936)	105,474
Capital assets being depreciated				
Land improvements	112,372	9,667	-	122,039
Buildings	1,669,146	36,064	(847)	1,704,363
Equipment	222,056	26,711	(13,855)	234,912
Infrastructure	210,758	6,475	(695)	216,538
Library books	182,270	8,661	(492)	190,439
Software system implementation	14,796	382	-	15,178
Total capital assets being depreciated	2,411,398	87,960	(15,889)	2,483,469
Less accumulated depreciation for				
Land improvements	52,010	6,719	-	58,729
Buildings	471,555	37,410	(809)	508,156
Equipment	152,451	15,725	(11,997)	156,179
Infrastructure	78,773	7,814	-	86,587
Library books	150,232	7,191	(492)	156,931
Software system implementation	11,891	878	-	12,769
Total accumulated depreciation	916,912	75,737	(13,298)	979,351
Total capital assets being depreciated, net	1,494,486	12,223	(2,591)	1,504,118
Capital assets, net	\$ 1,560,194	\$ 123,925	\$ (74,527)	\$ 1,609,592

During the fiscal years ended September 30, 2017 and 2016, the University did not receive any construction funding from the State of Alabama.

(8) DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources are a consumption of net assets that is applicable to a future reporting period. In 2010, 2012, 2014, 2015, and 2016, the University defeased certain outstanding bonds. These refundings resulted in a loss (the difference between the acquisition price of the new debt and the net carrying amount of the old debt).

In accordance with GASB Statements No. 63 and No. 65, this loss is

presented as a deferred outflow of resources that is amortized over the life of the old or new bonds, whichever is shorter. The University is amortizing each of the deferred losses presented below over the life of the defeased bonds. Additionally, in accordance with GASB Statement No. 68, which the University adopted in fiscal year 2015, the University's proportionate share of the net difference between projected and actual earnings on pension plan investments is presented as a deferred outflow of resources. The components of deferred outflows of resources are summarized below.

	September 30, 2017	September 30, 2016
Loss on refunding		
2009 General Fee refunding	\$ 1,545,373	\$ 1,908,740
2012A General Fee refunding	3,858,867	4,313,003
2012B General Fee refunding	208,318	247,426
2014A General Fee refunding	3,763,416	4,227,112
2015A General Fee refunding	8,620,085	9,449,190
2015B General Fee refunding	3,531,680	3,862,788
2016A General Fee refunding	29,319,517	31,796,900
Pension	141,570,011	114,158,400
Total deferred outflows of resources	\$ 192,417,267	\$ 169,963,559

(9) LONG-TERM DEBT

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

Bonds and notes payable	Balance at September 30, 2016	Principal New Debt	Repayment	Balance at September 30, 2017
1978 Auburn University at Montgomery Dormitory Revenue Bonds, \$3,279,000 face value, 3.0%, due annually through 2019, a reserve of \$146,782 and a \$138,708 contingency fund.	\$ 410,000	\$ -	\$ (135,000)	\$ 275,000
2001A Athletic Revenue Bonds, \$24,412,607 face value, 2.125% to 5.49%, due annually through 2021.	7,804,362	-	(1,758,501)	6,045,861
2007A General Fee Revenue Bonds, \$162,530,000 face value, 3.6% to 5.0%, due annually through 2017.	4,080,000	-	(4,080,000)	-
2008 General Fee Revenue Bonds, \$92,500,000 face value, 3.0% to 5.0%, due annually through 2019.	6,760,000	-	(2,170,000)	4,590,000
2009 General Fee Revenue Bonds, \$79,500,000 face value, 2.0% to 5.0%, due annually through 2026.	61,490,000	-	(4,550,000)	56,940,000
2011A General Fee Revenue Bonds, \$226,035,000 face value, 4.0% to 5.0%, due annually through 2025.	45,440,000	-	(4,685,000)	40,755,000
2012A General Fee Revenue Bonds, \$120,135,000 face value, 2.0% to 5.0%, due annually through 2042.	97,650,000	-	(3,160,000)	94,490,000
2012B General Fee Revenue Bonds, \$3,505,000 face value, 2.9%, due annually through 2024.	3,260,000	-	(65,000)	3,195,000
2014A General Fee Revenue Bonds, \$66,415,000 face value, 2.0% to 5.0%, due annually through 2035.	65,735,000	-	(130,000)	65,605,000
2015A General Fee Revenue Bonds, \$116,190,000 face value, 2.0% to 5.0%, due annually through 2038.	115,990,000	-	(1,495,000)	114,495,000
2015B General Fee Revenue Bonds, \$38,700,000 face value, 2.0% to 5.0%, due annually through 2035.	38,580,000	-	(170,000)	38,410,000
2016A General Fee Revenue Bonds, \$217,930,000 face value, 1.5% to 5.0%, due annually through 2041.	217,930,000	-	(2,475,000)	215,455,000
Notes payable	3,125,000	-	-	3,125,000
Total bonds and notes payable	668,254,362	-	(24,873,501)	643,380,861
Plus unamortized bond premium	66,127,287	-	(6,381,743)	59,745,544
	734,381,649	\$ -	\$ (31,255,244)	703,126,405
Less: current portion				
Bonds payable	(24,873,501)			(24,072,554)
Unamortized bond premium	(6,381,742)			(6,107,176)
Total noncurrent bonds and notes payable	\$ 703,126,406			\$ 672,946,675

Bonds and notes payable	Balance at September 30, 2015	Principal New Debt	Repayment	Balance at September 30, 2016
1978 Auburn University at Montgomery Dormitory Revenue Bonds, \$3,279,000 face value, 3.0%, due annually through 2019, a reserve of \$146,574 and a \$138,511 contingency fund.	\$ 540,000	\$ -	\$ (130,000)	\$ 410,000
2001A Athletic Revenue Bonds, \$24,412,607 face value, 2.125% to 5.49%, due annually through 2021.	9,678,081	-	(1,873,719)	7,804,362
2006A General Fee Revenue Bonds, \$60,000,000 face value, 3.5% to 5.0%, due annually through 2037.	8,490,000	-	(8,490,000)	-
2007A General Fee Revenue Bonds, \$162,530,000 face value, 3.6% to 5.0%, due annually through 2017.	12,265,000	-	(8,185,000)	4,080,000
2008 General Fee Revenue Bonds, \$92,500,000 face value, 3.0% to 5.0%, due annually through 2019.	43,595,000	-	(36,835,000)	6,760,000
2009 General Fee Revenue Bonds, \$79,500,000 face value, 2.0% to 5.0%, due annually through 2026.	65,830,000	-	(4,340,000)	61,490,000
2011A General Fee Revenue Bonds, \$226,035,000 face value, 4.0% to 5.0%, due annually through 2025.	221,780,000	-	(176,340,000)	45,440,000
2012A General Fee Revenue Bonds, \$120,135,000 face value, 2.0% to 5.0%, due annually through 2042.	104,385,000	-	(6,735,000)	97,650,000
2012B General Fee Revenue Bonds, \$3,505,000 face value, 2.9%, due annually through 2024.	3,325,000	-	(65,000)	3,260,000
2014A General Fee Revenue Bonds, \$66,415,000 face value, 2.0% to 5.0%, due annually through 2035.	65,860,000	-	(125,000)	65,735,000
2015A General Fee Revenue Bonds, \$116,190,000 face value, 2.0% to 5.0%, due annually through 2038.	116,190,000	-	(200,000)	115,990,000
2015B General Fee Revenue Bonds, \$38,700,000 face value, 2.0% to 5.0%, due annually through 2035.	38,700,000	-	(120,000)	38,580,000
2016A General Fee Revenue Bonds, \$217,930,000 face value, 1.5% to 5.0%, due annually through 2041.	-	217,930,000	-	217,930,000
Notes payable	-	3,125,000	-	3,125,000
Total bonds and notes payable	690,638,081	221,055,000	(243,438,719)	668,254,362
Plus unamortized bond premium	39,455,339	35,574,560	(8,902,612)	66,127,287
	<u>730,093,420</u>	<u>\$ 256,629,560</u>	<u>\$ (252,341,331)</u>	<u>734,381,649</u>
Less: current portion				
Bonds payable	(25,403,719)			(24,873,501)
Unamortized bond premium	(4,849,785)			(6,381,742)
Total noncurrent bonds and notes payable	\$ 699,839,916			\$ 703,126,406

On August 17, 2016, \$217,930,000 in General Fee bonds with interest rates ranging from 1.5% to 5.0% were issued to currently and advance refund \$218,035,000 of outstanding bonds with interest rates ranging from 4.0% to 5.0%. The portion of the net proceeds of the new bond issue to be used for refunding were deposited in an irrevocable trust with an escrow agent and were used to purchase U.S. Government securities which will provide sufficient funds to pay all future debt service payments on the previously outstanding bonds. As a result, the previously outstanding bonds are considered to be defeased and the liability for those bonds has

been removed from the University's financial statements. This refunding resulted in the University recognizing a loss of \$34,274,282 for the difference between the acquisition price of the new debt and the carrying amount of the old debt. Although the University recognized an accounting loss, the refunding decreases the University's total debt service payments over the next 25 years by \$32,922,610 and resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new bonds) for the University of \$21,485,561.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to September 30, 2017, and thereafter, are as follows:

Year Ending September 30	Bonds Payable		
	Principal	Interest	
2018	\$ 24,072,554	\$ 30,717,854	
2019	24,684,123	29,964,625	
2020	25,222,709	28,992,359	
2021	26,316,475	27,890,763	
2022	26,200,000	24,110,613	
2023-2027	142,125,000	101,172,841	
2028-2032	141,765,000	68,524,684	
2033-2037	155,005,000	34,932,544	
2038-2042	74,865,000	7,156,200	
Total future debt service	\$ 640,255,861	\$ 353,462,483	

Capital Lease Obligations

During August 2017, the University entered into a lease agreement for the Auburn University Educational Complex with the Public Educational Building Authority of the City of Gulf Shores, Alabama (PEBA) in which the University's annual payments are equal to the PEBA's annual bond payments. According to the terms of the agreement, the University will lease the property, currently owned by PEBA, until July 1, 2047, or such time as all of the Bonds and the fees and expenses of PEBA and the Trustee have been fully paid or provision made for such payments. The University will have the right to purchase the property from PEBA at

any time during the term of the agreement after or simultaneously with payment or provision for payment in full of the principal of and the interest on the Bonds and all fees, charges and disbursements of the Trustee. The lease payments are to be paid from the General Fee Revenues of the University. The leased properties are to be recorded as capital assets and are being depreciated on a straight-line basis over a 40 year life. In addition, the University leases certain equipment under arrangements classified as capital leases.

Lease Obligations	Balance at September 30, 2016		New Lease Obligations	Principal Repayment	Balance at September 30, 2017	
	Equipment	Auburn University Educational Complex			\$ 312,445	
Total lease obligations	\$ 334,602	-	10,050,000	(103,040)	-	10,050,000
Less: current portion		(103,040)				(355,312)
Total noncurrent lease obligations	\$ 231,562				\$ 10,007,133	

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

Year Ending September 30	Principal	Interest	Total
2018	\$ 355,312	\$ 394,878	\$ 750,190
2019	301,966	425,567	727,533
2020	214,358	421,172	635,530
2021	220,809	416,857	637,666
2022	200,000	410,850	610,850
2023-2027	1,095,000	1,947,850	3,042,850
2028-2032	1,370,000	1,673,000	3,043,000
2033-2037	1,735,000	1,306,150	3,041,150
2038-2042	2,160,000	876,750	3,036,750
2043-2047	2,710,000	333,800	3,043,800
Total future minimum lease payments	\$ 10,362,445	\$ 8,206,874	\$ 18,569,319

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 20, 2017 and 2016, amounted to approximately \$5.0 million in each year.

(10) PLEDGED REVENUES

Pledged revenue for 2017 and 2016 as defined by the **Series 2006A, 2007A, 2008, 2009, 2011A, 2012A, 2012B, 2014A, 2015A, 2015B and 2016A General Fee Revenue Trust Indentures** is as follows:

	2017	2016
Student fees collected	\$ 510,764,136	\$ 468,856,351
Less fees pledged for specific purposes:		
Athletic fees (\$96 per student per semester)	(5,338,349)	(3,479,255)
Transit fees (\$153/\$149 per semester)	(8,257,283)	(7,588,595)
Student activities fees (\$15 per student per semester)	(830,796)	(544,128)
Total general fees pledged	\$ 496,337,708	\$ 457,244,373

The Series 2011A Bonds expanded the definition of pledged revenues. "General Fees" pledged to secure the Series 2011A Bonds and all other Parity Bonds now or hereafter outstanding under the General Fee Revenue Indenture will include the general fees levied against the University's students at both the main campus and AUM. "Housing Revenues" pledged to secure the Series 2011A Bonds and all other Parity Bonds now or hereafter outstanding under the General Fee Revenue Indenture will include the University's housing and dining

revenues from the operation of housing and dining facilities on both the main campus and AUM.

The pledge of housing and dining revenues under the General Fee Revenue Indenture is subordinate in all respects to the University's prior pledge of certain dormitory revenues at AUM to secure payment of the 1978 Dormitory Revenue Bonds.

AUM housing and dining revenue pledged for 2017 and 2016 subordinate to prior pledges of such revenues as defined by the Series 2011A General Fee Revenue Trust Indenture is as follows:

	2017	2016
AUM housing revenues		
Room rental	\$ 6,251,293	\$ 5,529,964
Other income	262,499	251,207
Total housing	6,513,792	5,781,171
AUM dining revenue	1,885,513	1,937,348
Total AUM housing and dining revenues pledged	\$ 8,399,305	\$ 7,718,519

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

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

Pledged revenue for 2017 and 2016 as defined by the **Series 2001A Athletic Revenue Trust Indenture** is as follows:

	2017	2016
Jordan-Hare and other revenues:		
Television and broadcast revenues	\$ 45,735,449	\$ 34,244,461
Conference and NCAA distributions	9,975,219	9,388,670
Sales and services revenues	21,323,861	46,915,884
Student fees	5,338,349	3,479,255
Royalties, advertisements and sponsorships	8,824,420	6,196,360
Other income	<u>10,593,643</u>	<u>12,956,276</u>
Total athletic revenues pledged	<u>\$ 101,790,941</u>	<u>\$ 113,180,906</u>

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

The following summary shows the pledged revenues and related expenses and transfers from operations of the West Dormitories of AUM for the years ended September 30, 2017 and 2016, as defined by the 1978 Auburn University at Montgomery Trust Indenture:

	2017	2016
Revenues:		
Room rental	\$ 1,357,917	\$ 1,289,528
Other income	<u>77,630</u>	<u>75,302</u>
Total revenues	<u>1,435,547</u>	<u>1,364,830</u>
Expenses and transfers:		
Personnel costs	335,672	331,521
Operating expenses	804,522	607,886
Transfers	<u>144,720</u>	<u>147,912</u>
Total expenses and transfers	<u>1,284,914</u>	<u>1,087,319</u>
Surplus of revenues over expenses and transfers	150,633	277,511
AUM student housing net surplus at beginning of year	<u>447,530</u>	<u>170,019</u>
AUM student housing net surplus at end of year	<u>\$ 598,163</u>	<u>\$ 447,530</u>

The AUM dormitory occupancy rate for Fall semester 2017 and Fall semester 2016 was 96.8% and 97.4%, respectively (unaudited).

(11) RETIREMENT PROGRAMS

The employees of the University are participants in three types of benefit plans; a 401(a) defined benefit plan, a 403(b) defined contribution plan, and a 457(b) deferred compensation plan as follows:

A. Teachers' Retirement System of Alabama

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

Substantially all non-student employees are members of TRS. Membership is mandatory for eligible employees. During the 2012 regular session of the Alabama Legislature, Act 2012-377 created a new defined benefit plan tier for employees hired on or after January 1, 2013, with no previous creditable service referred to as "Tier 2". Employees hired or with creditable service prior to that date are "Tier 1" participants.

Benefits vest after ten years of creditable service. Vested Tier 1 employees may retire with full benefits at age 60 with ten years of service or at any age with 25 years of service. Retirement benefits

for Tier 1 employees are calculated by the formula method by which retirees are allowed 2.0125% of their final salary (average of the highest three of the last ten years) for each year of service. Vested Tier 2 employees may retire with full benefits at age 62 with 10 years of service. For Tier 2 employees, the percentage is 1.65% of their final salary (average of the highest five of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner for both Tier 1 and Tier 2 employees. Pre-retirement death benefits are provided to plan members.

TRS was established September 15, 1939, 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 TRS is vested in the Board of Control (currently 15 trustees). 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 Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required

supplementary information for TRS. The TRS financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenue when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the GASB. Under these requirements, the TRS plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report. That report may be obtained by writing to the Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150 or at www.rsa-al.gov.

Fiscal year ended September 30,

Total percentage of covered payroll

Contributions:

Percentage contributed by the employer

Percentage contributed by the employees

Contributed by the employer

Contributed by the employees

Total contributions

Funding Policy

Tier 1 employees are required by statute to contribute 7.5% of their salary to TRS. Tier 2 employees contribute 6.0% of their salary. The University is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year TRS recommends to the Alabama State Legislature the contribution rate for the following fiscal year, with the Alabama State Legislature setting this rate in the annual appropriations bill. The percentages of the contributions and the amount of contributions made by the University and the University's employees, for both Tier 1 and Tier 2 employees, respectively, equal the required contributions for each year as follows:

	2017	2016	2015
Total percentage of covered payroll	19.51%/16.82%	19.44%/16.84%	19.21%/17.05%
Contributions:			
Percentage contributed by the employer	12.01%/10.82%	11.94%/10.84%	11.71%/11.05%
Percentage contributed by the employees	7.50%/6.00%	7.50%/6.00%	7.50%/6.00%
Contributed by the employer	\$ 49,273,810	\$ 46,139,070	\$ 43,894,444
Contributed by the employees	<u>29,945,389</u>	<u>28,390,415</u>	<u>27,572,040</u>
Total contributions	<u>\$ 79,219,199</u>	<u>\$ 74,529,485</u>	<u>\$ 71,466,484</u>

The University reported a liability of \$665,367,000 and \$624,361,000 as of September 20, 2017 and 2016, respectively, for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015 and 2014, respectively. The University's proportion of the collective net pension liability was based on employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2016 and 2015, the

University's proportion was 6.146014% and 5.965792%, respectively, which was an increase of 0.180222% and 0.207893% from its proportion measured as of September 30, 2015 and 2014, respectively.

For the years ended September 30, 2017 and 2016, the University recognized pension expense of \$76,232,000 and \$52,213,000, respectively. At September 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 17,135,000
Changes of assumptions	46,978,000	-
Net difference between projected and actual earnings on pension plan investments	9,616,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	30,381,000	-
Employer contributions subsequent to the measurement date	<u>49,274,000</u>	<u>-</u>
Total	\$ 136,249,000	\$ 17,135,000

\$49,274,000 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in compensation and benefits expense as follows:

Year Ending September 30:

2018	\$ 18,117,000
2019	18,117,000
2020	17,052,000
2021	13,469,000
2022	3,085,000

Actuarial Assumptions

Changes of Assumptions

In 2016, rates of retirement, disability, withdrawal and mortality were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2010. In 2010, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The total pension liability was determined by an actuarial valuation as of September 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Assumptions

Inflation	2.75%
Investment rate of return*	7.75%
Projected salary increases	3.25-5.00%

*Net of pension plan investment expense

Post-Retirement mortality rates for service retirements and dependent beneficiaries were based on the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The actuarial assumptions used in the September 30, 2015 valuation were based on the results of an actuarial experience study for the period October 1, 2010 - September 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.0%	4.4%
U.S. Large Stocks	32.0%	8.0%
U.S. Mid Stocks	9.0%	10.0%
U.S. Small Stocks	4.0%	11.0%
International Developed Market Stocks	12.0%	9.5%
International Emerging Market Stocks	3.0%	11.0%
Alternates	10.0%	10.1%
Real Estate	10.0%	7.5%
Cash	3.0%	1.5%
Total	100.00%	

*Includes assumed rate of inflation of 2.50%

Discount Rate

The discount rate used to measure the total pension liability was 7.75% (a decrease from 8.00% at the prior measurement date.) The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and

the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the System's proportionate share of the net pension liability to changes in the discount rate

The following table presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.75%

	1.00% Decrease (6.75%)	Current Discount Rate (7.75%)	1.00% Increase (8.75%)
Employers' proportionate share of the collective net pension liability	\$ 886,417,000	\$ 665,367,000	\$ 478,224,000

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. Vesting and 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.

ERS was established October 1, 1945, under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees. The responsibility for the general administration and operation of ERS is vested in its Board of Control (currently 13 trustees).

The ERS financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenue when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the GASB. Under these requirements, the ERS plan is considered a

as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1.00% Decrease (6.75%)	Current Discount Rate (7.75%)	1.00% Increase (8.75%)
Employers' proportionate share of the collective net pension liability	\$ 886,417,000	\$ 665,367,000	\$ 478,224,000

component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report. The Plan issues a publicly available report that can be obtained at www.rsa-al.gov.

Membership

As of the measurement date of September 30, 2016, the University had 287 retired members or their beneficiaries currently receiving benefits, three vested inactive members, one non-vested inactive member, seven active members, and twelve post-Deferred Retirement Option Plan (DROP) retired members still in active service participating in the ERS.

Funding Policy

Tier 1 employees are required by statute to contribute 3.75% of their salary to the ERS. Tier 2 employees contribute 3.00% of their salary. The University is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the ERS recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriations bill. The percentages of the contributions and the amount of contributions made by the University and the University's employees, for Tier 1 and Tier 2 employees, respectively, equal the required contributions for each year as follows:

Fiscal year ended September 30,	2017	2016	2015
Total percentage of covered payroll	266.92%/265.93%	266.92%/265.93%	153.70%/152.88%
Contributions:			
Percentage contributed by the employer	263.17%/262.93%	263.17%/262.93%	149.95%/149.88%
Percentage contributed by the employees	3.75%/3.00%	3.75%/3.00%	3.75%/3.00%
Contributed by the employer	\$ 5,321,011	\$ 5,629,191	\$ 4,162,196
Contributed by the employees	65,846	80,210	104,090
Total contributions	<u>\$ 5,386,857</u>	<u>\$ 5,709,401</u>	<u>\$ 4,266,286</u>

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2017, the University's active employee contribution rate was 263.17% of covered payroll.

The University's contractually required contribution rate for the year ended September 30, 2017, was 263.17% of pensionable pay. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were \$5,321,011 for the year ended September 30, 2017.

Net Pension Liability

The University's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30,

2015 and rolled forward to September 30, 2016, using standard roll-forward techniques as shown in the following table:

Total Pension Liability	Expected	Actual	Actual-2016
(a) Total Pension Liability as of September 30, 2015	\$ 47,226,044	\$ 47,772,465	\$ 50,003,266
(b) Discount rate	8.00%	8.00%	7.75%
(c) Entry Age Normal Cost for the period October 1, 2015 - September 30, 2016	\$ 21,595	\$ 21,595	\$ 1,697
(d) Transfers Among Employers	\$ -	\$ -	\$ -
(e) Actual Benefit Payments and Refunds for the period October 1, 2015 - September 30, 2016	\$ (5,958,850)	\$ (5,958,850)	\$ (5,958,850)
(f) Total Pension Liability as of September 30, 2016 [(a)x(1+(b))]+(c)+(d)+[(e)x(1+.05*(b))]	\$ 44,828,519	\$ 45,418,653	\$ 47,690,461
(g) Difference between Expected and Actual:	\$ -	\$ 590,134	\$ -
(h) Less Liability Transferred for Immediate Recognition	\$ -	\$ -	\$ -
(i) Experience (Gain)/Loss= (g)-(h)	\$ -	\$ 590,134	\$ -
(j) Difference between Actual (2015 Assumptions) and Actual (2016 Assumptions): Assumption Change (Gain)/Loss			\$ 2,271,808

Actuarial Assumptions

Changes of Assumptions

In 2016, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016, the expectation of retired life mortality was changed to the sex distinct RP-

2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females at ages on and after age 78.

The total pension liability in the actuarial valuation prepared as of September 30, 2015 was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Assumptions	
Inflation	2.75%
Salary increases	3.25-5.00%
Investment rate of return*	7.75%

*Net of pension plan investment expense

Mortality rates were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% for all ages for males and 120% for females at ages on and after age 78. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the September 30, 2015 valuation were based on the results of an actuarial experience study for the period October 1, 2010 - September 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.0%	4.4%
U.S. Large Stocks	32.0%	8.0%
U.S. Mid Stocks	9.0%	10.0%
U.S. Small Stocks	4.0%	11.0%
International Developed Market Stocks	12.0%	9.5%
International Emerging Market Stocks	3.0%	11.0%
Alternatives	10.0%	10.1%
Real Estate	10.0%	7.5%
Cash	3.0%	1.5%
Total	100.0%	

*Includes assumed rate of inflation of 2.50%

Discount Rate

The discount rate used to measure the total pension liability was the long term rate of return, 7.75% (a decrease from 8.00% at the prior measurement date.) The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS

Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at September 30, 2015	\$ 47,226,044	\$ 153,894	\$ 47,072,150
Changes for the year:			
Service cost	21,595	-	21,595
Interest	3,539,730	-	3,539,730
Changes of assumptions	2,271,808	-	2,271,808
Differences between expected and actual experience	590,134	-	590,134
Contributions - employer	-	5,645,920	(5,645,920)
Contributions - employees	-	80,506	(80,506)
Net Investment Income	-	3,837	(3,837)
Benefit payments, including refunds of employee contributions	(5,958,850)	(5,958,850)	-
Administrative expense	-	-	-
Transfers among employers	-	-	-
Net changes	464,417	(228,587)	693,004
Balance at September 30, 2016	\$ 47,690,461	\$ (74,693)	\$ 47,765,154

Sensitivity of the System's proportionate share of the net pension liability to changes in the discount rate

The following table presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.75% as well as what the University's proportionate share of the net pension

liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1.00% Decrease (6.75%)	Current Discount Rate (7.75%)	1.00% Increase (8.75%)
Employers' proportionate share of the collective net pension liability	\$ 50,807,944	\$ 47,765,154	\$ 45,089,102

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal years ended September 30, 2016 and 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as

of September 30, 2016 and 2015. The auditor's report dated September 18, 2017, and October 17, 2016, respectively, on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

For the year ended September 30, 2017 and 2016, the University recognized pension expense of \$6,327,913 and \$3,813,090, respectively. At September 30, 2017, the University reported deferred

outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	- -	- -
Net difference between projected and actual earnings on pension plan investments	- -	13,582
Employer contributions subsequent to the measurement date	<u>5,321,011</u>	- -
Total	\$ 5,321,011	\$ 13,582

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in compensation and benefits expense as follows:

Year Ending September 30:

2018	\$ (11,833)
2019	(11,831)
2020	10,248
2021	(166)
2022	- -
Thereafter	- -

Pension Expense

Service Cost	\$ 21,595
Interest on the total pension liability	3,539,730
Current-period benefit changes	- -
Expensed portion of current-period difference between expected and actual experience in total pension liability	590,134
Expense portion of current-period changes of assumptions	2,271,808
Member contributions	(80,506)
Projected earnings on plan investments	(3,015)
Expensed portion of current-period differences between actual and projected earnings on plan investments	(164)
Transfers among employers	- -
Recognition of beginning deferred outflows of resources as pension expense	- -
Recognition of beginning deferred inflows of resources as pension expense	<u>(11,669)</u>
Pension Expense (Income)	\$ 6,327,913

C. Tax Deferred Annuity Plans

This plan is a defined contribution plan under Section 403(b) of the Internal Revenue Code. Accordingly, benefits depend solely on amounts contributed to the plan plus investment earnings. This is provided as a supplement to the aforementioned programs. All full-time regular or probationary employees are eligible to participate. Full-time temporary employees are also eligible if their employment period is for a minimum of one year. The University will match 100.0% of elective deferral contributions up to 5.0% of the employee's plan compensation. The matching contributions cannot exceed \$1,650 for any plan year (calendar year). An employee enrolling in one of the University's tax deferred annuity plans will not vest in the University's matching portion until he/she has completed five years of full-time continuous service. Upon the employee's completion of the five year requirement, the University's matching contribution and interest earned will be vested to the participant. Nonparticipating employees with continuous service will be given credit toward the five year requirement upon joining the tax deferred annuity program. The total investment in the annuities is determined by Section 403(b). There are several investment options including fixed and variable annuities and mutual funds. The University approved investment firms employees may select are Valic, TIAA-CREF, Fidelity Investments and Lincoln Financial. At September 30, 2017 and 2016, 3,511 and 3,446 employees, respectively, participated in the tax deferred annuity program. The contribution for 2017 was \$21,694,803 which includes \$5,224,454 from the University and \$16,470,349 from its employees. The contribution for 2016 was \$20,721,371, which includes \$5,021,626 from the University and \$15,699,745 from its employees.

Total salaries and wages during the fiscal year for covered employees participating in the plan were \$272,852,517 and \$259,097,850 for the fiscal years ended September 30, 2017 and 2016, respectively.

D. Deferred Compensation Plans

The University follows the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-a recission of GASB Statement No. 2 and an amendment of GASB Statement No. 31*. As of September 30, 2017 and 2016, 231 and 228 employees, respectively, participated in the plans. Contributions of \$2,912,640 and \$2,770,515 for fiscal years 2017 and 2016, respectively, were funded by employees and no employer contribution was funded. The University approved investment firms for 457(b) include Valic, TIAA-CREF and Fidelity Investments.

(12) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The University offers postemployment health care benefits to all employees who officially retire from the University. Health care benefits are offered through the State of Alabama Public Education Employees Health Insurance Plan (PEEHIP) with TRS or the University's self-insured Retiree Medical Plan (the Plan), which is available for select employees who are not eligible for PEEHIP or those who were grandfathered in as Civil Service employees. Eligibility for benefits for Tier 1 employees begins at age 60 with at least ten years of service or at any age with 25 years of service. For Tier 2 employees, eligibility begins at age 62 with at least ten years of service. Retirees must have been enrolled in the active employees' health care plan for the last six of those years in order to be eligible for coverage under the plan.

The University applies GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other than Pensions*. This statement requires governmental entities to recognize

and match other post-retirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services.

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

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

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

The required contribution rate of the employer was \$373 and \$399 per employee per month in the years ended September 30, 2017 and 2016, respectively. The University paid \$10,694,829 and \$11,141,386 for 2,389 and 2,327 retirees for the years ended September 30, 2017 and 2016, respectively. 100% of the required contributions were paid to PEEHIP. The required contribution rate is determined by PEEHIP in accordance with state statute.

The required monthly contribution rates for fiscal year 2017 are as follows:

Retired Member Rates

- Individual Coverage/Non-Medicare Eligible - \$166.00
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-spousal Dependent(s) - \$421.00
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) with Non-Medicare Eligible Spouse - \$521.00
- Family Coverage/Non-Medicare Eligible Retired Member and Non-spousal Dependent Medicare Eligible - \$280.00
- Family Coverage/Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible - \$310.00
- Individual Coverage/Medicare Eligible Retired Member - \$25.00
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - No Spouse - \$280.00
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) with Non-Medicare Eligible Spouse - \$380.00
- Family Coverage/Medicare Eligible Retired Member and Non-spousal Dependent Medicare Eligible - \$139.00
- Family Coverage/Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible - \$169.00
- Tobacco surcharge - \$50.00 per month
- Wellness premium - \$50.00 per month
- PEEHIP Supplemental Plan - \$0
- Optional Plans (Hospital Indemnity, Cancer, Dental, Vision) - up to two optional plans can be taken by retirees at no cost if the retiree is not also enrolled in one of the Hospital Medical Plans. Otherwise, they can purchase the Optional Plans at the normal monthly rate of \$38.00 or \$50.00 for family dental.

Members who retired on or after October 1, 2005, and before January 1, 2012, pay two percent of the employer premium for each year under 25

years of service, and for each year over 25 years of service, the retiree premium is reduced by two percent.

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

Surviving Spouse Rates

- Surviving Spouse Non-Medicare Eligible - \$816.00
- Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible - \$1,028.00
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible - \$1,067.00
- Surviving Spouse Medicare Eligible - \$430.00
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible - \$720.00
- Surviving Spouse Medicare Eligible and Dependent Medicare Eligible - \$759.00

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

B. Retiree Medical Plan (the Plan)

The Plan is considered a single-employer plan and consists of hospital benefits, major medical benefits, a prescription drug program and a

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

Employees included in the actuarial valuation include retirees and survivors, active eligible Civil Service employees and those retirees who elected the PEEHIP plan on or prior to October 1, 1997, for whom the University pays a subsidy. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision. Expenditures for postretirement health care benefits are recognized monthly and financed on a pay-as-you-go basis. The University funds approximately 60% of the postretirement healthcare premiums, which totaled \$769,189 and \$858,332 for fiscal years ended September 30, 2017 and 2016, respectively. The retirees are responsible for funding approximately 40% of the healthcare premiums.

In compliance with the provisions of GASB Statement No. 45, the University accrued an additional \$1,023,573 and \$1,348,034 in retiree healthcare expense during fiscal years 2017 and 2016, respectively.

The Plan does not issue a stand-alone financial report. For inquiries relating to the Plan, please contact Auburn University Payroll and Employee Benefits, 1550 East Glenn Avenue, Auburn University, Alabama 36849.



The required schedule of funding progress, contained in the Required Supplemental Information (unaudited) immediately following the divisional financial statements (see page 86), presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial calculations reflect a long-term perspective. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation, and on the pattern of sharing costs between the employer and plan members to that point.

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

Cost Element	Fiscal Year Ended September 30, 2017	
	Amount	Percent of Payroll ¹
1. Unfunded actuarial accrued liability at October 1, 2016	\$ 59,568,585	3,586.7%
Annual Required Contribution (ARC)		
2. Normal cost	\$ -	
3. Amortization of the unfunded actuarial accrued liability over 15 years using level dollar amortization	4,575,584	
4. Annual Required Contribution (ARC = 2 + 3)	<u>\$ 4,575,584</u>	275.5%
Annual OPEB Cost (Expense)		
5. ARC	\$ 4,575,584	
6. Interest on beginning of year accrual	387,063	
7. Adjustment to ARC	(1,476,634)	
8. Fiscal year 2016 OPEB cost (5 + 6 + 7)	<u>\$ 3,486,013</u>	209.9%
End of Year Accrual (Net OPEB Obligation)²		
9. Beginning of year accrual ¹	\$ 19,353,132	
10. Annual OPEB cost	3,486,013	
11. Employer contribution (benefit payments) ²	(2,462,438)	
12. End of year CAFR accrual (9 + 10 + 11) ²	<u>\$ 20,376,707</u>	1,226.9%

¹Annual payroll for 16 participants as of September 30, 2017, was \$1,660,810.

²Actual amounts paid in fiscal year 2017 include claim costs, administrative fees, and PEEHIP subsidy less participant contributions.

Three Year Schedule of Percentage of OPEB Cost Contributed

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed ³	Net OPEB Obligation
September 30, 2015	\$ 4,315,892	58.9%	\$ 18,005,098
September 30, 2016	\$ 3,813,799	64.7%	\$ 19,353,132
September 30, 2017	\$ 3,486,013	70.6%	\$ 20,376,707

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

Summary of Key Actuarial Methods and Assumptions

Valuation year	October 1, 2016 – September 30, 2017
Actuarial cost method	Unit Credit, Actuarial Cost Method
Amortization method	15 years, level dollar open amortization ⁴
Asset valuation method	Not applicable
Discount rate	2.0%
Projected payroll growth rate	Not applicable
Health care cost trend rate for medical and prescription drugs	8.5% in fiscal year 2018, decreasing by one-half percentage point per year to an ultimate of 5.0% in fiscal year 2025 and later.
Valuation Date	October 1, 2016

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

Monthly Per Capita Claim Costs

Age	Medical
55	\$786
60	\$943
65	\$382
70	\$424
75	\$452

Claim costs were increased by 5.04% over last year based on a weighted average of benefit plan premiums. Future claim costs are increased by health care cost trend.

Retiree Premiums

Non-smoking retirees not eligible to participate in PEEHIP pay 40% of the premium. Surviving spouses and those retirees who are eligible to participate in PEEHIP but have declined to do so pay 100% of the premium. Smokers pay an additional \$20 per month.

	As of 1/1/17	As of 1/1/16
Pre-65 Single	\$516	\$491
Pre-65 Family	\$1,160	\$1,105
Post-65 Single	\$167	\$159
Post-65 Family	\$811	\$772

Note: There are several other categories of premiums.

Administrative Expenses

Included in claim cost.

Assumed Health Care Trend Rate

Fiscal Year	Medical and Rx Combined
2018	8.5%
2019	8.0%
2020	7.5%
2021	7.0%
2022	6.5%
2023	6.0%
2024	5.5%
2025+	5.0%

Spouse Age Difference

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

Mortality

RP-2014 Combined Mortality Fully Generational Projected using Projection Scale MP-2015.

Participation Rates

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

Retirement Rates

Employees are assumed to retire according to the following schedule:

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

Withdrawal Rates	None assumed since all are long service Civil Service employees.																								
Disability Rates	Sample rates are shown below, percent assumed to terminate within one year:																								
	<table> <thead> <tr> <th><u>Age</u></th><th><u>Male</u></th><th><u>Female</u></th></tr> </thead> <tbody> <tr> <td>25</td><td>0.06%</td><td>0.09%</td></tr> <tr> <td>30</td><td>0.08%</td><td>0.12%</td></tr> <tr> <td>35</td><td>0.17%</td><td>0.24%</td></tr> <tr> <td>40</td><td>0.30%</td><td>0.41%</td></tr> <tr> <td>45</td><td>0.54%</td><td>0.65%</td></tr> <tr> <td>50</td><td>0.98%</td><td>0.98%</td></tr> <tr> <td>55</td><td>1.50%</td><td>1.50%</td></tr> </tbody> </table>	<u>Age</u>	<u>Male</u>	<u>Female</u>	25	0.06%	0.09%	30	0.08%	0.12%	35	0.17%	0.24%	40	0.30%	0.41%	45	0.54%	0.65%	50	0.98%	0.98%	55	1.50%	1.50%
<u>Age</u>	<u>Male</u>	<u>Female</u>																							
25	0.06%	0.09%																							
30	0.08%	0.12%																							
35	0.17%	0.24%																							
40	0.30%	0.41%																							
45	0.54%	0.65%																							
50	0.98%	0.98%																							
55	1.50%	1.50%																							
Impact of Healthcare Reform	The provisions of Healthcare Reform are expected to increase costs by 3.05% on a discounted basis. The unlimited lifetime maximum, removal of limitations on preventive care and coverage of eligible dependents to age 26 are reflected in the claim costs. The Cadillac Plan excise tax is expected to increase costs by \$3.6 million. There is not any cost impact for retirees who have elected PEEHIP.																								
(13) SELF INSURANCE PROGRAMS AND OTHER LIABILITIES																									
Self Insurance	Statements of Net Position include a self-insurance liability for health insurance as of September 30, 2017 and 2016, of \$7,846,400 and \$11,097,272, respectively. These amounts are included in accounts payable and other accrued liabilities on the Statements of Net Position.																								
The Comprehensive General Liability Trust Fund is a self-insured retention program that protects the University, its faculty, staff and volunteers against claims brought by third parties arising from bodily injury, property damage and personal liability (libel, slander, etc.). Funds are held in a separate trust account with a financial institution to be used to pay claims for which the University may become legally liable. The liability at September 30, 2017 and 2016, was \$465,161 and \$421,124, respectively. These amounts are included in other noncurrent liabilities on the Statements of Net Position.	Other Liabilities Other liabilities include compensated absences, deposits held in custody and unearned revenues. The University allows employees to accrue and carryover annual and sick leave up to certain maximum amounts depending on years of service. Employees will be compensated for accrued annual leave at time of separation from University employment (termination or retirement) up to a maximum of one month's additional compensation. All eligible employees hired before October 1, 1990, may be compensated for unused sick leave at the rate of 25% of their respective balances, subject to a maximum of one month's additional compensation. The liability for compensated absences was \$20,543,222 and \$19,552,096 at September 30, 2017 and 2016, respectively.																								
The On-The-Job-Injury program provides benefits for job-related injuries or death resulting from work at the University. This program is designed to cover out-of-pocket expenses of any employee who is not covered by insurance. The program will also pay for medically evidenced disability claims and provide death benefits arising from a job-related death of an employee. This self-funded program is provided to employees since the University is not subject to the workers' compensation laws of the State of Alabama. The liability at September 30, 2017 and 2016, was \$3,574,126 and \$3,387,318, respectively. These amounts are included in other noncurrent liabilities on the Statements of Net Position.	Deposits held in custody include the portion of the Federal Perkins Student Loan funds and Health Professions Student Loans which would be refunded in the event the University ceased operations. The refundable amounts were \$16,762,401 and \$16,254,022 at September 30, 2017 and 2016, respectively. Also included in deposits held in custody of others are the agency funds. These amounts totaled \$6,082,589 and \$6,592,003 for September 30, 2017 and 2016, respectively. The remaining difference relates to immaterial rental deposits.																								
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	Unearned revenue includes tuition revenue related to the portion of Fall semester subsequent to September 30, funding received for contracts and grants which has not been expended as of September 30, as well as athletic revenue related to games played subsequent to September 30. Unearned revenues at September 30, 2017 and 2016, are as follows:																								
	<table> <thead> <tr> <th></th><th style="text-align: center;">2017</th><th style="text-align: center;">2016</th></tr> </thead> <tbody> <tr> <td>Tuition and fees, net</td><td style="text-align: right;">\$ 166,926,916</td><td style="text-align: right;">\$ 155,058,659</td></tr> <tr> <td>Federal, state and local government grants and contracts, net</td><td style="text-align: right;">9,592,918</td><td style="text-align: right;">10,872,112</td></tr> <tr> <td>Auxiliary, net</td><td style="text-align: right;">43,887,898</td><td style="text-align: right;">30,958,937</td></tr> <tr> <td>Plant</td><td style="text-align: right;">459,044</td><td style="text-align: right;">474,828</td></tr> <tr> <td>Total unearned revenue</td><td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;"><u>\$ 220,866,776</u></td><td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;"><u>\$ 197,364,536</u></td></tr> </tbody> </table>		2017	2016	Tuition and fees, net	\$ 166,926,916	\$ 155,058,659	Federal, state and local government grants and contracts, net	9,592,918	10,872,112	Auxiliary, net	43,887,898	30,958,937	Plant	459,044	474,828	Total unearned revenue	<u>\$ 220,866,776</u>	<u>\$ 197,364,536</u>						
	2017	2016																							
Tuition and fees, net	\$ 166,926,916	\$ 155,058,659																							
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Total unearned revenue	<u>\$ 220,866,776</u>	<u>\$ 197,364,536</u>																							

Pollution Remediation Obligations

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

The University conducts groundwater monitoring, monitored natural attenuation and clean-up in accordance with the Resource Conservation and Recovery Act (RCRA) and the Toxic Substances and Control Act. Additionally, asbestos abatement is necessary as older buildings on campus are demolished or renovated. During fiscal year 2011, the University, with the assistance of an outside consultant, prepared a 30-year Post Closure Cost Estimate related to all active and inactive solid waste management units managed through the University RCRA Facility permit.

As of September 30, 2017 and 2016, the total estimated pollution remediation liability (estimated using the expected cash-flow technique) is \$6,988,996 and \$7,017,240, respectively. The current portion of this amount (\$219,685 and \$282,930, respectively)

is included in other accrued liabilities and the long-term portion (\$6,769,311 and \$6,734,310, respectively) is included in other noncurrent liabilities in the accompanying Statements of Net Position. This estimate may change in future periods as additional information is obtained. The University does not expect to recover any funds from insurance or other third parties related to these obligations.

(14) DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources are an acquisition of net assets that are applicable to a future reporting period. The University engages in certain voluntary nonexchange transactions (grants). Grant funds received for which all eligibility requirements have been met, other than time requirements, are presented as deferred inflows of resources in accordance with the adoption of GASB Statements No. 63 and No. 65. Additionally, in accordance with GASB Statement No. 68, which the University adopted in fiscal year 2015, the University's proportionate share of the net difference between projected and actual earnings on pension plan investments is presented as a deferred inflow of resources. Deferred inflows of resources are summarized below:

	September 30, 2017	September 30, 2016
Nonexchange transactions	\$ 383,344	\$ 281,953
Pension	17,148,582	3,407,593
Total deferred inflows	<u>\$ 17,531,926</u>	<u>\$ 3,689,546</u>

(15) CONTRACTS AND GRANTS

The University has been awarded approximately \$73.5 million in contracts and grants that have not been received or expended as of September 30, 2017. These awards, which represent commitments of sponsors to provide funds for research and training projects, have not been reflected in the financial statements.

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

The portion of revenue recognized for all grants and contracts that represent facilities and administrative cost recovery is recognized on the Statements of Revenues, Expenses and Changes in Net Position within contract and grant operating revenues. The University recognized \$16,725,076 and \$16,566,978 in facilities and administrative cost recovery for the years ended September 30, 2017 and 2016, respectively.

(17) CONSTRUCTION COMMITMENTS AND FINANCING

The University has entered into projects for the construction and renovation of various facilities that are estimated to cost approximately \$488.9 million. At September 30, 2017, the estimated remaining cost to complete the projects is approximately \$300.6 million which will be funded from University funds and bond proceeds.

(18) OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended September 30, 2017 and 2016, are listed below. In preparing the financial statements, all significant transactions and balances between auxiliary units and other funds have been eliminated. Some scholarships and fellowships are provided by the instruction or research function and

are broken out in the charts below. In addition, the graduate waivers are shown as compensation; however, they are shown functionally as scholarship and fellowship expense. The University is able to capture auxiliary utility expenditures; therefore, those expenditures are shown separately by function.

September 30, 2017

	Compensation and Benefits	Scholarships and Fellowships	Utilities	Other Supplies and Services	Depreciation	Total
Instruction	\$ 256,831,583	\$ 560,597	\$ -	\$ 37,623,430	\$ -	\$ 295,015,610
Research	80,476,926	2,096,768	7,156	39,525,375	-	122,106,225
Public Service	71,302,938	125,552	25,884	41,514,025	-	112,968,399
Academic Support	50,287,648	-	-	11,242,853	-	61,530,501
Library	7,957,287	-	-	1,643,190	-	9,600,477
Student Services	28,283,139	-	-	9,685,687	-	37,968,826
Institutional Support	78,325,065	-	-	10,579,727	-	88,904,792
Operation and Maintenance	33,430,442	-	18,761,691	50,003,319	-	102,195,452
Scholarships and Fellowships	22,386,048	19,821,549	-	177,930	-	42,385,527
Auxiliaries	59,515,077	145,060	6,120,818	77,369,717	-	143,150,672
Depreciation	-	-	-	-	77,357,748	77,357,748
	<u>\$ 688,796,153</u>	<u>\$ 22,749,526</u>	<u>\$ 24,915,549</u>	<u>\$ 279,365,253</u>	<u>\$ 77,357,748</u>	<u>\$ 1,093,184,229</u>

September 30, 2016

	Compensation and Benefits	Scholarships and Fellowships	Utilities	Other Supplies and Services	Depreciation	Total
Instruction	\$ 234,123,099	\$ 577,083	\$ -	\$ 35,390,424	\$ -	\$ 270,090,606
Research	69,693,294	1,971,142	23,956	38,432,245	-	110,120,637
Public Service	66,276,994	75,769	25,838	41,241,582	-	107,620,183
Academic Support	46,274,401	-	-	9,879,132	-	56,153,533
Library	7,455,988	-	-	421,804	-	7,877,792
Student Services	25,333,543	-	-	9,695,720	-	35,029,263
Institutional Support	71,856,246	-	-	15,443,042	-	87,299,288
Operation and Maintenance	30,566,203	-	18,982,930	35,830,654	-	85,379,787
Scholarships and Fellowships	22,099,667	19,595,880	-	284,415	-	41,979,962
Auxiliaries	53,563,903	153,972	5,114,817	72,958,866	-	131,791,558
Depreciation	-	-	-	-	75,737,087	75,737,087
	<u>\$ 627,243,338</u>	<u>\$ 22,373,846</u>	<u>\$ 24,147,541</u>	<u>\$ 259,577,884</u>	<u>\$ 75,737,087</u>	<u>\$ 1,009,079,696</u>

(19) 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.

or expended by AUF for the benefit of University schools, colleges, or programs; or in the case of endowments, invested with only the earnings transferred to or expended for the University's benefit. Amounts transferred to the University or expended on behalf of its programs are reported as "Total program services" in the Consolidated Statement of Activities and Changes in Net Assets.

(20) RELATED PARTY TRANSACTIONS

Auburn University Foundation

AUF exists to raise and administer private gifts for the benefit of the University. The majority of funds, which AUF raises, are restricted by the donor for specific schools, colleges, or programs of the University. These may be immediately transferred to the University or one of its institutionally-related foundations for its use; held within AUF's temporarily restricted funds to be either transferred to the University

AUF and the University jointly conduct development and related operations through the Office of the University's Vice President for Development pursuant to a Services and Facilities Agreement (the Agreement), which states that the University will provide to AUF services, which primarily consist of all personnel and certain other administrative support and facilities. During the year, actual costs may be paid by either AUF or the University. AUF periodically compares

actual costs to allocable costs pursuant to the Agreement and settles any differences by a transfer between the organizations. AUF and the University review the agreement at least annually and an estimate of the consideration to be paid for the upcoming year is approved annually by the AUF Board.

The University has entered into an agreement whereby the AUF Investment Committee manages the University's endowment and is compensated by a management fee.

AUF payments to/receipts from the University pursuant to these agreements for the years ended September 30, 2017 and 2016, are as follows:

	2017	2016
Services and facilities costs paid by AUF	\$ 4,015,619	\$ 4,114,015
AUF's allocable costs pursuant to the Agreement	<u>2,825,272</u>	<u>2,994,830</u>
Net settlement from the University	<u>\$ 1,190,347</u>	<u>\$ 1,119,185</u>
Endowment management fee received from the University	\$ 2,051,205	\$ 1,970,143
Payments to the University Athletic Ticket Office for ticket purchases	\$ 82,372	\$ 124,425

AUREFI has an agreement with the University to provide certain services and facilities. Related payments to the University for the years ended September 30, 2017 and 2016, are as follows:

	2017	2016
AUREFI costs pursuant to the Agreement	\$ 138,804	\$ 80,409

The Association does not maintain endowments, but instead establishes endowments in AUF, which are administered in the investment pool. AUF holds and invests funds from the Association's Life Membership program and annually makes distributions from these investments directly to the Association. In addition, the Association has a

commitment to match funds for scholarship endowments previously established with certain specific guidelines. The Association makes grants quarterly to match payments received by AUF for these endowments. Information relating to the Association as of and for the years ended September 30, 2017 and 2016, is as follows:

	2017	2016
Pooled investments held by AUF (the Association Life Membership)	\$ 9,100,434	\$ 8,539,734
Amounts distributed from investments, net of administrative fee	\$ 382,072	\$ 320,433
Amounts due from the Association for scholarship matching program	\$ 247,114	\$ 420,994
Grants from the Association for scholarship matching and other endowments	\$ 160,544	\$ 181,187

AUF holds TUF endowment funds and invests these funds in AUF's pooled investments. AUF annually distributes TUF endowment earnings either to TUF or directly to the University on behalf of TUF based on the

spending policy. In addition, AUF participates in the TUF athletic priority system each year in order to obtain tickets and suites for the cultivation, solicitation, and stewardship of contributors.

Information relating to TUF as of and for the years ended September 30, 2017 and 2016, is as follows:

	2017	2016
Pooled investments held by AUF	\$ 9,129,649	\$ 8,398,394
Amounts distributed from investments, net of administrative fee	\$ 318,095	\$ 309,709
Athletic priority system payments	\$ 362,075	\$ 366,185

Auburn Alumni Association

The Association, AUF, Auburn University Offices of Alumni and Development and their related support units jointly utilize operational facilities, personnel and other assets in order to effectively and efficiently carry out their required activities. All personnel are employed by the University and their services are provided to the other organizations under contractual agreements.

Expenditures are analyzed periodically and, based on each entity's utilization of the facilities, supplies and services, any necessary reimbursements are made among the organizations. In the Statements

of Activities, amounts received by the Operating Fund from other organizations are used to offset the related expenses. The Executive Director of the Association is an employee of the University, providing services to the Association under a services and facilities contract. The Executive Director also serves as the Vice President for Alumni Affairs for the University.

A portion of the Association's investments have been pooled with AUF investments and are invested and managed by AUF. Cash receipts and disbursements records of the Association are maintained within the University's accounting system.

During the years ended September 30, 2017 and 2016, the Association had a salary reimbursement expense of \$1,173,016 and \$1,180,593 respectively, to the University under the service and facilities agreement. These amounts were fully paid at September 30, 2017 and September 30, 2016, respectively.

Rental income recorded by the Association from the University totaled \$368,204 and \$366,914, respectively, for the years ended September 30, 2017 and 2016. Rental income recorded by the Association from AUF totaled \$650 and \$1,370 for the years ended September 30, 2017 and 2016, respectively. The University and AUF also paid the Association \$73,057 and \$4,720, respectively for shared alumni center building expenses for the fiscal year ended September 30, 2017. For the fiscal year ended September 30, 2016, these amounts were \$68,212 and \$5,177, respectively.

During the years ended September 30, 2017 and 2016, the University provided for its share of alumni affairs activities costs by establishing a budget within the University's budgetary system. The alumni affairs activities costs were \$782,388 and \$801,910 for the years ended September 30, 2017 and 2016, respectively.

During the years ended September 30, 2017 and 2016, the Association paid the University \$14,475 and \$19,300 for Alumni Accounting office space at the East Glenn Administrative Complex.

During the years ended September 30, 2017 and 2016, the Association contributed \$120,913 and \$154,533, respectively, to the Auburn Alumni Association Endowment for Scholarships held with AUF. The Association also contributed \$40,669 and \$25,806 to various AUF scholarship funds and \$85,243 and \$58,463 to various University scholarship funds during fiscal years 2017 and 2016, respectively.

During the year ended September 30, 2015, the Alumni Association Board approved a fundraising program called the Million Dollar Match program in an effort to increase new alumni donor scholarship endowments. In the year ended September 30, 2017, the Association paid \$173,881 toward qualifying endowments; leaving \$247,114 as a payable to AUF. In fiscal year 2016, the Association paid \$218,506 toward qualifying endowments; leaving \$420,994 as a payable to AUF.

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 with the earnings thereon transferred to or expended for the University's benefit. Amounts transferred to the University or expended on behalf of its programs totaled \$32,659,998 and \$32,955,883 during the years ended June 30, 2017 and 2016, respectively. Included in these amounts are severance payments due to terminated employees totaling \$430,303 and \$98,833, respectively.

TUF and the University operate pursuant to an operating agreement (the TUF Agreement), which addresses the financial relationships between these two entities. In summary, the TUF Agreement states that the University will provide certain services and facilities to TUF, which primarily consist of personnel and other administrative support. TUF shall pay to the University an amount equal to the compensation of University employees for services performed and reimbursement of space and property utilized by such employees, in an amount to be

specifically approved by TUF's Board of Directors each year. The TUF Agreement commenced on July 1, 2007, and expired on July 1, 2008, but remains in force in subsequent years unless cancelled in writing by one of the parties.

During the year ended June 30, 2016, the University incurred obligations of \$554,570 to TUF for the use of executive suites at University athletic events. Of this amount, \$549,450 is recorded as public support-contributions revenue and \$5,120 is recorded as other revenue on the Statements of Activities and Changes in Net Assets.

During the years ended June 30, 2017 and 2016, AUF incurred obligations of \$157,439 and \$147,325, respectively, to TUF for amenities related to the use of the executive suites at University athletic events. This amount is recorded as other revenue on the Statements of Activities and Changes in Net Assets. AUF paid the 2017 and 2016 obligations during fiscal year 2017.

During the years ended June 30, 2017 and 2016, TUF paid the University for normal, recurring expense transactions including, but not limited to, purchasing athletic event tickets, reimbursing athletic staff salaries, sponsoring student scholarships, and funding the debt, repair, maintenance and operations of athletic facilities. At June 30, 2017 and 2016, obligations of \$3,967,990 and \$3,875,247 related to these transactions, respectively, were outstanding. TUF paid the 2016 obligation during fiscal year 2017, and it intends to pay the 2017 obligation during fiscal year 2018.

As indicated, the above TUF balances are as of June 30, 2017 and 2016; however, the University believes these figures are not materially different than September 30, 2017 and 2016, respectively.

Auburn Research and Technology Foundation

Although ARTF is separate and independent from the University, its mission is to facilitate the acquisition, construction and equipping of a technology and research park on the University's campus in order to create new academic and entrepreneurial opportunities for the University's faculty and students. Consideration received by the University from ARTF includes the traditional benefits enjoyed by a University from an affiliated research park, including but not limited to, increased exposure for development and commercialization of the University's intellectual property and technologies, increased research opportunities for the University's students and professors, and heightened exposure within the commercial world of the technological campus offerings. The Vice President for Research and Economic Development of the University serves as the President of ARTF and is a member of the ARTF Board of Directors with full voting powers. Contributed services in the amount of approximately \$19,000 and \$18,000 were recognized by ARTF during fiscal year 2017 and 2016, respectively, related to services provided by the Vice President for Research and Economic Development serving as the President of ARTF. During a portion of fiscal year 2016, ARTF had a consulting agreement with a University temporary employee to serve as the Executive Director of ARTF. Additionally, ARTF's accounting records are maintained as a subsystem within the University's accounting system.

ARTF's Board of Directors includes members who are also members of the Edward Via College of Osteopathic Medicine (VCOM) Board of Directors, AUF Board of Directors, University Board of Trustees as well as other University employees. A banking relationship exists between ARTF and a financial institution whose President and CEO is a member

of ARTF's Board of Directors and is also a member of the University's Board of Trustees.

ARTF and the University entered into an Operating Agreement (the Agreement), which governs the general and administrative and development financial relationships between these two entities. In summary, the Agreement states that in return for certain services and facilities that are within the capability and control of the University, ARTF will reimburse the University for the cost of such services and facilities. ARTF makes an annual determination of its allocable share of these costs and records the transaction. As discussed below, unpaid amounts at September 30 are included in "Other payable to Auburn University" on the ARTF Statements of Financial Position. ARTF and the University review the Agreement annually and provide an estimate of the maximum consideration to be paid for the upcoming year for approval by the respective boards. The actual reimbursement is determined based on the actual costs incurred. In accordance with the Agreement for fiscal year 2017 and 2016, personnel costs incurred by the University and charged to ARTF were \$344,497 and \$323,170, respectively, of these amounts \$108,770 and \$146,549, respectively was payable at September 30, 2017 and 2016.

ARTF entered into an agreement with the University to market the University's Certification for Aquaculture Professionals (CAP) program. As of September 30, 2017 and 2016, ARTF owed the University \$0 and \$57,929, respectively, related to this agreement. ARTF entered into subcontracts with the University to provide services to fulfil ARTF's sponsored project agreements. As of September 30, 2017 and 2016, ARTF owed the University \$0 and \$19,675, respectively, related to the subcontracts. ARTF and the University enter into licensing agreements for certain intellectual property. Under the licensing agreements, ARTF owed the University \$0 and \$40,416 at September 30, 2017 and 2016, respectively. The University provides certain operating services to ARTF. As of September 30, 2017 and 2016, ARTF owed the University \$12,877 and \$10,169, respectively, related to these services. Additionally, the Foundation shares miscellaneous costs related to office expenses and equipment leases with a University department. Payables to the University for these expenses were \$772 and \$13,623 as of September 30, 2017 and 2016, respectively. All amounts owed to the University are shown in "Other payables to Auburn University" on the ARTF Statements of Financial Position.

The amounts due from the University to ARTF of \$37,377 and \$3,361 at September 30, 2017 and 2016, respectively, related to operating transactions between the University and ARTF. This amount is included in "Accounts receivable" on the ARTF Statements of Financial Position.

ARTF held lease agreements with three University departments in fiscal year 2017 and 2016, whereby the departments leased office space from ARTF. As leasing tenants, the University departments remit a monthly rental fee to ARTF in accordance with their lease agreements. The University paid approximately \$224,000 and \$140,000 in lease costs during fiscal year ended September 30, 2017 and 2016, respectively.

ARTF entered into a contract with the University during fiscal year 2011 to develop and manage a full service business incubator. Revenues of \$150,077 and \$154,443 related to this contract were recognized during fiscal year 2017 and 2016, respectively. As of September 30, 2017 and 2016, the remaining amounts of the contributions of \$81,387 and \$81,464, respectively, are shown in "Deferred revenue" on the

ARTF Statements of Financial Position and will be recognized when the expenditures are incurred.

(21) DIRECT LOAN PROGRAM

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

The University's Main Campus disbursed approximately \$144.6 million and \$138.5 million under these programs during the fiscal years ended September 30, 2017 and 2016, respectively. AUM disbursed approximately \$24.8 million and \$24.6 million under these programs during the fiscal years ended September 30, 2017 and 2016, respectively.

(22) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued in June 2015. This Statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that is provided to the employees of state and local governmental employers. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The University is currently evaluating the financial statement impact of this Statement, but expects it will record a material liability and realize a material reduction of its unrestricted net position upon adoption.

Statement No. 81, *Irrevocable Split-Interest Agreements*, was issued in March 2016. This Statement requires that a government that receives resources as a result of an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Additionally, the government must recognize revenue when the resources become applicable to the reporting period. This Statement is effective for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged. Because most donations to the University are made to the Auburn University Foundation, and not directly to the University, the University does not believe the adoption of this Statement will have a material effect on the University's financial statements.

Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, was issued in March 2016. This Statement addresses certain issues that have been raised with regard to 1) the presentation of payroll-related measures in required supplementary information, 2) the selection of assumptions and the treatment of deviations from the guidance in Actuarial Standards of Practice, and 3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for selection of assumptions are effective for that employer in the first reporting period in which the

measurement date of the pension liability is on or after June 15, 2017. The University determined that there was no material impact from its adoption of GASB Statement No. 82.

Statement No. 83, *Certain Asset Retirement Obligations*, was issued in November 2016. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs), which are legally enforceable liabilities associated with the retirement of a tangible capital asset. It requires that a liability and a corresponding deferred outflow of resources be recognized when the liability is both incurred and reasonably estimable. This estimate should include probability weighting of all potential outcomes when that information is available or can be obtained at reasonable cost; otherwise, the most likely amount should be used. This Statement also requires disclosure of certain information about AROs. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The University is currently evaluating the financial statement impact of this Statement.

Statement No. 84, *Fiduciary Activities*, was issued in January 2017. This Statement establishes criteria for identifying fiduciary activities of all state and local governments, and requires reporting those activities in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. Additionally, it provides for the recognition of a liability to the beneficiaries in a fiduciary fund under certain circumstances. This Statement is effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The University is currently evaluating the financial statement impact of this Statement.

Statement No. 85, *Omnibus 2017*, was issued in March 2017. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements.

It addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The University is currently evaluating the financial statement impact of this Statement.

Statement No. 86, *Certain Debt Extinguishment Issues*, was issued in May 2017. This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. It also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The University is currently evaluating the financial statement impact of this Statement.

Statement No. 87, *Leases*, was issued in June 2017. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The University is currently evaluating the financial statement impact of this Statement.





FINANCIAL REPORT 2017

UNAUDITED DIVISIONAL FINANCIAL STATEMENTS

AUBURN UNIVERSITY MAIN CAMPUS
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 134,355,169	\$ 62,013,327
Operating investments	169,952,648	63,554,193
Accounts receivable, net	47,013,665	32,992,198
Student accounts receivable, net	42,882,986	34,045,699
Loans receivable, net	2,803,255	2,691,716
Accrued interest receivable	2,051,788	1,930,599
Inventories	5,246,140	4,750,416
Prepaid expenses	41,282,176	37,032,895
Due from other funds	3,069,282	2,864,671
Total current assets	448,657,109	241,875,714
Noncurrent assets		
Investments	804,407,466	969,062,465
Loans receivable, net	14,764,944	14,613,767
Investment in plant, net	1,588,632,845	1,499,927,799
Due from other funds	91,078,305	94,603,014
Total noncurrent assets	2,498,883,560	2,578,207,045
Total assets	2,947,540,669	2,820,082,759
DEFERRED OUTFLOWS OF RESOURCES		
Loss on refunding of bonds	50,847,256	55,805,159
Pension	107,308,891	85,102,846
Total deferred outflows of resources	158,156,147	140,908,005
LIABILITIES		
Current liabilities		
Accounts payable	59,441,658	50,095,922
Accrued salaries and wages	3,958,124	3,519,185
Accrued compensated absences	15,710,321	14,727,710
Accrued interest payable	10,686,033	10,230,664
Other accrued liabilities	7,557,603	6,564,338
Student deposits	3,676,416	2,840,470
Deposits held in custody	19,820,044	19,847,964
Unearned revenues	202,793,006	179,748,742
Noncurrent liabilities-current portion	30,400,042	31,223,283
Total current liabilities	354,043,247	318,798,278
Noncurrent liabilities		
Bonds and notes payable	672,806,675	702,851,406
Lease obligation	10,007,133	231,563
Pension and OPEB	526,080,203	493,094,347
Other noncurrent liabilities	18,921,228	20,339,088
Due to other funds	46,143,982	42,416,793
Total noncurrent liabilities	1,273,959,221	1,258,933,197
Total liabilities	1,628,002,468	1,577,731,475
DEFERRED INFLOWS OF RESOURCES		
Nonexchange transactions	231,542	213,185
Pension	13,642,223	2,641,214
Total deferred inflows of resources	13,873,765	2,854,399
NET POSITION		
Net investment in capital assets	1,008,288,621	892,681,296
Restricted		
Nonexpendable	23,670,796	23,486,574
Expendable:		
Scholarships, research, instruction, other	139,978,889	143,798,139
Loans	4,800,660	4,914,130
Capital projects	29,940,365	21,209,370
Unrestricted	257,141,252	294,315,381
Total net position	\$ 1,463,820,583	\$ 1,380,404,890

AUBURN UNIVERSITY MAIN CAMPUS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)

	2017	2016
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of \$107,736,594 and \$98,327,560, respectively	\$ 417,441,869	\$ 382,336,340
Federal appropriations	11,650	4,170
Federal grants & contracts, net	44,410,552	44,984,961
State & local grants & contracts, net	7,058,250	6,369,004
Nongovernmental grants & contracts, net	9,483,702	7,906,452
Sales & services of educational departments	43,242,332	38,145,357
Auxiliary revenue, net of scholarship allowances of \$6,981,780 and \$6,871,771, respectively	148,212,946	165,599,234
Other operating revenues	23,791,569	20,861,733
Total operating revenues	<u>693,652,870</u>	<u>666,207,251</u>
OPERATING EXPENSES		
Compensation & benefits	548,148,650	493,408,044
Scholarships & fellowships	19,882,506	19,557,177
Utilities	19,852,313	19,888,780
Other supplies & services	211,772,142	189,408,376
Depreciation	72,337,518	70,592,653
Total operating expenses	<u>871,993,129</u>	<u>792,855,030</u>
Operating loss	<u>(178,340,259)</u>	<u>(126,647,779)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	162,599,066	162,194,149
Gifts	42,916,011	42,943,382
Grants	15,730,999	14,608,394
Net investment income	38,359,169	39,184,843
Interest expense on capital debt	(19,541,029)	(19,541,629)
Nonoperating revenues, net	<u>240,064,216</u>	<u>239,389,139</u>
Income before other changes in net position	61,723,957	112,741,360
OTHER CHANGES IN NET POSITION		
Capital gifts & grants	21,508,764	22,778,671
Additions to permanent endowments	182,972	152,127
Net increase in net position	83,415,693	135,672,158
Net position - beginning of year	<u>1,380,404,890</u>	<u>1,244,732,732</u>
Net position - end of year	<u>\$ 1,463,820,583</u>	<u>\$ 1,380,404,890</u>

AUBURN UNIVERSITY AT MONTGOMERY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,611,060	\$ 1,045,466
Operating investments	2,034,060	1,122,907
Accounts receivable, net	3,443,932	2,515,242
Student accounts receivable, net	5,283,570	4,712,369
Loans receivable, net	419,843	406,759
Accrued interest receivable	231,525	211,515
Inventories	701,560	436,498
Prepaid expenses	2,120,274	1,900,394
Total current assets	15,845,824	12,351,150
Noncurrent assets		
Investments	9,623,855	10,941,927
Loans receivable, net	2,376,605	2,332,489
Investment in plant, net	106,492,633	109,664,368
Due from other funds	39,787,853	36,685,623
Total noncurrent assets	158,280,946	159,624,407
Total assets	174,126,770	171,975,557
DEFERRED OUTFLOWS OF RESOURCES		
Pension	12,090,420	9,875,188
Total deferred outflows of resources	12,090,420	9,875,188
LIABILITIES		
Current liabilities		
Accounts payable	1,776,572	3,464,203
Accrued salaries and wages	323,903	342,336
Accrued compensated absences	1,354,360	1,513,781
Accrued interest payable	2,075	3,425
Student deposits	38,661	27,848
Deposits held in custody	3,072,848	3,021,779
Unearned revenues	15,646,951	14,455,383
Noncurrent liabilities-current portion	135,000	135,000
Due to other funds	3,069,282	2,864,671
Total current liabilities	25,419,652	25,828,426
Noncurrent liabilities		
Bonds and notes payable	140,000	275,000
Pension and OPEB	60,780,634	57,472,794
Due to other funds	91,078,305	94,603,014
Total noncurrent liabilities	151,998,939	152,350,808
Total liabilities	177,418,591	178,179,234
DEFERRED INFLOWS OF RESOURCES		
Nonexchange transactions	151,802	68,768
Pension	1,405,272	305,492
Total deferred inflows of resources	1,557,074	374,260
NET POSITION		
Net investment in capital assets	15,614,325	30,887,006
Restricted		
Nonexpendable	5,223,171	5,212,032
Expendable:		
Scholarships, research, instruction, other	27,274,840	25,668,497
Loans	353,728	352,196
Capital projects	283,856	201,726
Unrestricted	(41,508,395)	(59,024,206)
Total net position	\$ 7,241,525	\$ 3,297,251

AUBURN UNIVERSITY AT MONTGOMERY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)

	2017	2016
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of \$11,005,815 and \$10,550,103, respectively	\$ 34,236,701	\$ 32,502,136
Federal grants & contracts, net	1,595,103	1,286,139
State & local grants & contracts, net	7,302,935	8,802,357
Nongovernmental grants & contracts, net	575,465	625,191
Sales & services of educational departments	2,024,111	2,141,057
Auxiliary revenue, net of scholarship allowances of \$1,610,309 and \$1,453,011, respectively	9,260,037	8,686,615
Other operating revenues	972,659	2,001,524
Total operating revenues	<u>55,967,011</u>	<u>56,045,019</u>
OPERATING EXPENSES		
Compensation & benefits	53,333,380	53,161,156
Scholarships & fellowships	2,696,599	2,669,484
Utilities	3,893,452	3,083,195
Other supplies & services	20,017,064	26,504,741
Depreciation	5,020,230	5,144,434
Total operating expenses	<u>84,960,725</u>	<u>90,563,010</u>
Operating loss	<u>(28,993,714)</u>	<u>(34,517,991)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	22,994,919	22,775,297
Gifts	838,905	3,688,415
Grants	8,646,404	7,992,662
Net investment income	4,352,755	2,635,683
Interest expense on capital debt	(3,916,611)	(3,690,553)
Nonoperating revenues, net	<u>32,916,372</u>	<u>33,401,504</u>
Gain (loss) before other changes in net position	<u>3,922,658</u>	<u>(1,116,487)</u>
OTHER CHANGES IN NET POSITION		
Capital gifts & grants	9,227	12,430
Additions to permanent endowments	12,389	33,107
Net increase (decrease) in net position	<u>3,944,274</u>	<u>(1,070,950)</u>
Net position - beginning of year	<u>3,297,251</u>	<u>4,368,201</u>
Net position - end of year	<u>\$ 7,241,525</u>	<u>\$ 3,297,251</u>

ALABAMA AGRICULTURAL EXPERIMENT STATION
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,541,515	\$ 2,213,067
Operating investments	5,733,936	2,376,997
Accounts receivable, net	5,742,636	5,727,294
Total current assets	<u>16,018,087</u>	<u>10,317,358</u>
Noncurrent assets		
Investments	27,129,271	35,853,253
Due from other funds	<u>1,202,522</u>	<u>1,084,450</u>
Total noncurrent assets	28,331,793	36,937,703
Total assets	<u>44,349,880</u>	<u>47,255,061</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension	8,228,210	6,565,094
Total deferred outflows of resources	<u>8,228,210</u>	<u>6,565,094</u>
LIABILITIES		
Current liabilities		
Accounts payable	857,924	1,062,743
Accrued salaries and wages	221,357	201,463
Accrued compensated absences	1,368,069	1,408,924
Deposits held in custody	6,400	6,200
Unearned revenues	<u>1,871,282</u>	<u>2,396,201</u>
Total current liabilities	<u>4,325,032</u>	<u>5,075,531</u>
Noncurrent liabilities		
Pension and OPEB	40,504,816	38,038,096
Total noncurrent liabilities	<u>40,504,816</u>	<u>38,038,096</u>
Total liabilities	<u>44,829,848</u>	<u>43,113,627</u>
DEFERRED INFLOWS OF RESOURCES		
Pension	1,028,136	203,246
Total deferred inflows of resources	<u>1,028,136</u>	<u>203,246</u>
NET POSITION		
Restricted		
Expendable:		
Scholarships, research, instruction, other	2,624,070	2,576,076
Unrestricted	4,096,036	7,927,206
Total net position	<u>\$ 6,720,106</u>	<u>\$ 10,503,282</u>

ALABAMA AGRICULTURAL EXPERIMENT STATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)

	2017	2016
OPERATING REVENUES		
Federal appropriations	\$ 5,408,769	\$ 4,329,549
Federal grants & contracts, net	14,808,179	14,932,255
State & local grants & contracts, net	1,545,355	1,376,932
Nongovernmental grants & contracts, net	4,271,608	6,186,146
Sales & services of educational departments	2,756,965	2,976,607
Other operating revenues	457,988	442,646
Total operating revenues	<u>29,248,864</u>	<u>30,244,135</u>
OPERATING EXPENSES		
Compensation & benefits	39,591,207	37,920,339
Scholarships & fellowships	160,756	145,664
Utilities	1,009,924	1,025,721
Other supplies & services	26,728,348	28,097,478
Total operating expenses	<u>67,490,235</u>	<u>67,189,202</u>
Operating loss	<u>(38,241,371)</u>	<u>(36,945,067)</u>
NONOPERATING REVENUES		
State appropriations	32,071,576	30,887,430
Gifts	1,899,988	3,917,208
Net investment income	486,631	425,417
Nonoperating revenues, net	<u>34,458,195</u>	<u>35,230,055</u>
Net decrease in net position	<u>(3,783,176)</u>	<u>(1,715,012)</u>
Net position - beginning of year	<u>10,503,282</u>	<u>12,218,294</u>
Net position - end of year	<u>\$ 6,720,106</u>	<u>\$ 10,503,282</u>

ALABAMA COOPERATIVE EXTENSION SYSTEM
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,283,465	\$ 1,632,556
Operating investments	4,145,572	1,753,485
Accounts receivable, net	4,715,239	3,376,199
Total current assets	<u>12,144,276</u>	<u>6,762,240</u>
Noncurrent assets		
Investments	19,614,160	25,328,269
Due from other funds	5,153,607	4,646,720
Total noncurrent assets	<u>24,767,767</u>	<u>29,974,989</u>
Total assets	<u>36,912,043</u>	<u>36,737,229</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension	13,942,490	12,615,272
Total deferred outflows of resources	<u>13,942,490</u>	<u>12,615,272</u>
LIABILITIES		
Current liabilities		
Accounts payable	1,685,735	728,171
Accrued salaries and wages	296,698	279,845
Accrued compensated absences	2,110,472	1,901,681
Unearned revenues	555,537	764,210
Total current liabilities	<u>4,648,442</u>	<u>3,673,907</u>
Noncurrent liabilities		
Pension and OPEB	106,143,207	102,181,046
Total noncurrent liabilities	<u>106,143,207</u>	<u>102,181,046</u>
Total liabilities	<u>110,791,649</u>	<u>105,854,953</u>
DEFERRED INFLOWS OF RESOURCES		
Pension	1,072,951	257,641
Total deferred inflows of resources	<u>1,072,951</u>	<u>257,641</u>
NET POSITION		
Restricted		
Nonexpendable:	24,487	24,487
Expendable:		
Scholarships, research, instruction, other	5,299,268	5,093,727
Capital projects	136	-
Unrestricted	<u>(66,333,958)</u>	<u>(61,878,307)</u>
Total net position	<u>\$ (61,010,067)</u>	<u>\$ (56,760,093)</u>

ALABAMA COOPERATIVE EXTENSION SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)

	2017	2016
OPERATING REVENUES		
Federal appropriations	\$ 9,861,628	\$ 8,900,792
Federal grants & contracts, net	11,580,978	8,445,721
State & local grants & contracts, net	2,503,771	2,453,893
Nongovernmental grants & contracts, net	657,148	826,403
Sales & services of educational departments	526,803	399,070
Other operating revenue	1,241,134	1,545,187
Total operating revenues	<u>26,371,462</u>	<u>22,571,066</u>
OPERATING EXPENSES		
Compensation & benefits	47,722,916	42,753,799
Scholarships & fellowships	9,665	1,521
Utilities	159,860	149,845
Other supplies & services	20,847,699	15,567,289
Total operating expenses	<u>68,740,140</u>	<u>58,472,454</u>
Operating loss	<u>(42,368,678)</u>	<u>(35,901,388)</u>
NONOPERATING REVENUES		
State appropriations	37,010,435	32,204,625
Gifts	368,577	94,042
Net investment income	739,692	709,960
Nonoperating revenues, net	<u>38,118,704</u>	<u>33,008,627</u>
Net decrease in net position	<u>(4,249,974)</u>	<u>(2,892,761)</u>
Net position - beginning of year	<u>(56,760,093)</u>	<u>(53,867,332)</u>
Net position - end of year	<u>\$ (61,010,067)</u>	<u>\$ (56,760,093)</u>





FINANCIAL REPORT 2017

UNAUDITED REQUIRED
SUPPLEMENTAL INFORMATION

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

Teachers' Retirement System Schedule of Proportionate Share of Collective Net Pension Liability

	2017	2016	2015
University's proportion of the collective net pension liability	6.146014%	5.965792%	5.757899%
University's proportionate share of the collective net pension liability	\$ 665,367,000	\$ 624,361,000	\$ 523,080,000
University's covered payroll during the measurement period*	\$ 395,094,076	\$ 380,477,086	\$ 368,745,049
University's proportionate share of the collective net pension liability as a percentage of its covered payroll	168.41%	164.10%	141.85%
Plan fiduciary net position as a percentage of the total collective pension liability	67.93%	67.51%	71.01%

*University's covered payroll during the measurement period is the total payroll on which contributions to a pension plan are based. For fiscal year 2017, the measurement period is October 1, 2015-September 30, 2016. For fiscal year 2016, the measurement period is October 1, 2014-September 30, 2015.

Teachers' Retirement System Schedule of System Contributions

	2017	2016	2015
Contractually Required Contribution	\$ 49,273,810	\$ 46,139,070	\$ 42,534,706
Contributions in relation to the contractually required contribution	<u>49,273,810</u>	<u>46,139,070</u>	<u>42,534,706</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
System covered payroll	\$ 422,375,257	\$ 395,094,076	\$ 380,477,086
Contributions as a percentage of covered payroll	11.67%	11.68%	11.18%

Employees' Retirement System Schedule of Changes in the Net Pension Liability

	2016	2015	2014
Service cost	\$ 21,595	\$ 46,380	\$ 104,069
Interest	3,539,730	3,678,959	3,800,103
Changes of benefit terms	-	-	-
Differences between expected and actual experience	590,134	264,685	-
Changes of assumptions	2,271,808	-	-
Benefit payments, including refunds of employee contributions	<u>(5,958,850)</u>	<u>(5,501,945)</u>	<u>(5,334,993)</u>
Net change in total pension liability	\$ 464,417	\$ (1,511,921)	\$ (1,430,821)
Total pension liability - beginning	<u>47,226,044</u>	<u>48,737,965</u>	<u>50,168,786</u>
Total pension liability - ending (a)	<u>\$ 47,690,461</u>	<u>\$ 47,226,044</u>	<u>\$ 48,737,965</u>

Plan fiduciary net position

	2016	2015	2014
Contributions - employer	\$ 5,645,920	\$ 4,159,117	\$ 1,790,336
Contributions - member	80,506	104,131	125,268
Net investment income	3,837	9,066	331,362
Benefits payments, including refunds of employee contributions	<u>(5,958,850)</u>	<u>(5,501,945)</u>	<u>(5,334,993)</u>
Transfers among employers	-	-	-
Net change in plan fiduciary net position	\$ (228,587)	\$ (1,229,631)	\$ (3,088,027)
Plan net position - beginning	<u>153,894</u>	<u>1,383,525</u>	<u>4,471,552</u>
Plan net position - ending (b)	<u>\$ (74,693)</u>	<u>\$ 153,894</u>	<u>\$ 1,383,525</u>
Net pension liability - ending (a)-(b)	\$ 47,765,154	\$ 47,072,150	\$ 47,354,440
Plan fiduciary net position as a percentage of total pension liability	-0.16%	0.33%	2.84%
Covered payroll*	\$ 2,138,954	\$ 2,775,630	\$ 3,341,010
Net pension liability as a percentage of covered payroll	2,205.06%	1,695.91%	1,417.37%

*Employer's covered payroll during the measurement period is the total covered payroll. For fiscal year 2017, the measurement period is October 1, 2015-September 30, 2016.

Employees' Retirement System Schedule of Employer Contributions

	2017	2016	2015
Actuarially determined contribution*	\$ 5,321,011	\$ 5,629,191	\$ 4,151,926
Contributions in relation to the actuarially determined contribution	<u>5,321,011</u>	<u>5,629,191</u>	<u>4,151,926</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll**	\$ 1,755,903	\$ 2,138,954	\$ 2,775,630
Contributions as a percentage of covered payroll	303.04%	263.17%	149.58%

*The amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of Employer Contributions is based on the twelve month period of the underlying financial statement.

**Employer's covered payroll for fiscal year 2017 is the total covered payroll for the 12 month period of the underlying financial statements.

Notes to Schedule

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2017 were based on the September 30, 2014 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry Age

Amortization method: Level percent closed

Remaining amortization period: 7 years

Asset valuation method: Five year smoothed market

Inflation: 3.00%

Salary increases: 3.75-7.25%, including inflation

Investment rate of return: 8.00%, net of pension plan investment expense, including inflation

Other Postemployment Benefits

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

Cost Element	Fiscal Year Ended September 30, 2017	
	Amount	Percent of Payroll ¹
1. Unfunded actuarial accrued liability at October 1, 2016	\$ 59,568,585	3,586.7%
Annual Required Contribution (ARC)		
2. Normal cost	\$ -	
3. Amortization of the unfunded actuarial accrued liability over 15 years using level dollar amortization	4,575.584	
4. Annual Required Contribution (ARC = 2 + 3)	<u>\$ 4,575,584</u>	275.5%
Annual OPEB Cost (Expense)		
5. ARC	\$ 4,575,584	
6. Interest on beginning of year accrual	387,063	
7. Adjustment to ARC	(1,476,634)	
8. Fiscal year 2017 OPEB cost (5 + 6 + 7)	<u>\$ 3,486,013</u>	209.9%
End of Year Accrual (Net OPEB Obligation)²		
9. Beginning of year accrual ¹	\$ 19,353,132	
10. Annual OPEB cost	3,486,013	
11. Employer contribution (benefit payments) ²	(2,462,438)	
12. End of year CAFR accrual (9 + 10 + 11) ²	<u>\$ 20,376,707</u>	1,226.9%

¹ Annual payroll for 16 participants as of September 30, 2017, was \$1,660,810.

² Actual amounts paid in fiscal year 2017 include claim costs, administrative fees, and PEEHIP subsidy less participant contributions.

Three Year Schedule of Percentage of OPEB Cost Contributed

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed ³	Net OPEB Obligation
September, 30 2015	\$ 4,315,892	58.9%	\$ 18,005,098
September, 30 2016	\$ 3,813,799	64.7%	\$ 19,353,132
September, 30 2017	\$ 3,486,013	70.6%	\$ 20,376,707

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

Summary of Key Actuarial Methods and Assumptions

Valuation year	October 1, 2016 – September 30, 2017
Actuarial cost method	Unit Credit, Actuarial Cost Method
Amortization method	15 years, level dollar open amortization ⁴
Asset valuation method	Not applicable
Discount rate	2.0%
Projected payroll growth rate	Not applicable
Health care cost trend rate for medical and prescription drugs	8.5% in fiscal year 2018, decreasing by one-half percentage point per year to an ultimate of 5.0% in fiscal year 2025 and later.

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

Valuation Date October 1, 2016

Monthly Per Capita Claim Costs

<u>Age</u>	<u>Medical</u>
55	\$786
60	\$943
65	\$382
70	\$424
75	\$452

Claim costs were increased by 5.04% over last year based on a weighted average of benefit plan premiums. Future claim costs are increased by health care cost trend.

Retiree Premiums

Non-smoking retirees not eligible to participate in PEEHIP pay 40% of the premium. Surviving spouses and those retirees who are eligible to participate in PEEHIP but have declined to do so pay 100% of the premium. Smokers pay an additional \$20 per month.

	<u>As of 1/1/17</u>	<u>As of 1/1/16</u>
Pre-65 Single	\$516	\$491
Pre-65 Family	\$1,160	\$1,105
Post-65 Single	\$167	\$159
Post-65 Family	\$811	\$772

Note: There are several other categories of premiums.

Administrative Expenses

Included in claim cost.

Assumed Health Care Trend Rate

Fiscal Year	Medical and Rx Combined
	<u>Rate</u>
2018	8.5%
2019	8.0%
2020	7.5%
2021	7.0%
2022	6.5%
2023	6.0%
2024	5.5%
2025+	5.0%

Spouse Age Difference

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

Mortality

RP-2014 Combined Mortality Fully Generational Projected using Projection Scale MP-2015.

Participation Rates

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

Retirement Rates

Employees are assumed to retire according to the following schedule:

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

Withdrawal Rates

None assumed since all are long service Civil Service employees.

Disability Rates

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

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

Impact of Healthcare Reform

The provisions of Healthcare Reform are expected to increase costs by 3.05% on a discounted basis. The unlimited lifetime maximum, removal of limitations on preventive care and coverage of eligible dependents to age 26 are reflected in the claim costs. The Cadillac Plan excise tax is expected to increase costs by \$3.6 million. There is not any cost impact for retirees who have elected PEEHIP.

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Employer Contribution	Percentage Contributed
September 30, 2012	\$ 4,701,385	\$ 2,477,024	52.7%
September 30, 2013	\$ 4,555,416	\$ 2,480,884	54.5%
September 30, 2014	\$ 4,992,477	\$ 2,504,119	50.2%
September 30, 2015	\$ 5,229,775	\$ 2,543,312	48.6%
September 30, 2016	\$ 4,827,476	\$ 2,465,765	51.1%
September 30, 2017	\$ 4,575,584	\$ 2,462,438	53.8%

Schedule of Funding Progress

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)/(c)]
September 30, 2012	-	\$ 59,795,647	\$ 59,795,647	0.0%	\$ 3,866,263	1,546.6%
September 30, 2013	-	\$ 58,200,833	\$ 58,200,833	0.0%	\$ 3,942,432	1,476.3%
September 30, 2014	-	\$ 64,259,009	\$ 64,259,009	0.0%	\$ 3,061,830	2,098.7%
September 30, 2015	-	\$ 68,027,346	\$ 68,027,346	0.0%	\$ 2,192,470	3,102.8%
September 30, 2016	-	\$ 62,824,140	\$ 62,824,140	0.0%	\$ 1,847,780	3,400.0%
September 30, 2017	-	\$ 59,568,585	\$ 59,568,585	0.0%	\$ 1,660,810	3,586.7%

AUBURN UNIVERSITY BOARD OF TRUSTEES

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



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