AUBURN UNIVERSITY

2008 Financial Report

Comprehensive Annual Financial Report
For the year ended September 30, 2008

Auburn University

AUBURN UNIVERSITY

2008
FINANCIAL REPORT

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2008
FINANCIAL REPORT

INTRODUCTORY SECTION

Auburn University

OFFICE OF
THE PRESIDENT

AUBURN
UNIVERSITY

January 21, 2009

Dear Members of the Auburn Community and Alabama Citizens:

This Annual Financial Report briefly summarizes the University's financial position and activity for the fiscal year ended September 30, 2008. I am pleased that Auburn has again finished the year in strong financial condition as the information in the report, further supported by a recent bond rating upgrade by Standard and Poor's, demonstrates.

This time frame included an important milestone for Auburn in the completion of its new strategic plan. The plan represents a collective effort of the University, its stakeholders, state leaders, and others. Ideas and suggestions were requested from throughout the Auburn Family, with more than 1,300 individuals participating in surveys and meetings; the final product represents the best in strategic thinking from students, faculty, staff, alumni, and friends. We hope you will visit **www.auburn.edu/strategicplan** to see the highlights, particularly in the areas of academics and international growth.

Milestones in excellence for Auburn during this time period include:

- *Excellence in Academics.* Auburn continued to be ranked among the top 50 public institutions by *U.S. News & World Report* for now 16 years in a row, and its top 15 percent of colleges ranking in the *Princeton Review*. Our strategic plan contains initiatives to help us continue to improve.
- *Excellence in Athletics.* If Auburn were its own country, its 18 medals in the Beijing Olympic Games would tie for 14th in the world with Spain and Canada. Collectively, Auburn athletes earned three gold, 10 silver, and five bronze medals.
- *Excellence in Facilities.* New environmentally-friendly LEEDS building certifications have been earned while our campus has become more pedestrian and bike-friendly, earning accolades in the national press for this effort. We also opened a new Student Center and the Shelby Center for Engineering Technology.
- *Excellence in Service to the State.* Auburn's economic impact on the state has grown to $4.85 billion, so it also remains our commitment to help improve the quality of life of Alabamians through tens of thousands of hours of dedicated service initiatives led by our staff and faculty, and through more research that will lead to solutions for current economic and technological challenges.

Such initiatives and facilities will be needed to deliver the promise of a freshman class that entered with the highest ACT average scores in our history at a 25.9 (the national average is 21.1). So, these outstanding, bright students have chosen Auburn to help them achieve their hopes and dreams. It is our commitment and obligation to our students to help them do so.

Sincerely,

Jay Gogue

Jay Gogue
President

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

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

AUBURN
UNIVERSITY

January 21, 2009

The Comprehensive Annual Financial Report for Auburn University for 2008 provides comparative financial statements for the years ended September 30, 2008, and September 30, 2007. The financial statements on the following pages have been prepared in accordance with the guidelines established by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants, and general conformance with College and University Business Administration, which sets forth generally accepted accounting principles for colleges and universities.

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

Sincerely,

Donald L. Large, Jr.

Donald L. Large, Jr.
Executive Vice President

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

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www.auburn.edu

AUBURN UNIVERSITY

2008 Financial Report

Financial Section


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

PricewaterhouseCoopers LLP
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Suite 1600
Birmingham AL 35203
Telephone (205) 252 8400
Facsimile (205) 252 7776

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

In our opinion, based upon our audits and the reports of other auditors, the financial statements listed in the accompanying table of contents, which collectively comprise the financial statements of Auburn University (the "University"), a component unit of the State of Alabama, present fairly, in all material respects, the respective financial position of the University and its discretely presented component units at September 30, 2008 and 2007 (June 30, 2008 and 2007 for Tigers Unlimited Foundation), and the respective changes in financial position and cash flows (as applicable), of the University and its component units for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Auburn Alumni Association (the "Association") and the Auburn University Foundation (the "Foundation"), which represent 84 percent and 87 percent of assets, 84 percent and 87 percent of net assets and 56 percent and 66 percent of revenues of the discretely presented component units at September 30, 2008 and 2007 (June 30, 2008 and 2007 for Tigers Unlimited Foundation) and for the years then ended, respectively. Each of those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Association and the Foundation, is based solely on the reports of other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

The management's discussion and analysis and required supplemental information on pages 12 through 18 and pages 67 through 71 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The University has not presented the management's discussion and analysis for the year ended September 30, 2007, that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The introductory information on pages 5 through 7, the information presented on pages 19 through 21, and the supplemental divisional financial statements as set forth on pages 57 through 65 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

PricewaterhouseCoopers LLP

January 21, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the financial position and activities of Auburn University (the University) for the year ended September 30, 2008, with a comparison to the year ended September 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements, footnotes, and this discussion are the responsibility of University management.

The University is a land grant institution and is classified by the Carnegie Foundation as "Doctoral/Research-Extensive," while Auburn University at Montgomery (AUM) is classified as "Master's I." Fall 2008 enrollment included 29,817 total students at the main campus at Auburn and at AUM. The University offers a diverse range of degree programs in 12 colleges and schools and has approximately 5,263 full-time employees, including approximately 1,364 faculty members, who contribute to the University's mission of serving the citizens of the State of Alabama through its instructional, research and outreach programs.

Using the Annual Report

The University's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on an entity-wide basis to focus on the University as a whole. All references to "2008," "2007," or another year refer to the fiscal year ended September 30, unless otherwise noted.

The University's financial statements are summarized as follows:

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

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

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

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

(1) **Auburn University Foundation (AUF)** - AUF was organized on February 9, 1960, and is the fundraising foundation for the University. As of September 30, 2008, 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. AUF financial reports are presented according to the Financial Accounting Standards Board (FASB) Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. FASB Statement No. 117 requires three classes of net assets to be reported: unrestricted, temporarily restricted and permanently restricted.

(2) **Tigers Unlimited Foundation (TUF)** - TUF is a legally separate nonprofit organization incorporated in December 2002, which began operations on April 21, 2004. TUF was organized exclusively for charitable purposes, pursuant to Sections 501(a) and 501(c)(3) of the Internal Revenue Code to support athletic fund raising and athletic programs. TUF presents its financial statements in accordance with FASB Statement No. 117 with a June 30 fiscal year end. TUF provides economic resources to the University for athletic scholarships, athletic building maintenance or new construction, and for athletic department programs.

(3) Auburn Alumni Association (the Association) - The Association is a nonprofit corporation organized on April 14, 1945, to promote mutually beneficial relationships between the University and its alumni, to encourage loyalty among alumni, and to undertake various other actions for the benefit of the University, its alumni and the State of Alabama. Membership is comprised of alumni, friends and students of the University. The Association's financial statements are presented in accordance with FASB Statement No. 117. The Association provides monetary support to the University in the form of faculty awards and student scholarships.

The University has three other related foundations. Due to immateriality, the statements of the Auburn Research and Technology Foundation and the Auburn Spirit Foundation for Scholarships are not presented as component units in these financial statements. The Auburn University Real Estate Foundation has been consolidated into AUF's financial statements, as a blended component unit.

FINANCIAL HIGHLIGHTS

Statement of Net Assets

The University's financial position at September 30, 2008, and 2007, includes assets of $1.97 billion and liabilities of $816 million and assets of $1.56 billion and liabilities of $526 million, respectively. The University experienced an increase in net assets of 11% in 2008. A summary of assets, liabilities, and net assets as of September 30, 2008, and 2007, is as follows:

	2008	2007
Assets		
Current assets	$ 211,411,952	$ 208,111,161
Capital assets	865,261,061	757,360,225
Other noncurrent assets	889,422,754	595,779,272
Total assets	1,966,095,767	1,561,250,658
Liabilities		
Current liabilities	225,926,382	195,013,081
Noncurrent liabilities	589,751,160	330,697,951
Total liabilities	815,677,542	525,711,032
Net assets		
Invested in capital assets, net of related debt	515,706,670	476,479,089
Restricted-Nonexpendable	23,630,616	22,949,706
Restricted-Expendable	152,763,953	134,691,617
Unrestricted	458,316,986	401,419,214
Total net assets	$ 1,150,418,225	$ 1,035,539,626

The University's Assets

Current assets consist of cash and cash equivalents, operating investments (those investments that are expected to be liquidated during the course of normal operations), net accounts receivable (primarily amounts due from the federal and state governments and other agencies as reimbursements for sponsored programs), net student accounts receivable (including amounts due from third parties on behalf of the students), current portion of loans receivable, accrued interest receivable, inventories, and prepaid expenses. These assets increased $3.3 million from 2007 to 2008. This change was due to several factors. In 2008, the University issued new bonds. The cost of issuance on the new bond issues increased prepaid expenses $2.4 million. Although the University had decreases in pledged gift receivables and student accounts receivable, the University maintained a higher level of liquidity at September 30, 2008; therefore, the remaining current assets slightly increased.

Other noncurrent assets increased largely due to investment of bond proceeds. Capital assets generally represent the historical cost of land improvements, buildings, construction in progress, infrastructure, equipment, library books, livestock, less any accumulated depreciation, with buildings constituting over 63% of the total capital asset value. Capital assets, net of depreciation, shown as investment in plant, net on the Statement of Net Assets increased 14% from 2007 to 2008. The increase was mainly due to the completion and capitalization of the following construction projects in fiscal year 2008 totaling $56.3 million:

Student Center	$ 40.5 million
AU Hotel Dixon Conference Center Guest Rooms	$ 7.7 million
Federal Highway Admin Center for Technology	$ 4.3 million
IINR Bioenergy and Biproduct Plant	$ 1.0 million
Small Projects Total	$ 2.8 million

The University's Liabilities
Current liabilities consist of accounts payable, the current portion of compensation related liabilities, accrued interest payable, student and other deposits (including Perkins and Health Professions loan liability), deferred revenues, the current portion of noncurrent liabilities, and other accrued liabilities. Current liabilities increased by $30.9 million from 2007 to 2008. This increase was primarily due to additional payables on new construction accrued as of September 30, 2008, but paid subsequent to year end. The University's deferred revenue increased based on increases in fall 2008 tuition, which the University defers 60% as of September 30 and receipt of contract and grant funds prior to expenditures. The University also had an increase in accrued interest payable due to new bonds issued in 2008.

Noncurrent liabilities include principal amounts due on University bonds payable, accrued compensated absences and other compensation-related liabilities that are payable beyond September 30, 2009. Noncurrent liabilities increased 78% from 2007 to 2008, primarily due to the issuance of general fee revenue bonds in 2008 and the accrual of other postemployment benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions* (refer to Note 11).

During 2008, the University issued $269,495,000 in General Fee Revenue bonds. Proceeds from the bonds are to be used for financing costs of certain capital improvements to the Auburn campus and paying the costs of the issuance of the Series 2007 and Series 2008 General Fee Revenue bonds. The capital improvements for the Series 2007 bonds include acquisition and construction of new housing and dining facilities, pedestrian and vehicular road and access projects, additional parking facilities, and any other projects related to the new housing and dining facilities. The capital improvements for the Series 2008 bonds include the acquisition, construction, and equipping of a new intercollegiate basketball complex, relocation of other athletic facilities in relation to the closing of the existing complex, and other improvements.

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

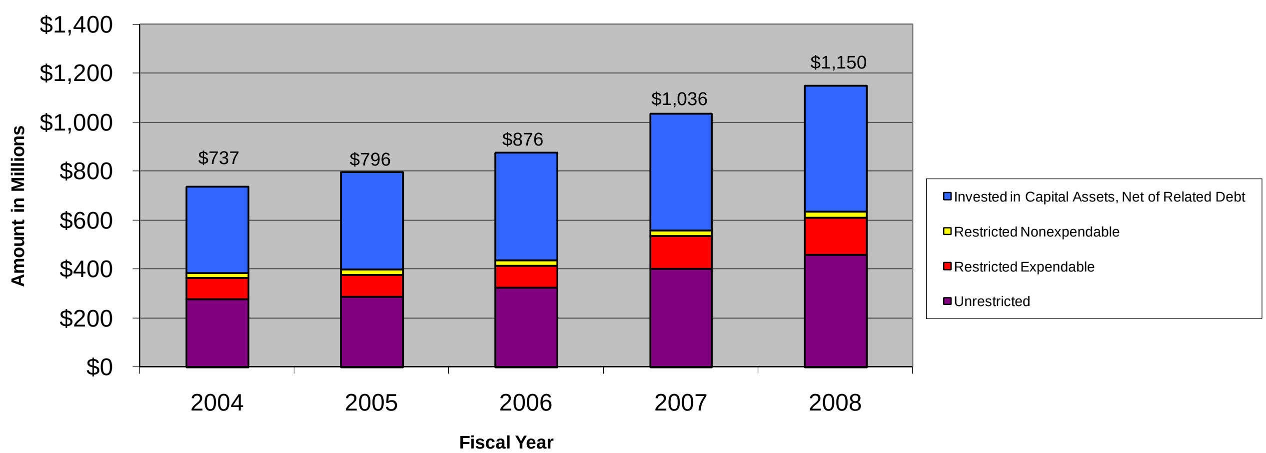
Net assets invested in capital, net of related debt, represent unexpended capital debt proceeds, the University's capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. These net assets increased 8.2% from September 30, 2007, to September 30, 2008. This increase is due to capitalization of assets as described previously.

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

> Restricted-nonexpendable net assets are subject to external restrictions governing their use and consist of the University's permanent endowment funds. These net assets increased $680,910 from September 30, 2007, to September 30, 2008, primarily due to investment earnings added back to permanent endowments.
>
> Restricted-expendable net assets are also subject to external restrictions governing their use. Such net assets include gifts and contracts and grants restricted by federal, state, or local governments and private sources, which are restricted for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Restricted funds functioning as endowments, restricted funds available for student loans and funds restricted for construction purposes are also included in this category. These net assets increased by $18 million from September 30, 2007, to September 30, 2008. The majority of the increase is due to restricted gift funds that are unspent at year end.

Unrestricted net assets are the third major class of net assets and they are not subject to externally imposed stipulations; however, the majority of the University's unrestricted net assets have been internally designated for various mission-related purposes. These assets include funds for general operations of the University, for auxiliary operations (including athletics, housing, and the bookstore), for unrestricted quasi-endowments and for capital projects. Unrestricted net assets increased $56.9 million from September 30, 2007, to September 30, 2008. The increase in unrestricted net assets is mainly due to holding unrestricted funds for future mission related priorities, a proration reserve, and deferred maintenance needs.

TOTAL NET ASSETS



Statement of Revenues, Expenses and Changes in Net Assets

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

A condensed statement is provided below:

	2008	2007
Operating revenues	$ 486,164,108	$ 460,939,754
Operating expenses	766,590,509	707,318,186
Operating loss	(280,426,401)	(246,378,432)
Net nonoperating revenues and other changes in net assets	395,305,000	405,461,201
Increase in net assets	114,878,599	159,082,769
Net assets:		
Beginning of year	1,035,539,626	876,456,857
End of year	$ 1,150,418,225	$ 1,035,539,626

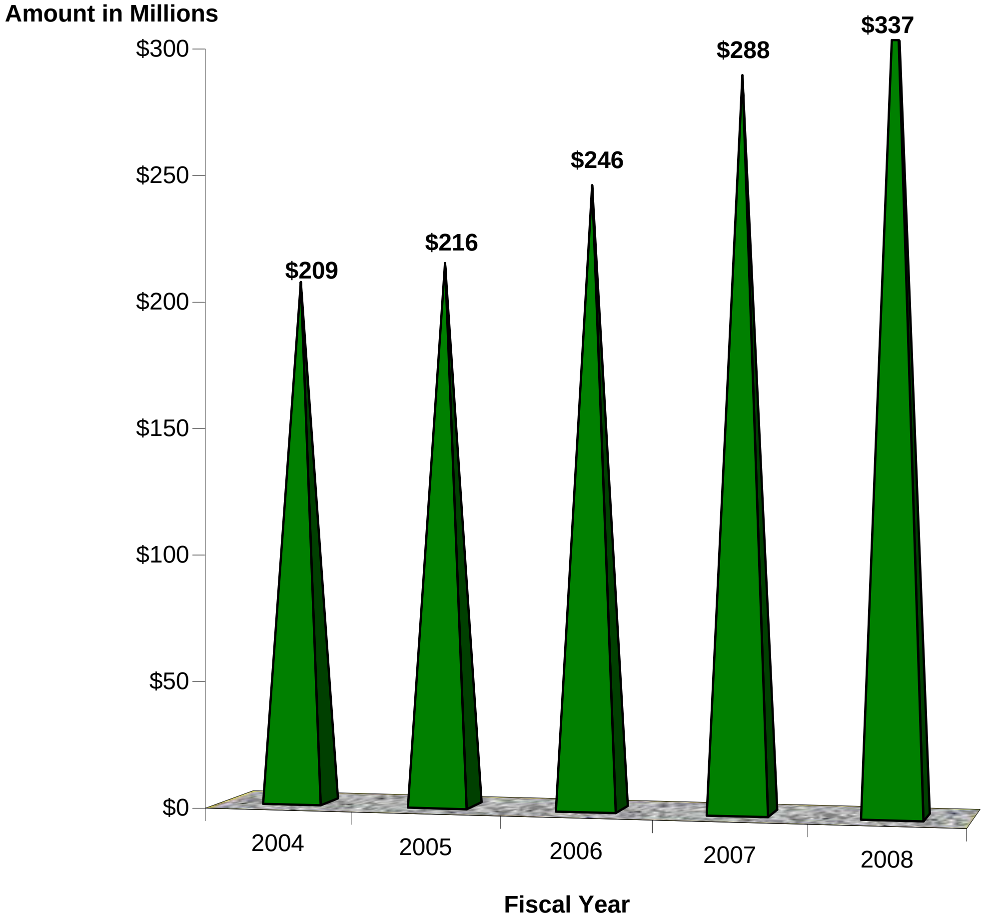
The 2008 Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in net assets at the end of the year of $114.9 million. Operating revenues increased 5.5% when comparing operating revenues from 2007 to 2008. Student tuition and fee revenue, net of discounts, increased $15.8 million, which is primarily the result of Board-approved tuition increases of 5% in the 2007-2008 and 2006-2007 academic years, for the main campus and AUM. Because the University's fiscal year crosses fall semester, tuition revenues in the fiscal year ending September 30, 2008, include 60% of fall semester of 2007, spring semester of 2008, and summer term of 2008, as well as 40% of fall semester of 2008, which included 12% increase in tuition.

Operating expenses increased 8.4% from 2007 to 2008. Expenses for compensation and employee benefits increased $42 million, which was primarily attributable to the 2008 compensation increases of approximately 8%. Scholarships and Fellowships increased 16%, and is attributed to the University's desire to increase aid to Auburn students. Depreciation expense increased $4.1 million, mainly due to depreciation being recorded beginning in fiscal year 2008 on new projects completed in 2007.

Net nonoperating revenues decreased $11.3 million from 2007 to 2008, and this decrease is attributable to a decrease in gifts received and investment income, which includes unrealized losses. While the University did receive an increase in state appropriations from the State of Alabama of $48.7 million, the decrease in gifts and net investment income exceeded the additional appropriation. Gifts decreased $26.3 million in 2008 compared to 2007. This is mainly due to a single donor gift of $18 million in fiscal year 2007, which did not occur in fiscal year 2008. In addition, net investment income decreased $29.6 million, as a result of unrealized losses on investments.

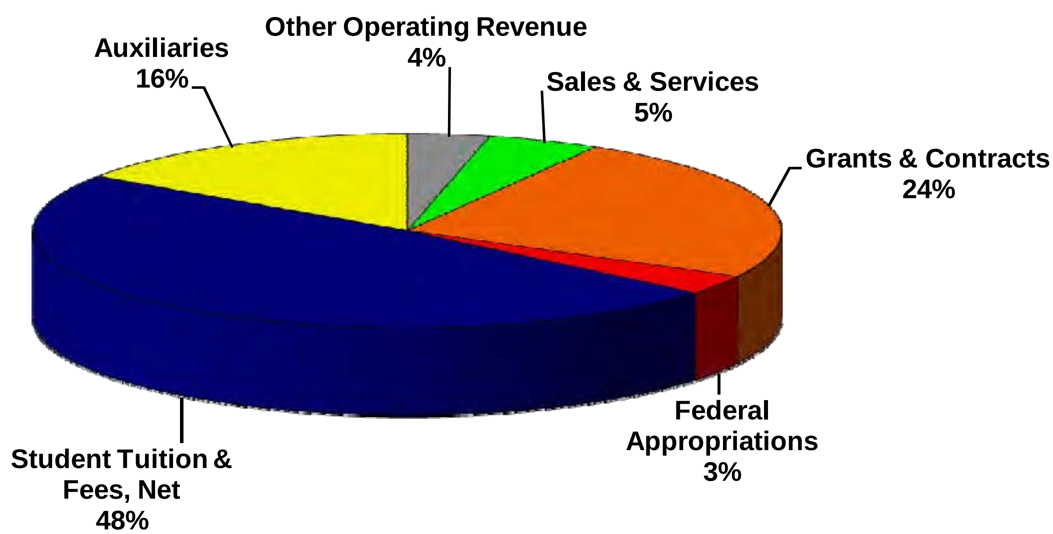
Capital appropriations, capital gifts and grants, and additions to permanent endowments increased $1.2 million when comparing $23.9 million recognized in 2008 to $22.7 million recognized in 2007. This includes a $5 million gift of infrastructure improvements to University owned land from the City of Auburn, a $2 million gift for the new basketball arena, a $6 million grant from the Federal Highway Department, and $3.5 million in gifts given in support of the Shelby Transportation Technology Center.

STATE APPROPRIATIONS



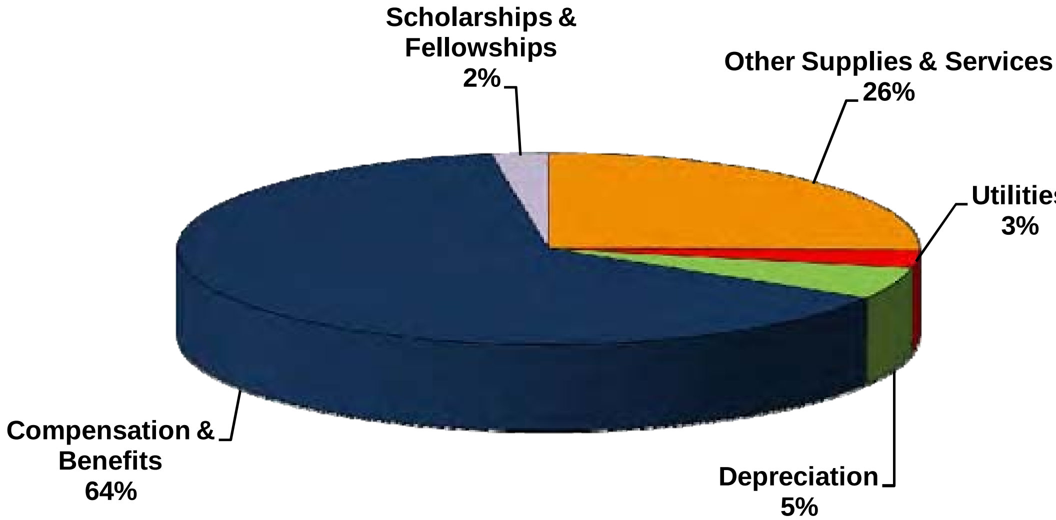
OPERATING REVENUES SUPPORTING CORE ACTIVITIES

For the year ended September 30, 2008



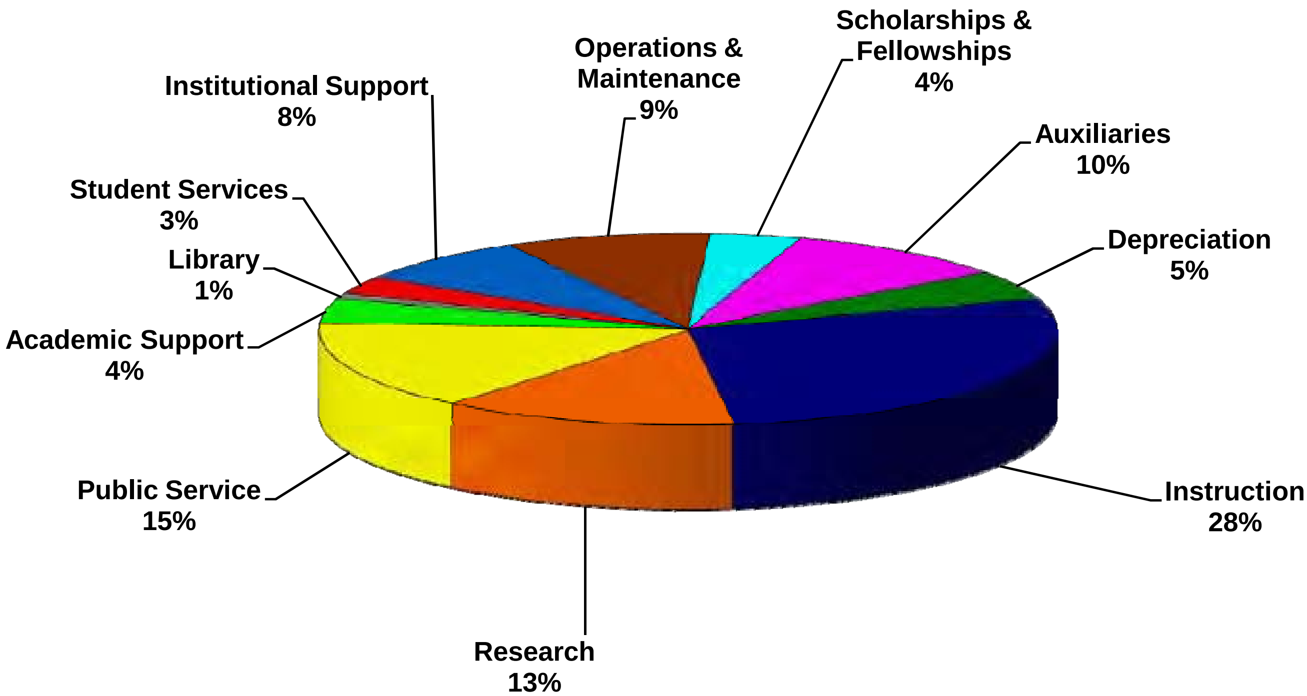
OPERATING EXPENSES BY NATURAL CLASSIFICATION

For the year ended September 30, 2008



OPERATING EXPENSES BY FUNCTION

For the year ended September 30, 2008



Statement of Cash Flows

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

The University's cash flows are summarized below:

	2008	2007
Cash (used in) provided by:		
Operating activities	$ (212,123,755)	$ (203,255,957)
Net noncapital financing activities	369,040,462	334,697,688
Net capital and related financing activities	127,481,994	(43,351,538)
Net investing activities	(274,259,217)	(71,488,829)
Net increase in cash	10,139,484	16,601,364
Cash and cash equivalents beginning of year	39,084,079	22,482,715
Cash and cash equivalents end of year	$ 49,223,563	$ 39,084,079

The University had an increase of 4.4% in cash used for operating activities from 2007 to 2008. However, the increase in cash used for operating activities was offset by an increase in cash of 10.3% provided by noncapital financing activities. Most of the increase from noncapital financing activities was the result of an increase in state appropriations.

Cash provided by capital and related financing activities increased $171 million from 2007 to 2008, which is primarily attributable to proceeds received from issuing new bonds.

Cash used in investing activities was $274 million in 2008, which was an increase of $202.8 million over 2007. This increase is attributable to purchases of investments largely related to the investment of bond proceeds, offset by an increase in investment income.

Economic factors that will affect the future

While the University is impacted by the general economic conditions, management believes that the University will continue its high level of excellence in service to students, sponsors, the State of Alabama and other constituents. In addition to legislative appropriation reductions for fiscal year 2009, on December 15, 2008, the Governor announced the 12.5% proration of the Special Education Trust Fund, which effectively reduced the appropriations for Auburn University by an additional 9% in the fiscal year ending September 30, 2009. The University's strong financial position and internal financial planning process provides the University some protection against the funding reductions and adverse economic conditions. Nonetheless, a continuation of the economic downturn and future reductions in state support must be anticipated and managed carefully to maintain excellence. As a labor intensive organization, the University faces competitive pressures related to attracting and retaining faculty and staff. The rising cost of health care remains a concern, particularly in light of the post-retirement health care benefits offered to retirees.

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

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

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

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

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

UNDERGRADUATE TUITION FOR THE ACADEMIC YEAR

	2008-09	2007-08	2006-07	2005-06	2004-05
Auburn Main Campus/ Auburn University at Montgomery					
Full-Time Students:					
In-State tuition	$6,260/$5,580	$5,594/$5,010	$5,256/$4,760	$5,038/$4,410	$4,828/$4,230
Out-of-State tuition	$18,020/$16,200	$16,094/$14,490	$15,256/$13,760	$14,638/$13,230	$14,048/$12,690

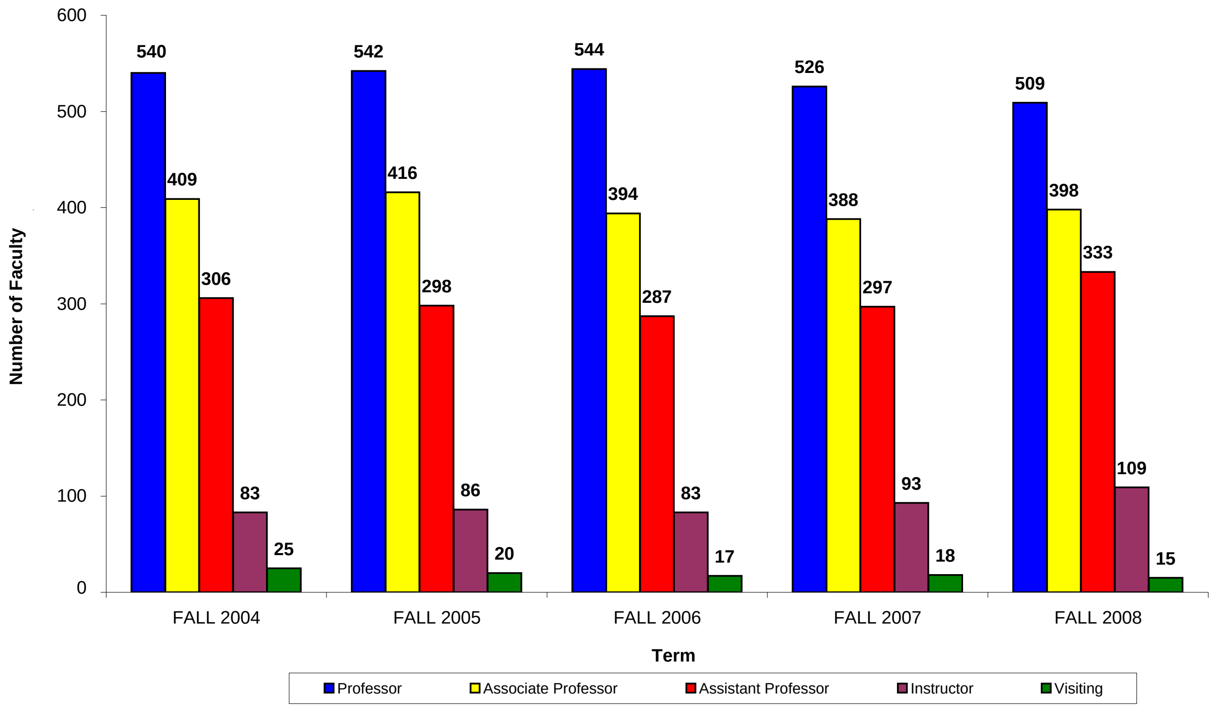
FALL STUDENT ENROLLMENT

	2008	2007	2006	2005	2004
Auburn Main Campus and Auburn University at Montgomery					
Undergraduate/Professional	25,471	25,115	24,602	24,464	24,120
Graduate	4,346	4,146	4,024	3,997	3,931

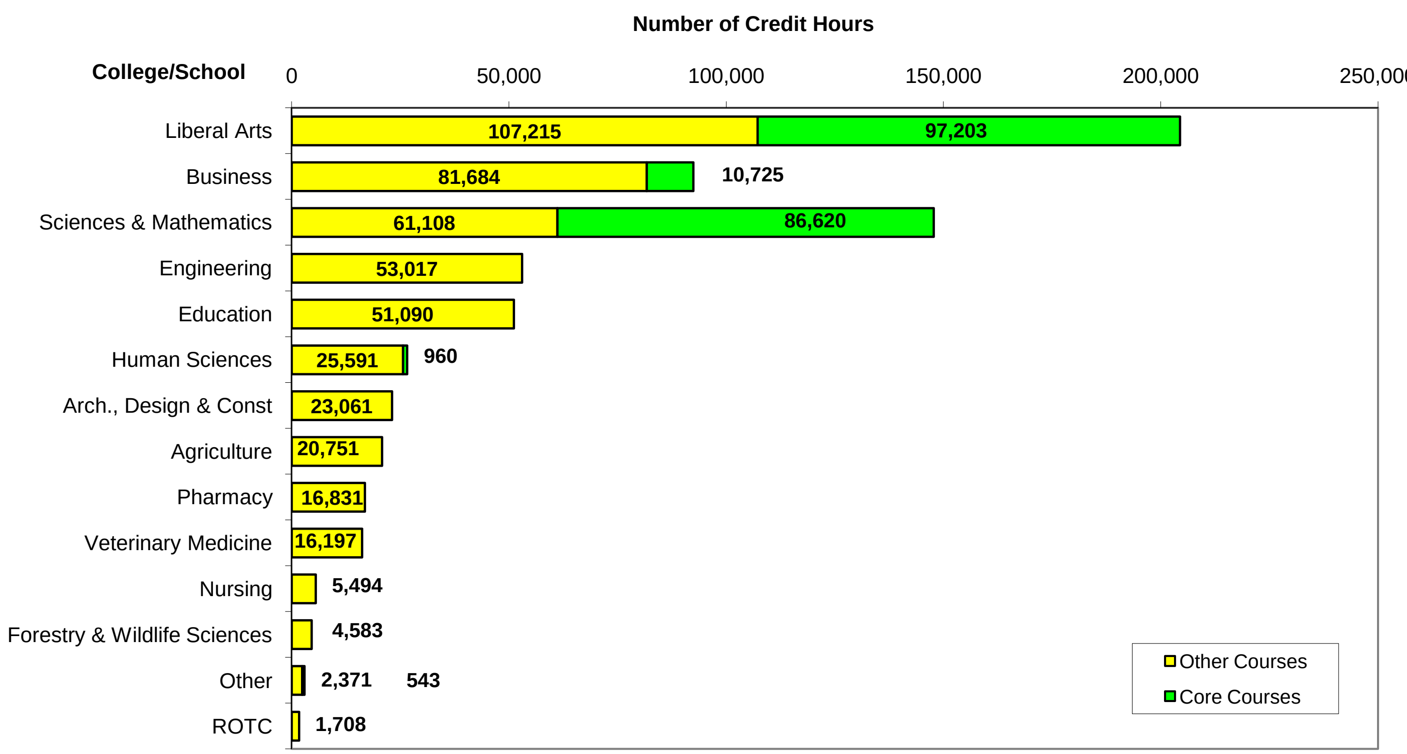
DEGREES AWARDED FOR THE ACADEMIC YEAR

	2007-08	2006-07	2005-06	2004-05	2003-04
Auburn Main Campus and Auburn University at Montgomery					
Bachelor	4,441	4,373	4,658	4,538	4,525
Advanced	1,520	1,465	1,493	1,394	1,359

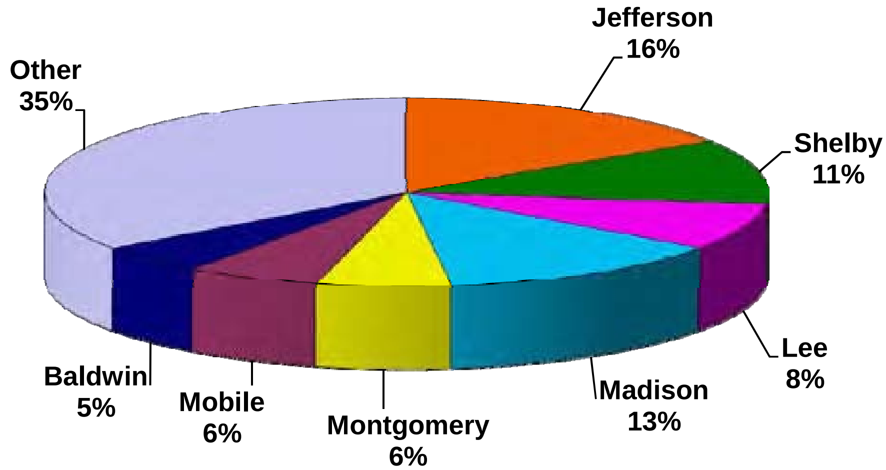
AUBURN UNIVERSITY MAIN CAMPUS AND AUBURN UNIVERSITY AT MONTGOMERY FULL-TIME FACULTY BY RANK



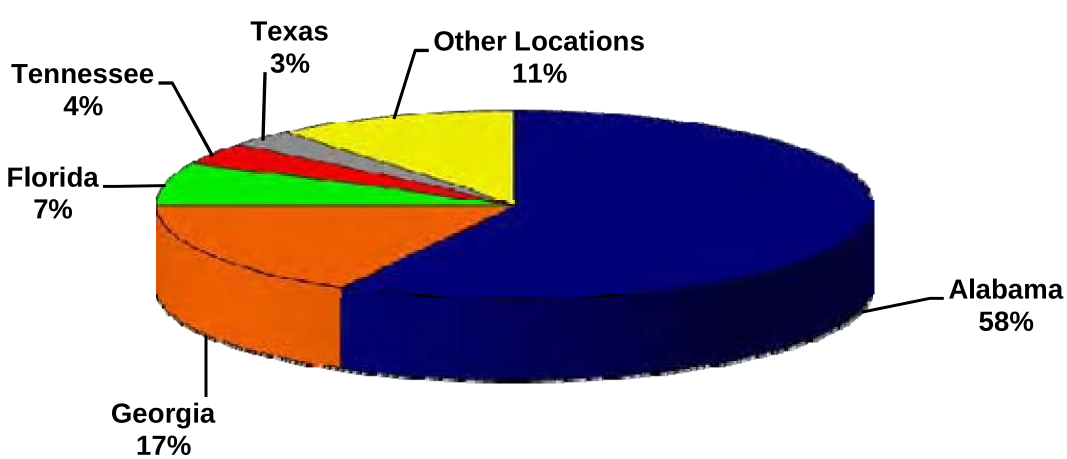
AUBURN UNIVERSITY MAIN CAMPUS TOTAL STUDENT CREDIT HOURS BY COLLEGE/SCHOOL 2007-08



AUBURN UNIVERSITY MAIN CAMPUS FRESHMEN ENROLLMENT BY ALABAMA COUNTIES SUMMER/FALL TERMS 2008



SOURCES OF ENTERING FRESHMEN BY STATE MAIN CAMPUS SUMMER/FALL TERMS 2008



AUBURN UNIVERSITY
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2008 AND 2007

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 49,223,563	$ 39,084,079
Operating investments	74,913,022	73,037,007
Accounts receivable, net	43,074,194	52,043,718
Student accounts receivable, net	25,305,164	27,887,624
Loans receivable, net	3,239,360	3,520,016
Accrued interest receivable	5,950,208	5,176,113
Inventories	3,724,421	3,784,486
Prepaid expenses	5,982,020	3,578,118
Total current assets	211,411,952	208,111,161
Noncurrent assets		
Investments	872,550,112	578,946,923
Loans receivable, net	16,872,642	16,832,349
Investment in plant, net	865,261,061	757,360,225
Total noncurrent assets	1,754,683,815	1,353,139,497
Total assets	1,966,095,767	1,561,250,658
LIABILITIES		
Current liabilities		
Accounts payable	54,925,814	40,006,766
Accrued salaries and wages	4,817,509	3,871,528
Accrued compensated absences	16,624,393	15,230,778
Accrued interest payable	7,790,748	5,151,637
Other accrued liabilities	2,868,084	2,799,700
Student deposits	751,409	760,624
Deposits held in custody	19,532,659	20,142,609
Deferred revenues	102,759,552	92,235,802
Noncurrent liabilities-current portion	15,856,214	14,813,637
Total current liabilities	225,926,382	195,013,081
Noncurrent liabilities		
Accrued compensated absences	671,604	1,739,701
Bonds and notes payable	567,895,472	311,080,199
Lease obligations	2,009,286	2,470,627
Other noncurrent liabilities	19,174,798	15,407,424
Total noncurrent liabilities	589,751,160	330,697,951
Total liabilities	815,677,542	525,711,032
NET ASSETS		
Invested in capital assets, net of related debt	515,706,670	476,479,089
Restricted		
Nonexpendable	23,630,616	22,949,706
Expendable:		
Scholarships, research, instruction, other	135,955,184	126,031,608
Loans	4,943,568	5,199,804
Capital projects	11,865,201	3,460,205
Unrestricted	458,316,986	401,419,214
Total net assets	$1,150,418,225	$1,035,539,626

See accompanying notes to financial statements.

AUBURN UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES		
Tuition & fees, net of scholarship allowances of $46,236,982 and $39,740,632, respectively	$ 235,307,172	$ 219,527,520
Federal appropriations	15,709,270	12,980,725
Federal grants & contracts, net	85,360,887	89,231,359
State & local grants & contracts, net	23,662,282	27,490,738
Nongovernmental grants & contracts, net	9,812,888	10,475,227
Sales & services of educational departments	23,658,031	21,856,102
Auxiliary revenue, net of scholarship allowances of $2,030,040 and $1,892,749, respectively	75,495,395	65,342,459
Other operating revenues	17,158,183	14,035,624
Total operating revenues	486,164,108	460,939,754
OPERATING EXPENSES		
Compensation & benefits	489,624,707	447,666,281
Scholarships & fellowships	18,922,374	16,250,173
Utilities	22,880,676	20,486,012
Other supplies & services	193,892,295	185,780,934
Depreciation	41,270,457	37,134,786
Total operating expenses	766,590,509	707,318,186
Operating loss	(280,426,401)	(246,378,432)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	336,941,382	288,250,909
Gifts	28,522,474	54,813,663
Net investment income	21,994,083	51,623,939
Interest expense on capital debt	(16,071,668)	(11,962,218)
Nonoperating revenues, net	371,386,271	382,726,293
Income before other changes in net assets	90,959,870	136,347,861
OTHER CHANGES IN NET ASSETS		
Capital appropriations	-	108,492
Capital gifts & grants	23,506,851	22,414,383
Additions to permanent endowments	411,878	212,033
Net increase in net assets	114,878,599	159,082,769
Net assets - beginning of year	1,035,539,626	876,456,857
Net assets - end of year	$ 1,150,418,225	$ 1,035,539,626

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition & fees	$ 251,479,652	$ 221,555,587
Federal appropriations	15,709,270	12,980,725
Grants & contracts	128,894,680	120,168,422
Sales & services of educational departments	19,545,447	21,182,886
Auxiliary enterprises	73,154,519	65,807,302
Other operating revenues	16,645,882	14,910,846
Payments to suppliers	(188,817,474)	(172,575,784)
Payments to utilities	(22,880,676)	(20,486,012)
Payments for employee compensation & benefits	(486,418,042)	(449,746,166)
Payments for scholarships & fellowships	(18,922,374)	(16,250,173)
Student loans issued	(3,281,931)	(4,271,414)
Student loans collected	2,767,292	3,467,824
Net cash used in operating activities	(212,123,755)	(203,255,957)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	336,941,382	288,250,909
Gifts for other than capital purposes	32,273,551	46,396,382
Federal Family Education Loan receipts	131,378,587	113,056,491
Federal Family Education Loan disbursements	(131,553,058)	(113,006,094)
Net cash provided by noncapital financing activities	369,040,462	334,697,688
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt, net of issuance cost	272,333,120	61,708,401
Capital appropriations	-	108,492
Capital grants & gifts received	14,194,969	18,116,759
Purchases of capital assets	(133,338,157)	(101,249,905)
Proceeds received from sale of capital assets	68,992	30,533
Principal paid on debt & capital leases	(14,327,841)	(12,608,457)
Interest paid on debt & capital leases	(11,449,089)	(9,457,361)
Net cash provided by (used in) capital and related financing activities	127,481,994	(43,351,538)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments and reinvestments	971,952,317	382,982,789
Investment income	42,679,624	28,225,458
Purchases of investments	(1,288,891,158)	(482,697,076)
Net cash used in investing activities	(274,259,217)	(71,488,829)
Net increase in cash and cash equivalents	10,139,484	16,601,364
Cash and cash equivalents, beginning of year	39,084,079	22,482,715
Cash and cash equivalents, end of year	$ 49,223,563	$ 39,084,079

See accompanying notes to financial statements.

AUBURN UNIVERSITY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (280,426,401)	$ (246,378,432)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	40,636,487	37,375,672
Write-off of loans receivable	755,002	218,999
Loss on sale of net assets	385,234	1,451,217
Capitalization of prior year expenses	1,259,061	164,230
Changes in assets and liabilities:		
Accounts receivable	6,302,520	(4,742,687)
Student accounts receivable	2,582,460	(3,085,717)
Inventories	60,065	77,098
Deferred revenue	10,523,750	4,640,045
Accounts payable	6,037,512	10,001,738
Prepaid expenses	(2,403,902)	(353,805)
Accrued salaries, wages and compensated absences	1,271,499	(5,940,637)
Student deposits and deposits held in custody	(444,694)	203,979
Loans to students	(514,639)	(803,590)
Other accrued liabilities	68,384	661,400
Other noncurrent liabilities	1,783,907	3,254,533
Net cash used in operating activities	$ (212,123,755)	$ (203,255,957)

SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION

	2008	2007
Capital assets acquired with a liability at year-end	$ 17,986,309	$ 9,104,773
Gifts of capital assets	8,639,686	3,553,487
Capital assets acquired through capital leases	25,200	1,612,865
Capitalized interest	8,533,667	4,509,366

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2008 AND 2007

	Auburn University Foundation 2008	Auburn University Foundation 2007	Auburn Alumni Association 2008	Auburn Alumni Association 2007
ASSETS				
Cash and cash equivalents	$ 1,020,903	$ 338,815	$ 20,966	$ 36,336
Investments	250,717,765	275,129,050	3,741,494	3,460,585
Investment in Auburn University Foundation Securities Pool	-	-	6,534,704	7,901,993
Accrued interest receivable	809,590	754,071	34,964	48,030
Contributions receivable, net	29,360,343	37,340,959	483,427	504,120
Notes receivable	741,577	679,129	-	-
Other receivables	24,902	31,043	4,548	8,491
Other assets	13,052	42,613	-	-
Investment in real estate	1,219,696	927,096	674,799	674,799
Cash surrender value of life insurance	2,847,439	2,383,608	-	-
Beneficial interest in outside trusts	1,031,616	2,173,947	-	-
Property and equipment, net	2,559,498	1,896,869	2,086,847	2,147,140
Prepaid rent	-	-	31	32
Due from Auburn University Foundation	-	-	93,788	92,754
Total assets	$ 290,346,381	$ 321,697,200	$ 13,675,568	$ 14,874,280
LIABILITIES				
Accounts payable and accrued liabilities	$ 420,435	$ 222,140	$ 107,214	$ 73,662
Annuities payable	7,460,283	8,217,588	-	-
Due to Auburn University	2,851,353	2,447,146	51,242	33,438
Due to Auburn University Foundation	-	-	-	7,500
Due to Auburn Alumni Association	6,627,852	7,987,747	-	-
Due to Tigers Unlimited Foundation	6,206,026	7,343,095	-	-
Deferred revenue	-	-	7,242,423	7,095,633
Total liabilities	23,565,949	26,217,716	7,400,879	7,210,233
NET ASSETS				
Unrestricted	21,065,627	21,118,838	6,274,689	7,664,047
Temporarily restricted	41,236,206	80,425,590	-	-
Permanently restricted	204,478,599	193,935,056	-	-
Total net assets	266,780,432	295,479,484	6,274,689	7,664,047
Total liabilities and net assets	$ 290,346,381	$ 321,697,200	$ 13,675,568	$ 14,874,280

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	Auburn University Foundation		Auburn Alumni Association	
	2008	2007	2008	2007
REVENUES AND OTHER SUPPORT				
Public support - contributions	$ 36,807,291	$ 55,776,334	$ 1,488,980	$ 1,448,666
Investment income	4,509,394	4,303,794	490,178	471,584
Other revenues	699,105	499,082	659,386	744,744
Total operating revenues	42,015,790	60,579,210	2,638,544	2,664,994
EXPENSES AND LOSSES				
Program services				
Contributions to and support for Auburn University	24,318,937	22,549,954	-	-
Other program services	1,744,884	1,575,626	760,742	852,683
Total program services	26,063,821	24,125,580	760,742	852,683
Support services				
General and administrative	1,962,211	1,723,299	1,659,826	1,470,792
Fund raising	4,604,415	3,622,093	214,528	235,281
Total support services	6,566,626	5,345,392	1,874,354	1,706,073
Total expenses	32,630,447	29,470,972	2,635,096	2,558,756
Unrealized losses (gains) on investments	39,172,041	(11,899,726)	1,392,806	(751,085)
Realized (gains) on investments	(5,032,720)	(15,467,881)	-	-
Change in valuation of split-interest agreements	3,945,074	(494,708)	-	-
Total expenses, (gains) and losses	70,714,842	1,608,657	4,027,902	1,807,671
*Change in net assets	(28,699,052)	58,970,553	(1,389,358)	857,323
NET ASSETS				
Beginning of the year	295,479,484	236,508,931	7,664,047	6,806,724
End of the year	$ 266,780,432	$ 295,479,484	$ 6,274,689	$ 7,664,047
*Change in net assets				
Unrestricted	$ (53,211)	$ 2,152,903	$ (1,389,358)	$ 857,323
Temporarily restricted	(39,189,384)	21,614,891	-	-
Permanently restricted	10,543,543	35,202,759	-	-
Total change in net assets	$ (28,699,052)	$ 58,970,553	$ (1,389,358)	$ 857,323

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

	Tigers Unlimited Foundation 2008	Tigers Unlimited Foundation 2007
ASSETS		
Cash and cash equivalents	$ 1,291,444	$ 1,657,596
Investments	35,276,250	24,722,043
Investment in Auburn University Foundation Securities Pool	6,106,026	7,122,426
Accrued interest receivable	260,402	247,907
Contributions receivable, net	14,055,067	13,000,714
Other receivables	8,911	17,500
Other assets	51,306	1,638,250
Property and equipment, net	3,273	4,556
Due from Auburn University	50,082	-
Due from Auburn University Foundation	100,000	100,000
Total assets	$ 57,202,761	$ 48,510,992
LIABILITIES		
Accounts payable and accrued liabilities	$ 174,150	$ 473,690
Deferred revenue	955,794	1,232,771
Due to Auburn University	2,222,218	1,900,495
Total liabilities	3,352,162	3,606,956
NET ASSETS		
Unrestricted	26,347,798	20,933,749
Temporarily restricted	19,950,494	16,533,149
Permanently restricted	7,552,307	7,437,138
Total net assets	53,850,599	44,904,036
Total liabilities and net assets	$ 57,202,761	$ 48,510,992

See accompanying notes to financial statements.

AUBURN UNIVERSITY COMPONENT UNITS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	Tigers Unlimited Foundation	
	2008	2007
REVENUES AND OTHER SUPPORT		
Public support - contributions	$ 30,280,006	$ 27,371,132
Investment income	1,433,359	1,331,986
Other revenues	3,954,790	3,679,222
Total operating revenues	35,668,155	32,382,340
EXPENSES AND LOSSES		
Program services		
Contributions to and support for Auburn University	13,418,420	12,712,078
Other program services	6,041,620	5,943,580
Total program services	19,460,040	18,655,658
Support services		
General and administrative	1,221,525	1,139,017
Fund raising	5,659,055	5,841,680
Total support services	6,880,580	6,980,697
Total expenses	26,340,620	25,636,355
Unrealized losses (gains) on investments	379,388	(802,058)
Realized losses (gains) on investments	1,584	(504)
Loss on write-off	-	578
Total expenses, (gains) and losses	26,721,592	24,834,371
*Change in net assets	8,946,563	7,547,969
NET ASSETS		
Beginning of the year	44,904,036	37,356,067
End of the year	$ 53,850,599	$ 44,904,036
*Change in net assets		
Unrestricted	$ 5,414,049	$ 3,231,264
Temporarily restricted	3,417,345	2,368,641
Permanently restricted	115,169	1,948,064
Total change in net assets	$ 8,946,563	$ 7,547,969

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) NATURE OF OPERATIONS

Auburn University (the University) is a land grant university originally chartered on February 1, 1856, as the East Alabama Male College. The Federal Land Grant Act of 1862, by which the University was established as a land grant university, donated public lands to several states and territories with the intent that the states would use these properties for the benefit of agriculture and the mechanical arts. Several pertinent laws dictate specific purposes for which the land may be used. In 1960, the Alabama State Legislature officially changed the name of the University to Auburn University. The University has two campuses, Auburn and Montgomery, with a combined enrollment of 29,817 students for fall semester 2008. It serves the State of Alabama, the nation and international business communities through instruction of students and the advancement of research and outreach programs. By statutory laws of the State of Alabama, the University is governed by the Board of Trustees (the Board) appointed by the Governor, a committee consisting of two trustees and two Auburn Alumni Association board members and approved by the Alabama State Senate.

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

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

Reporting Entity

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

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

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

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

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

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

Component Units

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

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

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

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

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

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

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

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

The Foundations are not-for-profit organizations that report financial results under principles prescribed by the FASB. Most significant are FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, FASB Statement No. 117, *Financial Statements for Not-for-Profit Organizations*, FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the FASB reporting Foundations' financial information in the University's financial reporting entity for these differences.

The financial statements of the Foundations have been prepared on the accrual basis. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundations and changes therein are classified and reported as Unrestricted, Temporarily Restricted or Permanently Restricted.

In accordance with FASB Statement No. 124, the FASB reporting Foundations' investments in debt securities, equity securities and mutual funds with readily determinable market values are reported at their fair market values based on published market prices.

In accordance with SFAS No. 116, contributions received, including unconditional promises to give, are recognized as revenues at their fair values in the period received. For financial reporting purposes, the FASB reporting Foundations distinguish between contributions of unrestricted assets, temporarily restricted assets and permanently restricted assets. Contributions for which donors have imposed restrictions, which limit the use of the donated assets, are reported as restricted support if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions when the purpose or time restrictions are met. Contributions of assets which donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as permanently restricted assets. Contributions for which donors have not stipulated restrictions are reported as unrestricted support.

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

Financial Statement Presentation

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

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

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

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

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

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

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

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

(2) SIGNIFICANT ACCOUNTING POLICIES OF AUBURN UNIVERSITY

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

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

Under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the University records its initial investment and subsequent contributions in limited partnerships at cost with no adjustments for its share of income/appreciation, losses/depreciation and distributions received from the investment (see Note 4).

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

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

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

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

Capital Assets
Capital expenditures for, and gifts of, land, buildings and equipment are carried at cost at date of acquisition or, in the case of gifts, at fair market value at the date of donation. Depreciation is computed on a straight line basis over the estimated useful lives of buildings and building improvements (40 years), land improvements and infrastructure (10 – 40 years), library collection and software costs (10 years) and inventoried

equipment (5 – 18 years). Land and construction in progress are not depreciated. The threshold for capitalizing buildings and infrastructure is $25,000. Expenditures for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized if they meet the $25,000 threshold. Equipment is capitalized if the cost exceeds $2,500 and has a useful life of more than one year. All buildings and contents are insured through the State of Alabama Property Insurance Fund.

Art collections, historical treasures and livestock are capitalized and valued at cost or fair market value at the date of purchase or gift, respectively, but not depreciated. Collections are preserved and held for public exhibition, education and research.
In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the University continues to evaluate prominent events of changes in circumstance to determine whether an impairment loss should be recorded and whether any insurance recoveries should be offset against the impairment loss. The University did not incur any costs related to asset impairment during fiscal 2008 or 2007.

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

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

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

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

Student Tuition, Fees and Scholarship Discounts and Allowances
Student tuition and fee revenues, and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship discounts and allowances represent the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf.

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

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

Pledged Revenue
The University normally does not receive gift pledges. Pledged revenue representing unconditional promises to give is normally received by AUF or TUF and later disbursed in accordance with the donors' wishes for the benefit of the University. Pledges are recorded at their gross, undiscounted, amounts. In accordance with the recognition criteria of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* the University recorded pledges of approximately $300,000 and $8.6 million in fiscal years 2008, and 2007, respectively.

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

Effective January 1, 2001, any depository of University funds must provide annual evidence of its continuing designation as a qualified public depository under the Security for Alabama Fund Enhancement Act (SAFE). The enactment of the SAFE program changed the way all Alabama public deposits are collateralized. In the past, the bank pledged collateral directly to each individual public entity. Under the mandatory SAFE program, each qualified public depository (QPD) is required to hold collateral for all its public deposits on a pooled basis in a custody account established for the State Treasurer as SAFE administrator. In the unlikely event a public entity should suffer a loss due to QPD insolvency or default, a claim form would be filed with the State Treasurer who would use the SAFE pool collateral or other means to reimburse the loss. As a result, the University believes its custodial risk related to cash is remote.
Cash equivalents may consist of commercial paper, repurchase agreements, banker's acceptance, and money market accounts purchased with maturities at date of acquisition of three months or less.

(4) INVESTMENTS

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

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

Bond proceeds are invested in accordance with the underlying bond agreements. The University's bond agreements generally permit bond proceeds and debt service funds to be invested in obligations in accordance with University policy in terms maturing on or before the date funds are expected to be required for expenditures or withdrawal. Certain bond indentures require the University to invest amounts held in certain construction funds, redemption funds and bond funds in federal securities or state, 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 January 31, 2008, authorizes the investment of the endowment portfolio to include the following: cash and cash equivalents; fixed income; equity securities, both domestic and international; private capital; absolute return/hedge funds; and real assets, collectively referred to as the endowment pool.

Earnings distributions are made annually from endowed funds. Consistent with the Uniform Management of Institutional Funds Act (UMIFA), which was enacted by the Legislature of the State of Alabama and signed into law effective August 31, 1993, the Board has adopted the total return concept that allows for the expenditure of "net appreciation, realized and unrealized, in the fair value of the assets of endowment funds over the historical dollar value of the funds." In order to conform to the standards for fiduciary management of investments, the Board has also adopted a spending plan whose long term objective is to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations. Under this policy, spending for a given year equals 80% of spending in the previous year, adjusted for inflation (Consumer Price Index (CPI) within a range of 1% and 6%), plus 20% of the long-term spending rate (4.5%) applied to the twelve month rolling average of the market values. Accumulated net realized and unrealized gains on endowments and funds functioning as endowments total $25,197,644 and $53,491,089 at September 30, 2008, and 2007, respectively, and are recorded as restricted expendable net assets.

The components of the accumulated net gains in fair value of investments, since inception, for the years ended September 30, 2008, and 2007, are as follows:

	2008	2007
Accumulated net realized gains on sale of investments	$ 33,865,584	$ 39,605,771
Accumulated net unrealized (losses) gains	(8,667,940)	13,885,318
Net gains in fair value of investments	$ 25,197,644	$ 53,491,089

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, 2008, and 2007, covering the fair value of investments by investment type and related maturity:

Auburn University Investments
Investment Maturities at Fair Value (in Years)
September 30, 2008

Type of Investments	< 1 year	1-5 years	6-10 years	> 10 years	Total Fair Value
Fixed Maturity					
Repurchase Agreements	$ 2,400,000	$ -	$ -	$ -	$ 2,400,000
Commercial Paper	4,951,250	-	-	-	4,951,250
Certificates of Deposit	3,000,000	1,689,877	-	-	4,689,877
U. S. Treasury Obligations	59,734,156	39,986,696	-	-	99,720,852
U. S. Agency Securities	129,698,700	376,140,468	78,654,464	27,048,575	611,542,207
Mortgage Backed Securities	-	9,251,366	2,306,889	25,302,708	36,860,963
Asset Backed Securities	-	3,941,295	239,917	270,725	4,451,937
Corporate Bonds	794,788	2,693,927	4,337,581	2,795,375	10,621,671
	$ 200,578,894	$ 433,703,629	$ 85,538,851	$ 55,417,383	$ 775,238,757
Domestic Equities					759,537
Alternative Investments (Limited Partnerships) - at cost					
Hedge Funds					40,700,000
Private Capital					6,524,792
Real Assets					16,553,066
Real Estate					740,750
Mutual Funds					73,957,678
Other					3,015,529
Money Market					74,824,275
Total Investments					992,314,384
Less cash equivalents held in cash pool					(44,851,250)
Operating and noncurrent investments					$ 947,463,134

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

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

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

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

The following table provides information as of September 30, 2008, and 2007, concerning credit quality risk:

Auburn University Investments
Ratings of Fixed Maturities

Moody's Rating	Fair Value	Fair Value as a % of Total Fixed Maturity Fair Value	Fair Value	Fair Value as a % of Total Fixed Maturity Fair Value
	2008		2007	
US Treasury	$ 99,720,852	12.86%	$ 62,727,629	12.99%
Aaa	653,279,622	84.27%	399,144,564	82.67%
Aa	2,446,767	0.32%	3,549,881	0.74%
A	7,414,444	0.96%	3,477,526	0.72%
Baa	335,945	0.04%	312,325	0.06%
P1	4,951,250	0.64%	9,881,240	2.05%
Not Rated*	7,089,877	0.91%	3,721,436	0.77%
	$ 775,238,757	100.00%	$ 482,814,601	100.00%

*Certificates of Deposit and Repurchase Agreements are included in the "Not Rated" Category.

- **Concentration of Credit Risk** – GASB Statement No. 40 defines concentration of credit risk as "the risk of loss attributed to the magnitude of a government's investment in a single issuer." The University Non-Endowment Cash Pool Investment Policy does not limit the aggregate amounts that can be invested in U. S. Treasury securities with the explicit guarantee of the U. S. Government or U. S. Agency securities that carry the implicit guarantee of the U. S. Government. As of September 30, 2008, and 2007, 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, 2008, and 2007, the University held no investments in foreign currency.

Securities Lending Program

The University's investment policies allow participation in securities lending such as Reverse Repurchase Agreements and as authorized by the State Street Index Fund held by the Auburn University Endowment Pool. Effective June 2008, the State Street Index Fund held by the Endowment Pool terminated participation in securities lending. As of September 30, 2008, and 2007, there was no participation in any securities lending program.

Interest Sensitive Securities

As of September 30, 2008, and 2007, the University held $36,860,963 and $26,423,264, representing 3.72% and 4.27%, respectively, of its total investments in mortgage-backed securities. As of September 30, 2008, and 2007, the University held $4,451,937 and $5,286,734, representing 0.45% and 0.77%, respectively, of its total investments in asset-backed securities. The mortgage-backed and asset-backed investments have embedded prepayment options that are expected to fluctuate with interest rate changes. Generally, this variance presents itself in variable repayment amounts, uncertain early or extended payments, or the possibility of no repayments.

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, 2008, and 2007, the University Cash Pool held $36,109,377 and $48,686,187, representing 3.64% and

7.07%, respectively, of total investments in continuously callable fixed maturity investments. The University investment policies do not restrict the purchase of mortgage-backed securities, asset-backed securities, or bonds with call provisions.

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

As of September 30, 2008, the University had entered into subscription agreements with eighteen limited partnership investments. As of September 30, 2008, the aggregate amount of capital committed to these investment partnerships was $80,200,000 of which capital contributions of $63,777,858 have been made. Of these eighteen commitments, seven subscriptions relate to private equity funds, six subscriptions relate to hedge funds and five subscriptions relate to real asset funds. The private equity fund commitments are investments in privately held companies in various industries, including alternative fuel technology. The hedge funds are primarily invested in long/short term equities, fixed income arbitrage, merger arbitrage and other event driven strategies through various investment managers, investment partnerships and offshore funds. The real asset funds include investments in commercial real estate, residential real estate, and oil and gas production.

As of September 30, 2008, and 2007, the University's limited partnership investments are carried at cost. As required by GASB Statement No. 31, no adjustment was recorded to recognize net unrealized gains and losses. Limited partnership investments are made in accordance with the University's investment policy, which approves the allocation of funds to various assets classes (i.e., domestic equity, international equity, private capital, hedge funds, real assets, fixed income and cash) in order to ensure the proper level of diversification within the endowment pool. The limited partnerships (private equity, hedge funds, and real assets) are designed to enhance diversification and provide reductions in overall portfolio volatility.

In October 2006, the University entered into a Constant Maturity Swap (CMS) Agreement with Deutsche Bank AG as the counterparty for the purpose of reducing the net interest paid on the University's Series 2001A and 2004 General Fee Revenue Bonds. It was expected that positive cash flows would lower the associated bonds' interest expense and that this would occur as the yield curve reverts to the upward sloping curve. The terms of the Swap Agreements are listed below. The bonds associated with the notional value and the terms of the swaps are as follows:

	2001 A General Fee Bonds	2004 General Fee Bonds
Notional amount	$ 74,750,000	$ 72,105,000
Trade date	September 19, 2006	September 19, 2006
Execution date	October 3, 2006	October 3, 2006
Effective date	March 1, 2008	March 1, 2008
Termination date	June 1, 2026	June 1, 2034

On February 1, 2008, under favorable market conditions, the University elected to terminate the Swap Agreement. The termination resulted in settlement payments from Deutsche Bank AG to the University of $2,845,000 and $2,330,000 for the 2001A General Fee Bonds Swap Contract and for the 2004 General Fee Bonds Swap Contract, respectively. On September 30, 2008, the University was not a party in any Swap contracts. These amounts are reported as investment income on the Statement of Revenues, Expenses and Changes in Net Assets.

The table entitled, "Auburn University Investments, Investment Maturities at Fair Value (in Years)", includes funds held for pending capital expenditures at September 30, 2008: $19,937,552, 2004 General Fee Bond proceeds; $27,889,675, 2006 General Fee Bond Proceeds; $117,128,306, 2007 A General Fee Bonds Proceeds; and $30,274,318 Deferred Maintenance Building Fund. The General Liability Account holds investments of $5,707,690.

At September 30, 2007, funds held for pending capital expenditures were as follows: $20,484,512, 2004 General Fee Bond proceeds; $41,956,162, 2006 General Fee Bond Proceeds; and $24,363,771, Deferred Maintenance Building Fund. The General Liability Account holds investments of $5,599,826.

AUF investments at September 30, 2008, and 2007, include the following:

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
Cash and pooled investments	$ 7,396,151	$ 7,389,915	$ 9,365,907	$ 9,356,562
Government bonds, notes and other securities	18,327,644	18,343,655	22,244,323	22,135,264
Corporate bonds and debentures	17,631,412	19,620,736	15,749,070	15,679,386
Corporate stocks	1,448,429	1,097,876	1,907,392	1,269,611
Mutual funds, business trust funds, and common trust funds	118,631,811	129,333,340	142,188,115	117,279,328
Hedge funds	42,522,291	37,875,000	45,670,042	36,875,000
Private equity funds	13,282,101	13,901,284	8,298,120	8,104,929
Real asset investment funds	31,477,926	28,449,743	29,706,081	25,109,743
Total investments	$ 250,717,765	$ 256,011,549	$ 275,129,050	$ 235,809,823

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

As of September 30, 2008, AUF had entered into subscription agreements with twenty-one limited partnership investments. The aggregate amount of capital committed to these investment partnerships is $105,975,000 of which capital contributions of $80,226,028 have been invested. A net unrealized gain of $7,056,291 has been recorded on these investments on the Consolidated Statement of Activities and Changes in Net Assets for fiscal 2008. Of these twenty-one commitments, five subscriptions relate to hedge funds, nine subscriptions relate to private equity funds, and seven subscriptions relate to real estate asset funds. The hedge funds are primarily invested in long/short equities, fixed income arbitrage, merger arbitrage and other event driven strategies through various investment managers, investment partnerships and offshore funds. The private equity fund commitments are for investments in privately held companies in various industries, including alternative fuel technology. The real asset funds include an investment in commercial real estate, residential real estate, oil and gas production.

Investment income, realized gains and losses, unrealized gains and losses, and changes in values of split-interest agreements are reported on the Consolidated Statements of Activities and Changes in Net Assets net of investment expenses. Investment income is shown net of estimated investment expenses of $2,361,000 and $2,302,000 for the fiscal years ended September 30, 2008, and 2007, respectively.

AUF carries its limited partnership investments at fair value in accordance with FASB requirements. This differs from how the University carries these investments, which is at cost, in accordance with GASB requirements. AUF believes that the carrying amount of its limited partnership investments is a reasonable estimate of fair value as of September 30, 2008. Because limited partnership investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such difference could be material. Limited partnership investments are made in accordance with AUF's investment policy that approves the allocation of funds to various assets classes (i.e., domestic equity, international equity, private capital, hedge funds, real assets, fixed income and cash) in order to ensure the proper level of diversification within the endowment pool. Investments in limited partnerships (private equity, hedge funds, and real assets) are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated by the general partner of each limited partnership using various valuation techniques.

Between October 1, 2008, and January 21, 2009, there has been significant market instability. During this time period, there have been declines in major indexes such as Dow Jones Industrial Average and NASDAQ Composite. As the University and AUF's investment portfolios are diversified and consist of various types of investments, they are subject to changes due to market volatility.

(5) FUNDS HELD IN TRUST

In addition to permanently restricted net assets carried on the University's financial statements, the University is the beneficiary of income earned on a number of AUF endowments. The cost of these funds was $214,258,429 and $196,528,951 and the market value was $209,491,438 and $232,070,597 at September 30, 2008, and September 30, 2007, respectively. The portion of endowment income received by the University from these funds was $7,833,735 and $7,177,362 for the fiscal years ended September 30, 2008, and 2007, respectively. Endowment earnings are distributed annually in January, based on the AUF endowment distribution spending rate. These amounts are reported as investment income on the Statement of Revenues, Expenses and Changes in Net Assets.

In addition, the University has been named as a beneficiary of a foundation with investments having a cost of $2,615,838 and $2,800,376 and a market value of $2,469,212 and $3,145,829 at September 30, 2008, and 2007, 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, 2008, and 2007. The income received from the two trusts was $64,056 and $91,915 for the years ended September 30, 2008, and 2007, respectively.

(6) ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for doubtful accounts at September 30, 2008, and 2007, are summarized as follows:

	2008	2007
NON - STUDENT ACCOUNTS RECEIVABLE		
Federal, state & local government, and other restricted expendable	$ 26,985,943	$ 35,763,673
Less allowance for doubtful accounts	(1,764,000)	(1,764,000)
Pledged receivables	5,069,221	8,629,314
General	8,739,684	6,847,311
Less allowance for doubtful accounts	(7,292,958)	(6,251,148)
Auxiliary	8,578,203	6,732,651
Capital gifts and grants	2,758,101	2,085,917
Total	$ 43,074,194	$ 52,043,718

	2008	2007
STUDENT ACCOUNTS RECEIVABLE		
Unrestricted general	$ 27,076,284	$ 28,710,315
Less allowance for doubtful accounts	(2,813,100)	(1,950,730)
Unrestricted auxiliary	1,113,451	1,208,717
Less allowance for doubtful accounts	(71,471)	(80,678)
Total	$ 25,305,164	$ 27,887,624

(7) CAPITAL ASSETS

Capital assets at September 30, 2008, and 2007, are summarized as follows (dollars in thousands):

	Sept. 30, 2007	Additions	Deletions/Transfers	Sept. 30, 2008
Capital assets not being depreciated				
Land	$ 17,150	$ -	$ (1,260)	$ 15,890
Art & collectibles	7,057	146	-	7,203
Construction in progress	52,542	120,937	(86,941)	86,538
Livestock	1,277	160	(76)	1,361
Total capital assets not being depreciated	78,026	121,243	(88,277)	110,992
Capital assets being depreciated				
Land improvements	41,276	1,668	-	42,944
Buildings	764,303	68,966	(1,658)	831,611
Equipment	168,945	22,726	(3,723)	187,948
Infrastructure	111,402	13,883	-	125,285
Library books	131,216	7,306	(334)	138,188
Banner implementation	9,101	2,111	-	11,212
Total capital assets being depreciated	1,226,243	116,660	(5,715)	1,337,188
Less accumulated depreciation for				
Land improvements	13,111	2,688	-	15,799
Buildings	275,900	16,179	(1,626)	290,453
Equipment	116,896	12,083	(3,300)	125,679
Infrastructure	33,335	3,573	-	36,908
Library books	106,117	5,626	(334)	111,409
Banner implementation	1,550	1,121	-	2,671
Total accumulated depreciation	546,909	41,270	(5,260)	582,919
Total capital assets being depreciated, net	679,334	75,390	(455)	754,269
Capital assets, net	$ 757,360	$ 196,633	$ (88,732)	$ 865,261

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

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

The University received no funding from the State of Alabama for construction during fiscal 2008. During fiscal 2007, approximately $108,000 was received from the State to fund construction. These revenues are classified as capital appropriations on the Statement of Revenues, Expenses and Changes in Net Assets.

(8) LONG-TERM DEBT

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

Bonds payable	Balance at September 30, 2007	Principal New Debt	Repayment	Balance at September 30, 2008
1978 Auburn University at Montgomery Dormitory Revenue bonds, $3,279,000 face value, 3.0%, due annually through 2018, a reserve of $187,731 and a $144,603 contingency fund.	$ 1,455,000	$ -	$ (105,000)	$ 1,350,000
2001 General Fee Revenue bonds, $19,460,000 face value, 3.25% to 5.0%, due annually through 2011.	8,955,000	-	(2,075,000)	6,880,000
2001A General Fee Revenue bonds, $74,750,000 face value, 5.0% to 6.0%, due annually from 2012 through 2026.	74,750,000	-	-	74,750,000
2001A Athletic Revenue bonds, $24,412,607 face value, 2.125% to 5.49%, due annually through 2021.	22,156,526	-	(382,440)	21,774,086
2003 General Fee Revenue bonds, $49,460,000 face value, 1.45% to 5.25%, due annually through 2016.	37,535,000	-	(3,675,000)	33,860,000
2003 Athletic Revenue bonds, $21,900,000 face value, 2.25% to 5.0%, due annually through 2010.	8,850,000	-	(2,880,000)	5,970,000
2003 Housing and Dining Revenue bonds, $15,645,000 face value, 1.4% to 5.0%, due annually through 2012.	8,800,000	-	(1,655,000)	7,145,000
2004 General Fee Revenue bonds, $76,875,000 face value, 3.0% to 5.25%, due annually through 2034.	72,105,000	-	(1,415,000)	70,690,000
2004A Athletic Revenue bonds, $24,860,000 face value, 2.0% to 5.0%, due annually from 2006 through 2021 and annually from 2025 through 2034.	23,790,000	-	(555,000)	23,235,000
2004B Athletic Revenue bonds, $3,050,000 face value, 5.75%, due annually from 2022 through 2024.	3,050,000	-	-	3,050,000
2006A General Fee Revenue bonds, $60,000,000 face value, 3.5% to 5.0%, due annually from 2008 through 2037.	60,000,000	-	(995,000)	59,005,000
2007A General Fee Revenue bonds, $162,530,000 face value, 3.5% to 5.0%, due annually from 2009 through 2038.	-	162,530,000	-	162,530,000
2007B General Fee Revenue bonds, $14,465,000 face value, 4.625% to 5.125%, due annually from 2010 through 2014.	-	14,465,000	-	14,465,000
2008 General Fee Revenue bonds, $92,500,000 face value, 3.0% to 5.0%, due annually from 2010 through 2038.	-	92,500,000	-	92,500,000
Total bonds payable	321,446,526	269,495,000	(13,737,440)	577,204,086
Plus unamortized bond premium	5,806,399	2,862,647	(944,727)	7,724,319
Less unamortized bond discount	(1,127,098)	(24,527)	80,580	(1,071,045)
Less unamortized loss on refunding	(807,149)	-	230,177	(576,972)
	325,318,678	272,333,120	(14,371,410)	583,280,388
Less: current portion				
Bonds payable	(13,737,440)			(14,803,294)
Unamortized bond premium	(807,402)			(840,412)
Unamortized bond discount	76,186			80,231
Unamortized loss on refunding	230,177			178,559
Total noncurrent bonds payable	$ 311,080,199			$ 567,895,472

Bonds payable	Balance at September 30, 2006	Principal New Debt	Repayment	Balance at September 30, 2007
1978 Auburn University at Montgomery Dormitory Revenue bonds, $3,279,000 face value, 3.0%, due annually through 2018, a reserve of $193,929 and a $138,990 contingency fund.	$ 1,555,000	$ -	$ (100,000)	$ 1,455,000
2001 General Fee Revenue bonds, $19,460,000 face value, 3.25% to 5.0%, due annually through 2011.	10,930,000	-	(1,975,000)	8,955,000
2001A General Fee Revenue bonds, $74,750,000 face value, 5.0% to 6.0%, due annually from 2012 through 2026.	74,750,000	-	-	74,750,000
2001A Athletic Revenue bonds, $24,412,607 face value, 2.125% to 5.49%, due annually through 2021.	22,519,429	-	(362,903)	22,156,526
2003 General Fee Revenue bonds, $49,460,000 face value, 1.45% to 5.25%, due annually through 2016.	41,110,000	-	(3,575,000)	37,535,000
2003 Athletic Revenue bonds, $21,900,000 face value, 2.25% to 5.0%, due annually through 2010.	11,625,000	-	(2,775,000)	8,850,000
2003 Housing and Dining Revenue bonds, $15,645,000 face value, 1.4% to 5.0%, due annually through 2012.	10,400,000	-	(1,600,000)	8,800,000
2004 General Fee Revenue bonds, $76,875,000 face value, 3.0% to 5.25%, due annually through 2034.	73,465,000	-	(1,360,000)	72,105,000
2004A Athletic Revenue bonds, $24,860,000 face value, 2.0% to 5.0%, due annually from 2006 through 2021 and annually from 2025 through 2034.	24,330,000	-	(540,000)	23,790,000
2004B Athletic Revenue bonds, $3,050,000 face value, 5.75%, due annually from 2022 through 2024.	3,050,000	-	-	3,050,000
2006A General Fee Revenue bonds, $60,000,000 face value, 3.5% to 5.0%, due annually from 2008 through 2037.	-	60,000,000	-	60,000,000
Total bonds payable	273,734,429	60,000,000	(12,287,903)	321,446,526
Plus unamortized bond premium	4,223,425	2,456,590	(873,616)	5,806,399
Less unamortized bond discount	(1,203,285)	-	76,187	(1,127,098)
Less unamortized loss on refunding	(1,097,276)	-	290,127	(807,149)
	275,657,293	62,456,590	(12,795,205)	325,318,678
Less: current portion				
Bonds payable	(12,287,903)			(13,737,440)
Unamortized bond premium	(733,317)			(807,402)
Unamortized bond discount	76,186			76,186
Unamortized loss on refunding	290,129			230,177
Total noncurrent bonds payable	$ 263,002,388			$ 311,080,199

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to September 30, 2008, and thereafter, are as follows:

Year Ending September 30	Bonds Payable Principal	Interest
2009	$ 14,803,294	$ 25,718,452
2010	19,747,020	26,129,625
2011	19,494,610	26,589,910
2012	20,079,833	26,015,555
2013	18,700,538	25,398,025
2014-2018	93,015,484	116,642,217
2019-2023	96,208,307	93,859,459
2024-2028	100,000,000	62,508,043
2029-2033	100,135,000	38,898,994
2034-2038	95,020,000	13,521,931
Total future debt service	$ 577,204,086	$ 455,282,211

Capital Lease Obligations

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

Lease Obligations	Balance at Sept. 30, 2007	New Debt	Principal Repayment	Balance at Sept. 30, 2008
Building	$ 1,380,000	$ -	$ (145,000)	$ 1,235,000
Equipment	1,665,785	25,200	(445,401)	1,245,584
Total lease obligations	$ 3,045,785	$ 25,200	$ (590,401)	$ 2,480,584

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

	Building	Equipment	Total
2008-2009	$ 214,780	$ 398,976	$ 613,756
2009-2010	212,572	368,896	581,468
2010-2011	210,053	349,542	559,595
2011-2012	212,215	332,242	544,457
2012-2013	213,815	-	213,815
2013-2016	424,750	-	424,750
Minimum lease payments	1,488,185	1,449,656	2,937,841
Less interest	(253,185)	(204,072)	(457,257)
Present value of minimum lease payments	1,235,000	1,245,584	2,480,584
Less current portion	(155,000)	(316,298)	(471,298)
Noncurrent obligations	$ 1,080,000	$ 929,286	$ 2,009,286

The University has entered into various operating leases for equipment. It is expected that, in the normal course of business, such leases will continue to be required. Net expenditures for rentals under operating leases for the years ended September 30, 2008, and 2007, amounted to approximately $4.2 million and $3.9 million, respectively.

(9) PLEDGED REVENUES

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

	2008	2007
Student fees collected	$ 250,307,172	$ 231,220,338
Less AUM fees	(23,206,416)	(20,673,604)
Less fees pledged for specific purposes:		
Athletic fees ($96 per student per semester)	(4,689,807)	(4,960,876)
Transit fees ($89/$100 as of fall 2008 per student per semester)	(4,861,487)	(3,114,312)
Student activities fees ($15 per student per semester)	(801,890)	(790,306)
Total general fees pledged	$ 216,747,572	$ 201,681,240

The pledge of Athletic Program Revenues is being added to the General Fee Trust Indenture, contemporaneously with the issuance of the Series 2008 Bonds and collateralizes, on a parity basis, all bonds now or hereafter issued under the General Fee Revenue Indenture. Athletic program revenues pledged to the 2008 General Fee Revenue Bonds are subordinate to the Athletic Program Revenues previously pledged to the Athletic Revenue Bonds, as described below.

Pledged revenue for 2008 and 2007 as defined by the **Series 2001A, 2003, and 2004 Athletic A & B Revenue Trust Indentures** is as follows:

	2008	2007
Jordan Hare and other revenues:		
Television and broadcast revenues	$ 4,650,000	$ 4,150,000
Conference and NCAA distributions	13,924,900	12,159,634
Sales and services revenues	25,632,907	24,653,339
Student fees	4,689,807	4,960,876
Royalties, advertisements, and sponsorships	6,079,271	-
Other income	1,445,959	3,621,856
Total athletic revenues pledged	$ 56,422,844	$ 49,545,705

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

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

Pledged revenue for 2008 and 2007 as defined by the **Series 2003 Housing and Dining Revenue Trust Indenture** is as follows:

	2008	2007
Housing revenues:		
Room rental	$ 9,551,728	$ 9,317,145
Other income	880,071	750,618
Total housing	10,431,799	10,067,763
Food services revenue	199,320	509,430
Total housing and food services	$ 10,631,119	$ 10,577,193

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

The Auburn University dormitory occupancy rate for fall semester 2008 and fall semester 2007 was 96.7% and 98.6%, respectively (unaudited).

Pledged revenues and related expenses for 2008 and 2007 as defined by the **1978 Auburn University at Montgomery Trust Indenture** are as follows:

The following summary shows the revenues, expenses and transfers from operations of the dormitories of AUM for the years ended September 30, 2008, and 2007.

	2008	2007
Revenues:		
Room rental	$ 901,517	$ 851,046
Other income	63,143	36,054
Total revenues	964,660	887,100
Expenses and transfers:		
Personnel cost	519,827	565,544
Operating expenses	290,460	531,186
Transfers	147,870	148,445
Total expenses and transfers	958,157	1,245,175
Surplus (deficit) of revenues over expenses and transfers	6,503	(358,075)
AUM Student Housing net deficit at beginning of year	(1,322,244)	(964,169)
AUM Student Housing net deficit at end of year	$ (1,315,741)	$ (1,322,244)

The AUM dormitory occupancy rate for fall semester 2008 and fall semester 2007 was 81.5% and 97.36%, respectively (unaudited).

(10) RETIREMENT PROGRAMS

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

A. Teachers' Retirement System of Alabama

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

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

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

The ten year historical trend information showing TRS's progress in accumulating sufficient assets to pay benefits when due and the significant actuarial assumptions used to compute the pension benefit obligation, including the discount rate, projected salary increases and post-retirement benefit increases, are presented in the September 30, 2007 annual financial report of the Teachers' Retirement System of Alabama. The Retirement System of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to the Retirement System of Alabama, 135 South Union Street, Montgomery, Alabama, 36130-2150.

Funding Policy

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

Fiscal year ended September 30,	2008	2007	2006
Total percentage of covered payroll	16.75%	14.36%	13.17%
Contributions:			
Percentage contributed by the employer	11.75%	9.36%	8.17%
Percentage contributed by the employees	5.00%	5.00%	5.00%
Contributed by the employer	$ 36,742,052	$ 27,514,629	$ 22,235,640
Contributed by the employees	15,639,571	14,701,877	13,812,039
Total contributions	$ 52,381,623	$ 42,216,506	$ 36,047,679

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

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

Fiscal year ended September 30,	2008	2007	2006
Total percentage of covered payroll	33.05%	27.11%	25.57%
Contributions:			
Percentage contributed by the employer	30.55%	24.61%	23.07%
Percentage contributed by the employees	2.50%	2.50%	2.50%
Contributed by the employer	$ 1,954,795	$ 1,626,391	$ 1,489,525
Contributed by the employees	163,172	165,224	161,413
Total contributions	$ 2,117,967	$ 1,791,615	$ 1,650,938

C. Tax Deferred Annuity Plan
This plan is a defined contribution plan under section 403(b) of the Internal Revenue Code. Accordingly, benefits depend solely on amounts contributed to the plan plus investment earnings. This is provided as a supplement to the aforementioned programs. All full-time regular or probationary employees are eligible to participate. Full-time temporary employees are also eligible if their employment period is for a minimum of one year. The University will match up to $1,650 per year of a qualifying employee's contribution. This equates to five percent of gross salary with a maximum covered salary of $33,000 per year. An employee enrolling in one of the University's tax deferred annuity plans will not vest in the University's matching portion until he/she has completed five years of full-time continuous service. Upon the employee's completion of the five year requirement, the University's matching contribution and interest earned will be vested to the participant. Nonparticipating employees with continuous service will be given credit toward the five year requirement upon joining the tax deferred annuity program. The total investment in the annuities is determined by Section 403(b). There are several investment options including fixed and variable annuities and mutual funds. The University-approved investment firms employees may select are AIG Retirement, TIAA-CREF, Vanguard Fidelity Investments, Lincoln Financial and The Hartford. At September 30, 2008, and September 30, 2007, 3,313 employees and 3,276 employees, respectively, participated in the tax deferred annuity program. The contribution for 2008 was $16,819,506, which includes $4,647,335 from the University and $12,172,171 from its employees. The contribution for 2007 was $15,996,510, which includes $4,195,025 from the University and $11,801,485 from its employees. Total salaries and wages during the fiscal year for covered employees participating in the plan were approximately $211,576,000 and $200,725,000 for the fiscal years ended September 30, 2008, and 2007, respectively.

D. Deferred Compensation Plans
The University follows the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457(b) Deferred Compensation Plan*-a recission of GASB Statement No. 2 and an amendment of GASB Statement No. 31. As of September 30, 2008, and September 30, 2007, 211 and 213 employees, respectively, participated in the plans. Contributions of $2,133,758 and $2,181,213 for fiscal years 2008 and 2007, respectively, were funded by employees and no employer contribution was funded. The 457(b) plans include AIG Retirement, TIAA-CREF, Vanguard, Fidelity Investments, Lincoln Financial and The Hartford.

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

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

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

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

The required contribution rate of the employer was $367 per employee per month in the year ended September 30, 2008. The University paid $7,976,794 and $8,623,680 for 1,862 and 1,786 retirees for the year ended September 30, 2008, and 2007, respectively. The required contribution rate is determined by PEEHIP in accordance with state statute. The complete financial report for PEEHIP can be obtained by contacting the TRS Communication Department at 1-800-214-2158.

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

Employees included in the actuarial valuation include retirees and survivors, active Civil Service employees who are eligible to participate in the Plan upon retirement and those employees the University pays a subsidy for who elected the PEEHIP plan on or prior to October 1, 1997. Expenditures for postretirement health care benefits are paid monthly and financed on a pay-as-you-go basis. The University funds approximately 60% of the postretirement healthcare premiums, which totaled $960,600 and $996,645 for fiscal years ended September 30, 2008, and 2007, respectively. The retirees are responsible for funding approximately 40% of the healthcare premiums.

In compliance with the provisions of GASB Statement No. 45, the University accrued an additional $2,013,900 and $2,737,700 in retiree healthcare expense during fiscal 2008 and 2007, respectively.

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

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

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

Cost Element	Fiscal Year Ending Sept. 30, 2008 Amount	Percent of Payroll[1]
1. Unfunded actuarial accrued liability at Oct. 1, 2007	$ 47,802,500	786.5%
Annual Required Contribution (ARC)		
2. Normal cost	$ 86,800	
3. Amortization of the unfunded actuarial accrued liability over 15 years using level dollar amortization	4,299,400	
4. Annual Required Contribution (ARC = 2 + 3)	$ 4,386,200	72.2%
Annual OPEB Cost (Expense)		
5. ARC	$ 4,386,200	
6. Interest on beginning of year accrual[1]	109,500	
7. Amortization of beginning of year accrual[1]	236,800	
8. Fiscal 2008 OPEB cost (5 + 6 – 7)	$ 4,258,900	70.1%
End of Year Accrual (Net OPEB Obligation) [2]		
9. Beginning of year accrual[1]	$ 2,737,700	
10. Annual OPEB cost	4,258,900	
11. Employer contribution (benefit payments) [2]	2,245,000	
12. End of year accrual (9 + 10 – 11) [2]	$ 4,751,600	78.2%

[1] Annual payroll for the 80 plan participants as of October 1, 2007, estimated at $6,078,233 based on actual payroll of $6,290,971 as of September 30, 2008.

[2] Actual amounts paid in fiscal year 2008 (claims costs of $2,793,949; PPO administrative fees of $118,615; and PEEHIP subsidy payments of $144,753) less participant contributions of $812,311.

Auburn University

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, 2007	$ 5,394,900	49.3%	$ 2,737,700
September 30, 2008	$ 4,258,900	52.7%	$ 4,751,600

[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, 2007 – September 30, 2008

Actuarial cost method Unit Credit, level dollar

Amortization method 15 years, level dollar open amortization[4]

Asset valuation method N/A

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

Actuarial assumptions:

Discount rate	4.0%
Projected payroll growth rate	3.5%
Heath care cost trend rate for medical and prescription drugs	9.0% in fiscal year 2008, decreasing by one-half percentage point per year to an ultimate of 5.0% in fiscal year 2016 and after.

General Overview of the Valuation Methodology

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

The roll-forward methodology used for the fiscal year 2008 valuation included adjustments for census information provided by the University as of September 30, 2008, for plan provisions effective during fiscal year 2008 and for 2008 plan cost information provided by the University.

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

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

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

Sample per capita costs are provided below.

Valuation Year October 1, 2007 – September 30, 2008

Date of Census Data November 1, 2006; September 30, 2008 census data was used to adjust the roll-forward estimate for changes in participant counts from November 1, 2006

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

Medical Per Capita Costs

Sample Costs for Fiscal Year Beginning 10/1/2006

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

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

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

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

Due to plan provision changes for 2008 (Rx copays, etc.) the roll-forward methodology included a cost adjustment of -8%.

Retiree Premiums

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

	As of 1/1/08	As of 1/1/07
Pre-65 Single	$ 386	$ 368
Pre-65 Family	806	761
Post-65 Single	113	108
Post-65 Family	266	253

Note: There are several other categories of premiums.

Administrative Expenses

The per capita costs for 2007 include $18.75 per contract per month. This will increase to $20.50 in fiscal years 2008 and 2009 and the roll-forward methodology includes an adjustment for the change.

Annual Health Care Trend Rate

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

Discount Rate

4.00% per annum

Salary Increase

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

Spouse Age Difference

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

Mortality

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

Participation Rates

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

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

Retirement Rates

Employees are assumed to retire according to the following schedule:

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

Withdrawal Rates

None assumed since all are long service Civil Service employees.

Disability Rates

Sample rates are shown below

Percent assumed to terminate within one year

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

(12) SELF INSURANCE PROGRAMS AND OTHER LIABILITIES

Self Insurance

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

The Comprehensive General Liability Trust Fund is a self-insured retention program that protects the University, its faculty, staff and volunteers against claims brought by third parties arising from bodily injury, property damage and personal liability (libel, slander, etc.) Funds are held in a separate trust account with Compass Bank to be used to pay claims for which the University may become legally liable. The liability at September 30, 2008, and 2007, was $474,484 and $457,402, respectively.

The On-The-Job-Injury program provides benefits for job-related injuries or death related from work at the University. This program is designed to cover out-of-pocket expenses of any employee who is not covered by insurance. The program will also pay for medically evidenced disability claims and provide death benefits arising from a job-related death of an employee. This self-funded program is provided to employees since the University is not subject to the worker's compensation laws of the State of Alabama. The liability at September 30, 2008, and 2007, was $1,925,594 and $1,827,275, respectively.

The University self-insures its health insurance program for all eligible employees. Assets have been set aside to fund the related claims of this program. Should the assets be insufficient to pay the insurance claims, the University would be liable for such claims. The accompanying Statement of Net Assets includes a self-insurance reserve for health insurance as of September 30, 2008, and 2007, of $2,867,200 and $2,799,700, respectively.

Other Liabilities

Other liabilities include compensated absences, deposits held in custody, and deferred revenues. The University allows employees to accrue and carryover annual and sick leave up to certain maximum amounts depending on years of service. Employees will be compensated for accrued annual leave at time of separation from University employment (termination or retirement) up to a maximum of one month's additional compensation. All eligible employees hired before October 1, 1990, may be compensated for unused sick leave at the rate of 25% of their respective balances, subject to a maximum of one month's additional compensation. The liability for compensated absences was $17,295,997 and $16,970,479 at September 30, 2008, and 2007, respectively.

Deposits held in custody include the portion of the Federal Perkins Student Loan funds and Health Professional Student Loans which would be refunded in the event the University's operations ceased. The refundable amounts were $15,687,968 and $15,358,148, at September 30, 2008, and 2007, respectively. Also included in deposits held in custody of others are the agency funds. These amounts totaled $3,843,492 and $4,777,302 for September 30, 2008, and 2007, respectively.

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

Deferred revenues at September 30, 2008, and September 30, 2007, are as follows:

	2008	2007
Tuition and fees	$ 75,973,302	$ 66,161,923
Federal, state and local government	11,391,952	10,331,866
Auxiliary	14,676,833	15,122,894
Loan	116,016	1,843
Plant	601,449	617,276
Total deferred revenue	$ 102,759,552	$ 92,235,802

(13) CONTRACTS AND GRANTS

The University has been awarded approximately $7,100,000 (unaudited) and $5,085,000 (unaudited) in contracts and grants that have not been received or expended as of September 30, 2008, and 2007, respectively. These awards, which represent commitments of sponsors to provide funds for research and training projects, have not been reflected in the financial statements.

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

The portion of revenue recognized for all grants and contracts that represents facilities and administrative cost recovery is recognized on the Statement of Revenues, Expenses and Changes in Net Assets with contract and grant operating revenues. The University recognized $15,383,759 and $15,806,919 in facilities and administrative cost recovery for the years ended September 30, 2008, and 2007, respectively.

(15) CONSTRUCTION COMMITMENTS AND FINANCING

The University has entered into projects for the construction and renovation of various facilities that are estimated to cost approximately $557,000,000 (unaudited). At September 30, 2008, the estimated remaining cost to complete the projects is approximately $329,000,000 (unaudited), which will be funded from University funds and bond proceeds.

(16) OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended September 30, 2008, and 2007, are listed below. In preparing the financial statements, all significant transactions and balances between auxiliary units and other funds have been eliminated.

September 30, 2008	Compensation and Benefits	Scholarships and Fellowships	Utilities	Other Supplies and Services	Depreciation	Total
Instruction	$ 183,056,641	$ 1,112,492	$ -	$ 28,395,440	$ -	$ 212,564,573
Research	67,025,511	717,186	-	33,393,747	-	101,136,444
Public Service	60,486,179	-	-	47,541,609	-	108,027,788
Academic Support	27,908,305	-	-	4,048,547	-	31,956,852
Library	7,608,106	-	-	1,824,534	-	9,432,640
Student Services	12,585,757	-	-	6,838,024	-	19,423,781
Institutional Support	61,453,133	-	-	721,110	-	62,174,243
Operation and Maintenance	25,018,479	-	19,282,837	26,621,597	-	70,922,913
Scholarships and Fellowships	12,999,758	16,922,323	-	938,872	-	30,860,953
Auxiliaries	31,482,838	170,373	3,597,839	43,568,815	-	78,819,865
Depreciation	-	-	-	-	41,270,457	41,270,457
	$ 489,624,707	$ 18,922,374	$ 22,880,676	$ 193,892,295	$ 41,270,457	$ 766,590,509

September 30, 2007	Compensation and Benefits	Scholarships and Fellowships	Utilities	Other Supplies and Services	Depreciation	Total
Instruction	$ 170,573,889	$ 1,202,722	$ -	$ 23,156,844	$ -	$ 194,933,455
Research	61,852,121	755,050	-	32,060,190	-	94,667,361
Public Service	55,753,466	-	-	50,514,387	-	106,267,853
Academic Support	24,755,244	-	-	4,372,542	-	29,127,786
Library	6,981,110	-	-	230,287	-	7,211,397
Student Services	10,400,130	-	-	5,897,597	-	16,297,727
Institutional Support	55,404,174	-	-	6,105,637	-	61,509,811
Operation and Maintenance	21,963,798	-	16,301,751	19,646,419	-	57,911,968
Scholarships and Fellowships	11,675,895	14,104,079	-	471,784	-	26,251,758
Auxiliaries	28,306,454	188,322	4,184,261	43,325,247	-	76,004,284
Depreciation	-	-	-	-	37,134,786	37,134,786
	$ 447,666,281	$ 16,250,173	$ 20,486,012	$ 185,780,934	$ 37,134,786	$ 707,318,186

Auburn University

(17) CONTINGENT LIABILITIES

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

(18) RELATED PARTY TRANSACTIONS

Auburn University Foundation

The majority of funds that the AUF raises are restricted by the donor for specific schools, colleges or programs of the University. These may be transferred to the University for its use, expended for the benefit of University schools, colleges or programs, or in the case of endowments, invested with only the earnings transferred to or expended on behalf of the University. Amounts transferred to the University or expended on behalf of its programs totaled $26,063,821 and $24,125,580 during the years ended September 30, 2008, and 2007, respectively. Of the $2,851,353 and $2,447,146 due to the University, respectively, cumulative undistributed earnings on endowed funds were $2,291,671 and $2,183,596 at September 30, 2008, and 2007, respectively. In addition to the net undistributed grants due to the University, other net amounts due to the University were $559,682 and $263,550 at September 30, 2008, and 2007, respectively.

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

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

- For the years ended September 30, 2008, and 2007, all personnel costs were incurred by the University, and AUF reimbursed the University $2,223,707 and $1,837,833, respectively, for its share of these central development services in accordance with the Agreement.

- Non salary development costs were incurred and paid primarily by AUF. The University provided for its share of development non-personnel operating costs by establishing budgets within the University's budgetary system whereby it paid a portion of the costs, and reimbursed AUF for the balance. The amount directly incurred by the University or reimbursed to AUF was $1,546,516 and $1,648,760 for the years ended September 30, 2008, and 2007, respectively.

- Constituency development operations, which are fund raising programs restricted to one school, college or program of the University, are funded jointly by AUF and the University unit involved. While essentially all of the non-salary expenses are paid by AUF from restricted funds, the salaries are incurred by the University and reimbursed by AUF upon request by the head of the related university unit. During the years ended September 30, 2008, and 2007, the constituency salaries reimbursed to the University totaled $925,245 and $182,711, respectively.

The amount due from AUF to the Association consists of funds from the Association's Life Membership program which are invested with AUF's pooled endowment. AUF remits income from the investments directly to the Association on an annual basis. For the years ended September 30, 2008, and 2007, AUF was committed to the Association for $6,627,852 and $7,987,747, respectively. Of the amount for the year ended September 30, 2008, $640 related to a receivable from the Association to AUF for reimbursement of miscellaneous administrative and general expenses. Of the amount for the year ended September 30, 2007, $7,500 related to a receivable from the Association to AUF for a gift to the Auburn Alumni Association Scholarship Endowment.

The amount due from AUF to TUF consists of funds which are invested with AUF's pooled endowment. AUF remits income from the investments which are designated by donor restriction for spending directly to the University on behalf of TUF on an annual basis. AUF remits income from investments which are designated by donor restriction for additions to endowment corpus directly to the TUF on an annual basis. As of September 30, 2008, and 2007, AUF was committed to TUF for $6,206,026 and $7,343,095, respectively. Of these amounts for both fiscal years, $100,000 relates to a payable by AUF to TUF upon the termination of a trust.

Tigers Unlimited Foundation

The funds that TUF raises are restricted for athletic-related programs of the University. These may be transferred to the University for its use, expended for the benefit of athletic programs or, in the case of endowments, invested according to donor restriction and the earnings transferred to, or expended for, the University's benefit. Amounts transferred to the University, or expended on behalf of its programs, totaled $19,460,040 and $18,655,658 during the years ended June 30, 2008, and 2007, respectively.

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

For the years ended June 30, 2008, and 2007, TUF reimbursed the University $265,000 and $250,000, respectively, for TUF personnel costs incurred by the University.

During the years ended June 30, 2008, and 2007, the University contributed $584,800 and $490,875, respectively, to TUF for the use of executive suites at University athletic events. This amount is recorded as public support-contribution revenue on the Statements of Activities and Changes in Net Assets.

During the years ended June 30, 2008, and 2007, 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, 2008, and 2007, obligations of $2,222,218 and $1,900,495 related to these transactions, respectively, were outstanding. These obligations were paid during the subsequent fiscal year.

At June 30, 2008, and 2007, amounts payable from AUF to TUF were $100,000. At June 30, 2008, $50,082 was payable from the University to TUF.

Auburn Alumni Association

The Association, AUF, Auburn University Offices of Alumni and Development and their related support units jointly utilize operational facilities, personnel and other assets in order to effectively and efficiently carry out their required activities. All personnel are employed by the University and their services are provided to the other organizations under contractual agreements. Other operational costs are paid from budgets of each organization. The combined expenditures are analyzed periodically and, based on each entity's utilization of the facilities, supplies and services, any necessary reimbursements are made among the organizations. In the Statements of Activities and Changes in Net Assets, amounts received by the Operating Fund from other organizations are used to offset the related expenses. The Executive Director of the Association is an employee of the University, providing services to the Association under a services and facilities contract. She also serves as the Vice President for Alumni Affairs for the University. A portion of the Association's investments have been pooled with AUF investments and are invested and managed by AUF. Cash receipts and disbursements records of the Association are maintained within the University accounting system. During the years ended September 30, 2008, and 2007, the Association had a salary reimbursement expense of $797,991 and $775,245, respectively, to the University under the service and facilities agreement. Of this amount, $746,749 and $741,807 had been paid, and $51,242 and $33,438 was accrued as an amount payable at September 30, 2008, and 2007, respectively.

Rental income recorded by the Association from the University totaled $206,481 and $199,385, respectively, for the years ended September 30, 2008, and September 30, 2007. Rental income recorded by the Association from AUF totaled $107,386 and $103,770, respectively, for the years ended September 30, 2008, and September 30, 2007.

During the year ended September 30, 2008, the University provided for its share of alumni affairs activities costs by establishing a budget within the University's budgetary system; whereby, they paid a portion of the costs, and reimbursed the Association for the balance. The alumni affairs activities costs for the years ended September 30, 2008, and 2007, were $740,000 and $738,823, respectively.

During the years ended September 30, 2008, and 2007, the Association contributed $585,347 and $473,424, respectively, to the Auburn Alumni Association endowment for Scholarships held with the AUF.

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

The Federal Family Education Loan Program (FFELP) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FFELP enables an eligible student or parent to obtain a loan directly through FFELP lenders. Alabama's designated state guarantor for FFELP loans is Kentucky Higher Education Assistance Authority (KHEAA). KHEAA is responsible for handling the complete loan process, including funds management as well as promissory note functions. Other guarantors are also involved in the process depending on the lender's guarantor of choice. Files are transmitted via the ELM-Electronic Loan Maintenance System, which routes loan information to the appropriate lender or guarantor and then routes the response files back to the University. The FFELP lenders, and not the University, are responsible for the collection of these loans. The University's Main Campus disbursed approximately $109,700,000 and approximately $94,600,000 under the FFELP during the fiscal year ended September 30, 2008, and 2007, respectively. AUM disbursed approximately $21,900,000 and approximately $18,400,000 under the FFELP during the fiscal year ended September 30, 2008, and 2007, respectively.

(20) SUBSEQUENT EVENTS

The Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA)

The Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA) has been enacted by the Legislature of the State of Alabama and signed into law effective January 1, 2009. Among its changes, UPMIFA prescribes new guidelines for expenditure of a donor-restricted endowment fund (in the absence of overriding, explicit donor stipulations). Its predecessor, UMIFA, focused on the prudent spending of the net appreciation of the fund. UPMIFA instead focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. UPMIFA eliminates UMIFA's historic-dollar-value threshold, an amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. The application of the provisions of UPMIFA may result in significant net asset category reclassifications for the fiscal year ending September 30, 2009. Management is reviewing policies and procedures to determine what, if any, impact UPMIFA will have on current procedures. The application of the UPMIFA may result in significant net asset category reclassifications of the University's component units for the fiscal year ending September 30, 2009, and may impact future distributions from those component units to the University.

The Financial Accounting Standards Board (FASB) has issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of UPMIFA, and Enhanced Disclosures for All Endowment Funds*. The provisions of the FSP require new endowment disclosures, effective for the fiscal year ending September 30, 2009. Currently, management has not determined what impact, if any, the implementation of FAS-117-1 may have on the University's future financial reporting of net assets. The provisions of the FASB Staff Position require new endowment disclosures for the University's component units, effective for the fiscal year ending September 30, 2009.

Endowment Pool Activity Subsequent to Year End

Subsequent to year end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result the University's and affiliated foundation's endowment pool investments have incurred a significant decline in fair value since September 30, 2008. For the period from October 1, 2008, through November 30, 2008, these losses totaled approximately $19 million, $27.5 million and $0.9 million for the University, AUF and AAA, respectively. For the period from July 1, 2008, through November 30, 2008, these losses totaled approximately $1.5 million for TUF.

(21) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

The University is currently evaluating the financial statement impact of or have adopted the following recently issued GASB statements.

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was issued by the GASB in November 2006. This statement will require that governments provide more detailed information regarding the effect of environmental cleanups and will be effective for financial periods beginning after December 15, 2007.

Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, was issued by the GASB in May 2007. This statement requires governments having defined benefit pension plans to disclose certain information in their financials. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. The requirements for disclosures include: discussions of the funded status of the plan as of the most recent actuarial valuation date as well as actuarial methods and significant assumptions used and legal or contractual maximum contribution rates. A reference comparing the funded status to the required schedule of funding progress should also be disclosed. Statement No. 50 is effective for periods beginning after June 15, 2007. The University adopted this statement effective October 1, 2007. Refer to note 10 for the applicable disclosures made in accordance with this statement.

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

Statement No. 52, *Land and Other Real Estate Held as Investments By Endowments*, was issued in November 2007. This statement, effective for periods beginning after June 15, 2008, will require public institutions holding land and any other real estate investments in their endowment portfolios to report these assets at fair value. This Statement establishes consistent standards for the reporting of these assets held as investments by essentially similar entities. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, was issued in June 2008. This statement, which will be effective for periods beginning after June 15, 2009, dictates guidelines for the recognition, measurement and disclosure of financial transactions involving derivative instruments.


HARGIS HALL

AUBURN UNIVERSITY

2008
Financial Report

Unaudited Divisional Financial Statements

Auburn University

AUBURN UNIVERSITY MAIN CAMPUS
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 45,745,565	$ 36,516,004
Operating investments	69,619,880	67,154,458
Accounts receivable, net	30,253,082	33,843,319
Student accounts receivable, net	22,638,302	25,258,302
Loans receivable, net	2,612,701	2,951,605
Accrued interest receivable	5,950,208	5,176,113
Inventories	3,065,423	3,073,959
Prepaid expenses	5,978,938	3,575,952
Due from other funds	420,066	831,310
Total current assets	186,284,165	178,381,022
Noncurrent assets		
Investments	810,898,189	532,317,366
Loans receivable, net	14,571,533	14,326,517
Investment in plant, net	828,799,195	719,963,417
Due from other funds	18,987,096	19,265,639
Total noncurrent assets	1,673,256,013	1,285,872,939
Total assets	1,859,540,178	1,464,253,961
LIABILITIES		
Current liabilities		
Accounts payable	49,448,751	34,952,413
Accrued salaries and wages	3,578,498	2,828,834
Accrued compensated absences	11,438,361	10,473,651
Accrued interest payable	7,777,773	5,137,612
Other accrued liabilities	2,868,084	2,799,700
Student deposits	751,409	757,373
Deposits held in custody	16,600,487	16,983,402
Deferred revenues	90,715,294	83,181,230
Noncurrent liabilities-current portion	15,596,214	14,563,637
Total current liabilities	198,774,871	171,677,852
Noncurrent liabilities		
Accrued compensated absences	462,095	1,196,328
Bonds and notes payable	566,650,472	309,730,199
Lease obligations	929,286	1,235,627
Other noncurrent liabilities	14,423,198	12,669,724
Due to other funds	24,603,371	21,414,283
Total noncurrent liabilities	607,068,422	346,246,161
Total liabilities	805,843,293	517,924,013
NET ASSETS		
Invested in capital assets, net of related debt	500,987,015	461,085,766
Restricted		
Nonexpendable	18,714,893	18,121,550
Expendable:		
Scholarships, research, instruction, other	105,653,590	96,566,392
Loans	4,604,910	4,842,445
Capital projects	11,691,938	3,294,807
Unrestricted	412,044,539	362,418,988
Total net assets	$ 1,053,696,885	$ 946,329,948

AUBURN UNIVERSITY MAIN CAMPUS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)

	2008	2007
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of $41,808,022		
and $35,951,098, respectively	$ 216,529,716	$ 202,643,450
Federal appropriations	76,674	39,277
Federal grants & contracts, net	57,452,909	61,341,233
State & local grants & contracts, net	6,144,225	5,560,484
Nongovernmental grants & contracts, net	7,733,208	8,011,001
Sales & services of educational departments	19,763,941	18,343,601
Auxiliary revenue, net of scholarship allowances of $1,603,085		
and $1,520,121, respectively	70,803,562	60,988,458
Other operating revenues	12,194,182	8,659,182
Total operating revenues	390,698,417	365,586,686
OPERATING EXPENSES		
Compensation & benefits	363,357,141	331,894,244
Scholarships & fellowships	15,874,890	13,676,503
Utilities	18,860,556	16,850,065
Other supplies & services	122,156,314	119,174,010
Depreciation	38,693,636	34,460,577
Total operating expenses	558,942,537	516,055,399
Operating loss	(168,244,120)	(150,468,713)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	220,114,566	188,794,357
Gifts	27,377,197	35,265,763
Net investment income	19,065,291	49,159,407
Interest expense on capital debt	(14,775,224)	(10,236,609)
Nonoperating revenues, net	251,781,830	262,982,918
Income before other changes in net assets	83,537,710	112,514,205
OTHER CHANGES IN NET ASSETS		
Capital appropriations	-	108,492
Capital gifts & grants	23,479,866	22,366,052
Additions to permanent endowments	349,361	187,513
Net increase in net assets	107,366,937	135,176,262
Net assets - beginning of year	946,329,948	811,153,686
Net assets - end of year	$1,053,696,885	$ 946,329,948

AUBURN UNIVERSITY AT MONTGOMERY
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 724,937	$ 558,776
Operating investments	1,103,277	1,039,309
Accounts receivable, net	6,949,756	12,761,994
Student accounts receivable, net	2,666,862	2,629,322
Loans receivable, net	626,659	568,411
Inventories	658,998	710,527
Prepaid expenses	3,082	2,166
Total current assets	12,733,571	18,270,505
Noncurrent assets		
Investments	12,850,426	8,238,354
Loans receivable, net	2,301,109	2,505,832
Investment in plant, net	36,461,866	37,396,808
Due from other funds	24,603,370	21,414,284
Total noncurrent assets	76,216,771	69,555,278
Total assets	88,950,342	87,825,783
LIABILITIES		
Current liabilities		
Accounts payable	2,340,678	2,835,463
Accrued salaries and wages	467,448	414,812
Accrued compensated absences	1,318,803	1,188,679
Accrued interest payable	12,975	14,025
Student deposits	-	3,251
Deposits held in custody	2,930,972	3,159,207
Deferred revenues	7,783,917	6,315,289
Noncurrent liabilities-current portion	260,000	250,000
Due to other funds	420,066	448,454
Total current liabilities	15,534,859	14,629,180
Noncurrent liabilities		
Accrued compensated absences	53,278	135,775
Bonds and notes payable	1,245,000	1,350,000
Lease obligations	1,080,000	1,235,000
Due to other funds	18,987,095	18,989,949
Total noncurrent liabilities	21,365,373	21,710,724
Total liabilities	36,900,232	36,339,904
NET ASSETS		
Invested in capital assets, net of related debt	14,719,655	15,393,323
Restricted		
Nonexpendable	4,915,723	4,828,156
Expendable:		
Scholarships, research, instruction, other	23,994,496	24,099,021
Loans	338,658	357,359
Capital projects	145,699	141,142
Unrestricted	7,935,879	6,666,878
Total net assets	$ 52,050,110	$ 51,485,879

AUBURN UNIVERSITY AT MONTGOMERY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)

	2008	2007
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of $4,428,960 and $3,789,534, respectively	$ 18,777,456	$ 16,884,070
Federal grants & contracts, net	6,457,907	5,875,332
State & local grants & contracts, net	13,244,448	17,886,179
Nongovernmental grants & contracts, net	244,413	340,032
Sales & services of educational departments	1,047,707	1,422,470
Auxiliary revenue, net of scholarship allowances of $426,955 and $372,628, respectively	4,691,833	4,354,001
Other operating revenues	2,569,021	2,614,127
Total operating revenues	47,032,785	49,376,211
OPERATING EXPENSES		
Compensation & benefits	44,849,541	39,534,316
Scholarships & fellowships	3,047,484	2,572,665
Utilities	2,799,255	2,608,893
Other supplies & services	24,504,049	27,776,137
Depreciation	2,576,821	2,674,209
Total operating expenses	77,777,150	75,166,220
Operating loss	(30,744,365)	(25,790,009)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	31,026,696	27,210,846
Gifts	(239,424)	18,703,898
Net investment income	1,731,574	1,486,749
Interest expense on capital debt	(1,296,444)	(1,725,609)
Nonoperating revenues, net	31,222,402	45,675,884
Income before other changes in net assets	478,037	19,885,875
OTHER CHANGES IN NET ASSETS		
Capital gifts & grants	23,677	41,429
Additions to permanent endowments	62,517	24,520
Net increase in net assets	564,231	19,951,824
Net assets - beginning of year	51,485,879	31,534,055
Net assets - end of year	$ 52,050,110	$ 51,485,879

ALABAMA AGRICULTURAL EXPERIMENT STATION
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,327,917	$ 1,831,513
Operating investments	2,020,948	2,350,770
Accounts receivable, net	3,411,618	3,048,358
Total current assets	6,760,483	7,230,641
Noncurrent assets		
Investments	23,539,009	18,633,991
Total noncurrent assets	23,539,009	18,633,991
Total assets	30,299,492	25,864,632
LIABILITIES		
Current liabilities		
Accounts payable	975,329	954,900
Accrued salaries and wages	349,073	272,515
Accrued compensated absences	1,746,931	1,629,910
Deposits held in custody	1,200	-
Deferred revenues	3,553,490	2,199,824
Due to other funds	-	382,524
Total current liabilities	6,626,023	5,439,673
Noncurrent liabilities		
Accrued compensated absences	70,574	186,173
Due to other funds	-	276,022
Total noncurrent liabilities	70,574	462,195
Total liabilities	6,696,597	5,901,868
NET ASSETS		
Restricted		
Expendable:		
Scholarships, research, instruction, other	1,554,571	839,251
Unrestricted	22,048,324	19,123,513
Total net assets	$ 23,602,895	$ 19,962,764

ALABAMA AGRICULTURAL EXPERIMENT STATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)

	2008	2007
OPERATING REVENUES		
Federal appropriations	$ 7,143,688	$ 4,608,717
Federal grants & contracts	14,292,241	13,341,460
State & local grants & contracts	1,187,909	1,134,451
Nongovernmental grants & contracts	1,547,593	1,728,395
Sales & services of educational departments	2,717,280	2,032,945
Other operating revenues	388,517	917,387
Total operating revenues	27,277,228	23,763,355
OPERATING EXPENSES		
Compensation & benefits	38,834,619	35,257,225
Scholarships & fellowships	-	1,005
Utilities	974,236	868,967
Other supplies & services	26,779,187	21,116,202
Total operating expenses	66,588,042	57,243,399
Operating loss	(39,310,814)	(33,480,044)
NONOPERATING REVENUES		
State appropriations	41,192,184	34,730,026
Gifts	1,248,013	698,356
Net investment income	510,748	434,909
Nonoperating revenues, net	42,950,945	35,863,291
Net increase in net assets	3,640,131	2,383,247
Net assets - beginning of year	19,962,764	17,579,517
Net assets - end of year	$ 23,602,895	$ 19,962,764

ALABAMA COOPERATIVE EXTENSION SYSTEM
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,425,144	$ 177,786
Operating investments	2,168,917	2,492,470
Accounts receivable, net	2,459,738	2,390,046
Total current assets	6,053,799	5,060,302
Noncurrent assets		
Investments	25,262,488	19,757,212
Total noncurrent assets	25,262,488	19,757,212
Total assets	31,316,287	24,817,514
LIABILITIES		
Current liabilities		
Accounts payable	2,161,056	1,263,990
Accrued salaries and wages	422,490	355,367
Accrued compensated absences	2,120,298	1,938,538
Deferred revenues	706,851	539,459
Total current liabilities	5,410,695	4,097,354
Noncurrent liabilities		
Accrued compensated absences	85,657	221,425
Other noncurrent liabilities	4,751,600	2,737,700
Total noncurrent liabilities	4,837,257	2,959,125
Total liabilities	10,247,952	7,056,479
NET ASSETS		
Restricted		
Expendable:		
Scholarships, research, instruction, other	4,752,527	4,526,944
Capital Projects	27,564	24,256
Unrestricted	16,288,244	13,209,835
Total net assets	$ 21,068,335	$ 17,761,035

ALABAMA COOPERATIVE EXTENSION SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)

	2008	2007
OPERATING REVENUES		
Federal appropriations	$ 8,488,908	$ 8,332,731
Federal grants & contracts	7,157,830	8,673,334
State & local grants & contracts	3,085,700	2,909,624
Nongovernmental grants & contracts	287,674	395,799
Sales & services of educational departments	129,103	57,086
Other operating revenues	2,006,463	1,844,928
Total operating revenues	21,155,678	22,213,502
OPERATING EXPENSES		
Compensation & benefits	42,583,406	40,980,496
Utilities	246,629	158,087
Other supplies & services	20,452,745	17,714,585
Total operating expenses	63,282,780	58,853,168
Operating loss	(42,127,102)	(36,639,666)
NONOPERATING REVENUES		
State appropriations	44,607,936	37,515,680
Gifts	136,688	145,646
Net investment income	686,470	542,874
Nonoperating revenues, net	45,431,094	38,204,200
Income before other changes in net assets	3,303,992	1,564,534
OTHER CHANGES IN NET ASSETS		
Capital gifts and grants	3,308	6,902
Net increase in net assets	3,307,300	1,571,436
Net assets - beginning of year	17,761,035	16,189,599
Net assets - end of year	$ 21,068,335	$ 17,761,035

AUBURN UNIVERSITY

2008
Financial Report

Required Supplemental Information

REQUIRED SUPPLEMENTAL INFORMATION

OTHER POSTEMPLOYMENT BENEFITS

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

Cost Element	Fiscal Year Ending Sept. 30, 2008 Amount	Percent of Payroll[1]
1. Unfunded actuarial accrued liability at Oct. 1, 2007	$ 47,802,500	786.5%
Annual Required Contribution (ARC)		
2. Normal cost	$ 86,800	
3. Amortization of the unfunded actuarial accrued liability over 15 years using level dollar amortization	4,299,400	
4. Annual Required Contribution (ARC = 2 + 3)	$ 4,386,200	72.2%
Annual OPEB Cost (Expense)		
5. ARC	$ 4,386,200	
6. Interest on beginning of year accrual[1]	109,500	
7. Amortization of beginning of year accrual[1]	236,800	
8. Fiscal 2008 OPEB cost (5 + 6 – 7)	$ 4,258,900	70.1%
End of Year Accrual (Net OPEB Obligation) [2]		
9. Beginning of year accrual[1]	$ 2,737,700	
10. Annual OPEB cost	4,258,900	
11. Employer contribution (benefit payments) [2]	2,245,000	
12. End of year accrual (9 + 10 – 11) [2]	$ 4,751,600	78.2%

[1] Annual payroll for the 80 plan participants as of October 1, 2007, estimated at $6,078,233 based on actual payroll of $6,290,971 as of September 30, 2008.

[2] Actual amounts paid in fiscal 2008 (claims costs of $2,793,949; PPO administrative fees of $118,615; and PEEHIP subsidy payments of $144,753) less participant contributions of $812,311.

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, 2007	$ 5,394,900	49.3%	$ 2,737,700
September 30, 2008	$ 4,258,900	52.7%	$ 4,751,600

[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, 2007 – September 30, 2008
Actuarial cost method	Unit Credit, level dollar
Amortization method	15 years, level dollar open amortization[4]
Asset valuation method	N/A

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

Actuarial assumptions:

Discount rate	4.0%
Projected payroll growth rate	3.5%
Heath care cost trend rate for medical and prescription drugs	9.0% in fiscal year 2008, decreasing by one-half percentage point per year to an ultimate of 5.0% in fiscal year 2016 and after.

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

The roll-forward methodology used for the fiscal year 2008 valuation included adjustments for census information provided by the University as of September 30, 2008, for plan provisions effective during fiscal year 2008 and for 2008 plan cost information provided by the University.

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

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

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

Sample per capita costs are provided below.

Valuation Year October 1, 2007 – September 30, 2008

Date of Census Data November 1, 2006; September 30, 2008 census data was used to adjust the roll-forward estimate for changes in participant counts from November 1, 2006.

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

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

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

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

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

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

Due to plan provision changes for 2008 (Rx copays, etc.) the roll-forward methodology included a cost adjustment of -8%.

Retiree Premiums

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

	As of 1/1/08	As of 1/1/07
Pre-65 Single	$ 386	$ 368
Pre-65 Family	806	761
Post-65 Single	113	108
Post-65 Family	266	253

Note: There are several other categories of premiums.

Administrative Expenses

The per capita costs for 2007 include $18.75 per contract per month. This will increase to $20.50 in fiscal years 2008 and 2009 and the roll-forward methodology includes an adjustment for the change.

Annual Health Care Trend Rate

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

Discount Rate

4.00% per annum

Salary Increase

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

Spouse Age Difference

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

Mortality

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

Participation Rates

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

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

Retirement Rates

Employees are assumed to retire according to the following schedule:

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

Withdrawal Rates

None assumed since all are long service Civil Service employees.

Disability Rates

Sample rates are shown below

Percent assumed to terminate within one year

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

AUBURN UNIVERSITY BOARD OF TRUSTEES

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