AUDIT REPORT

Tennessee Board of Regents
Austin Peay State University

For the Year Ended
June 30, 2005

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

March 15, 2007

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Sherry L. Hoppe, President
Austin Peay State University
601 College Street
Clarksville, Tennessee 37044

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Austin Peay State University, for the year ended June 30, 2005. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ddb
06/039

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Austin Peay State University
For the Year Ended June 30, 2005

AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 2005

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 2005

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Austin Peay State University. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Austin Peay State University began as a two-year college for training teachers. Created by an act of the General Assembly in 1927, the institution was named Austin Peay Normal School in honor of Governor Austin Peay, a Clarksville resident.

On February 4, 1943, the General Assembly changed the name to Austin Peay State College. In 1967, the State Board of Education conferred university status on the college.

The university grants the degrees of Associate of Applied Science, Associate of Science, Bachelor of Arts, Bachelor of Business Administration, Bachelor of Fine Arts, Bachelor of Science, Bachelor of Science in Education, Bachelor of Science in Nursing, Master of Arts, Master of Music, Master of Arts in Education, and Education Specialist.

ORGANIZATION

The governance of Austin Peay State University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2004, through June 30, 2005, and was conducted 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. Financial statements are presented for the year ended June 30, 2005, and for comparative purposes, the year ended June 30, 2004. Austin Peay State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations*****, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.**

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on April 7, 2006. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the university has corrected previous audit findings concerning the reporting of Pell payment data in a timely manner and the reporting of student status changes within the required time frame.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the institution. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the institution is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the institution.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the institution. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants, requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2005, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements, as required by 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. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered unqualified opinions on the university's financial statements.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

June 8, 2006

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Austin Peay State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2005, and have issued our report thereon dated June 8, 2006. We conducted our audit 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. During the year ended June 30, 2005, the university implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the university's management in a separate letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did, however, note certain other less significant instances of noncompliance, which we have reported to the university's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the Tennessee Board of Regents, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

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Independent Auditor's Report

June 8, 2006

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying basic financial statements of Austin Peay State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2005, and June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the university's management. Our responsibility is to express opinions on these financial statements, based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audit 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of many agencies, commissions, and component units of the State of Tennessee; managing the state's debt; and making loans to the state's colleges and universities from debt proceeds. Some of the boards of which the Comptroller of the Treasury serves as a member per state statutes include the State Building Commission and the Tennessee Higher Education Commission.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Austin Peay State University, and its discretely presented component unit as of June 30, 2005, and June 30, 2004, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2005, the university implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. During the year ended June 30, 2004, the university implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units.*

The management's discussion and analysis on pages 10 through 24 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 52 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2006, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb

Austin Peay State University
Management's Discussion and Analysis
For the Years Ended June 30, 2005, and June 30, 2004

This section of Austin Peay State University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2005, with comparative information presented for the fiscal years ended June 30, 2004, and June 30, 2003. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on Austin Peay State University as a whole and present a long-term view of the university's finances.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the university at the end of the fiscal year and includes all assets and liabilities of the university. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the university. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the university's equity in property, plant, and equipment owned by the university. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

STATEMENTS OF NET ASSETS – UNIVERSITY
(in thousands of dollars)

	2005	2004	2003
Assets:			
Current assets	$ 14,643	$ 14,618	$ 12,933
Capital assets, net	95,232	94,117	94,269
Other assets	30,248	24,235	18,612
Total assets	140,123	132,970	125,814
Liabilities:			
Current liabilities	7,192	6,397	6,135
Noncurrent liabilities	31,780	32,295	30,493
Total liabilities	38,972	38,692	36,628
Net assets:			
Invested in capital assets, net of related debt	64,745	63,258	65,263
Restricted – expendable	3,065	2,694	2,127
Restricted – nonexpendable	5,619	3,150	2,787
Unrestricted	27,722	25,176	19,009
Total net assets	$ 101,151	$ 94,278	$ 89,186

- The major component of current assets is cash and cash equivalents. In 2005, the increase in current assets was a result of the unexpected high student fee revenue because of a 13% enrollment increase. In 2004, the increase of almost $1.7 million was primarily due to a large increase in prior-year encumbrances. Unexpected high revenues from the Spring II term at Fort Campbell also contributed to the increase.

- In 2005, net capital assets increased due to construction starting on the McCord renovation project and the Recreation Center. In 2004, net capital assets declined slightly due to depreciation.

- The “Other Assets” category includes noncurrent cash and cash equivalents. In 2005, this category increased as a result of a major bequest from an estate. This bequest was also reflected in the “Restricted-nonexpendable” portion of the net assets section. In 2004, other assets increased significantly in preparation for some future projects in plant construction and renewals and replacements.

STATEMENTS OF NET ASSETS – FOUNDATION
(in thousands of dollars)

	2005	2004	2003
Assets:			
Current assets	$ 2,120	$ 1,286	$ 2,652
Capital assets, net	239	272	-
Other assets	7,453	5,580	2,996
Total assets	9,812	7,138	5,648
Liabilities:			
Current liabilities	1	-	-
Noncurrent liabilities	-	-	-
Total liabilities	1	-	-
Net assets:			
Invested in capital assets, net of related debt	239	272	-
Restricted – expendable	4,974	3,083	2,729
Restricted – nonexpendable	4,150	3,168	2,601
Unrestricted	448	615	318
Total net assets	$ 9,811	$ 7,138	$ 5,648

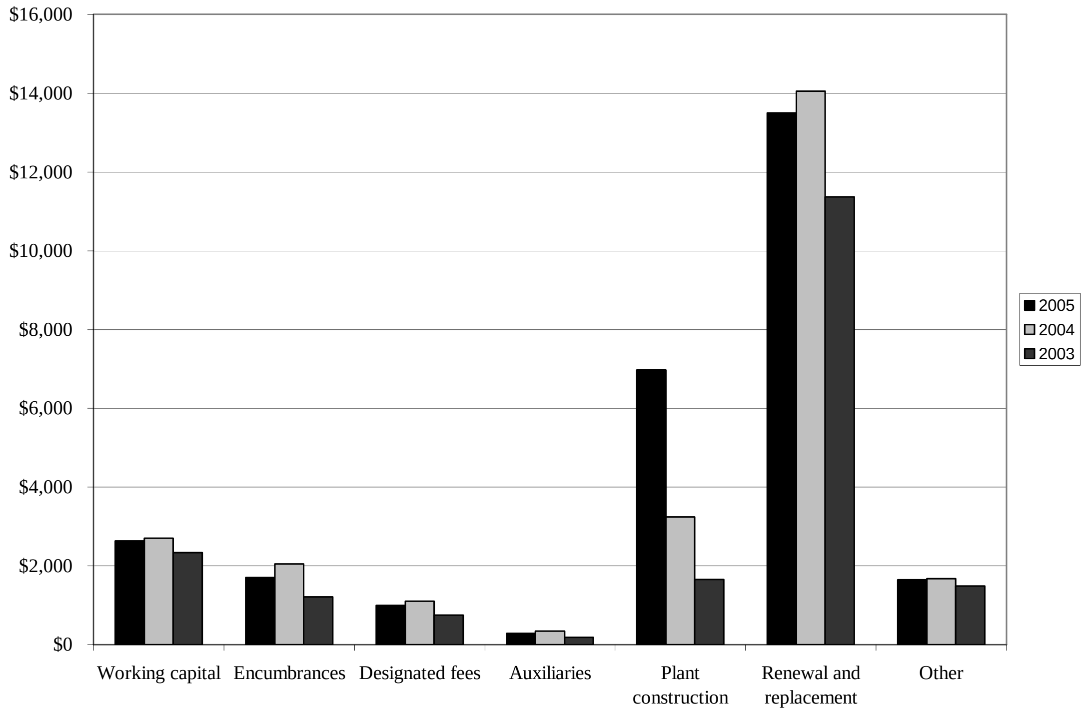
- In both 2005 and 2004, the foundation's total assets increased as a result of a major fund raising campaign. In 2004, the foundation's current assets declined and other assets increased as funds were moved from current cash and cash equivalents to investments as part of an investment agreement with Bank of America.

- In all fiscal years, the foundation had no significant liabilities.

Many of the university's unrestricted net assets have been designated or reserved for specific purposes such as: renewal and replacement of equipment and facilities, working capital, prior year encumbrances, funds collected for designated fees such as technology access and student activity fees, plant construction, and other projects. The following graph shows the allocations:

UNRESTRICTED NET ASSETS – UNIVERSITY
(in thousands of dollars)

	2005	2004	2003
Working capital	$ 2,630	$ 2,703	$ 2,337
Encumbrances	1,704	2,047	1,217
Designated fees	994	1,103	753
Auxiliaries	282	347	186
Plant construction	6,968	3,246	1,660
Renewal and replacement	13,497	14,052	11,370
Other	1,647	1,678	1,486
	$ 27,722	$ 25,176	$ 19,009



- In 2005, the unrestricted net assets increased about 10%. The increase was due to construction starting on the McCord renovation project and the Renovation Center.

- In 2004, encumbrances increased significantly because many major purchases were delayed until the end of the year due to concerns over the state revenue situation. Also, additional funds became available late in the year due to a heavy enrollment at Fort Campbell in the Spring II term. Plant construction and renewal and replacement funds were increased in anticipation of some major projects such as the replacement of the telephone system, replacement of the artificial turf and track at the stadium, and the migration to the new ERP system.

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the university, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States of America.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – UNIVERSITY
(in thousands of dollars)

	2005	2004	2003
Operating revenues:			
Net tuition and fees	$ 23,761	$ 22,721	$ 18,970
Auxiliary	4,712	3,882	3,636
Grants and contracts	2,820	4,214	11,643
Other	2,661	2,241	1,856
Total operating revenues	33,954	33,058	36,105
Operating expenses	76,944	68,142	65,988
Operating loss	(42,990)	(35,084)	(29,883)
Nonoperating revenues and expenses:			
State appropriations	32,216	30,656	31,156
Gifts	648	1,061	781
Grants and contracts	14,879	8,128	-
Investment income	1,126	731	784
Other revenues and expenses	(2,341)	(1,525)	(1,351)
Total nonoperating revenues and expenses	46,528	39,051	31,370
Income (loss) before other revenues, expenses, gains, or losses	3,538	3,967	1,487
Other revenues, expenses, gains, or losses:			
Capital appropriation	1,276	1,445	2,453
Additions to permanent endowments	2,277	80	146
Other	(218)	(372)	-
Total other revenues, expenses, gains, or losses	3,335	1,153	2,599
Increase (decrease) in net assets	6,873	5,120	4,086
Net assets at beginning of year	94,278	89,139	85,053
Prior period adjustment	-	19	-
Net assets at end of year	$ 101,151	$ 94,278	$ 89,139

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – FOUNDATION
(in thousands of dollars)

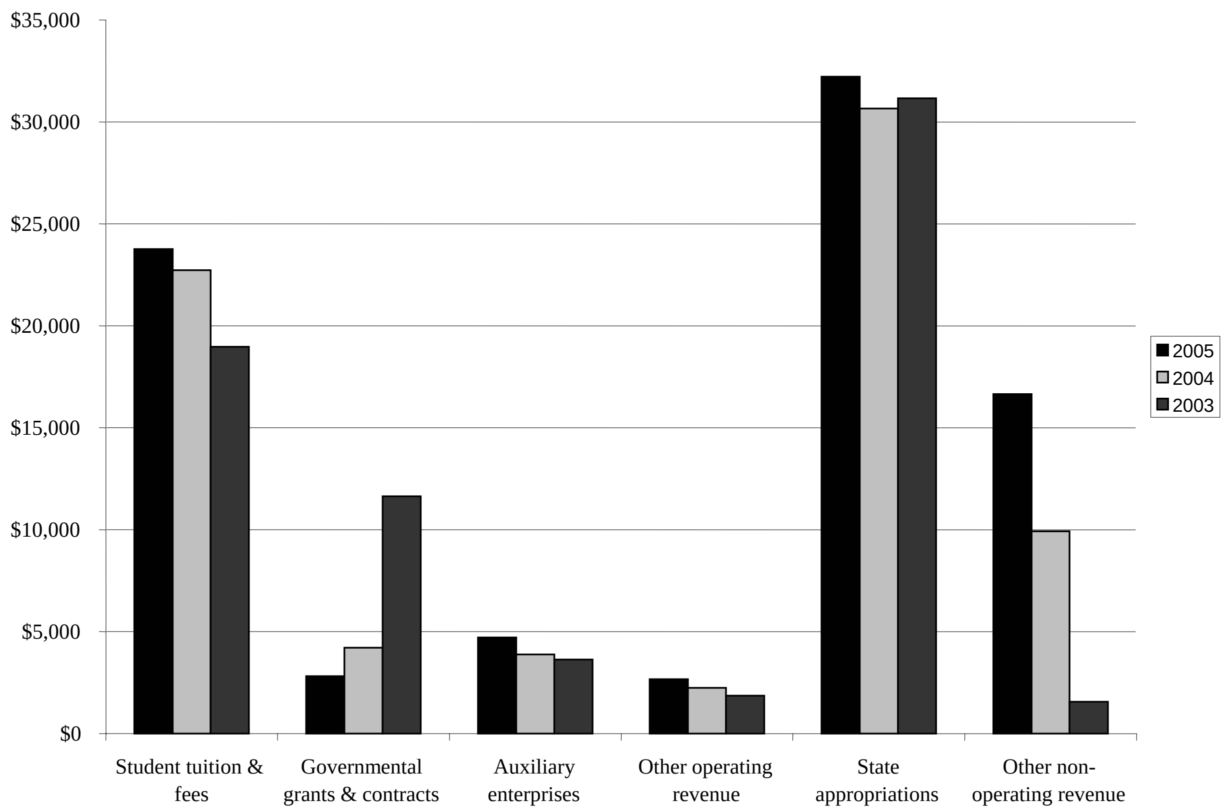
	2005	2004	2003
Operating revenues:			
Gifts and contributions	$ 2,535	$ 1,263	$ 537
Other	37	46	52
Total operating revenues	2,572	1,309	589
Operating expenses	1,009	672	470
Operating income	1,563	637	119
Nonoperating revenues and expenses:			
Investment income	738	458	83
Other revenues and expenses	(4)	11	6
Total nonoperating revenues and expenses	734	469	89
Income (loss) before other revenues, expenses, gains, or losses	2,297	1,106	208
Other revenues, expenses, gains, or losses:			
Additions to permanent endowments	376	384	477
Total other revenues, expenses, gains, or losses	376	384	477
Increase (decrease) in net assets	2,673	1,490	685
Net assets at beginning of year	7,138	5,648	4,963
Net assets at end of year	$ 9,811	$ 7,138	$ 5,648

Revenues

The following is an illustration of revenues by source (both operating and nonoperating), which were used to fund the university's and foundation's activities for the years ended June 30, 2005, June 30, 2004, and June 30, 2003.

REVENUES BY SOURCE – UNIVERSITY
(in thousands of dollars)

	2005	2004	2003
Operating revenue			
Student tuition & fees	$ 23,761	$ 22,721	$ 18,970
Governmental grants & contracts	2,820	4,214	11,643
Auxiliary enterprises	4,712	3,882	3,636
Other operating revenue	2,661	2,241	1,856
Nonoperating revenue			
State appropriation	32,216	30,656	31,156
Other nonoperating revenue	16,653	9,920	1,565
	$ 82,823	$ 73,634	$ 68,826

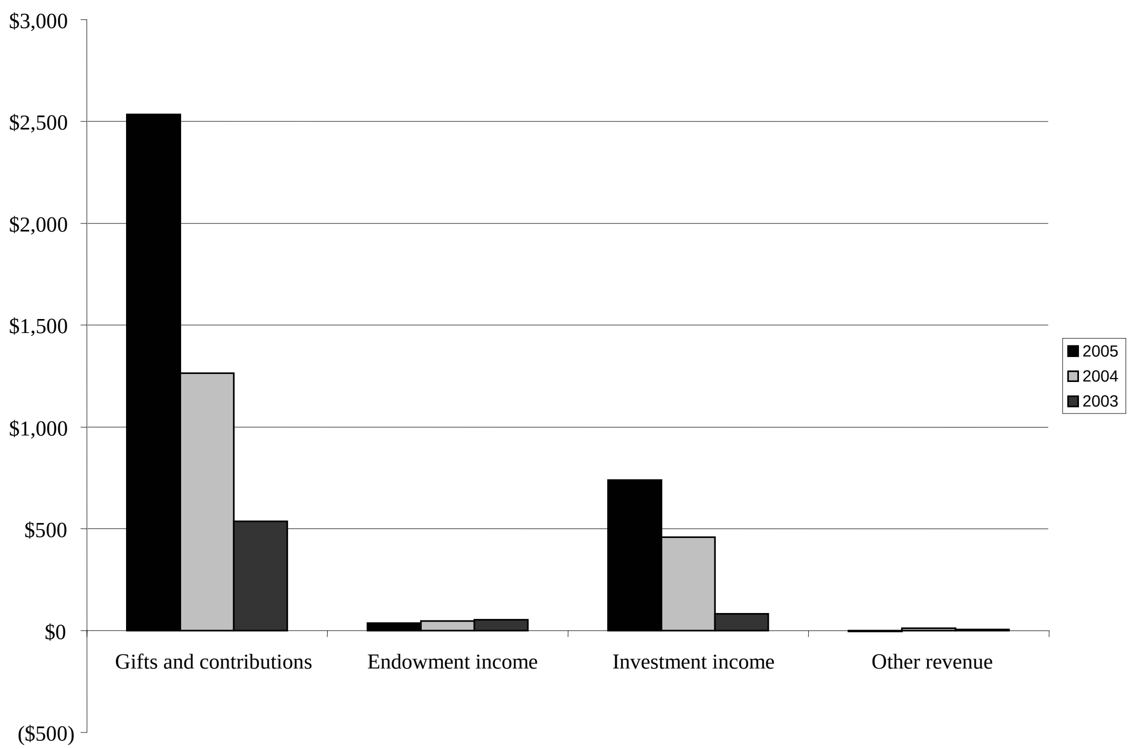


- Total revenues increased by about 12% in 2005 and 7% in 2004. These increases were due to both significant enrollment increases and fee increases.
- The most significant factor in the increase in state appropriation for fiscal year 2005 was a 4% pay increase. The state appropriation declined approximately $500,000 in 2004 due to uncertainty about the state's revenue situation.

- In 2004, student tuition and fees increased from 28% to 31% of the total revenues due to the enrollment and fee increase. However, by 2005, student tuition and fees had declined back to 28%.
- In 2005, governmental grants and contracts declined due to the reclassification of Lottery scholarships and TSAC scholarships to "other nonoperating revenues." Similarly, governmental grants and contracts declined significantly in 2004 because Pell and SEOG were reclassified as nonoperationg revenue in the "other nonoperating revenue" category.

REVENUES BY SOURCE – FOUNDATION
(in thousands of dollars)

	2005	2004	2003
Gifts and contributions	$ 2,535	$ 1,263	$ 537
Endowment income	37	46	52
Investment income	738	458	83
Other revenue	(4)	11	6
	$ 3,306	$ 1,778	$ 678



- Foundation gifts and contributions increased significantly as a result of fund raising campaigns for both fiscal year 2005 and 2004.

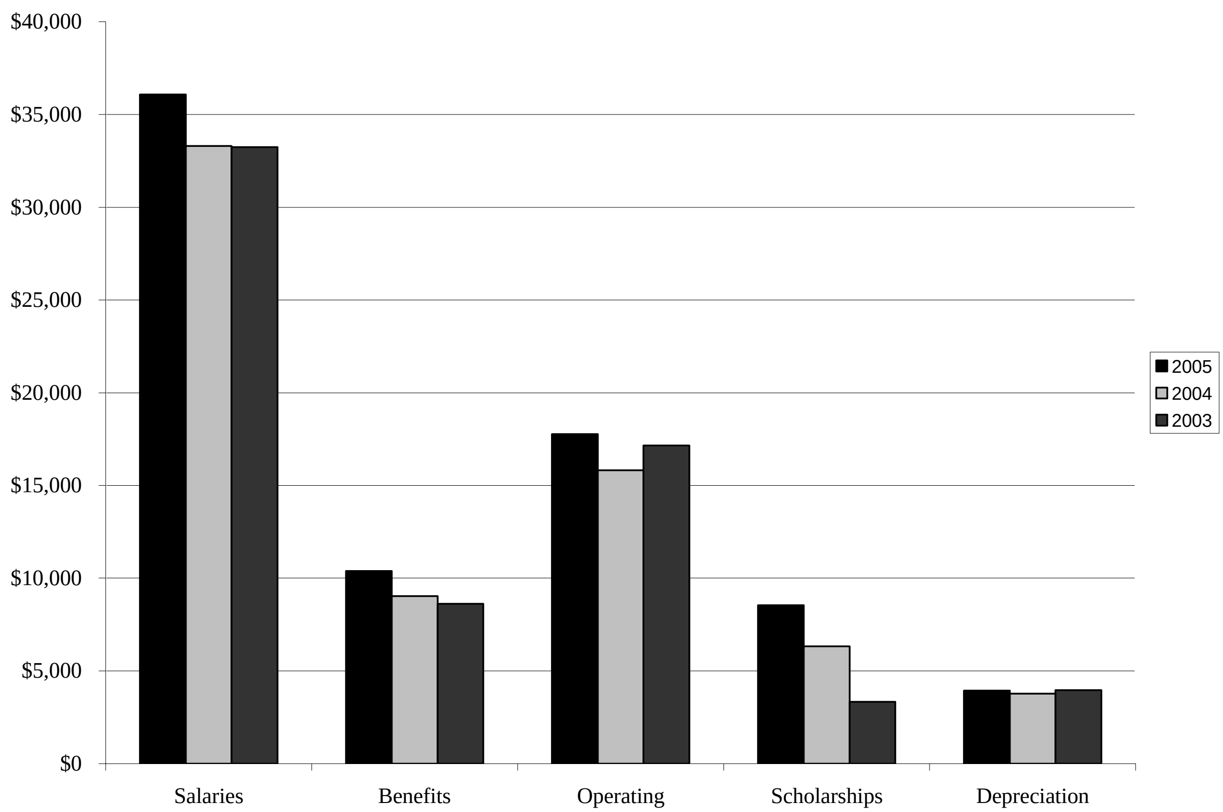
- The significant increase in investment income was primarily due to a larger investment base and improvements in earnings rates for both fiscal year 2005 and 2004.
- In 2005, the “other revenue” reflects the loss on the sale of a parcel of real estate.

Expenses

Operating expenses can be displayed in two formats: natural classification and program classification. Both formats are displayed below.

OPERATING EXPENSES – UNIVERSITY
Natural Classification
(in thousands of dollars)

	2005	2004	2003
Salaries	$ 36,090	$ 33,303	$ 33,244
Benefits	10,385	9,028	8,611
Operating	17,765	15,818	17,164
Scholarships	8,544	6,330	3,338
Depreciation	4,160	3,663	3,959
	$ 76,944	$ 68,142	$ 66,316

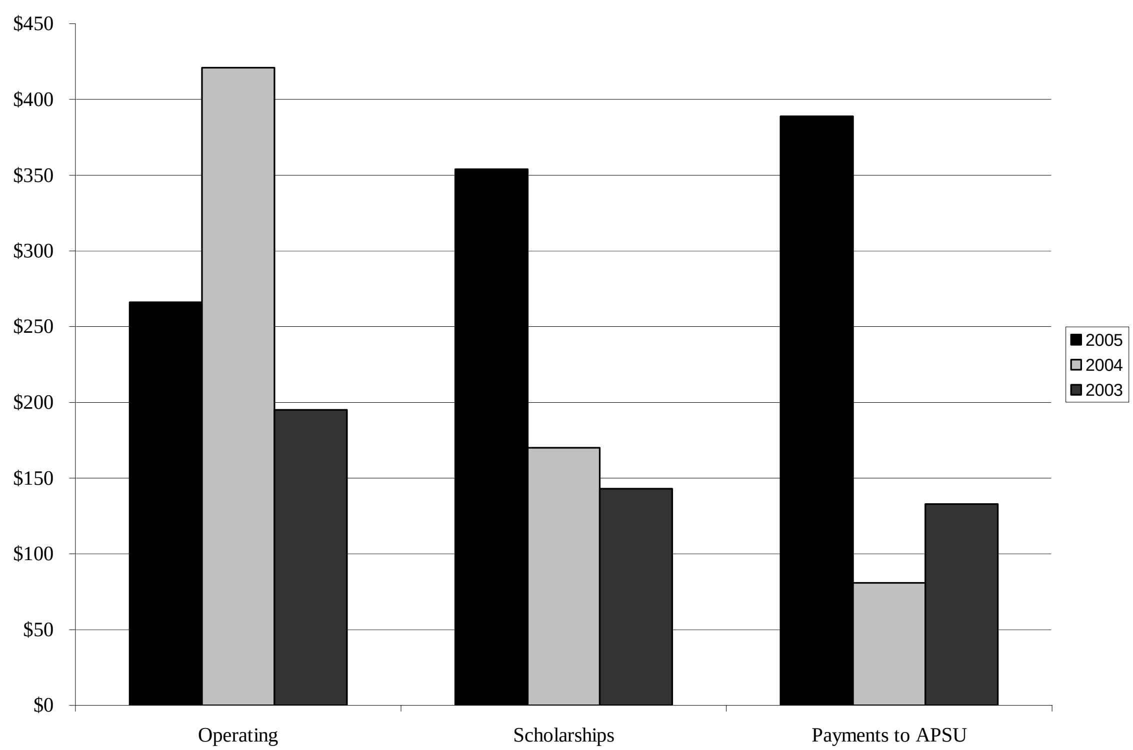


- After no pay increase in 2004, salaries increased in 2005 due to a 4% pay increase from the state. The institution also funded a portion of the equity plan. Benefits increased due to the pay increases and an increase in insurance costs. Benefits increased slightly in 2004 due to an increase in insurance costs.

- Operating expenditures increased in 2005 after some budget reductions in 2004 were restored. The 2004 budget reductions were due to the ongoing concern over the state's financial situation.
- Scholarship expenditures increased in 2005 primarily as a result of the Hope scholarship and in 2004 because there were more funds available as a result of lottery scholarships and a change in allocation for performance based scholarships.

EXPENSES - FOUNDATION
(in thousands of dollars)

	2005	2004	2003
Operating	$ 266	$ 421	$ 195
Scholarships	354	170	143
Payments to APSU	389	81	132
	$ 1,009	$ 672	$ 470

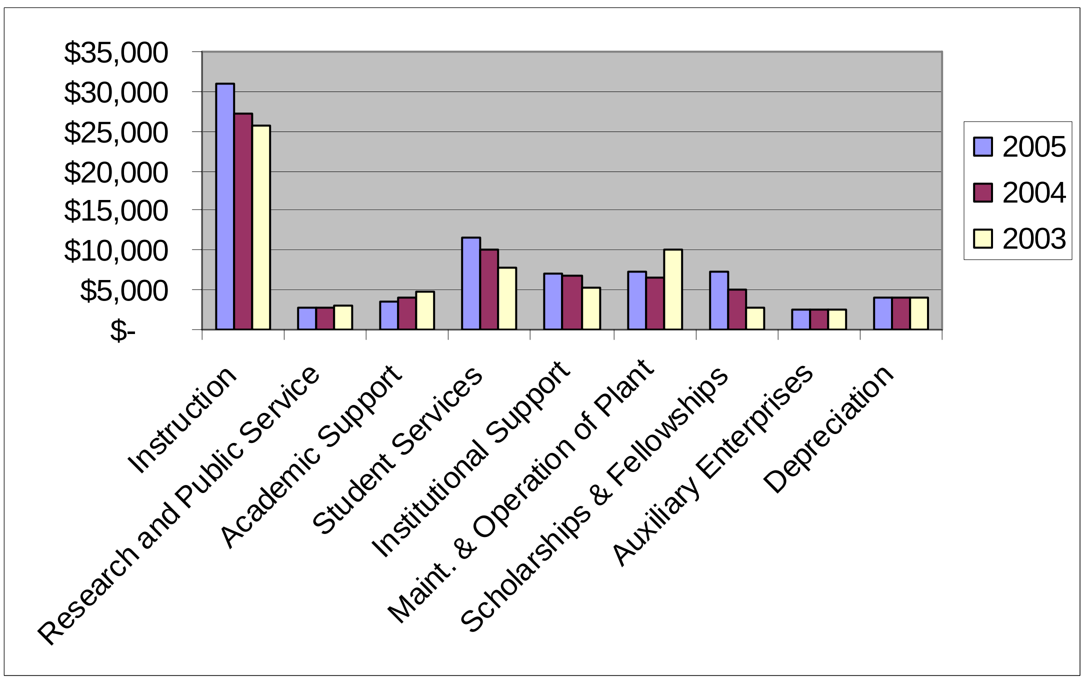


- Operating expenses decreased in 2005 because there were fewer projects. Operating expenses increased in 2004 because of several projects funded by the foundation such as landscaping the new Hand Village residence halls, equipping labs in the Sundquist Science Building, and athletic facility improvements.
- Scholarship expense continued to increase in both fiscal years because more funds became available as a result of fund raising activities.

- The funds transferred to the university increased in 2005. These funds were primarily to pay on the renovation of the Pace Alumni center and athletic facility improvements. The funds transferred to the university decreased in 2004. Fewer funds were needed to pay on the renovation of the Pace Alumni center in 2004.

OPERATING EXPENSES – UNIVERSITY
Program Classification
(in thousands of dollars)

	2005	2004	2003
Instruction	$ 30,848	$ 27,082	$ 25,674
Research and public service	2,846	2,810	3,025
Academic support	3,561	3,907	4,861
Student services	11,538	10,048	7,901
Institutional support	6,975	6,704	5,343
Maintenance & operation of plant	7,206	6,551	10,077
Scholarships & fellowships	7,183	4,975	2,839
Auxiliary enterprises	2,627	2,402	2,637
Depreciation	4,160	3,663	3,959
	$ 76,944	$ 68,142	$ 66,316



- The increase in expenses in the instruction function was the result of salary increases and the necessity to add more resources due to the enrollment increase in 2005.

- The general access fee increased each of the past two years which has made more funds available to be spent in the student services area.
- In 2005, expenditures increased in the scholarship function because more funds were available, primarily due to the Hope scholarship.
- The expenses in maintenance and operation of plant were lower in 2004 because several large locally funded projects were completed early in the year and much of the expense had been charged to the previous year. These included an infrastructure upgrade for the dormitories and the renovation of the Harvill Building for use as a bookstore.
- Funds that had been set aside in the event the state's financial situation resulted in another impoundment of the state appropriation were released late in 2004 for supplies, equipment upgrades, and other improvements. The funds were spent in the student service, instruction, and institutional support functions.
- Some variance in the instruction, academic support, student service, institutional support, and scholarship functions in 2004 was due to a change in the method of allocating the scholarship allowance among the functions.

The Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the university's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

STATEMENTS OF CASH FLOWS – UNIVERSITY
(in thousands of dollars)

	2005	2004	2003
Cash provided (used) by:			
Operating activities	$ (38,066)	$ (30,870)	$ (25,193)
Noncapital financing activities	49,916	39,756	30,172
Capital and related financing activities	(7,011)	(2,078)	(2,591)
Investing activities	(1,259)	499	727
Net increase (decrease) in cash	3,580	7,307	3,115
Cash and cash equivalents, beginning of year	30,277	22,970	19,855
Cash and cash equivalents, end of year	$ 33,857	$ 30,277	$ 22,970

- The change in cash used for operating activities for 2005 was due to increases in the payments to vendors, payments to employees, and payments for scholarships. In 2004, the increase in negative cash flow from operating activities was primarily due to the reclassification of Pell and SEOG revenue to nonoperating. This was also the reason for the increase in positive cash flow for noncapital financing activities. The amount was approximately $8.1 million in 2004.

- In 2005, the most significant factor in the change in noncapital financing activities was the receipt of a major bequest from an estate.
- Changes in capital and related financing activities reflect local spending on capital projects in 2005. The change in investing activities reflects shifting of funds to investment accounts.
- The institution's liquidity improved during the past two fiscal years. For both fiscal years, the main contributing factor was higher tuition and fee revenue than originally planned. For 2004, additional contributing factors included the fact that deployment of troops to Iraq from Fort Campbell did not have the negative impact on enrollment that was anticipated and a spending slowdown due to uncertainty over the state's revenue situation. Planned increases in the plant funds also contributed to the increase in cash and cash equivalents.

STATEMENTS OF CASH FLOWS – FOUNDATION

(in thousands of dollars)

	2005	2004	2003
Cash provided (used) by:			
Operating activities	$ 1,599	$ 812	$ 118
Noncapital financing activities	(11)	40	465
Capital and related financing activities	-	-	6
Investing activities	(908)	(2,231)	56
Net increase (decrease) in cash	680	(1,379)	645
Cash and cash equivalents, beginning of year	1,218	2,597	1,952
Cash and cash equivalents, end of year	$ 1,898	$ 1,218	$ 2,597

- The increase in cash for 2005 was due to successful fund raising activities. Not all of the revenues have been moved to investment accounts.
- The reduction in cash in the foundation for 2004 was the result of equity investments under an investment agreement with Bank of America. This was reflected in the investment activities line for 2004.

Capital Asset and Debt Administration

Capital Assets (in thousands of dollars)

At June 30, 2005, Austin Peay State University had $95,232 invested in capital assets, net of accumulated depreciation. Depreciation charges totaled $4,160 for fiscal year 2005, $3,663 for fiscal year 2004, and $3,959 for fiscal year 2003. Details of these assets are shown below.

SCHEDULES OF CAPITAL ASSETS, NET OF DEPRECIATION
(in thousands of dollars)

	2005	2004	2003
Land	$ 3,503	$ 3,225	$ 2,962
Land improvements and infrastructure	4,581	4,057	1,176
Buildings	78,864	81,381	70,197
Equipment	2,036	1,885	2,505
Library holdings	2,781	2,474	2,363
Projects in progress	3,467	1,095	15,066
	$ 95,232	$ 94,117	$ 94,269

During the past year, two major projects were started. The renovation of the McCord Building will cost $7,270,000 and will be funded by state appropriations. The New Student Recreation Center will cost $10,800,000 and will be funded by student fees and private gifts.

Another project started in 2005 was the construction of a soccer field. This project will cost about $300,000 and be funded by private gifts.

The replacement of the stadium turf and track was completed in 2005 at a cost of approximately $800,000 from plant funds. Other improvements to the athletic facilities costing about $400,000 were completed.

During 2004, construction was completed on two major projects. The Hand Village student apartments have 300 beds and cost approximately $10,000,000. The new family housing units added 16 apartments and cost approximately $2,300,000. Funds for both of these projects came from auxiliary revenue.

Several other projects were completed during 2004. A dormitory infrastructure upgrade cost approximately $1,500,000 and was funded by auxiliary revenue. A project involving reroofing several buildings cost approximately $1,000,000 and was funded by state appropriations. The old Harvill Cafeteria was renovated for use as a bookstore at a cost of approximately $800,000 from auxiliary revenue. A Dunn Center brick replacement project cost $880,000 from state appropriations.

More detailed information about the university's capital assets is presented in Note 7 to the financial statements.

Debt

At June 30, 2005, the university had $30,487,000 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

SCHEDULES OF DEBT
(in thousands of dollars)

	2005	2004	2003
Commercial paper	$ 1,523	$ 1,344	$ 11,802
Bonds	28,964	29,469	17,082
Notes	-	46	91
	$ 30,487	$ 30,859	$ 28,975

In fiscal year 2005, commercial paper increased slightly as new projects were started. In 2004, approximately $10,000,000 of commercial paper was replaced by bonds on projects completed. Fitch, Moody's Investors Service, and Standard & Poor have rated the bonds AA, Aa3, and AA respectively. In 2004, the commercial paper was rated P-1 and A-1+ by Fitch and Moody's Investors Service, respectively.

More detailed information about the university's long-term liabilities is presented in Note 8 to the financial statements.

Economic Factors That Will Affect the Future

The state's financial situation continues to be a major concern. The Tennessee Board of Regents approved a 9% fee increase to primarily offset inflationary costs and some salary improvements. There does not appear to be any improvement in state appropriations likely in the immediate future.

The enrollment outlook is good. Main campus enrollment should continue to increase. Enrollment at the Fort Campbell Center will fluctuate as troops move in and out of the base. Overall, we are expecting a gradual increase in enrollment to a level that will maximize the use of all campus resources.

Requests for Information

This financial report is designed to provide a general overview of the university's finances for all those with an interest in the university's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed to Mitch Robinson, Vice President for Finance and Administration, APSU, Box 4635, Clarksville, TN 37044.

Exhibit A

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2005, AND JUNE 30, 2004

	Austin Peay State University		Component Unit - APSU Foundation	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 20)	$ 9,737,947.21	$ 9,765,866.23	$ 1,897,483.01	$ 1,218,220.82
Short-term investments (Notes 3, 4, and 20)	1,015,602.37	1,000,000.00	100,400.00	28,400.00
Accounts, notes, and grants receivable (net) (Note 5)	3,355,419.63	3,108,768.12	28,400.00	3,510.73
Pledges receivable (net) (Notes 6 and 20)	5,236.00	25,655.00	70,375.00	17,196.00
Inventories	185,014.87	173,990.42	-	-
Prepaid expenses and deferred charges	284,082.56	453,412.95	130.00	-
Accrued interest receivable	59,142.57	90,322.55	22,953.44	130.00
Other assets	-	-	-	18,387.80
Total current assets	14,642,445.21	14,618,015.27	2,119,741.45	1,285,845.35
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 20)	24,118,562.37	20,511,392.23	-	-
Investments (Notes 3, 4, and 20)	4,747,066.07	2,346,995.00	6,999,844.83	5,407,158.91
Accounts, notes, and grants receivable (net) (Note 5)	1,382,353.39	1,376,787.38	-	-
Pledges receivable (net) (Note 20)	-	-	375,614.00	105,883.40
Capital assets (net) (Notes 7 and 20)	95,232,039.61	94,117,341.38	239,375.00	271,562.50
Other assets	-	-	77,173.54	67,558.94
Total noncurrent assets	125,480,021.44	118,352,515.99	7,692,007.37	5,852,163.75
Total assets	140,122,466.65	132,970,531.26	9,811,748.82	7,138,009.10
LIABILITIES				
Current liabilities:				
Accounts payable	1,510,034.64	1,119,199.22	648.32	373.00
Accrued liabilities	1,751,169.65	1,715,447.23	-	-
Student deposits	153,080.00	167,880.00	-	-
Deferred revenue	1,892,858.14	1,431,727.70	-	-
Compensated absences (Note 8)	427,390.32	387,304.08	-	-
Accrued interest payable	236,319.45	319,734.14	-	-
Long-term liabilities, current portion (Note 8)	655,823.25	753,376.34	-	-
Deposits held in custody for others	151,141.68	141,840.34	-	-
Due to grantors (Note 8)	-	112,423.47	-	-
Other liabilities	414,054.20	248,300.89	-	-
Total current liabilities	7,191,871.33	6,397,233.41	648.32	373.00
Noncurrent liabilities:				
Compensated absences (Note 8)	997,244.08	990,699.37	-	-
Long-term liabilities (Note 8)	29,831,697.26	30,105,376.53	-	-
Due to grantors (Note 8)	950,820.11	1,199,140.23	-	-
Total noncurrent liabilities	31,779,761.45	32,295,216.13	-	-
Total liabilities	38,971,632.78	38,692,449.54	648.32	373.00
NET ASSETS				
Invested in capital assets, net of related debt	64,744,519.10	63,258,588.51	239,375.00	271,562.50
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	5,618,946.89	3,150,203.93	3,805,779.06	2,863,207.17
Other	-	-	345,048.44	305,055.29
Expendable:				
Scholarships and fellowships	943,715.53	795,026.77	3,719,309.10	1,660,363.17
Research	335,435.36	286,839.79	48.47	48.47
Instructional department uses	152,375.96	172,025.12	81,261.47	79,447.93
Loans	635,541.26	484,947.40	-	-
Debt service	183,927.84	38,876.47	-	-
Other	814,203.37	915,969.30	1,172,750.44	1,342,513.25
Unrestricted (Note 10)	27,722,168.56	25,175,604.43	447,528.52	615,438.32
Total net assets	$ 101,150,833.87	$ 94,278,081.72	$ 9,811,100.50	$ 7,137,636.10

The notes to the financial statements are an integral part of this statement.

Exhibit B

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005, AND JUNE 30, 2004

	Austin Peay State University		Component Unit - APSU Foundation	
	Year Ended June 30, 2005	Year Ended June 30, 2004	Year Ended June 30, 2005	Year Ended June 30, 2004
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $10,250,485.00 for the year ended June 30, 2005, and $6,951,104.00 for the year ended June 30, 2004)	$ 23,761,138.52	$ 22,720,557.25	$ -	$ -
Gifts and contributions	-	-	2,535,236.43	1,263,197.43
Endowment income	-	-	36,678.13	46,055.82
Governmental grants and contracts	2,818,233.90	4,213,911.96	-	-
Nongovernmental grants and contracts	1,268.58	-	-	-
Sales and services of educational departments	1,814,240.23	1,803,132.58	-	-
Auxiliary enterprises:				
Residential life (net of scholarship allowances of $128,401.00 for the year ended June 30, 2005; $111,023.00 for the year ended June 30, 2004)	4,215,497.64	3,425,692.31	-	-
Bookstore	213,068.00	186,215.92	-	-
Food service	232,705.07	218,008.23	-	-
Other auxiliaries	50,482.86	52,232.56	-	-
Other operating revenues	846,859.31	438,346.79	-	-
Total operating revenues	33,953,494.11	33,058,097.60	2,571,914.56	1,309,253.25
EXPENSES				
Operating expenses (Note 17):				
Salaries and wages	36,089,911.45	33,303,497.54	-	-
Benefits	10,384,658.94	9,027,661.01	-	-
Utilities, supplies, and other services	17,765,449.84	15,817,684.39	266,298.14	420,874.66
Scholarships and fellowships	8,544,372.02	6,330,313.61	353,864.76	170,063.00
Depreciation expense	4,158,994.62	3,663,241.90	-	-
Payments to or on behalf of Austin Peay State University	-	-	388,543.68	81,066.43
Total operating expenses	76,943,386.87	68,142,398.45	1,008,706.58	672,004.09
Operating income (loss)	(42,989,892.76)	(35,084,300.85)	1,563,207.98	637,249.16
NONOPERATING REVENUES (EXPENSES)				
State appropriations	32,215,500.00	30,656,367.40	-	-
Gifts (university gifts include $388,543.68 from component unit in FY 2005 and $81,066.43 from component unit in FY 2004)	648,219.56	1,060,892.72	-	-
Grants and contracts	14,879,428.47	8,128,063.61	-	-
Investment income	1,125,458.90	731,307.89	738,403.86	457,574.88
Interest on capital asset-related debt	(1,566,126.17)	(1,254,909.66)	-	-
Other nonoperating revenues (expenses)	(774,596.50)	(270,612.53)	(3,646.38)	10,761.15
Net nonoperating revenues	46,527,884.26	39,051,109.43	734,757.48	468,336.03
Income (loss) before other revenues, expenses, gains, or losses	3,537,991.50	3,966,808.58	2,297,965.46	1,105,585.19
Capital appropriations	1,275,618.54	1,445,350.23	-	-
Other capital	(218,050.46)	(372,117.85)	-	-
Additions to permanent endowments	2,277,192.27	79,439.76	375,498.94	383,676.62
Total other revenues	3,334,760.35	1,152,672.14	375,498.94	383,676.62
Increase in net assets	6,872,751.85	5,119,480.72	2,673,464.40	1,489,261.81
NET ASSETS				
Net assets - beginning of year	94,278,081.72	89,139,014.64	7,137,636.10	5,648,374.29
Prior period adjustment (Note 18)	-	19,586.36	-	-
Net assets - end of year	$ 101,150,833.57	$ 94,278,081.72	$ 9,811,100.50	$ 7,137,636.10

The notes to the financial statements are an integral part of this statement.

Exhibit C

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004

	Year Ended June 30, 2005	Year Ended June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 24,262,920.59	$ 22,634,176.53
Grants and contracts	2,655,240.92	4,424,149.79
Sales and services of educational activities	1,807,490.85	1,792,412.12
Payments to suppliers and vendors	(17,206,082.01)	(15,432,096.30)
Payments to employees	(36,041,315.08)	(33,335,267.21)
Payments for benefits	(10,286,912.12)	(9,028,127.17)
Payments for scholarships and fellowships	(8,544,372.02)	(6,330,313.61)
Loans issued to students and employees	(550,752.91)	(478,924.45)
Collection of loans from students and employees	538,325.55	499,122.27
Auxiliary enterprise charges:		
Residence halls	4,113,147.52	3,484,429.95
Bookstore	211,740.97	261,400.24
Food services	194,563.33	189,673.80
Other auxiliaries	50,482.94	52,232.56
Other receipts (payments)	729,452.89	397,225.33
Net cash used by operating activities	(38,066,068.58)	(30,869,906.15)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	32,220,800.00	30,704,400.00
Gifts and grants received for other than capital purposes, including $388,543.68 from component unit for FY 2005 and $81,066.43 from component unit for FY 2004)	15,408,554.84	8,977,093.15
Private gifts for endowment purposes	2,277,192.27	79,439.76
Federal student loan receipts	28,491,648.67	25,668,502.52
Federal student loan disbursements	(28,491,648.67)	(25,668,502.52)
Changes in deposits held for others	9,301.34	(4,935.18)
Net cash provided by noncapital financing activities	49,915,848.45	39,755,997.73
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	2,744,551.85	16,709,549.47
Capital appropriations	1,275,618.54	1,445,350.23
Purchases of capital assets and construction	(5,162,967.25)	(3,615,722.84)
Principal paid on capital debt and leases	(3,115,784.21)	(14,825,728.38)
Interest paid on capital debt and leases	(1,649,540.86)	(1,148,580.06)
Other capital and related financing receipts (payments)	(1,103,372.26)	(642,730.38)
Net cash provided (used) by capital and related financing activities	(7,011,494.19)	(2,077,861.96)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,000,000.00	1,500,000.00
Income on investments	990,494.63	500,554.21
Purchase of investments	(1,015,602.37)	(1,500,000.00)
Other investing receipts (payments)	(2,233,926.82)	(1,798.92)
Net cash provided by investing activities	(1,259,034.56)	498,755.29
Net increase in cash	3,579,251.12	7,306,984.91
Cash and cash equivalents - beginning of year	30,277,258.46	22,970,273.55
Cash and cash equivalents - end of year	$ 33,856,509.58	$ 30,277,258.46

Exhibit C (Cont.)

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004

	Year Ended June 30, 2005	Year Ended June 30, 2004
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (42,989,892.76)	$ (35,084,300.85)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	4,158,994.62	3,663,241.90
Gifts in-kind	113,857.19	186,208.18
Gifts receivables	5,236.00	25,655.00
Change in assets and liabilities:		
Receivables, net	(237,098.52)	197,151.02
Inventories	(11,024.45)	(14,606.74)
Prepaid expenses and deferred revenue	169,330.39	57,692.98
Accounts payable	390,835.42	263,953.01
Accrued liabilities	(159,267.86)	25,886.80
Deferred revenue	461,130.44	(136,180.39)
Deposits	(14,800.00)	36,040.00
Due to grantors	-	(41,121.46)
Compensated absences	46,630.95	(49,525.60)
Net cash used by operating activities	$ (38,066,068.58)	$ (30,869,906.15)
Non-cash transactions		
Gifts in-kind	$ 113,857.19	$ 186,208.18
Unrealized gains on investments	$ 162,803.84	$ 279,919.55
Gift pledges	$ 5,236.00	$ 25,655.00

The notes to the financial statements are an integral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The university is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

The Austin Peay State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 20 for more detailed information about the component unit and how to obtain the foundation's report.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities* and in May 2002 by GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*. The financial statement presentation required by those statements provides a comprehensive, entity-wide perspective of the university, including component units, assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

Basis of Accounting

For financial statement purposes, the university is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The university has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The university has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) certain federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the university include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; (5) certain grants and contracts; and (6) gifts and nonexchange transactions.

When both restricted and unrestricted resources are available for use, generally it is the university's policy to use the restricted resources first.

Cash and Cash Equivalents

This classification includes short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less.

Inventories

Inventories are valued at the lower of cost or market.

Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and software, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of $100,000 is used for buildings, and $50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is $5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at $50,000. The capitalization threshold for software is set at $100,000. These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Net Assets

The university's net assets are classified as follows:

Invested in capital assets, net of related debt - This represents the university's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Nonexpendable restricted net assets - Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

Expendable restricted net assets - Expendable restricted net assets include resources which the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets - Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university, and may be used at the discretion of the university to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

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 are the difference between the stated charge for goods and services provided by the university and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the university's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the university has recorded a scholarship discount and allowance.

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2005, cash consisted of $1,857,696.16 in bank accounts, $14,469.00 of petty cash on hand, $31,432,740.91 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $551,603.51 in LGIP deposits for capital projects. At June 30, 2004, cash consisted of $660,874.97 in bank accounts, $14,630.00 of petty cash on hand, $29,547,176.18 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $54,577.31 in LGIP deposits for capital projects.

LGIP deposits for capital projects - Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

NOTE 3. DEPOSITS

During the year ended June 30, 2005, the university implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. That statement modified the custodial credit risk disclosures of GASB Statement 3 to limit required disclosures to deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the university's name.

Some of the university's deposits are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2005, the carrying amount of the university's deposits in financial institutions participating in the collateral pool was $2,873,298.53, and the bank balance including accrued interest was $3,987,701.41. The bank balance was insured. At June 30, 2004, the carrying amount of the university's deposits in financial institutions participating in the collateral pool was $1,160,874.97, and the bank balance including accrued interest was $2,689,196.40. The bank balance was insured.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

At June 30, 2005, the carrying amount of the university's deposits was $2,899,002.99, and the bank balance including accrued interest was $4,013,405.87. Of the bank balance, none was uninsured and uncollateralized, uninsured and collateralized with securities held by the pledging financial institution, or uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the university's name.

For the year ended June 30, 2004, deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the university. Category 1 consists of deposits that are insured or collateralized with securities held by the university or by its agent in the university's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the university's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the university's name.

At June 30, 2004, the carrying amount of the university's deposits was $1,685,971.21, and the bank balance including accrued interest was $3,217,414.56. Of the bank balance, $3,217,414.56 was category 1.

The university also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and required risk disclosures are presented in the *Tennessee Comprehensive Annual Financial Report.* That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 4. INVESTMENTS

During the year ended June 30, 2005, the university implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. That statement modified the custodial credit risk disclosures of GASB Statement 3 to limit required disclosures to investment securities that are uninsured, are not registered in the name of the university, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the university's name.

All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the custodial credit risk.

At June 30, 2005, the university had the following investments and maturities.

			Investment Maturities (in Years)		
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
United States Treasury Bonds	$ 262,499.75	$ -	$ 56,427.72	$ 48,147.27	$ 157,924.76
Federal Home Loan Mortgage Corp	144,739.94	-	119,659.65	-	25,080.29
Federal National Mortgage Assoc	79,306.94	-	55,615.28	-	23,691.66
Corporate Bonds	372,223.83	-	208,804.08	163,419.75	-
Domestic Equities	1,280,999.25	-	-	-	1,280,999.25
International Equities	25,788.00	-	-	-	25,788.00
Money Market Mutual Funds	74,945.25	74,945.25	-	-	-
Mutual Funds (Common Fund)	2,480,858.65	-	-	-	2,480,858.65
Certificates of Deposit	1,041,306.83	504,962.33	536,344.50	-	-
Total	$ 5,762,668.44	$ 579,907.58	$ 976,851.23	$ 211,567.02	$ 3,994,342.61

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The university does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk - The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool (LGIP). The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. The university has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. At June 30, 2005, the university's investments were rated as follows by nationally recognized statistical rating organizations:

Investment Type	Moody's	Standard and Poor's	Fitch	Fair Value
LGIP	unrated	unrated	unrated	$ 31,432,740.91
Federal Home Loan Mortgage Corp	Aaa	AAA	n/a	$ 144,739.94
Federal National Mortgage Assoc	Aaa	AAA	n/a	$ 79,306.94
Corporate Bonds	Aaa	AAA	n/a	$ 17,552.67
Corporate Bonds	Aa1	AA-	n/a	$ 7,867.76
Corporate Bonds	Aa2	A+	n/a	$ 7,723.03
Corporate Bonds	Aa2	AA-	n/a	$ 8,455.12
Corporate Bonds	Aa3	A+	n/a	$ 41,235.34
Corporate Bonds	Aa3	AA-	n/a	$ 8,004.80
Corporate Bonds	A1	AA-	n/a	$ 17,427.38
Corporate Bonds	A1	A+	n/a	$ 16,734.80
Corporate Bonds	A1	A	n/a	$ 33,013.51
Corporate Bonds	A2	A+	n/a	$ 33,581.67
Corporate Bonds	A2	A	n/a	$ 66,244.36
Corporate Bonds	A2	A-	n/a	$ 17,058.14
Corporate Bonds	A3	A	n/a	$ 25,057.32
Corporate Bonds	A3	BBB	n/a	$ 8,657.68
Corporate Bonds	Baa1	BBB	n/a	$ 31,304.07
Corporate Bonds	Baa2	A	n/a	$ 8,387.05
Corporate Bonds	Baa2	BBB	n/a	$ 23,919.13
Mutual Funds (Common Fund)	unrated	unrated	unrated	$ 2,480,858.65

Custodial credit risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The university does not have a policy for custodial credit risk. At June 30, 2005, the university had no uninsured and unregistered investments.

Concentration of credit risk - The university places no limit on the amount the university may invest in any one issuer. At June 30, 2005, the university did not have more than 5% invested in any single issuer.

Foreign currency risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The university places no limit on the amount the university may invest in foreign currency. At June 30, 2005, the university's exposure to foreign currency risk is as follows:

Investment	Currency	Maturity	Fair Value
BP PLC	British Pound	n/a	$ 12,476.00
Nokia Corp	Euro (Finland)	n/a	$ 13,312.00

The university's investments at June 30, 2004, are categorized below to indicate the level of risk assumed by the university at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university or its agent in the university's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's/counterparties' trust department or agent in the university's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the university's name.

Investments not susceptible to credit risk categorization:	
Mutual funds	$ 2,321,898.76
Certificates of deposit classified as investments	1,025,096.24
Total	$ 3,346,995.00

Investments of the university's endowment and similar funds are composed of the following:

	Carrying Value June 30, 2005	Carrying Value June 30, 2004
Mutual funds	$ 2,480,858.65	$ 2,321,898.76

The investments of endowment and similar funds are composed of two mutual funds managed by the Common Fund. Assets of endowments are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit market value at the beginning of the month within which the transaction takes place. There are a total of 10,687.213 units in the Market-Strategy Equity Fund, each having a market value of $156.56 at June 30, 2005. There are a total of 60,910.149 units in the Multi-Strategy Bond Fund, each having a market value of $13.26 at June 30, 2005. Of the total units at June 30, 2004, each having a fair value of $33.05; 95,455.323 units were owned by endowments.

The following tabulations summarize changes in relationships between cost and fair values of the pooled assets:

FY 2005

	Pooled Assets		Net Gains	Fair Value
	Fair Value	Cost	(Losses)	Per Unit
Multi-Strategy Equity Fund				
End of year	$1,673,190.07	$1,080,000.00	$ 593,190.07	$156.56
Beginning of year	$1,550,286.29	$1,080,000.00	470,286.29	144.48
			$ 122,903.78	$ 12.08
Multi-Strategy Equity Fund				
End of year	$807,668.58	$720,000.00	$ 87,668.58	$13.26
Beginning of year	$771,612.47	$720,000.00	51,612.47	12.63
			$ 36,056.11	$ .63
Unrealized net gains			$ 158,959.89	

There were no purchases or disposals during the year. The income was distributed to the university. The average annual earnings per unit, exclusive of net gains, were $2.342 for the Multi-Strategy Equity Fund and $0.522 for the Multi-Strategy Bond Fund for the year.

FY 2004	Pooled Assets		Net Gains	Fair Value
	Fair Value	Cost	(Losses)	Per Unit
End of year	$2,321,898.76	$1,800,000.00	$ 521,898.76	$33.05
Beginning of year	$2,041,979.21	$1,800,000.00	241,979.21	28.34
				$ 4.71
Unrealized net gains			$ 279,919.55	

The average annual earnings per unit, exclusive of net gains, were $0.69 for the year.

NOTE 5. RECEIVABLES

Receivables included the following:

	June 30, 2005	June 30, 2004
Student accounts receivable	$ 2,950,686.49	$ 2,987,620.72
Grants receivable	588,584.93	321,479.59
Notes receivable	50,724.93	43,863.58
State appropriation receivable	96,600.00	101,900.00
Other receivables	222,413.80	159,081.86

Subtotal	3,909,010.15	3,613,945.75
Less allowance for doubtful accounts	(553,590.52)	(505,177.63)
Total receivables	$ 3,355,419.63	$ 3,108,768.12

Federal Perkins Loan Program funds included the following:

	June 30, 2005	June 30, 2004
Perkins loans receivable	$ 1,602,153.62	$ 1,659,567.81
Less allowance for doubtful accounts	(219,800.23)	(282,780.43)
Total	$ 1,382,353.39	$ 1,376,787.38

NOTE 6. PLEDGES RECEIVABLE

Pledges receivable are promises of private donations that are reported as a receivable and revenue, net of the estimated uncollectible allowance of $13,991.73 at June 30, 2005, and $38,921.73 at June 30, 2004.

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 3,225,315.69	$ 277,610.02	$ -	$ -	$ 3,502,925.71
Land improvements and infrastructure	7,738,420.38	892,714.91	-	-	8,631,135.29
Buildings	119,279,280.57	550,930.82	-	115,932.94	119,714,278.45
Equipment	8,620,796.27	1,409,867.16	-	577,246.14	9,453,417.29
Library holdings	5,134,137.08	867,919.19	-	404,095.98	5,597,960.29
Projects in progress	1,095,449.00	2,371,925.81	-	-	3,467,374.81
Total	145,093,398.99	6,370,967.91	-	1,097,275.06	150,367,091.84
Less accum. depreciation:					
Land improvements and infrastructure	3,681,532.44	368,711.40	-	-	4,050,243.84
Buildings	37,897,812.52	3,040,918.50	-	88,409.97	40,850,321.05
Equipment	6,735,885.31	739,937.91	-	57,863.31	7,417,959.91
Library holdings	2,660,827.34	559,796.07	-	404,095.98	2,816,527.43
Total accum. depreciation	50,976,057.61	4,709,363.88	-	550,369.26	55,135,052.23
Capital assets, net	$ 94,117,341.38	$ 1,661,604.03	$ -	$ 546,905.80	$ 95,232,039.61

Capital asset activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 3,079,566.61	$ 145,749.08	$ -	$ -	$ 3,225,315.69
Land improvements and infrastructure	4,577,658.72	74,795.26	3,085,966.40	-	7,738,420.38
Buildings	104,965,910.23	3,328,519.68	10,984,850.66	-	119,279,280.57
Equipment	8,826,156.94	509,987.67	-	715,348.34	8,620,796.27
Library holdings	4,905,690.04	623,928.68	-	395,481.64	5,134,137.08
Projects in progress	15,122,693.61	43,572.45	(14,070,817.06)	-	1,095,449.00
Total	141,477,676.15	4,726,552.82	-	1,110,829.98	145,093,398.99
Less accum. depreciation:					
Land improvements and infrastructure	3,401,912.05	279,620.39	-	-	3,681,532.44
Buildings	34,783,622.80	3,114,189.72	-	-	37,897,812.52
Equipment	6,584,385.59	317,772.82	-	166,273.10	6,735,885.31
Library holdings	2,542,895.28	513,413.70	-	395,481.64	2,660,827.34
Total accum. depreciation	47,312,815.72	4,224,996.63	-	561,754.74	50,976,057.61
Capital assets, net	$ 94,164,860.43	$ 501,556.19	$ -	$ 549,075.24	$ 94,117,341.38

NOTE 8. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$ 46,160.50	$ -	$ 46,160.50	$ -	$ -
Bonds	29,469,170.09	2,413,044.76	2,917,796.42	28,964,418.43	655,823.25
Commercial paper	1,343,422.28	304,679.80	125,000.00	1,523,102.08	-
Subtotal	30,858,752.87	2,717,724.56	3,088,956.92	30,487,520.51	655,823.25
Other liabilities:					
Compensated absences	1,378,003.45	971,404.89	924,773.94	1,424,634.40	427,390.32
Due to grantors	1,311,563.70	-	360,743.59	950,820.11	-
Subtotal	2,689,567.15	971,404.89	1,285,517.53	2,375,454.51	427,390.32
Total long-term liabilities	$ 33,548,320.02	$ 3,689,129.45	$ 4,374,474.45	$ 32,862,975.02	$ 1,083,213.57

Long-term liabilities activity for the year ended June 30, 2004, was as follows:

		Beginning Balance		Additions		Reductions		Ending Balance		Current Portion
Payables:										
Notes	$	91,169.96	$	-	$	45,009.46	$	46,160.50	$	46,160.50
Bonds		17,082,311.94		14,300,465.48		1,913,607.33		29,469,170.09		707,215.84
Commercial paper		11,801,449.88		2,409,083.99		12,867,111.59		1,343,422.28		-
Subtotal		28,974,931.78		16,709,549.47		14,825,728.38		30,858,752.87		753,376.34
Other liabilities:										
Compensated absences		1,427,529.05		1,023,754.27		1,073,279.87		1,378,003.45		387,304.08
Due to grantors		1,484,694.99		-		173,131.29		1,311,563.70		112,423.47
Subtotal		2,912,224.04		1,023,754.27		1,246,411.16		2,689,567.15		499,727.55
Total long-term liabilities	$	31,887,155.82	$	17,733,303.74	$	16,072,139.54	$	33,548,320.02	$	1,253,103.89

Notes Payable

The Tennessee Board of Regents, on behalf of the university, borrowed funds to purchase Two Rivers Apartments. The note bore an annually adjusted interest rate that was no less than 3.5% or greater than 7.5%, a face amount of $420,977, and matured on August 1, 2005. The balance owed by the university was $46,160.50 at June 30, 2004.

Bonds Payable

Bond issues, with interest rates ranging from 4% to 6.75% for Tennessee State School Bond Authority bonds, are due serially to May 2034 and are secured by pledges of the facilities’ revenues to which they relate and certain other revenues and fees of the university, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority reported on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $275,513.42 at June 30, 2005, and $364,803.34 at June 30, 2004. Unexpended debt proceeds were $6,763.45 at June 30, 2005, and $243,249.29 at June 30, 2004.

Debt service requirements to maturity for bonds payable at June 30, 2005, are as follows:

Year Ending June 30		Principal		Interest		Total
2006	$	655,823.25	$	1,344,083.91	$	1,999,907.16
2007		792,452.11		1,321,563.17		2,114,015.28
2008		822,040.51		1,293,596.32		2,115,636.83

2009	853,733.17	1,262,989.42	2,116,722.59
2010	886,704.22	1,231,051.74	2,117,755.96
2011-2015	4,340,111.17	5,536,937.09	9,877,048.26
2016-2020	4,241,188.25	4,525,271.80	8,766,460.05
2021-2025	5,171,783.47	3,435,220.69	8,607,004.16
2026-2030	6,588,832.46	2,075,277.38	8,664,109.84
2031-2034	4,611,749.82	458,645.12	5,070,394.94
	$ 28,964,418.43	$ 22,484,636.64	$ 51,449,055.07

Commercial Paper

The Tennessee State School Bond Authority also authorized the issuance of commercial paper to finance the costs of various capital projects. The amount issued for projects at the university was $1,523,102.08 at June 30, 2005, and $1,343,422.28 at June 30, 2004.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The university contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the university when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

NOTE 9. ENDOWMENTS

If a donor has not provided specific instructions to the university, state law permits the university to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the university is required to consider the university’s long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation spent is required to be spent for the purposes for which the endowment was established.

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, all investment earnings have been authorized for expenditure. At June 30, 2005, net appreciation of $75,733.58 is available to be spent, of which

$75,733.58 is restricted to specific purposes. At June 30, 2004, net appreciation of $58,872.84 was available to be spent, of which $58,872.84 was restricted to specific purposes.

NOTE 10. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated or reserved for specific purposes. The unrestricted net assets are composed of the following:

	June 30, 2005	June 30, 2004
Working capital	$ 2,630,268.79	$ 2,702,981.27
Encumbrances	1,704,112.16	2,046,500.71
Designated fees	993,639.10	1,102,964.41
Auxiliaries	282,372.36	346,566.40
Plant construction	6,967,629.26	3,246,344.31
Renewal and replacement of equipment	13,496,550.36	14,052,304.19
Unreserved/undesignated	1,647,596.53	1,677,943.14
Total	$ 27,722,168.56	$ 25,175,604.43

NOTE 11. PENSION PLANS

A. Defined Benefit Plans

1. Tennessee Consolidated Retirement System

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the

Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 10.54% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2005, 2004, and 2003 were $1,454,717.54, $961,831.06, and $1,004,576.83. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was $1,720,246.78 for the year ended June 30, 2005, and $1,566,093.54 for the year ended June 30, 2004. Contributions met the requirements for each year.

NOTE 12. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 13. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The Risk Management Fund is also responsible for claims for damages to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $7.5 million. In the past three fiscal years, the state had no claims filed with the commercial insurer.

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2005, and June 30, 2004, are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and

Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated,* Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2005, the Risk Management Fund held $114.4 million in cash and cash equivalents designated for payment of claims. At June 30, 2004, the Risk Management fund held $101.1 million in cash and cash equivalents designated for payment of claims.

At June 30, 2005, the scheduled coverage for the university was $170,730,300 for buildings and $29,934,900 for contents. At June 30, 2004, the scheduled coverage for the university was $168,707,425 for buildings and $28,116,360 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $11,335,718.48 at June 30, 2005, and $10,990,647.28 at June 30, 2004.

Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $15,000 for the year ended

June 30, 2005. The comparative amount for the year ended June 30, 2004, was $28,375.

Construction in Progress - At June 30, 2005, outstanding commitments under construction contracts totaled $6,043,900.91 for ADA improvements, McCord Building renovation, Dunn Center brick replacement, Armory Demo and Memorial Health Recreation Center upgrade, Athletic facilities improvements, and parking lot improvements of which $5,996,931.11 will be funded by future state capital outlay appropriations.

Contract - In December 2004, the Tennessee Board of Regents system entered into a contract with SungardSCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The university's outstanding liability for this contract is estimated as $2,252,824 at June 30, 2005.

Litigation - The university is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

NOTE 15. CHAIRS OF EXCELLENCE

The university had $8,235,761.67 on deposit at June 30, 2005, and $7,859,386.45 on deposit at June 30, 2004, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 16. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the Gracey trust. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $90,584 from these funds during the year ended June 30, 2005, and $90,584 during the year ended June 30, 2004.

NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2005, are as follows:

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$20,053,495.36	$ 5,117,337.78	$ 5,229,893.52	$ 447,523.14	$ -	$ 30,848,249.80
Research	749,545.39	158,695.69	390,627.89	24,905.00	-	1,323,773.97
Public service	898,517.69	269,231.13	323,460.64	30,586.88	-	1,521,796.34
Academic support	3,143,563.30	1,011,483.85	(635,569.11)	41,448.95	-	3,560,926.99
Student services	4,898,929.03	1,634,806.90	4,293,894.84	710,846.34	-	11,538,477.11
Institutional support	3,878,039.45	1,235,960.20	1,850,423.00	10,550.90	-	6,974,973.55
Operation & maintenance	1,956,614.66	805,563.31	4,443,169.48	1,087.00	-	7,206,434.45
Scholar. & fellow.	8,700.02	-	390.15	7,173,920.60	-	7,183,010.77
Auxiliary	502,506.55	151,580.08	1,869,159.43	103,503.21	-	2,626,749.27
Depreciation	-	-	-	-	4,158,994.62	4,158,994.62
Total	$36,089,911.45	$ 10,384,658.94	$ 17,765,449.84	$ 8,544,372.02	$ 4,158,994.62	$ 76,943,386.87

The university's operating expenses by functional classification for the year ended June 30, 2004, are as follows:

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$18,550,379.43	$ 4,627,677.78	$ 3,600,136.19	$ 304,265.31	$ -	$ 27,082,458.71
Research	741,260.68	157,874.15	368,625.02	23,205.68	-	1,290,965.53
Public service	893,600.32	221,805.78	371,133.16	32,089.39	-	1,518,628.65
Academic support	3,021,370.02	827,660.94	9,951.98	47,930.27	-	3,906,913.21
Student services	4,331,676.97	1,291,903.23	3,582,183.77	842,009.66	-	10,047,773.63
Institutional support	3,461,161.99	1,061,182.62	2,165,879.89	15,857.79	-	6,704,082.29
Operation & maintenance	1,862,559.53	727,493.71	3,961,013.51	-	-	6,551,066.75
Scholar. & fellow.	-	-	3,285.93	4,971,579.36	-	4,974,865.29
Auxiliary	441,488.60	112,062.80	1,755,474.94	93,376.15	-	2,402,402.49
Depreciation	-	-	-	-	3,663,241.90	3,663,241.90
Total	$33,303,497.54	$ 9,027,661.01	$ 15,817,684.39	$ 6,330,313.61	$ 3,663,241.90	$ 68,142,398.45

NOTE 18. PRIOR PERIOD ADJUSTMENT

An adjustment was made to the Loan Fund balance during fiscal year 2004 due to an erroneous transaction processed in fiscal year 2003.

NOTE 19. PRIOR-YEAR RESTATEMENT

The prior year amounts have been restated to reflect a prior period adjustment made by the university and to correct an error involving a prior audit adjustment.

		Original Amount		Increase/ (Decrease)		Restated Amount
Statement of net assets:						
Capital assets (net)	$	94,005,207.76	$	112,133.62	$	94,117,341.38
Invested in capital assets, net of related debt	$	63,146,454.89	$	112,133.62	$	63,258,588.51
Statement of revenues, expenses, and changes in net assets:						
Depreciation expense	$	3,775,375.52	$	(112,133.62)	$	3,663,241.90
Statement of cash flows:						
Operating loss	$	(35,196,434.47)	$	112,133.62	$	(35,084,300.85)
Depreciation expense	$	3,775,375.52	$	(112,133.62)	$	3,663,241.90

NOTE 20. COMPONENT UNIT

The Austin Peay State University Foundation is a legally separate, tax-exempt organization supporting Austin Peay State University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 130-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation reformatting, no modifications have been made to the foundation's financial information in the university's financial statements for these differences.

During the year ended June 30, 2005, the foundation made distributions of $388,543.68 to or on behalf of the university for both restricted and unrestricted purposes. During the year ended June 30, 2004, the foundation made distributions of $81,066.43 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Austin Peay State University, ATTN: J. Allan Irby, Business Office, P O Box 4635, Clarksville, TN 37044.

Cash and cash equivalents – Cash and cash equivalents consists of demand deposit accounts, money market funds, and funds in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. The bank balances of deposits at June 30, 2005, and June 30, 2004, were entirely insured.

Investments - Investments are recorded on the date of contribution and are stated at market value. Unrealized gains and losses are determined by the difference between market values at the beginning and end of the year.
Investments held at June 30, 2005, were as follows:

	Cost	Market Value
Money market funds	$ 130,129.14	$ 130,129.14
Federal Home Loan Mortgage Corp	41,071.40	40,807.79
Federal National Mortgage Assoc	19,788.18	20,117.17
United States Treasury Notes	138,170.21	138,424.54
United States Treasury Bonds	32,044.76	35,742.83
Mutual funds	2,824,561.71	4,367,976.94
Domestic equities	2,031,681.20	2,199,264.06
International equities	60,618.26	67,382.36
Certificates of deposit	100,400.00	100,400.00
Total investments	$ 5,378,464.86	$ 7,100,244.83

Investments held at June 30, 2004, were as follows:

	Cost	Market Value
Corporate Stock	$ 171,969.92	$ 166,555.20
Mutual Funds	4,050,000.00	5,168,603.71
Certificates of Deposit	100,000.00	100,400.00
Total investments	$ 4,321,969.92	$ 5,435,558.91

Pledges Receivable - Pledges receivable are summarized below net of the allowance for doubtful accounts.

	June 30, 2005	June 30, 2004
Current pledges	$ 70,375.00	$ 60,183.50
Pledges due in one to five years	372,614.00	193,549.86
Pledges due after five years	3,000.00	-
Subtotal	445,989.00	253,733.36
Less discounts to net present value	-	(130,653.96)
Total pledges receivable, net	$ 445,989.00	$ 123,079.40

Capital assets - Capital assets at June 30, 2005, and June 30, 2004, were as follows:

	June 30, 2005	June 30, 2004
Land	$ 239,375.00	$ 271,562.50
Capital assets, net	$ 239,375.00	$ 271,562.50

SUPPLEMENTARY INFORMATION
AUSTIN PEAY STATE UNIVERSITY FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005, AND JUNE 30, 2004

	Year Ended June 30, 2005	Year Ended June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 2,535,236.43	$ 1,263,197.43
Endowment income	36,678.13	46,055.82
Payments to suppliers and vendors	(230,836.11)	(245,676.66)
Payments for scholarships and fellowships	(353,864.76)	(170,063.00)
Payments to Austin Peay State University	(388,543.68)	(81,066.43)
Net cash provided (used) by operating activities	1,598,670.01	812,447.16
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital or endowment purposes	(382,985.58)	(226,570.52)
Private gifts for endowment purposes	375,498.94	383,676.62
Other noncapital financing receipts (payments)	(3,646.38)	(117,318.25)
Net cash provided (used) by noncapital financing activities	(11,133.02)	39,787.85
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturites of investments	28,400.00	-
Income on investments	724,223.62	461,169.98
Purchases of investments	(1,720,898.42)	(2,693,064.95)
Other investing receipts (payments)	60,000.00	-
Net cash provided (used) by investing activities	(908,274.80)	(2,231,894.97)
Net increase (decrease) in cash	679,262.19	(1,379,659.96)
Cash and cash equivalents - beginning of year	1,218,220.82	2,597,880.78
Cash and cash equivalents - end of year	$ 1,897,483.01	$ 1,218,220.82
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ 1,563,207.98	$ 637,249.16
Adjustments to reconcile operating loss to net cash used by operating activities:		
Change in assets and liabilities:		
Receivables, net	35,186.71	175,000.00
Accounts payable	275.32	328.00
Prepaid expenses and deferred charges	-	(130.00)
Net cash used by operating activities	$ 1,598,670.01	$ 812,447.16
Non-Cash Transactions		
Gifts in-kind	$ 35,186.71	$ 175,000.00
Pledges	$ 445,989.00	$ 123,079.40
Unrealized gains on investments	$ 605,619.15	$ 410,688.06