

**2002-2003**  
**AUBURN UNIVERSITY**  
**FINANCIAL REPORT**



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Auburn University



# Auburn University

Comprehensive Annual Financial Report  
For the year ended September 30, 2003



This report was prepared by the office of Financial Reporting in cooperation with the Office of Assistant Vice President for Business & Finance and Controller.

2002-2003  
FINANCIAL REPORT  
**Auburn University**

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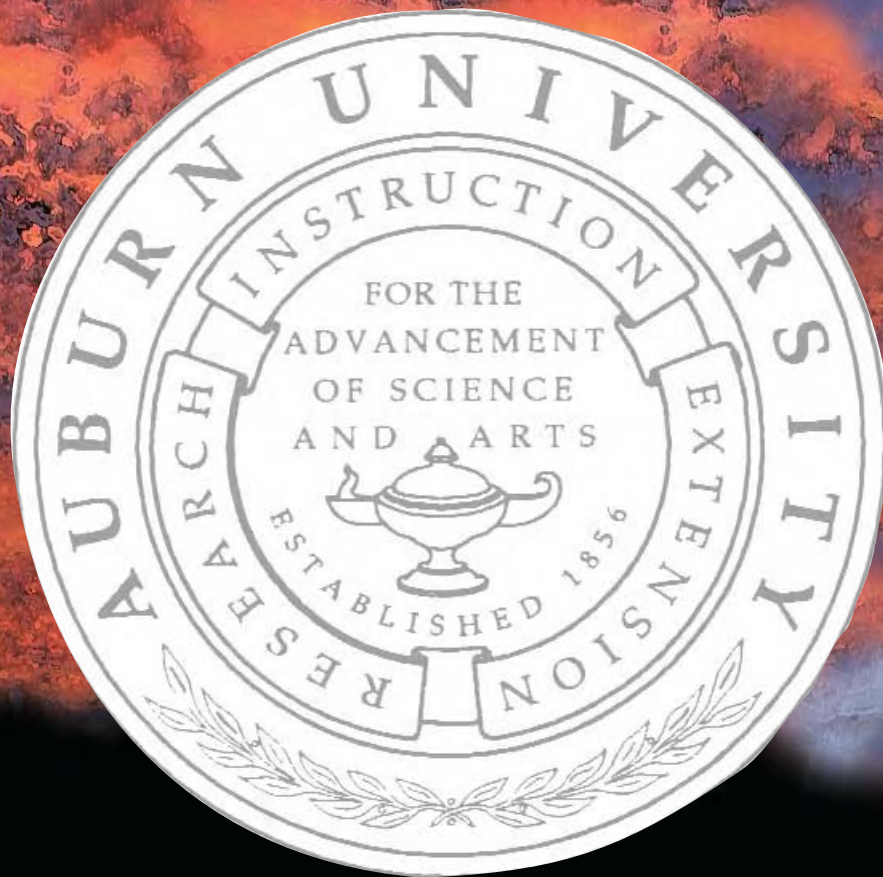
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# INTRODUCTORY SECTION



# Auburn University

Auburn University, Alabama 36849-5113

Office of the President  
107 Samford Hall

Telephone: (334) 844-4650  
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January 7, 2004

**Dear Members of the Auburn Community and Alabama Citizens,**

The Annual Financial Report presented on the following pages briefly summarizes the University's financial position at September 30, 2003, and financial activity for the year then ended. I am pleased to note that, through the commitment of faculty, administration, students and the Board of Trustees, the University has finished the year in strong financial condition. In particular, for the first time in history, the assets of Auburn University exceed one billion dollars.

Quality measures continue to reveal the strength of Auburn University. U.S. News and World Report has ranked Auburn 44 among the nation's top public universities in its ranking for 2003-2004, the highest ranking of any university in the State of Alabama. In order to keep total enrollment at manageable levels given available resources and funding, we became more selective on freshman acceptances. As a result, ACT scores for our new freshmen are at 24.4, up from 23.8 last year and high school grade point averages are at 3.51, as compared to 3.43 for Fall Semester of 2002.

Our financial plan has enabled Auburn University to weather the initial storms of the crisis in state funding. While state funding remains a critical issue to the continuation and growth of many programs at Auburn University, we are emphasizing accountability measures and cultivation of new sources of financial support as strategies we can use to respond to the crisis in state funding. Extramural funding for sponsored programs continues to grow in the 2003 fiscal year, most notably with a \$5.6 million grant from the National Institute of Health to study treatment of viral infections.

We have made significant progress toward achieving the goals of this plan including attaining regional averages for tuition and salaries. We were not completely successful in terms of average salaries, however, because increases at our regional peer institutions were greater than expected. With the failure of Governor Riley's tax and accountability package, our financial plan for the next five years will be particularly critical. While continuing progress on tuition and salary goals, we expect an emphasis on cultivating and allocating resources to address the economic growth of the State of Alabama.

A LAND GRANT UNIVERSITY

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January 7, 2004

For the first time, Auburn University is presenting comparative financial statements prepared under the financial reporting standards issued by the Governmental Accounting Standards Board, standards which were implemented in the fiscal year ended September 30, 2002. The management's discussion and analysis section of this report discusses highlights of the current fiscal year, as well as significant changes and variances between the two fiscal years. In addition, we have provided new supplementary schedules which provide net asset balances at year end and operations results for each of the four divisions, Auburn University Main Campus, Auburn University at Montgomery, the Alabama Agricultural Experiment Station, and the Alabama Cooperative Extension System.

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.

I believe you will find the following report both informative and encouraging, as well as representative of the commitment of Auburn University to the stewardship role to which we are entrusted.

Sincerely,



Donald L. Large Jr.  
Executive Vice President

A LAND GRANT UNIVERSITY

# MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The following discussion and analysis provides an overview of the financial position and activities of Auburn University (the "University") for the year ended September 30, 2003 with comparisons to September 30, 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements, footnotes and this discussion are the responsibility of University management.

Auburn University is a land-grant institution and is classified by the Carnegie Foundation as "Doctoral/Research-Extensive," while Auburn University at Montgomery (AUM) is classified as "Master's I." Fall 2003 enrollment included 28,450 total students at the main campus at Auburn and at AUM. The University offers a diverse range of degree programs in 17 colleges and schools and has approximately 5,070 full-time employees, including 1,350 faculty members, who contribute to the University's mission of serving the citizens of the State of Alabama through its instructional, research and outreach programs.

## Using the Annual Report

The University's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on an entity-wide basis to focus on the university as a whole. Prior to fiscal year 2002, financial statements focused on the accountability of individual fund groups rather than on the University as a whole.

The financial statements are summarized as follows:

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

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

**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.

## FINANCIAL HIGHLIGHTS

### Statement of Net Assets

The University's financial position is strong at September 30, 2003 and September 30, 2002 with assets of \$1 billion and liabilities of \$365.5 million in 2003 and assets of \$974.2 million and liabilities of \$359.3 million in 2002. The University experienced an increase in net assets of \$55 million in 2003, primarily attributable to a \$38.8 million increase in capital assets, net of related debt. A summary of assets, liabilities and net assets as of September 30, 2003 and September 30, 2002 is as follows:

	2003	2002
Current assets	\$ 157,157,444	142,558,241
Capital assets	448,654,801	389,712,153
Other noncurrent assets	429,616,445	441,883,484
Total assets	<u>\$ 1,035,428,690</u>	<u>974,153,878</u>
Current liabilities	\$ 150,148,950	141,724,604
Noncurrent liabilities	215,369,176	217,532,918
Total liabilities	<u>\$ 365,518,126</u>	<u>359,257,522</u>
Net assets		
Invested in capital assets, net of related debt	\$ 295,364,983	256,574,158
Restricted - Nonexpendable	16,690,881	15,365,724
Restricted - Expendable	103,366,468	97,525,546
Unrestricted	254,488,232	245,430,928
Total net assets	<u>\$ 669,910,564</u>	<u>614,896,356</u>

### The University's Assets

Current assets consist of cash and cash equivalents, operating investments (those investments which are expected to be liquidated during the course of normal operations), accounts receivable (primarily amounts due from the federal and state governments and other agencies as reimbursements for sponsored programs), net student accounts receivable (including amounts due from third parties on behalf of the students), loans receivable, accrued interest receivable, inventories, and prepaid expenses. These assets increased \$14.6 million, or 10.2%, from 2002 to 2003. The most significant factor was the increase in operating investments of \$12.9 million of which \$12.7 million was an increase in the University's cash pool investments. Other current assets with increases were student accounts receivable, which increased \$1 million, and prepaid expenses of \$1.1 million mainly attributable to the increase in athletic scholarship expenditures for the 2003 fall football season.

Capital assets represent the historical cost, less any accumulated depreciation, of land improvements, buildings, construction in progress, infrastructure, equipment, library books, and livestock, with buildings constituting over 60% of the total asset value. Net capital assets increased \$58.9 million, or 15.1% from 2002 to 2003. This increase was due to an increase of \$56 million in capitalized buildings, i.e. Large Animal Teaching Hospital, \$12.4 million; Jule Collins Smith Art Museum, \$12.6 million; Hot and Chilled Water Plants, \$5.5 million; Biggin Hall renovation, \$4.6 million; ALFA Agriculture Research Center, \$4.6 million; AUM Dormitory, \$14 million, and other smaller projects totaling \$2.3 million.

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

### The University's Liabilities

Current liabilities increased by \$8.4 million, or 5.9% from 2002 to 2003. This increase consisted of an increase in deferred revenues from tuition, housing, and athletic events of \$9 million, an increase of outstanding checks in excess of bank balances of \$5.9 million, an increase of \$.9 million for student deposits and deposits held in custody for others, an increase of \$.5 million for advances (amounts received from grant and contract sponsors which have not been earned), a decrease of \$3.5 million in accounts payable to vendors, a decrease of \$3.1 million for the current portion of long-term debt due to refinancing the 1993 General Fee, Housing & Dining, and Athletic bond issues in 2003, and a decrease of \$1.3 million in compensation-related liabilities and other accrued liabilities,

Noncurrent liabilities include principal amounts due on University bonds and notes payable, Perkins and Health Professions loan liability, accrued compensated absences and other compensation-related liabilities that are payable beyond September 30, 2004. Noncurrent liabilities decreased by \$2.2 million from 2002 to 2003. Accrued sick and vacation leave increased by \$2.2 million, but was offset by decreases in bonds and notes payable of \$3.2 million.



Additionally, noncurrent liabilities decreased \$1.2 million when the University transferred its self-insured, non-budgeted pension plan to The Hartford, effective May 1, 2003. During fiscal year 2003, the University issued \$49,460,000 in new General Fee Revenue bonds, \$21,900,000 in new Athletic Revenue bonds, and \$15,645,000 in new Housing & Dining Revenue bonds. Proceeds from the 2003 Athletic and Housing & Dining bonds were used to currently refund the 1993 Athletic bonds and the 1993 Housing & Dining bonds. Proceeds from the 2003 General Fee bonds were used to currently refund the 1993 General Fee bonds and also provided an additional \$12,011,660 to fund certain capital improvements at the Auburn Campus. These improvements include the rehabilitation and improvement of various classroom and administrative buildings, landscaping, roadway and parking facility upgrades and security system upgrades as well as acquisition, construction, and rehabilitation of other real personal property.

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

*The University's Net Assets*

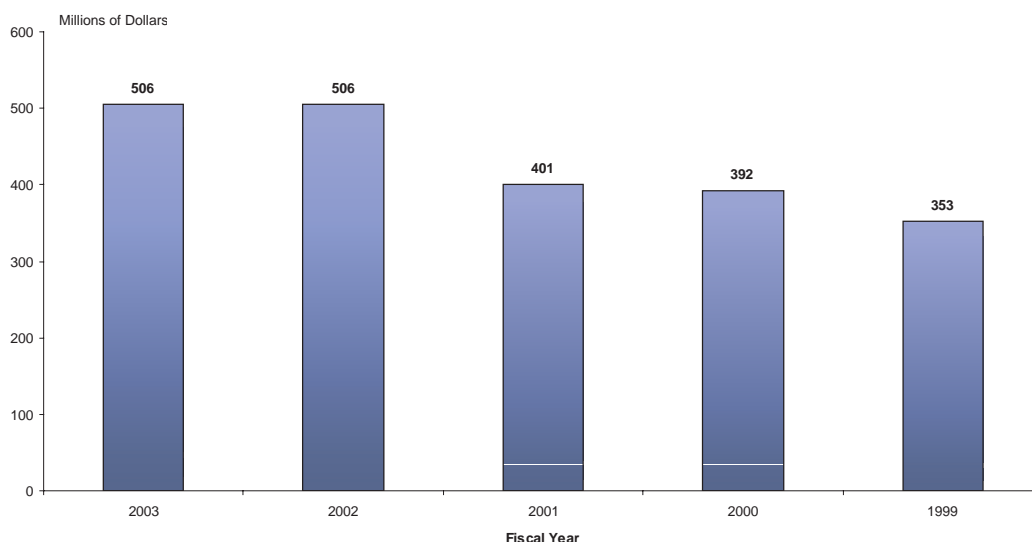
Net assets invested in capital assets represent the University's capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. These net assets increased \$38.8 million, or 15.1% from 2002 to 2003. This increase is due to the capitalization of assets as described in Footnote 7 of the accompanying report.

Restricted-Nonexpendable net assets are subject to external restrictions governing their use and primarily include the University's permanent endowment funds. These net assets increased \$1.3 million, or 8.6% from 2002 to 2003, primarily due to the addition of several new endowed scholarships.

Restricted-Expendable net assets are also subject to external restrictions governing their use. Such net assets include gifts, and contracts and grants restricted by federal, state, or local governments and private sources, which are restricted for a specific purpose or unit within the University, or net assets that are externally restricted and internally designated as funds functioning as endowments. Also included in this category are funds available for student loans, and construction purposes. These net assets increased by \$5.8 million or 6% from 2002 to 2003. The majority of the increase is due to increases in contracts and grants, endowments, and construction funds of \$1.9 million, \$1.4 million, and \$2.4 million, respectively.

Unrestricted net assets are not subject to externally imposed stipulations; however, the majority of the University's unrestricted net assets have been internally designated for various mission-related purposes. These assets include funds for general operations of the University, for auxiliary operations (including athletics, housing, and food services), for endowments and for capital projects. Unrestricted net assets increased \$9.1 million, or 3.7%, to \$254.5 million from \$245.4 million at September 30, 2002. Expenditures for a number of new construction and building repairs and maintenance projects reduced the funds available for capital projects by \$18.4 million. Expenditures for auxiliary enterprise activities exceeded revenues by \$3.4 million, primarily due to planned capital expenditures. Offsetting these reductions in funds available were increases to endowments of \$11.8 million attributable to net realized and unrealized gains in 2003. In addition there was an increase in funds for general university operations of \$19 million.

**TOTAL INVESTMENTS AT MARKET VALUE**



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

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

A condensed statement is provided below:

	2003	2002
Operating revenues	\$ 351,314,074	324,442,402
Operating expenses	<u>565,804,328</u>	<u>519,620,714</u>
Operating loss	<u>\$ (214,490,254)</u>	<u>(195,178,312)</u>
Net nonoperating revenues and other changes in net assets	<u>269,504,462</u>	<u>246,204,620</u>
Increase in net assets	<u>\$ 55,014,208</u>	<u>51,026,308</u>
Net assets:		
Beginning of year	<u>\$ 614,896,356</u>	<u>563,870,048</u>
End of year	<u>\$ 669,910,564</u>	<u>614,896,356</u>

The 2003 Statement of Revenues, Expenses and Changes in net assets reflects a positive year with an increase in net assets at the end of the year of \$55 million as discussed above. Operating revenues increased \$26.9 million from 2002 to 2003. Student tuition and fee revenue, net of discounts, increased \$22 million, as a result of Board approved tuition increases of 12% and 16% in the 2002-2003 and 2003-2004 academic years, respectively, as well as record enrollment in Fall 2002. Tuition revenues in the fiscal year ending September 30, 2003 include 60% of Fall of 2002, Spring of 2003 semesters and Summer of 2003 term tuition revenues, as well as 40% of Fall of 2003 tuition revenues.

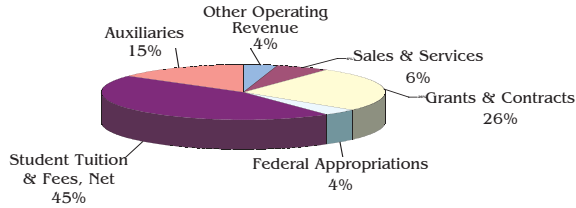
Operating expenses increased \$46.2 million from 2002 to 2003. Expenses for compensation and employee benefits increased \$34.9 million as a result of a Board approved average salary increase of 6%. Other supplies and services expense increased \$18.7 million as a result of increased payments to vendors for supplies and noncapital building and infrastructure maintenance. Depreciation expense increased \$3.1 million from the previous year, which is the result of \$97 million in new depreciable assets placed in service during fiscal year 2003. Loss on impairments and disposals decreased \$8.8 million. In 2002 the University's capital asset threshold was increased to \$2,500 from \$1,000 resulting in a write-off of \$16.9 million. In 2003, an impairment loss on the Auburn University Hotel and Dixon Conference Center was recognized in the amount of \$2.3 million and a \$5.6 million capital asset impairment on inventoried equipment at AUM campus resulted in an aggregate \$7.9 million expense.

Net nonoperating revenues increased \$18.7 million from 2002 to 2003. State Appropriations increased \$6.2 million. Net investment income increased \$17 million as a result of improved market conditions over the prior year. Other nonoperating expenses net, increased \$5.8 million, due to significant large transactions occurring in each of the fiscal years, though not both. These significant transactions include the pay off of Auburn University Hotel and Dixon Conference Center bonds of \$12 million, net of debt service, for \$10.1 million in the year ended September 30, 2003. In addition, the refunding of General Fee, Athletic and Housing and Dining bond issues resulted in a loss on defeasance of \$3.2 million in the year ended September 30, 2003. Finally, in the fiscal year ended September 30, 2002, the University received \$3.6 million in revenue following the sale of stock received following the demutualization of Prudential Insurance Company.

Capital gifts, grants, appropriations, and additions to permanent endowments increased \$4 million for the fiscal year ended September 30, 2003 to \$55 million from \$51 million in 2002. The University received a \$2.9 million increase in capital improvement bond proceeds from the State Agricultural Bond Funds, a \$1.3 million increase in gifts earmarked for capital projects and a \$.3 million increase in additions to permanent endowments.

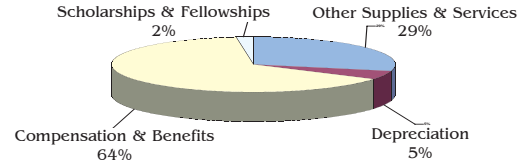
### OPERATING REVENUES SUPPORTING CORE ACTIVITIES

For the year ended September 30, 2003



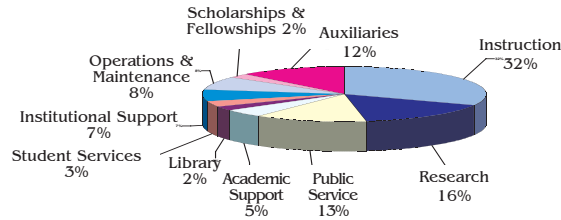
### OPERATING EXPENSES BY NATURAL CLASSIFICATION

For the year ended September 30, 2003



### OPERATING EXPENSES BY FUNCTION

For the year ended September 30, 2003



### Statement of Cash Flows

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

The University's cash flows for the years ended September 30, 2003 and 2002 are summarized below:

	2003	2002
Cash provided by (used in):		
Operating activities	\$ (178,005,414)	(144,251,173)
Noncapital financing activities	233,294,220	216,928,291
Capital and related financing activities	(82,386,047)	13,347,537
Investing activities	27,087,644	(86,190,888)
Net decrease in cash	(9,597)	(166,233)
Cash and cash equivalents beginning of year	812,705	978,938
Cash and cash equivalents end of year	\$ 803,108	812,705

The University's cash and cash equivalents decreased \$9,597 in 2003 due to the outflow of funds for capital and related financing activities. Cash inflows for capital acquisitions from state appropriations, gifts and grants, and bonds issued during the year were used to help fund the University's equipment needs and ongoing renovation and construction initiatives, along with the new bond proceeds. In 2003, net cash used for operating activities was \$178 million. Significant cash used includes \$356.2 million for employee compensation and benefits and \$160.7 million for payments to suppliers which exceeded outflows in 2002 for compensation and supplies by 69.6 million. Significant cash provided include \$158.6 million from tuition and fees, an increase of \$24 million over 2002; \$92.9 million for contracts and grants, an increase of \$15.2 million over the prior year; and \$55.4 million from auxiliary enterprises, a decrease of \$5.3 million over the prior year. Net cash used in operating activities increased \$33.8 million from 2002 to 2003.

Net cash provided by non-capital financing activities of \$233.3 million in 2003, included state appropriations of \$207.2 million, gifts for other than capital purposes of \$20.2 million, and an increase in outstanding checks in excess of bank balance of \$5.9 million. This was an increase of \$16.4 million from 2002.

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

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

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

Looking toward the future, management believes that the University is well positioned to continue its strong financial condition and level of excellence in service to students, sponsors, the State of Alabama and other constituents. The University's strong financial position and internal financial planning process provide Auburn University some protection against adverse economic conditions. Nonetheless, as a labor intensive organization, the University faces competitive pressures related to attracting and retaining faculty and staff. With dramatic increases in health care costs, the University's health benefits are of particular concern. In addition, the University's cost of providing retirement benefits is expected to increase significantly in future fiscal years. Auburn University is also undergoing a large construction program and the costs of operating the new facilities will place additional resource demands on the institution.

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

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

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

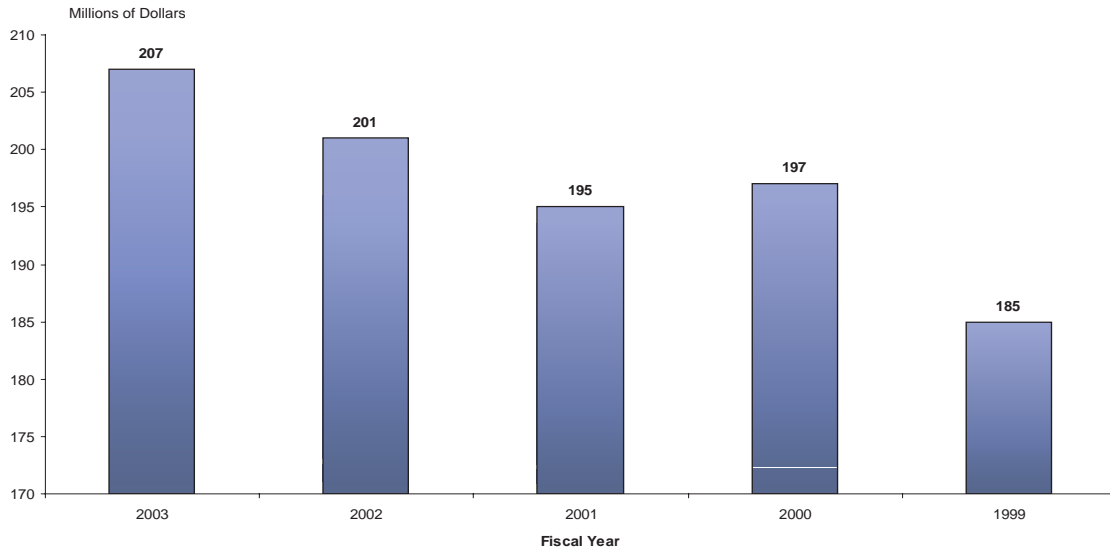
Following the close of the 2003 fiscal year, the University was notified by its accrediting agency, the Southern Association of Colleges and Schools (SACS), that it had been placed on probation for issues primarily related to university governance. The University is confident that it can comply with requests from SACS for documentation concerning its policies and its commitment to the above issue. It is expected that probation will be lifted without financial consequences to Auburn University.

### **Cautionary note regarding forward-looking statements**

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

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

### STATE APPROPRIATIONS



### UNDERGRADUATE TUITION FOR THE ACADEMIC YEAR

	2003-04	2002-03	2001-02	2000-01	1999-00
Auburn Main Campus / Auburn University at Montgomery					
Full-Time Students					
In-State	\$ 4,426/3,900	\$ 3,784/3,390	\$ 3,380/3,210	\$ 3,154/3,000	\$ 2,976/2,577
Out-of-State	\$ 12,886/11,700	\$ 11,084/10,170	\$ 9,900/9,630	\$ 9,254/9,000	\$ 8,766/7,731

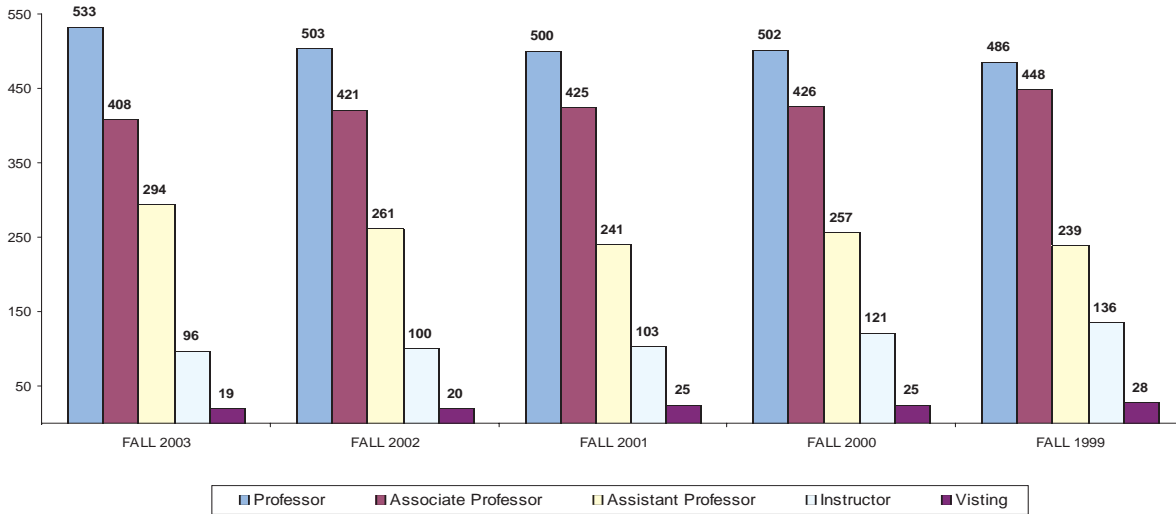
### FALL STUDENT ENROLLMENT

	FALL 2003	FALL 2002	FALL 2001	FALL 2000	FALL 1999
Auburn Main Campus and Auburn University at Montgomery					
Undergraduate Professional	24,540	24,675	24,512	23,748	23,866
Graduate	3,910	3,705	3,746	3,621	3,608

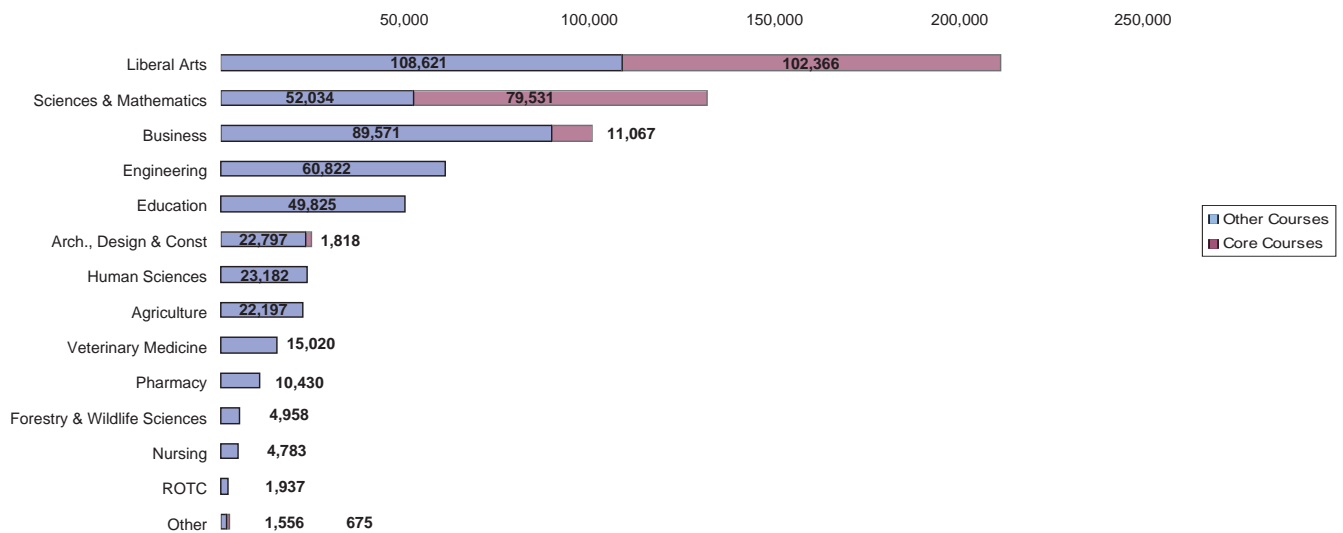
### DEGREES AWARDED FOR THE ACADEMIC YEAR

	2002-03	2001-02	2000-01	1999-00	1998-99
Auburn Main Campus and Auburn University at Montgomery					
Bachelor	4,304	4,269	4,582	4,929	4,623
Advanced	1,271	1,305	1,322	1,356	1,352

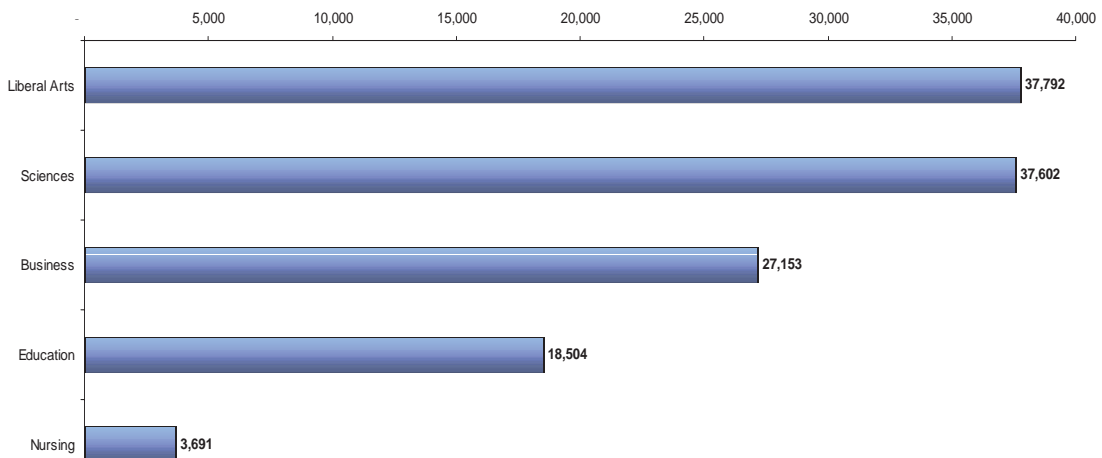
**AUBURN UNIVERSITY MAIN CAMPUS AND AUBURN UNIVERSITY AT MONTGOMERY  
FULL-TIME FACULTY BY RANK**



**AUBURN UNIVERSITY MAIN CAMPUS TOTAL STUDENT CREDIT HOURS  
BY COLLEGE/SCHOOL 2002-03**



**AUBURN UNIVERSITY AT MONTGOMERY TOTAL STUDENT CREDIT HOURS  
BY COLLEGE/SCHOOL 2002-03**





# FINANCIAL SECTION

**Report of Independent Auditors**

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

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses and changes in net assets and statements of cash flows of Auburn University (the University), a component unit of the State of Alabama, present fairly, in all material respects, the financial position of the University at September 30, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental divisional financial statements as set forth on pages 40 through 47 are presented for the purposes of additional analysis rather than to present the financial position and changes in net assets and other changes of the individual divisions. Accordingly, we do not express an opinion on the financial position and changes in net assets of the individual divisions. However, the supplemental information has been subjected to the audits of the basic financial statements and, in our opinion, is fairly stated in all respects in relation to basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 7, 2004, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



January 7, 2004



**AUBURN UNIVERSITY  
STATEMENTS OF NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 803,108	\$ 812,705
Operating investments	92,526,814	79,652,459
Accounts receivable, net	23,442,996	23,914,554
Student accounts receivable, net	23,076,607	22,076,564
Loans receivable, net	2,286,408	1,966,061
Accrued interest receivable	3,017,439	3,575,302
Inventories	3,848,281	3,480,604
Prepaid expenses	8,155,791	7,079,992
Total current assets	<u>157,157,444</u>	<u>142,558,241</u>
Noncurrent assets		
Investments	413,607,087	425,886,931
Loans receivable, net	16,009,358	15,996,553
Investment in plant, net	448,654,801	389,712,153
Total noncurrent assets	<u>878,271,246</u>	<u>831,595,637</u>
Total assets	<u>1,035,428,690</u>	<u>974,153,878</u>
<b>LIABILITIES</b>		
Current liabilities		
Outstanding checks in excess of bank balance	15,457,227	9,541,859
Advances	2,038,049	1,545,289
Accounts payable	14,482,094	17,958,813
Accrued salaries and wages	2,282,019	2,382,228
Accrued compensated absences	13,873,552	14,203,701
Accrued interest payable	2,865,818	3,398,424
Other accrued liabilities	3,670,710	3,985,261
Student deposits	1,152,392	947,085
Deposits held in custody	3,356,651	2,697,036
Deferred revenues	84,040,191	75,016,203
Noncurrent liabilities-current portion	6,930,247	10,048,705
Total current liabilities	<u>150,148,950</u>	<u>141,724,604</u>
Noncurrent liabilities		
Accrued compensated absences	6,255,103	4,064,955
Bonds and notes payable	191,802,690	195,024,747
Lease obligations	2,176,478	2,281,530
Other noncurrent liabilities	15,134,905	16,161,686
Total noncurrent liabilities	<u>215,369,176</u>	<u>217,532,918</u>
Total liabilities	<u>365,518,126</u>	<u>359,257,522</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	295,364,983	256,574,158
Restricted		
Nonexpendable	16,690,881	15,365,724
Expendable:		
Scholarships, research, instruction, other	76,196,374	72,856,935
Loans	4,408,640	4,290,841
Capital projects	22,761,454	20,377,770
Unrestricted	254,488,232	245,430,928
Total net assets	<u>\$ 669,910,564</u>	<u>\$ 614,896,356</u>

See accompanying Notes to Financial Statements.

**AUBURN UNIVERSITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002
<b>OPERATING REVENUES</b>		
Tuition & fees, net of scholarship allowances of \$27,004,383 and \$22,854,604, respectively	\$ 158,534,178	\$ 136,497,252
Federal appropriations	13,252,854	12,991,411
Federal grants & contracts	71,474,245	67,850,758
State & local grants & contracts	11,100,345	11,238,228
Nongovernmental grants & contracts	8,977,548	6,625,109
Sales & services of educational departments	19,687,423	18,828,763
Auxiliary revenue, net of scholarship allowances of \$1,371,719 and \$1,229,741, respectively	54,987,426	56,802,965
Other operating revenue	<u>13,300,055</u>	<u>13,607,916</u>
Total operating revenues	<u>351,314,074</u>	<u>324,442,402</u>
<b>OPERATING EXPENSES</b>		
Compensation & benefits	363,394,186	328,539,101
Scholarships & fellowships	12,805,246	14,555,172
Other supplies & services	154,999,327	136,265,845
Depreciation	26,724,468	23,579,650
Loss on impairments & disposals	<u>7,881,101</u>	<u>16,680,946</u>
Total operating expenses	<u>565,804,328</u>	<u>519,620,714</u>
Operating loss	<u>(214,490,254)</u>	<u>(195,178,312)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	207,158,067	200,983,243
Gifts	17,911,527	18,683,761
Net investment income	27,124,292	10,086,312
Interest expense on capital debt	(7,169,293)	(9,215,531)
Other nonoperating revenues (expenses), net	<u>(2,214,561)</u>	<u>3,583,726</u>
Nonoperating revenues, net	<u>242,810,032</u>	<u>224,121,511</u>
Income before other changes in net assets	<u>28,319,778</u>	<u>28,943,199</u>
<b>OTHER CHANGES IN NET ASSETS</b>		
Capital appropriations	14,355,168	11,421,805
Capital gifts & grants	9,571,770	8,241,431
Additions to permanent endowments	<u>2,767,492</u>	<u>2,419,873</u>
Net increase in net assets	<u>55,014,208</u>	<u>51,026,308</u>
Net assets - beginning of year	<u>614,896,356</u>	<u>563,870,048</u>
Net assets - end of year	<u>\$ 669,910,564</u>	<u>\$ 614,896,356</u>

See accompanying Notes to Financial Statements.

**AUBURN UNIVERSITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition & fees	\$ 158,616,069	\$ 134,639,653
Federal appropriations	13,252,854	12,991,411
Grants & contracts	92,846,132	77,659,784
Sales & service of educational departments	19,930,455	18,590,664
Auxiliary enterprises	55,377,177	60,724,458
Other operating revenues	12,409,561	13,585,517
Payments to suppliers	(160,744,046)	(124,148,766)
Payments for employee compensation & benefits	(356,218,333)	(323,198,499)
Payments for scholarships & fellowships	(12,805,246)	(14,562,272)
Student loans issued	(4,087,029)	(3,572,731)
Student loans collected	<u>3,416,992</u>	<u>3,039,608</u>
Net cash used in operating activities	<u>(178,005,414)</u>	<u>(144,251,173)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	207,158,067	200,983,243
Gifts for other than capital purposes	20,220,785	21,103,634
Increase (decrease) in outstanding checks in excess of bank balance	5,915,368	(5,153,586)
Amount paid to annuitants	<u>0</u>	<u>(5,000)</u>
Net cash provided by noncapital financing activities	<u>233,294,220</u>	<u>216,928,291</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	90,480,882	98,153,612
Capital appropriations	14,355,168	11,421,805
Capital grants & gifts received	6,553,719	5,468,221
Purchase of capital assets	(91,036,758)	(82,619,630)
Proceeds received from sale of capital assets	626,250	197,610
Principal paid on debt & capital leases	(94,112,928)	(9,643,195)
Interest paid on debt & capital leases	<u>(9,252,380)</u>	<u>(9,630,886)</u>
Net cash provided by (used in) capital and related financing activities	<u>(82,386,047)</u>	<u>13,347,537</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale and maturities of investments and reinvestments	1,131,171,709	803,347,260
Investment Income	18,647,718	24,270,510
Purchases of Investments	<u>(1,122,731,783)</u>	<u>(913,808,658)</u>
Net cash provided by (used in) investing activities	<u>27,087,644</u>	<u>(86,190,888)</u>
Net decrease in cash and cash equivalents	(9,597)	(166,233)
Cash and cash equivalents, beginning of year	<u>812,705</u>	<u>978,938</u>
Cash and cash equivalents, end of year	<u>\$ 803,108</u>	<u>\$ 812,705</u>

**AUBURN UNIVERSITY**  
**STATEMENTS OF CASH FLOWS (Continued)**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Operating loss	\$ (214,490,254)	\$ (195,178,312)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	26,724,468	23,691,540
Loss on impairments & disposals	7,881,101	16,680,946
Write-off (reinstatement) of loans receivable	336,885	(263,076)
Changes in assets and liabilities:		
Accounts receivable	701,351	(8,724,495)
Student accounts receivable	(1,000,043)	(1,908,786)
Advances	492,760	(4,094,655)
Inventories	(367,677)	(273,488)
Deferred revenue	9,023,988	20,102,767
Accounts payable	(6,477,464)	6,379,162
Prepaid expenses	(1,075,799)	(505,887)
Accrued salaries, wages and compensated absences	1,759,790	606,341
Student deposits and deposits held in custody	864,922	142,907
Loans to students	(670,037)	(533,123)
Other accrued liabilities	(399,548)	(567,323)
Noncurrent liabilities - current portion	(176,454)	176,454
Other noncurrent liabilities	(1,133,403)	17,855
Net cash used in operating activities	<u>\$ (178,005,414)</u>	<u>\$ (144,251,173)</u>
<b>SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION</b>		
Capital assets acquired with a liability at year-end	3,000,745	2,676,558
Gifts of capital assets	2,788,258	2,986,850
Capital assets acquired through capital leases	304,935	449,100

See accompanying Notes to Financial Statements.

# NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

## (1) NATURE OF OPERATIONS

Auburn University (the University) is a land grant university originally chartered on February 1, 1856, as the East Alabama Male College. The Federal Land Grant Act of 1862, by which the University was established as a land-grant university, donated public lands to several states and territories with the intent that the states would use these properties for the benefit of agriculture and the mechanical arts. Several pertinent laws dictate specific purposes for which the land may be used. In 1960, the Alabama State Legislature officially changed the name of the University to Auburn University. The University has two campuses, Auburn and Montgomery, with a combined enrollment of 28,450 students for Fall Semester, 2003. 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 a Board of Trustees (the Board) appointed by the Governor of the State of Alabama and approved by the Alabama State Senate.

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

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

### Reporting Entity

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

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

Contributions to the University are primarily received through Auburn University 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).

The University has no component units, as defined by GASB Statement No. 14, *The Financial Reporting Entity*; however, the University does have two affiliated organizations, the Auburn University Foundation, which solicits, collects, directs and manages contributions to the University for academic and athletic programs, and the Auburn Alumni Association, which fosters and enhances relationships between alumni, students and friends of Auburn University and its mission. Summary financial statements for these organizations are reported in Note 19.

### Financial Statement Presentation

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis- for State and Local Governments*. In November 1999, the GASB issued Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis for- Public Colleges and Universities*. The University was required to adopt GASB Statements No. 34 and 35 effective for the fiscal year ended September 30, 2002. GASB Statements No. 34 and 35 establish standards for external financial reporting for public colleges and universities on an entity-wide perspective and require that resources be classified in three net asset categories:

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

**Nonexpendable** - Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets are the University's permanent endowment funds.

**Expendable** - Net assets whose use by the University are subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

• **Unrestricted net assets:** Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, capital programs, and auxiliary units.

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

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

### **Basis of Accounting**

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

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

### **Use of Estimates**

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

### **Reclassifications**

Certain reclassifications have been made to the 2002 financial statements in order to conform them to the 2003 financial statement presentation. The reclassifications had no impact on net assets.

## **(2) SIGNIFICANT ACCOUNTING POLICIES**

### **Cash & Cash Equivalents**

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

### **Investments**

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

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

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

### **Inventories**

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

## Capital Assets

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

The University reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of the asset to future net cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the asset's fair value.

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

## Deferred Revenues

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

## Classification of Revenues

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

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

**Nonoperating Revenues:** Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. In accordance with GASB Statement No. 35, certain significant revenues on which the University relies to support its operational mission are now required by the GASB to be recorded as nonoperating revenues. These revenues include state appropriations and private gifts and investment income, including realized and unrealized gains and losses on investments.

## Student Tuition, Fees and Scholarship Discounts and Allowances

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

## Auxiliary Enterprises Revenues

Sales and services of auxiliary enterprises primarily consist of revenues generated by Athletics, Bookstore, Housing, Printing, Telecommunications and the Auburn University Hotel and Dixon Conference Center, which are substantially self supporting activities that provide services for students, faculty 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 statement date to be classified as a current liability. Because this amount cannot be known reliably in advance, the current liability is estimated, based on a three year average cost of annual and sick leave taken by eligible employees.

## **Pledged Revenue**

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

## **(3) CASH**

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

The Board approves all banks or other institutions as depositories for University funds. Effective January 1, 2001, the depository 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.

## **(4) INVESTMENTS**

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

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

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

Diversification through asset allocation is utilized as a fundamental risk strategy for endowed funds. These strategic allocations represent a blend of assets best suited, over the long term, to achieve maximum returns without violating the risk parameters established by the Board. Authorized investments of endowment portfolios include the following: cash and cash equivalents; fixed income securities, both domestic and foreign; equity securities, both domestic and foreign; and mutual funds.

Earnings distributions are made annually from endowed funds. Pursuant to the passage of the Uniform Management of Institutional Funds Act, which was enacted by the Legislature 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 which limits the distribution of endowment income and net appreciation to not less than 3% or more than 6% of the average market value of endowment assets over the previous three years. The distribution rate approved by the Board for the September 30, 2003 fiscal year was 4.0%. In addition, the Board approved the utilization, if necessary, of realized endowment gains to meet the spending rate with all remaining endowment gains reinvested in the pool. Realized and unrealized gains and (losses) on endowments and funds functioning as endowments total \$20,744,875 and \$(4,348,346) at September 30, 2003 and September 30, 2002, respectively, and they are recorded as unrestricted net assets.

At September 30, 2003, the University's investments are all in Category 1 or are non-categorized. Category 1 includes investments that are insured or registered, or are held by the University or its agent in the University's name. Non-categorized investments include mutual funds and real estate.



## Category 1

	2003	2002
Current Assets		
Operating investments	\$ 92,526,814	79,652,459
Total investments classified as current	<u>\$ 92,526,814</u>	<u>79,652,459</u>
Noncurrent Assets		
Money market funds	\$ 19,877,880	26,648,366
U.S. government securities	304,934,639	331,499,340
Bonds and preferred stock	19,355,427	16,316,503
Index fund	27,065,077	0
Common stock and convertible securities	41,344,608	50,430,234
Total Category 1 investments classified as noncurrent	<u>\$ 412,577,631</u>	<u>424,894,443</u>
Total Category 1 investments	<u>\$ 505,104,445</u>	<u>504,546,902</u>
Non-categorized real estate investments	740,750	740,750
Non-categorized mutual fund investments	288,706	251,738
Total non-categorized investments	<u>\$ 1,029,456</u>	<u>992,488</u>
Total investments	<u>\$ 506,133,901</u>	<u>505,539,390</u>

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

At September 30, 2002 the above amounts include funds held for pending capital expenditures as follows: \$11,150,406, Forestry Building; \$55,326,557, 2001A General Fee Bond Proceeds; \$11,419,386, 2001A Athletic Bond Proceeds; \$56,307,415, deferred maintenance building fund and \$7,423,822 for the General Liability Trust.

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

## (5) FUNDS HELD IN TRUST

In addition to endowment and similar funds carried on the University's financial statements, the University is the beneficiary of income earned on a number of Auburn University Foundation endowments. The cost of these funds was \$121,825,689 and \$123,777,337 and the market value was \$123,204,883 and \$104,562,624 at September 30, 2003 and September 30, 2002, respectively. The portion of endowment income received by the University from these funds was \$4,325,304 and \$4,944,881 for the fiscal years ended September 30, 2003 and September 30, 2002, respectively.

In addition the University has been named as a beneficiary of a foundation with investments having a cost of \$2,898,004 and \$3,248,251 and a market value of \$2,819,419 and \$2,617,254 at September 30, 2003 and September 30, 2002, 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, 2003 and September 30, 2002. The income received from the two trusts was \$21,970 and \$79,860 for the fiscal years ended September 30, 2003 and September 30, 2002, respectively.

## (6) ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for doubtful accounts at September 30, 2003 and September 30, 2002 are as follows:

	2003	2002
Federal, State & Local Government	\$ 20,587,787	21,996,033
General	1,227,098	653,392
Less Allowance for Doubtful Accounts	(45,908)	(3,837)
Auxiliary	1,396,448	1,221,976
Less Allowance for Doubtful Accounts	-	(2,000)
Capital	277,571	47,778
Other	-	1,212
Total	<u>\$ 23,442,996</u>	<u>23,914,554</u>

## STUDENT ACCOUNTS RECEIVABLE

	2003	2002
Unrestricted General	\$ 19,906,116	19,596,786
Less Allowance for Doubtful Accounts	(347,159)	(553,541)
Unrestricted Auxiliary	3,621,869	3,138,295
Less Allowance for Doubtful Accounts	(104,219)	(104,976)
Total	<u>\$ 23,076,607</u>	<u>22,076,564</u>

### (7) CAPITAL ASSETS

Capital assets consisted of the following at September 30, 2003 and 2002 (dollars in thousands):

	September 30, 2002	Additions	Deletions	September 30, 2003
Capital assets not being depreciated				
Land	\$ 15,196	\$ -	\$ -	\$ 15,196
Art & Collectibles	1,793	759	(16)	2,536
Construction in Progress	43,622	71,922	(75,175)	40,369
Livestock	1,391	957	(905)	1,443
Total capital assets not being depreciated:	<u>62,002</u>	<u>73,638</u>	<u>(76,096)</u>	<u>59,544</u>
Capital assets being depreciated				
Land Improvements	16,796	3,867	-	20,663
Buildings	447,523	67,169	(2,268)	512,424
Equipment	139,077	14,346	(11,516)	141,907
Infrastructure	69,826	6,544	(6,979)	69,391
Library Books	102,329	5,275	(48)	107,556
Total capital assets being depreciated	<u>775,551</u>	<u>97,201</u>	<u>(20,811)</u>	<u>851,941</u>
Less accumulated depreciation for				
Land Improvements	5,245	1,120	-	6,365
Buildings	228,560	8,948	-	237,508
Equipment	94,057	11,072	(10,189)	94,940
Infrastructure	34,799	1,592	(1,413)	34,978
Library Books	85,180	3,907	(48)	89,039
Total accumulated depreciation	<u>447,841</u>	<u>26,639</u>	<u>(11,650)</u>	<u>462,830</u>
Total capital assets being depreciated, net	<u>327,710</u>	<u>70,562</u>	<u>(9,161)</u>	<u>389,111</u>
Capital assets, net	<u>\$ 389,712</u>	<u>\$ 144,200</u>	<u>\$ (85,257)</u>	<u>\$ 448,655</u>

During the fiscal years ended September 30, 2003 and 2002, the University received \$14.4 million and \$11.4 million, respectively, from the State of Alabama to fund construction. These revenues are classified as capital appropriations on the Statement of Revenues, Expenses and Changes in Net Assets.

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

## (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, 2002	New Debt	Principal Repayment	Balance at September 30, 2003
1993 General Fee Revenue bonds, \$46,140,000 face value, 5.1% to 5.25%, due annually through 2017.	\$ 38,120,000	\$ -	\$ (38,120,000)	\$ -
1993 Housing and Dining Revenue bonds, \$16,920,000 face value, 5.1% to 5.25%, due annually through 2012.	15,005,000	-	(15,005,000)	-
1993 Athletic Revenue bonds, \$28,520,000 face value, 5.1% to 5.25%, due annually through 2010.	22,000,000	-	(22,000,000)	-
1972 Student Facilities bonds, \$2,560,000 face value, 5.5%, due annually through 2004, a reserve of \$205,052 and an annual Housing and Urban Development debt service grant of \$51,276.	350,000	-	(170,000)	180,000
1971 Auburn University at Montgomery Student Facilities bonds, \$950,000 face value, 7.0%, due annually through 2005, a reserve of \$98,084 and an annual Housing and Urban Development debt service grant of \$20,536.	120,000	-	(40,000)	80,000
1978 Auburn University at Montgomery Dormitory Revenue bonds, \$3,279,000 face value, 3.0%, due annually through 2018, a reserve of \$174,905 and a \$125,347 contingency fund.	1,925,000	-	(90,000)	1,835,000
1997 IDB AU Hotel Revenue bonds, \$10,000,000 face value, 7.0% to 8.75%, due annually through 2015.	9,105,000	-	(9,105,000)	-
1997 IDB AU Hotel Revenue bonds, \$1,700,000 face value, 10.0% to 11.5%, due annually through 2006.	1,055,000	-	(1,055,000)	-
2001 General Fee Revenue bonds, \$19,460,000 face value, 3.8% to 5.0%, due annually through 2011.	17,965,000	-	(1,625,000)	16,340,000

<b>Bonds Payable</b>	<b>Balance at September 30, 2002</b>	<b>New Debt</b>	<b>Principal Repayment</b>	<b>Balance at September 30, 2003</b>
2001A General Fee Revenue bonds, \$74,750,000 face value, 5.0% to 6.0% due annually through 2026.	74,750,000	-	-	74,750,000
2001A Athletic Revenue bonds, \$24,412,607 face value, 2.8% to 5.49%, due annually through 2021.	24,015,143	-	(385,796)	23,629,347
2003 General Fee Revenue bonds, \$49,460,000 face value, 1.45% to 5.25%, due annually through 2016.	-	49,460,000	(2,400,000)	47,060,000
2003 Athletic Revenue bonds, \$21,900,000 face value, 2.25% to 5.0%, due annually through 2010.	-	21,900,000	(2,615,000)	19,285,000
2003 Housing and Dining Revenue bonds, \$15,645,000 face value, 1.4% to 5.0%, due annually through 2012.	-	15,645,000	(685,000)	14,960,000
<b>Total Bonds Payable</b>	<u>204,410,143</u>	<u>87,005,000</u>	<u>(93,295,796)</u>	<u>198,119,347</u>
Plus unamortized bond premium	1,509,189	4,709,871	(813,069)	5,405,991
Less unamortized bond discount	(1,002,403)	(81,598)	56,877	(1,027,124)
Less unamortized cost of issuance	(1,474,276)	(1,315,178)	412,566	(2,376,888)
Less unamortized loss on refunding	-	(3,180,766)	745,176	(2,435,590)
	<u>203,442,653</u>	<u>87,137,329</u>	<u>(92,894,246)</u>	<u>197,685,736</u>
<b>Notes Payable</b>				
1998 Alabama Higher Education Equipment Loan Authority notes, \$2,500,000 face value, 3.67% to 4.18%, due semiannually through 2006.	1,164,287	-	(479,909)	684,378
<b>Total Notes Payable</b>	<u>1,164,287</u>	<u>-</u>	<u>(479,909)</u>	<u>684,378</u>
Less: Current Portion				
Bonds Payable	(9,135,796)			(6,356,832)
Notes Payable	(479,909)			(316,039)
Bond Premium	(115,868)			(800,693)
Bond Discount	45,484			56,877
Cost of Issuance	103,896			319,934
Loss on Refinancing	0			529,329
<b>Total Noncurrent Bonds and Notes Payable</b>	<u>\$ 195,024,747</u>			<u>\$ 191,802,690</u>

On January 15, 2003, March 6, 2003, and March 13, 2003, the Athletic Revenue bonds Series 1993, the General Fee Revenue bonds Series 1993 and the Housing & Dining Revenue bonds Series 1993, respectively, were currently refunded from the proceeds of new issues, outlined below:

	Athletic Revenue	General Fee Revenue	Housing & Dining Revenue
Outstanding Balances	\$ 22,000,000	\$ 38,120,000	\$ 15,005,000
New Issue Balances	21,900,000	49,460,000	15,645,000
Refunding Loss	912,619	1,595,852	672,295
Long -Term Debt Service Reduction	985,736	-	788,851
Economic Gain	884,255	1,878,448	808,021

The difference between the reacquisition price and net carrying amounts have been recognized as a loss on defeasance of \$3,180,765 in the Statement of Revenues, Expenses and Changes in Net Assets as an Operating Expense. Though the refunding resulted in an accounting loss, the University has realized an economic gain totaling \$3,570,724 resulting from the difference between the present values of the old and new debt service payments. On March 6, 2003, the University defeased, from operating funds, \$8,885,000 of The Industrial Development Board of the City of Auburn Variable/Fixed Rate Tax-Exempt Bonds, Series A (AU Hotel, Ltd. Project) and \$890,000 of The Industrial Development Board of the City of Auburn Taxable Revenue Bonds, Series B (AU Hotel, Ltd. Project). A loss of \$1,819,607 was recorded when these bonds were defeased. Previously, the University had defeased the 1979 Revenue Bonds. Under the trust agreements, funds deposited in the trust accounts were invested in obligations of the U. S. government. Neither the assets of the trust accounts nor the defeased indebtedness are included in the accompanying Statement of Net Assets. The principal outstanding on the defeased Industrial Development Board Series A, Series B, and the 1979 Revenue bonds at September 30, 2003 was \$8,885,000, \$890,000 and \$720,000, respectively.

#### Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to September 30, 2003, and thereafter, are as follows:

Year Ending September 30	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2004	\$ 6,356,832	\$ 8,142,699	\$ 316,039	\$ 22,992
2005	8,776,144	7,945,712	142,781	13,920
2006	10,096,942	7,679,364	148,811	7,889
2007	10,387,903	7,361,113	76,747	1,604
2008	10,772,440	7,048,282	-	-
2009-2013	54,420,295	32,889,783	-	-
2014-2018	42,260,484	27,994,029	-	-
2019-2023	33,733,307	17,291,699	-	-
2024-2027	<u>21,315,000</u>	<u>2,166,250</u>	<u>-</u>	<u>-</u>
<b>Total Future Debt Service</b>	<b>\$ 198,119,347</b>	<b>\$ 118,518,931</b>	<b>\$ 684,378</b>	<b>\$ 46,405</b>

#### Capital Lease Obligations

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

Lease Obligations	Balance at September 30, 2002	New Debt	Principal Repayment	Balance at September 30, 2003
Building	\$ 2,025,000	\$ -	\$ (115,000)	\$ 1,910,000
Equipment	<u>546,589</u>	<u>304,935</u>	<u>(222,223)</u>	<u>629,301</u>
Total lease obligations	<u>\$ 2,571,589</u>	<u>\$ 304,935</u>	<u>\$ (337,223)</u>	<u>\$ 2,539,301</u>

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

	Building	Equipment	Total
2003-04	\$ 210,063	\$ 271,933	\$ 481,996
2004-05	214,842	205,229	420,071
2005-06	214,122	145,874	359,996
2006-07	218,048	53,591	271,639
2007-08	211,450	7,301	218,751
2008-2013	1,063,436	-	1,063,436
2013-2018	<u>424,750</u>	<u>-</u>	<u>424,750</u>
Minimum lease payments	2,556,711	683,928	3,240,639
Less interest	<u>(646,711)</u>	<u>(54,627)</u>	<u>(701,338)</u>
Present value of minimum lease payments	1,910,000	629,301	2,539,301
Less current portion	<u>(120,000)</u>	<u>(242,823)</u>	<u>(362,823)</u>
Long-term lease obligations	<u>\$ 1,790,000</u>	<u>\$ 386,478</u>	<u>\$ 2,176,478</u>

The University has entered into various operating leases for equipment. It is expected that, in the normal course of business, such leases will continue to be required. Net expenditures for rentals under operating leases for the years ended September 30, 2003 and 2002 amounted to approximately \$2.3 million and \$2.2 million, respectively.

## (9) PLEDGED REVENUES

Pledged revenue for 2003 and 2002 as defined by the **Series 2001, 2001A and 2003 General Fee Revenue Trust** Indentures is as follows:

	2003	2002
Student fees collected:	\$ 158,534,178	136,497,252
Less AUM fees	(13,852,195)	(12,393,111)
Less fees pledged for specific purposes:		
Student Union Building (\$10.50 per student per semester)	(558,225)	(549,381)
Athletic fees (\$18 per student per semester)	(959,057)	(938,917)
Total general fees pledged	<u>\$ 143,164,701</u>	<u>122,615,843</u>

Pledged revenue for 2003 and 2002 as defined by the **Series 2001A and 2003 Athletic Revenue Trust** Indentures is as follows:

	2003	2002
<b>Jordan Hare and Other Revenues:</b>		
Television and broadcast revenues	\$ 5,850,852	6,335,517
Conference and NCAA distributions	6,167,945	4,080,525
Sales and services revenues	16,594,213	14,390,365
Student fees	959,057	938,917
Game settlements	1,315,000	1,372,000
Other income	<u>2,950,498</u>	<u>1,606,076</u>
<b>Total Athletic revenues pledged</b>	<u>\$ 33,837,565</u>	<u>28,723,400</u>

Pledged revenue for 2003 and 2002 as defined by the **Series 2003 Housing and Dining Revenue Trust** Indenture is as follows:

	2003	2002
<b>Housing Revenues:</b>		
Room rental	\$ 7,969,332	7,936,719
Other income	<u>269,602</u>	<u>236,686</u>
<b>Total Housing revenues pledged</b>	<u>\$ 8,238,934</u>	<u>8,173,405</u>

The Auburn University dormitory occupancy rate for Fall Semester, 2003 and Fall Semester, 2002 was 96.2% and 100%, respectively (unaudited).

	2003	2002
<b>Food Services Revenues:</b>		
Other income	\$ 416,545	442,250
<b>Total Food Services revenues pledged</b>	<u>\$ 416,545</u>	<u>442,250</u>

Pledged revenues and related expenses for 2003 and 2002 as defined by the **Series 1972A Auburn University Student Facilities Trust** Resolution are as follows:

Student fees noted below represent pledged fees and are commingled with revenues from other sources. All expenditures and transfers are made from total revenues of combined sources; therefore, the following statement of revenues, transfers and expenditures of the combined sources is presented for the years ended September 30, 2003 and September 30, 2002.

	2003	2002
<b>Revenues:</b>		
Student fees (\$10.50 per student per semester)	\$ 558,225	549,381
Sales and services	357,262	344,666
Other revenue	6,615	3,491
<b>Total revenues</b>	<u>922,102</u>	<u>897,538</u>
<b>Expenditures and Transfers:</b>		
Personnel cost	654,176	655,142
Operating expenditures	29,445	14,999
Transfers	-	(116)
<b>Total expenditures and transfers</b>	<u>683,621</u>	<u>670,025</u>
<b>Excess of revenues over expenditures and transfers</b>	238,481	227,513
Net Assets at beginning of year	<u>700,916</u>	<u>473,403</u>
<b>Net Assets at end of year</b>	<u>\$ 939,397</u>	<u>700,916</u>

Pledged revenues and related expenses for 2003 and 2002 as defined by the **1978 Auburn University at Montgomery Trust** Indenture are as follows:

The following summary shows the revenues, expenditures and transfers from operations of the dormitories of Auburn University at Montgomery (AUM) for the years ended September 30, 2003 and September 30, 2002.

	2003	2002
Revenues:		
Room rental	\$ 605,120	542,876
Other income	5,740	6,885
Total revenues	<u>610,860</u>	<u>549,761</u>
Expenditures and Transfers:		
Personnel cost	265,245	311,182
Operating expenditures	281,743	298,400
Transfers	<u>150,041</u>	<u>136,494</u>
Total expenditures and transfers	<u>697,029</u>	<u>746,076</u>
(Deficit) of revenues over expenditures and transfers	(86,169)	(196,315)
Net Assets at beginning of year	<u>6,578</u>	<u>202,893</u>
Net Assets at end of year	<u>\$ (79,591)</u>	<u>6,578</u>

The AUM dormitory occupancy rate for Fall Semester, 2003 and Fall Semester, 2002 was 96% and 86.36%, respectively (unaudited).

The University levies a \$20 fee against all students enrolled at AUM as a pledge for payments of principal and interest on the Student Facilities Bonds of 1971. A separate statement of the pledged fees is not available as these fees are commingled with revenues from other sources including an additional fee of \$7 per student levied for additional construction costs. Funds are transferred from the combined revenues to the Student Facilities Bond Fund for servicing debt as considered necessary. During 2003, principal and interest payments of \$33,932 were made from the 1971 AUM Student Facilities Bond Reserve.

## (10) DEMUTUALIZATION

In December, 2001, the Prudential Insurance Company was demutualized and shares of stock were issued to the participants. The University received 115,252 shares of Prudential Financial stock from the demutualization and the decision was made in February, 2002 to sell the shares. Proceeds from this transaction of \$3,507,756 are included in the Statement of Revenues, Expenses and Changes in Net Assets as other nonoperating revenues, net for fiscal year 2002.

## (11) RETIREMENT PROGRAMS

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

### A. Teachers' Retirement System of Alabama

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

Substantially all employees are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees. Benefits vest after ten years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by three methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) minimum guaranteed, (2) money purchase or (3) formula, of which the formula method usually produces the highest monthly benefit.



Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death, is provided to plan members.

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

The actuarial accrued liability (AAL), which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The actuarial value of assets, which is the actuarial present value of assets, is a standardized disclosure measure of the present value of accumulated assets, adjusted for projected investment performance and contributions. TRS does not make separate measurements of assets and the AAL for individual employers. The AAL and the actuarial valuation of assets at June 30, 2002 (the most recent valuation date) for TRS as a whole, determined through actuarial valuations performed as of that date, were approximately \$18,374,114,000 and \$17,904,881,000 respectively, resulting in an underfunded AAL of approximately \$469,293,000. Complete financial presentation and disclosure of the financial position and activities of the TRS is presented in the September 30, 2002 annual financial report of the Teachers' Retirement System of Alabama.

The ten year historical trend information showing TRS' 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, 2002 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 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,	2003	2002	2001
Total percentage of covered payroll	10.02%	10.96%	11.38%
Contributions:			
Percentage contributed by the employer	5.02%	5.96%	6.38%
Percentage contributed by the employees	5.00%	5.00%	5.00%
Contributed by the employer	\$ 12,108,451	\$ 13,251,150	\$ 13,659,948
Contributed by the employees	<u>12,074,427</u>	<u>10,936,261</u>	<u>10,713,999</u>
Total contributions	<u>\$ 24,182,878</u>	<u>\$ 24,187,411</u>	<u>\$ 24,373,947</u>

## B. Employees' Retirement System of Alabama

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

### Funding Policy

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

Fiscal year ended September 30,	2003	2002	2001
Total percentage of covered payroll	25.57%	23.87%	24.14%
Percentage contributed by the employer	23.07%	21.37%	21.64%
Percentage contributed by the employees	2.50%	2.50%	2.50%
Contributed by the employer	\$ 2,241,796	\$ 2,062,628	\$ 2,157,772
Contributed by the employees	<u>242,934</u>	<u>240,105</u>	<u>249,339</u>
Total contributions	<u>\$ 2,484,730</u>	<u>\$ 2,302,733</u>	<u>\$ 2,407,111</u>

## C. Nonbudgeted Pension Plan

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

## D. Tax Deferred Annuity 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. Auburn University will match up to \$1,200 per year of a qualifying employee's contribution. This equates to five percent of gross salary with a maximum covered salary of \$24,000 per year. Employees enrolling in one of the University's tax deferred annuity plans will not vest in the University's matching portion until he/she has completed five years of full-time continuous service. Upon the employee's completion of the five year requirement, the University's matching contribution and interest earned will be vested to the participant. Nonparticipating employees with continuous service will be given credit toward the five year requirement upon joining the tax deferred annuity program. The total investment in the annuities is determined by Section 403(b) and Section 457(b) of the Internal Revenue Code. There are several investment options including fixed and variable annuities and mutual funds. The University-approved companies are Valic, TIAA-CREF and Johnson, Sterling, Paul and Company. At September 30, 2003, 3,158 employees participated in the tax deferred annuity program. The contribution for 2003 was \$12,928,970 which includes \$3,395,434 from the University and \$9,533,536 from its employees. Total salaries and wages during the fiscal year for covered employees participating in the plan were approximately \$165,440,000.

## E. Deferred Compensation Plan

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

## (12) OTHER POST RETIREMENT BENEFITS

In addition to the pension benefits described in Note 11, the University provides postretirement health care benefits to all employees who officially retire from the University. Retirees must have had ten years of continuous service and must have been enrolled in the plan for the last six of those years. The health insurance plan is self-insured.

As of September 30, 2003, 342 retirees have health care protection. The University's health care plan consists of hospital benefits, major medical benefits, a prescription drug program and a preferred care program. The health care benefits cover medical and hospitalization costs for retirees and their dependents. If the retiree is eligible for Medicare, University coverage is secondary. Eligible retired employees may elect to participate in the Public Education Employees Health Insurance Plan with TRS, in which case the retirees pay their premiums directly to TRS. Expenditures for postretirement health care benefits are recognized monthly. During the fiscal year ended September 30, 2003, the University funded approximately 60% of the postretirement healthcare premium expenditures which totaled approximately \$868,625. The retirees are responsible for funding approximately 40% of the healthcare premium expenditures with the exception of a few retirees who elected not to enroll in the University's healthcare program.

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

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

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

The Comprehensive General Liability Trust Fund is a self-insured retention program which protects the University, its faculty, staff and volunteers against claims brought by third parties arising from bodily injury, property damage and personal liability (libel, slander, etc.) Funds are held in a separate trust account with Compass Bank to be used to pay claims for which the University may become legally liable. The liability at September 30, 2003 and 2002 was \$2,298,089 and \$2,256,207, 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, 2003 and 2002 was \$272,268 and \$500,000, respectively.

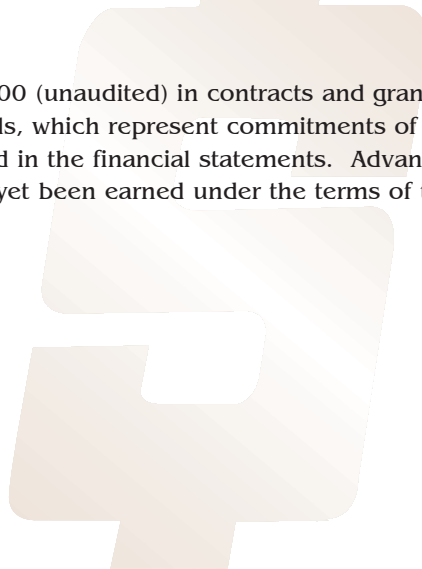
The University self-insures its health insurance program for all eligible employees. Assets have been set aside to fund the related claims of this program. Should the assets be insufficient to pay the insurance claims, the University would be liable for such claims. The accompanying statement of net assets includes a self-insurance reserve for health insurance liability as of September 30, 2003 and September 30, 2002, of \$1,589,826 and \$1,847,194, respectively.

Other liabilities include compensated absences and Federal Perkins Student Loan Funds. The University allows employees to accrue and carryover annual and sick leave up to certain maximum amounts depending on years of service. Employees will be compensated for accrued annual leave at time of separation from University employment (termination or retirement) up to a maximum of one month's additional compensation. All eligible employees hired before October 1, 1990 may be compensated for unused sick leave at the rate of 25% of the balance, subject to a maximum of one month's additional compensation. The liability at September 30, 2003 and 2002, was \$20,128,655 and \$18,268,657, respectively.

The current and noncurrent portion of the Federal Perkins Student Loan Funds and Health Professional Student Loans are included in other accrued liabilities and other noncurrent liabilities; the refundable amounts at September 30, 2003 were \$2,080,884 and \$11,905,380 and at September 30, 2002 were \$1,803,332 and \$11,798,758, respectively.

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

The University has been awarded approximately \$131,070,000 (unaudited) in contracts and grants which had not been received or expended as of September 30, 2003. These awards, which represent commitments of sponsors to provide funds for research and training projects, have not been reflected in the financial statements. Advances include amounts received from grant and contract sponsors which have not yet been earned under the terms of the agreements and, therefore, have not yet been included in net assets.



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

The portion of revenue recognized for all grants and contracts which represents facilities and administrative cost recovery is recognized on the Statement of Revenues, Expenses and Changes in Net Assets. The University recognized \$10,538,197 and \$10,277,050 in facilities and administrative cost recovery for the years ended September 30, 2003 and 2002, respectively.

## (16) CONSTRUCTION COMMITMENTS AND FINANCING

The University has entered into contracts for the construction and renovation of various facilities which are estimated to cost approximately \$34,000,000. At September 30, 2003, the estimated remaining cost to complete the projects was approximately \$18,700,000 and will be funded from University unrestricted net assets.

## (17) OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended September 30, 2003 and September 30, 2002 are listed below. In preparing the financial statements, all significant transactions and balances between auxiliary units and other funds have been eliminated.

	2003	2002
Instruction	\$ 169,958,394	154,122,485
Research	85,433,084	78,966,329
Public Service	69,917,258	69,243,367
Academic Support	28,945,689	20,412,571
Library	12,729,464	12,058,820
Student Services	16,206,332	15,192,026
Institutional Support	35,276,513	34,929,036
Operation and Maintenance	42,342,161	34,014,623
Scholarships and Fellowships	12,805,246	14,555,172
Auxiliaries	65,465,719	62,546,635
Total all functions	539,079,860	496,041,064
Add: depreciation expense	26,724,468	23,579,650
Total operating expenses	\$ 565,804,328	519,620,714

## (18) CONTINGENT LIABILITIES

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

## (19) AFFILIATED ORGANIZATIONS

### AUBURN UNIVERSITY FOUNDATION

Auburn University Foundation (the Foundation) is an independent corporation formed for the purpose of obtaining and disbursing funds for the benefit of the University. The Foundation's activities are governed by its Board of Directors. Summarized financial information of the Foundation, as of and for the years ended September 30, 2003, (unaudited) and 2002 is as follows:

2003

2002

**Assets**

Cash and Investments at Market	\$	165,962,331	137,827,790
Real Estate		6,159,890	6,790,954
Contributions Receivable		26,418,573	24,656,240
Other Assets		2,109,056	4,082,700
Total Assets	\$	<u>200,649,850</u>	<u>173,357,684</u>

**Liabilities**

Due to Auburn Alumni Association	\$	5,031,344	4,183,728
Due to Auburn University		3,300,542	3,633,748
Other Liabilities		3,886,597	4,874,256
Annuities Payable		5,916,225	5,162,644
Total Liabilities	\$	<u>18,134,708</u>	<u>17,854,376</u>

**Net Assets**

Unrestricted	\$	18,878,982	13,638,892
Temporarily Restricted		36,787,558	20,145,614
Permanently Restricted		126,848,602	121,718,802
Total Net Assets	\$	<u>182,515,142</u>	<u>155,503,308</u>
Total Liabilities and Net Assets	\$	<u>200,649,850</u>	<u>173,357,684</u>

Revenues, Gains and Other Support	\$	50,473,746	46,391,317
Expenditures	\$	37,965,150	41,223,767
Realized and Unrealized Gains (Losses), net	\$	14,908,259	(14,860,305)
Contributions to Auburn University	\$	23,570,706	27,556,643

If the Foundation was to dissolve, the assets would be transferred to the University and would be held as endowments according to the donors' restrictions. Pledges are administered by the Foundation. As of September 30, 2003, pledges of gifts totaling \$26,418,573 were due to mature over the next five years. The University also received income from the Dudley Foundation in the amount of \$83,688 and \$98,060, for the years ended September 30, 2003 and September 30, 2002, respectively.

**AUBURN ALUMNI ASSOCIATION**

The Auburn Alumni Association (the Association) is an independent corporation. The purpose of the Association is to promote the growth, progress, and general welfare of the University, and to foster mutually beneficial relationships between the University and its alumni. The Association's activities are governed by its Board of Directors. Unaudited summarized financial information of the Association as of and for the years ended September 30, 2003 and September 30, 2002 is as follows:

2003

2002

**Assets**

Cash and Investments at Market	\$	7,597,582	6,558,433
Accounts Receivable		638,078	793,006
Land		674,799	674,799
Building		3,389,443	3,392,428
Equipment		1,672,744	1,656,457
Less Accumulated Depreciation		(2,549,931)	(2,395,221)
Other Assets		138,080	410,610
Total Assets	\$	<u>11,560,795</u>	<u>11,090,512</u>

**Liabilities**

Deferred Revenue	\$ 6,583,806	6,459,238
Other Liabilities	49,920	98,433
Total Liabilities	<u>\$ 6,633,726</u>	<u>6,557,671</u>

**Net Assets**

Unrestricted	\$ 4,927,069	4,532,841
Total Net Assets	<u>\$ 4,927,069</u>	<u>4,532,841</u>
Total Liabilities and Net Assets	<u>\$ 11,560,795</u>	<u>11,090,512</u>

Revenues	\$ 2,826,644	2,349,605
Expenditures and Losses	\$ 2,432,416	3,188,199
Expenditures made on behalf of Auburn University	\$ 1,008,903	1,706,387

The Foundation and the Association do not constitute component units under the provisions of GASB Statement No. 14; therefore, the activities of these organizations are not included in the University's financial statements. Their financial statements may be obtained by writing to Auburn University Foundation or Auburn Alumni Association at 317 South College Street, Auburn, Alabama 36849.

**(20) DIRECT LOAN PROGRAMS**

The Federal Direct Student Loan Program (FDSLPL) and the Federal Family Education Loan Program (FFELP) were established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLPL enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLPL on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for the collection of these loans. The University managed approximately \$37,779,900 under the FDSLPL during the fiscal year ended September 30, 2002.

The FFELP differs from the FDSLPL in that the student loans are obtained directly through FFELP lenders. Alabama's designated state guarantor for FFELP loans is Kentucky Higher Education Assistance Authority (KHEAA). KHEAA is responsible for handling the complete loan process, including funds management as well as promissory note functions. The FFELP lenders, and not the University, are responsible for the collection of these loans. The University began participation in the FFELP during Fall Semester, 2002. The University managed approximately \$38,211,000 and \$26,662,000 under the FFELP during the fiscal years ended September 30, 2003 and September 30, 2002, respectively.

**(21) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

In May, 2002 the Governmental Accounting Standards Board issued GASB No. 39, *Determining Whether Certain Organizations Are Component Units*, effective for financial statement periods beginning after June 15, 2003. This statement clarifies information in previously issued publications regarding organizations, such as a foundation, which are closely related to a primary government. Statement No. 39 amends Statement No. 14 and provides criteria for determining whether such organizations for which a government is not financially accountable should be reported as component units.

GASB 39 will require the University's two affiliated, legally separate tax exempt organizations, Auburn University Foundation and Auburn Alumni Association, to be presented discretely in the University's financial statements for the fiscal year ended September 30, 2004.

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



# DIVISIONAL FINANCIAL STATEMENTS



**AUBURN UNIVERSITY MAIN CAMPUS  
STATEMENTS OF NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ (6,981)	\$ 95,284
Operating investments	77,671,257	68,763,986
Accounts receivable, net	16,841,314	17,498,362
Student accounts receivable, net	19,153,405	19,083,937
Loans receivable, net	2,252,413	1,938,815
Accrued interest receivable	3,016,009	3,573,422
Inventories	3,302,872	2,850,436
Prepaid expenses	8,155,791	7,079,992
Due from other funds	<u>350,794</u>	<u>340,162</u>
Total current assets	<u>130,736,874</u>	<u>121,224,396</u>
Noncurrent assets		
Investments	391,685,096	403,284,274
Loans receivable, net	13,495,121	13,595,897
Investment in plant, net	409,043,376	354,453,683
Due from other funds	<u>1,944,042</u>	<u>2,076,048</u>
Total noncurrent assets	<u>816,167,635</u>	<u>773,409,902</u>
Total assets	<u>946,904,509</u>	<u>894,634,298</u>
<b>LIABILITIES</b>		
Current liabilities		
Outstanding checks in excess of bank balance	15,457,227	9,541,859
Advances	170,105	67,552
Accounts payable	13,236,050	16,843,638
Accrued salaries and wages	1,954,837	1,828,577
Accrued compensated absences	11,001,727	11,264,311
Accrued interest payable	2,847,004	3,378,478
Other accrued liabilities	3,636,715	3,958,015
Student deposits	1,040,192	858,685
Deposits held in custody	3,182,164	2,561,732
Deferred revenues	75,673,015	66,652,228
Noncurrent liabilities-current portion	<u>6,680,247</u>	<u>9,803,705</u>
Total current liabilities	<u>134,879,283</u>	<u>126,758,780</u>
Noncurrent liabilities		
Accrued compensated absences	4,960,263	3,223,731
Bonds and notes payable	190,017,690	193,109,747
Lease obligations	386,478	371,530
Other noncurrent liabilities	12,299,083	13,472,257
Due to other funds	<u>7,841,455</u>	<u>7,075,756</u>
Total noncurrent liabilities	<u>215,504,969</u>	<u>217,253,021</u>
Total liabilities	<u>350,384,252</u>	<u>344,011,801</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	259,494,342	225,043,361
Restricted		
Nonexpendable	14,196,276	12,922,501
Expendable:		
Scholarships, research, instruction, other	69,327,846	67,133,044
Loans	4,084,832	3,985,518
Capital projects	22,761,454	20,435,412
Unrestricted	<u>226,655,507</u>	<u>221,102,661</u>
Total net assets	<u>\$ 596,520,257</u>	<u>\$ 550,622,497</u>

**AUBURN UNIVERSITY MAIN CAMPUS  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002
<b>OPERATING REVENUES</b>		
Tuition and fees, net of scholarship allowances of \$24,159,712 and \$20,368,098, respectively	\$ 144,681,983	\$ 124,104,141
Federal Appropriations	40,957	0
Federal grants & contracts	46,343,412	43,264,362
State & local grants & contracts	2,389,939	3,105,201
Nongovernmental grants & contracts	6,296,458	4,332,675
Sales & services of educational departments	15,557,426	14,339,983
Auxiliary revenue, net of scholarship allowances of \$1,115,593 and \$1,048,322, respectively	51,613,777	53,937,824
Other operating revenue	10,561,640	10,081,754
Total operating revenues	<u>277,485,592</u>	<u>253,165,940</u>
<b>OPERATING EXPENSES</b>		
Compensation & benefits	266,208,717	235,188,737
Scholarships & fellowship	9,182,699	11,360,654
Other supplies & services	124,762,055	107,323,250
Depreciation	23,993,054	21,666,138
Loss on impairments & disposals	2,752,910	14,693,902
Total operating expenses	<u>426,899,435</u>	<u>390,232,681</u>
Operating loss	<u>(149,413,843)</u>	<u>(137,066,741)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	136,383,190	132,683,648
Gifts	17,115,962	17,954,391
Net investment income	25,787,771	8,609,805
Interest expense on capital debt	(7,107,025)	(9,147,788)
Other nonoperating revenues, (expenses), net	<u>(2,214,561)</u>	<u>3,583,726</u>
Nonoperating revenues, net	<u>169,965,337</u>	<u>153,683,782</u>
Income before other changes in net assets	20,551,494	16,617,041
<b>OTHER CHANGES IN NET ASSETS</b>		
Capital appropriations	13,084,555	11,421,805
Capital gifts & grants	9,543,511	8,215,554
Additions to permanent endowments	2,718,200	1,832,026
Net increase in net assets	<u>45,897,760</u>	<u>38,086,426</u>
Net assets - beginning of year	<u>550,622,497</u>	<u>512,536,071</u>
Net assets - end of year	<u>\$ 596,520,257</u>	<u>\$ 550,622,497</u>

**AUBURN UNIVERSITY AT MONTGOMERY**  
**STATEMENTS OF NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 76,974	\$ 67,101
Operating investments	2,762,407	2,305,679
Accounts receivable, net	1,020,551	1,217,196
Student accounts receivable, net	3,923,202	2,992,627
Loans receivable, net	33,995	27,246
Accrued interest receivable	1,430	1,880
Inventories	545,409	630,168
Total current assets	<u>8,363,968</u>	<u>7,241,897</u>
Noncurrent assets		
Investments	12,348,323	12,328,037
Loans receivable, net	2,514,237	2,400,656
Investment in plant, net	39,611,425	35,258,470
Due from other funds	7,841,455	7,075,756
Total noncurrent assets	<u>62,315,440</u>	<u>57,062,919</u>
Total assets	<u>70,679,408</u>	<u>64,304,816</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	686,553	431,114
Accrued salaries and wages	160,609	167,284
Accrued compensated absences	1,179,252	1,194,707
Accrued interest payable	18,814	19,946
Other accrued liabilities	33,995	27,246
Student deposits	112,200	88,400
Deposits held in custody	174,487	135,304
Deferred revenues	6,850,562	6,617,156
Noncurrent liabilities-current portion	250,000	245,000
Due to other funds	64,261	71,356
Total current liabilities	<u>9,530,733</u>	<u>8,997,513</u>
Noncurrent liabilities		
Accrued compensated absences	530,851	341,913
Bonds and notes payable	1,785,000	1,915,000
Lease obligations	1,790,000	1,910,000
Other noncurrent liabilities	2,835,822	2,689,429
Due to other funds	155,991	215,915
Total noncurrent liabilities	<u>7,097,664</u>	<u>7,072,257</u>
Total liabilities	<u>16,628,397</u>	<u>16,069,770</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	35,870,641	31,530,797
Restricted		
Nonexpendable	2,494,605	2,443,223
Expendable:		
Scholarships, research, instruction, other	3,998,079	3,692,634
Loans	323,808	305,323
Capital projects	0	(57,642)
Unrestricted	11,363,878	10,320,711
Total net assets	<u>\$ 54,051,011</u>	<u>\$ 48,235,046</u>

**AUBURN UNIVERSITY AT MONTGOMERY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002
<b>OPERATING REVENUES</b>		
Tuition and fees, net of scholarship allowances of \$2,844,671 and \$2,486,506, respectively	\$ 13,852,195	\$ 12,393,111
Federal grants & contracts	8,088,181	7,991,264
State & local grants & contracts	4,271,099	4,919,497
Nongovernmental grants & contracts	463,256	168,087
Sales & services of educational departments	1,847,587	1,952,048
Auxiliary revenue, net of scholarship allowances of \$256,126 and \$181,419, respectively	3,373,649	2,865,141
Other operating revenue	<u>555,333</u>	<u>923,143</u>
Total operating revenues	<u>32,451,300</u>	<u>31,212,291</u>
<b>OPERATING EXPENSES</b>		
Compensation & benefits	33,353,013	31,696,449
Scholarships & fellowships	3,568,660	3,144,660
Other supplies & services	3,697,288	4,610,651
Depreciation	2,731,414	1,913,512
Loss on impairments & disposals	<u>5,128,191</u>	<u>1,987,044</u>
Total operating expenses	<u>48,478,566</u>	<u>43,352,316</u>
Operating loss	<u>(16,027,266)</u>	<u>(12,140,025)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	19,310,724	18,705,634
Gifts	186,438	260,680
Net investment income	1,060,173	1,159,860
Interest expense on capital debt	<u>(62,268)</u>	<u>(67,743)</u>
Nonoperating revenues, net	<u>20,495,067</u>	<u>20,058,431</u>
Income before other changes in net assets	4,467,801	7,918,406
<b>OTHER CHANGES IN NET ASSETS</b>		
Capital appropriations	1,270,613	0
Capital gifts & grants	28,259	25,877
Additions to permanent endowments	<u>49,292</u>	<u>587,847</u>
Net increase in net assets	<u>5,815,965</u>	<u>8,532,130</u>
Net assets - beginning of year	<u>48,235,046</u>	<u>39,702,916</u>
Net assets - end of year	<u>\$ 54,051,011</u>	<u>\$ 48,235,046</u>

**ALABAMA AGRICULTURAL EXPERIMENT STATION  
STATEMENTS OF NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 32,000	\$ 32,000
Operating investments	6,136,098	3,090,231
Accounts receivable, net	<u>3,268,205</u>	<u>2,863,159</u>
Total current assets	<u>9,436,303</u>	<u>5,985,390</u>
Noncurrent assets		
Investments	<u>6,347,342</u>	<u>8,106,630</u>
Total noncurrent assets	<u>6,347,342</u>	<u>8,106,630</u>
Total assets	<u>15,783,645</u>	<u>14,092,020</u>
<b>LIABILITIES</b>		
Current liabilities		
Advances	45,117	24,144
Accounts payable	264,830	268,559
Accrued salaries and wages	100,737	153,455
Accrued compensated absences	860,160	882,538
Deferred revenues	1,253,909	1,434,339
Due to other funds	<u>286,533</u>	<u>268,806</u>
Total current liabilities	<u>2,811,286</u>	<u>3,031,841</u>
Noncurrent liabilities		
Accrued compensated absences	379,809	252,574
Due to other funds	<u>1,788,051</u>	<u>1,860,133</u>
Total noncurrent liabilities	<u>2,167,860</u>	<u>2,112,707</u>
Total liabilities	<u>4,979,146</u>	<u>5,144,548</u>
<b>NET ASSETS</b>		
Restricted		
Expendable:		
Scholarships, research, instruction, other	479,549	263,982
Unrestricted	<u>10,324,950</u>	<u>8,683,490</u>
Total net assets	<u>\$ 10,804,499</u>	<u>\$ 8,947,472</u>

**ALABAMA AGRICULTURAL EXPERIMENT STATION  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
<b>OPERATING REVENUES</b>		
Federal appropriations	\$ 4,495,182	\$ 4,502,965
Federal grants & contracts	9,698,416	9,204,668
State & local grants & contracts	682,224	691,739
Nongovernmental grants & contracts	2,008,422	1,922,254
Sales & services of educational departments	2,187,285	2,459,512
Other operating revenue	<u>0</u>	<u>394,040</u>
Total operating revenues	<u>19,071,529</u>	<u>19,175,178</u>
<b>OPERATING EXPENSES</b>		
Compensation & benefits	27,702,427	26,493,534
Scholarships & fellowships	46,844	48,054
Other supplies & services	<u>14,710,661</u>	<u>12,678,001</u>
Total operating expenses	<u>42,459,932</u>	<u>39,219,589</u>
Operating loss	<u>(23,388,403)</u>	<u>(20,044,411)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	24,663,937	23,410,271
Gifts	340,766	288,968
Net investment income	<u>240,727</u>	<u>269,286</u>
Nonoperating revenues, net	<u>25,245,430</u>	<u>23,968,525</u>
Income before other changes in net assets	1,857,027	3,924,114
Net assets - beginning of year	<u>8,947,472</u>	<u>5,023,358</u>
Net assets - end of year	<u>\$ 10,804,499</u>	<u>\$ 8,947,472</u>

**ALABAMA COOPERATIVE EXTENSION SYSTEM**  
**STATEMENTS OF NET ASSETS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 701,115	\$ 618,320
Operating investments	5,957,052	5,492,563
Accounts receivable, net	<u>2,312,926</u>	<u>2,335,837</u>
Total current assets	<u>8,971,093</u>	<u>8,446,720</u>
Noncurrent assets		
Investments	<u>3,226,326</u>	<u>2,167,990</u>
Total noncurrent assets	<u>3,226,326</u>	<u>2,167,990</u>
Total assets	<u>12,197,419</u>	<u>10,614,710</u>
<b>LIABILITIES</b>		
Current liabilities		
Advances	1,822,827	1,453,593
Accounts payable	294,661	415,502
Accrued salaries and wages	65,836	232,912
Accrued compensated absences	832,413	862,145
Deferred revenues	<u>262,705</u>	<u>312,480</u>
Total current liabilities	<u>3,278,442</u>	<u>3,276,632</u>
Noncurrent liabilities		
Accrued compensated absences	<u>384,180</u>	<u>246,737</u>
Total noncurrent liabilities	<u>384,180</u>	<u>246,737</u>
Total liabilities	<u>3,662,622</u>	<u>3,523,369</u>
<b>NET ASSETS</b>		
Restricted		
Expendable:		
Scholarships, research, instruction, other	2,390,900	1,767,275
Unrestricted	<u>6,143,897</u>	<u>5,324,066</u>
Total net assets	<u>\$ 8,534,797</u>	<u>\$ 7,091,341</u>

**ALABAMA COOPERATIVE EXTENSION SYSTEM  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002
<b>OPERATING REVENUES</b>		
Federal appropriations	\$ 8,716,715	\$ 8,488,446
Federal grants & contracts	7,344,236	7,390,464
State & local grants & contracts	3,757,083	2,521,791
Nongovernmental grants & contracts	209,412	202,093
Sales & services of educational departments	95,125	77,220
Other operating revenue	<u>2,183,082</u>	<u>2,208,979</u>
Total operating revenues	<u>22,305,653</u>	<u>20,888,993</u>
<b>OPERATING EXPENSES</b>		
Compensation & benefits	36,130,029	35,160,381
Scholarships & fellowships	7,043	1,804
Other supplies & services	<u>11,829,323</u>	<u>11,653,943</u>
Total operating expenses	<u>47,966,395</u>	<u>46,816,128</u>
Operating loss	<u>(25,660,742)</u>	<u>(25,927,135)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	26,800,216	26,183,690
Gifts	268,361	179,722
Net investment income	<u>35,621</u>	<u>47,361</u>
Nonoperating revenues, net	<u>27,104,198</u>	<u>26,410,773</u>
Income before other changes in net assets	1,443,456	483,638
Net assets - beginning of year	<u>7,091,341</u>	<u>6,607,703</u>
Net assets - end of year	<u>\$ 8,534,797</u>	<u>\$ 7,091,341</u>



# Auburn University BOARD OF TRUSTEES

The University is governed by a Board of Trustees comprised of 14 voting members. The Board includes one person from each of the nine Congressional districts (as the districts were constituted on January 1, 1961), one additional member from the Congressional district in which the Auburn Campus is located, the Governor of Alabama (ex officio) (who serves as the Board president) and the State Superintendent of Education, (ex officio). Two non-voting student representatives also sit on the Board, one from the Auburn Campus and one from AUM. Based upon a state constitutional amendment approved by voters in 2000, two additional at-large members have been appointed. The trustees who were serving prior to the adoption of the amendment were appointed for 12 year terms. The Constitutional amendment also changed the term of office of new trustees from 12 to seven years except in the case of one of the initially appointed at-large members, who shall serve a four year term for the purpose of staggering appointments. After the four year term of the initial at-large member expires, all trustees will have seven year appointments. A third at-large member will be added to replace the State Superintendent of Education at the end of his term of office, and his ex-officio position will be eliminated. Under these changed criteria, new appointments will be made by a committee consisting of the Governor of Alabama and representatives of the Board and the Auburn Alumni Association, with the advice and consent of the Alabama Senate. No member of the Board receives compensation for his or her services.



**Bob Riley**  
Governor of Alabama  
President, Montgomery



**Edward R. Richardson**  
State Superintendent of  
Education, Montgomery



**W. James Samford, Jr.**  
Vice-President Pro Tempore, Opelika  
Third Congressional District



**John C.H. Miller Jr.**  
Mobile, First  
Congressional District



**Robert E. Lowder**  
Montgomery, Second  
Congressional District



**James W. Rane**  
Abbeville, Third  
Congressional District



**Jack B. Venable**  
Tallassee, Fourth  
Congressional District



**Lowell R. Barron**  
Fyffe, Fifth  
Congressional District



**Paul J. Spina, Jr.**  
Hoover, Sixth  
Congressional District



**Charles G. Glover**  
Cullman, Seventh  
Congressional District



**John G. Blackwell**  
Huntsville, Eight  
Congressional District



**Byron P. Franklin, Sr.**  
Birmingham, Ninth  
Congressional District



**Golda McDaniel**  
Mississippi, At Large  
Member



**Earlon C. McWhorter**  
Anniston, At-Large Member  
President, Pro Tempore



*Auburn University is an equal opportunity educational institution/employer.*