AUDIT REPORT

Tennessee Board of Regents
Austin Peay State University

For the Year Ended
June 30, 2007

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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March 26, 2009

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. Timothy L. Hall, 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, 2007. 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 disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The university's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb/sah
08/044

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, 2007

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.

INTERNAL CONTROL FINDINGS

Neither the Director of Accounting Services nor the Assistant Vice President of Finance Ensured That Amounts Were Properly Reported in the Financial Statements, the Accompanying Notes to the Financial Statements, and Management's Discussion and Analysis, Resulting in Multiple Material Errors in Financial Reporting and Increasing the Risk of Mismanagement of Funds
Neither the Director of Accounting Services nor the Assistant Vice President of Finance ensured that the financial statements and accompanying notes to the financial statements were free of misstatement. We noted several reporting errors in the financial statements and notes. We also noted two errors in management's discussion and analysis (page 8).

The Director of Accounting Services Did Not Provide the June 2007 Bank Reconciliations and Related Support to Audit Staff in a Timely Manner and Did Not Complete Other Reconciliations Timely, Increasing the Risk of Misstatements in the Accounting Records Due to Error or Fraud
The Director of Accounting Services did not provide the June 2007 bank reconciliations and related support to audit staff in a timely manner. Also, when we tested the June 2007 bank reconciliations, we noted that the reconciliations contained numerous reconciling items, most of which had been

outstanding for an excessive period of time. In addition, the Director of Accounting Services did not complete some of the bank reconciliations for July 2006 through May 2007 timely, and the reconciliations were not properly approved (page 13).

Some Revenue Amounts on the NCAA Statement of Revenues and Expenses Were Not Adequately Supported or Properly Recorded, Resulting in Misstatements of Operating Revenues and Operating Expenses Reported for the Department of Intercollegiate Athletics
Our agreed-upon procedures on the NCAA Statement of Revenues and Expenses revealed multiple errors in four of the line items under operating revenues. These errors included revenue amounts that were not adequately supported, revenue amounts that were recorded in the wrong accounts, and revenue amounts that were supported by receipts or other documentation but that the former Assistant Vice President of Finance failed to include on the NCAA statement (page 17).

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, 2007

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Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 2007

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

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.

Today, as Tennessee's fastest growing university and the state's leading developer of online classes, including 13 fully online degree programs, Austin Peay State University grants associate degrees in such fields as computer technology and information management, liberal arts, management technology, and occupational studies with concentrations in automotive, construction, and electronics technology.

The university grants a wide array of bachelor's degrees including accounting, art, biology, chemistry, communication arts, computer science and information systems, economics, education, English, finance, geosciences, health and human performance, history, marketing, mathematics, music, nursing, philosophy, physics, political science, psychology, social work, sociology, and Spanish.

Master's degree programs include biology, communication arts, education, English, health and human performance, management, military history, music, and psychology. The university has begun to lay the groundwork for its first doctoral program in educational leadership.

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, 2006, through June 30, 2007, 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 generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2007, and for comparative purposes, the year ended June 30, 2006. 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.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

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, 2007, we considered internal control over financial reporting as a basis for designing 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 generally accepted government auditing standards. Significant deficiencies, including one material weakness, along with recommendations and management's responses, are detailed in the findings and recommendations section.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards.

Fairness of Financial Statement Presentation

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

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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*

October 7, 2008

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. Timothy L. Hall, President
Austin Peay State University
601 College Street
Clarksville, Tennessee 37044

Ladies and Gentlemen:

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, 2007, and have issued our report thereon dated October 7, 2008. 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 generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the university's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

The following significant deficiencies were noted:

- Neither the Director of Accounting Services nor the Assistant Vice President of Finance ensured that amounts were properly reported in the financial statements, the accompanying notes to the financial statements, and management's discussion and analysis, resulting in multiple material errors in financial reporting and increasing the risk of mismanagement of funds

- The Director of Accounting Services did not provide the June 2007 bank reconciliations and related support to audit staff in a timely manner and did not complete other reconciliations timely, increasing the risk of misstatements in the accounting records due to error or fraud

- Some revenue amounts on the NCAA Statement of Revenues and Expenses were not adequately supported or properly recorded, resulting in misstatements of operating revenues and operating expenses reported for the Department of Intercollegiate Athletics

These deficiencies are described in the Findings and Recommendations section of this report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the following to be a material weakness:

- Neither the Director of Accounting Services nor the Assistant Vice President of Finance ensured that amounts were properly reported in the financial statements, the accompanying notes to the financial statements, and management's discussion and analysis, resulting in multiple material errors in financial reporting and increasing the risk of mismanagement of funds

We also 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 generally accepted government auditing standards.

We did, however, note certain less significant instances of noncompliance, which we have reported to the university's management in a separate letter dated October 7, 2008.

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., CPA
Director

FINDINGS AND RECOMMENDATIONS

1. Neither the Director of Accounting Services nor the Assistant Vice President of Finance ensured that amounts were properly reported in the financial statements, the accompanying notes to the financial statements, and management's discussion and analysis, resulting in multiple material errors in financial reporting and increasing the risk of mismanagement of funds

Finding

Top management of Austin Peay State University is responsible for the fair presentation of financial position, changes in financial position, and cash flows for the university and its discretely presented component unit, Austin Peay State University Foundation, in conformity with accounting principles generally accepted in the United States of America. However, neither the Director of Accounting Services nor the Assistant Vice President of Finance ensured that the financial statements and accompanying notes to the financial statements were free of misstatement. We noted several reporting errors in the financial statements and notes. We also noted two errors in management's discussion and analysis.

Overstatement of cash in Local Government Investment Pool

In the general ledger, Local Government Investment Pool (LGIP) account 463103-8 (Fund 913250) had a balance of $405,014.76 at June 30, 2007. The LGIP confirmation that we received for that account showed a balance of $109,011.49 at June 30, 2007; therefore, there was a difference of $296,003.27 between the general ledger and the LGIP confirmation. Based on our discussion with the Director of Accounting Services, expenses of $296,475.19 (expenses from project 179 of $268,894.31 and miscellaneous expenses of $27,580.88) and interest income of $471.92 had not been recorded. She stated that she forgot to record the additional items because of the tremendous amount of other work that had to be performed before year-end. We made an audit adjustment to correct the LGIP amount and the related revenues and expenses.

Misclassification of cash - university and component unit

The Tennessee Board of Regents (TBR) provides guidance to its institutions as to the classification of cash as current and noncurrent. That guidance stipulates that restricted and plant fund cash should be reported as current to the extent that current liabilities exist, and any amount in excess of the current liabilities should be reported as noncurrent. The guidance also stipulates that endowment cash should be reported as noncurrent. Based on our review of the general ledger, the statement of net assets, and the cash worksheet prepared by management and our discussions with the Assistant Vice President of Finance, we determined that some of the cash balances at June 30, 2007, were misclassified as follows:

- All of the university's restricted cash was reported as current; however, since the restricted funds only had current liabilities of $504,665.57, the difference of

$1,392,165.81 between the total restricted cash of $1,896,831.38 and current liabilities of $504,665.57 should have been reported as noncurrent cash. In addition, all of the unexpended plant fund cash was reported as noncurrent; however, since the unexpended plant funds had current liabilities of $74,833.34, that amount should have been reported as current cash. Therefore, current cash and cash equivalents were overstated by $1,317,332.47, and noncurrent cash and cash equivalents were understated by $1,317,332.47. We made an audit reclassification.

- All of the component unit's cash and cash equivalents were reported as current; however, only $455,173.83 (current liabilities at June 30, 2007) of the restricted cash should have been reported as current, and the remaining $1,568,867.44 of restricted cash should have been reported as noncurrent. In addition, all of the endowment cash of $338,725.57 should have been reported as noncurrent. Therefore, current cash and cash equivalents were overstated by $1,907,593.01, and noncurrent cash and cash equivalents were understated by $1,907,593.01. We made an audit reclassification.

The Assistant Vice President of Finance and the Accountant II for the foundation stated that the misclassifications were unintentional errors.

Accrued liabilities understated

As a part of our testwork on the accrued liabilities, we performed a comparison between the account balances at June 30, 2007, and June 30, 2006, and made inquiries to obtain explanations for significant variances. After our inquiry concerning the variance between years, the Assistant Vice President of Finance and the Director of Budget realized that an entry to record accrued faculty benefits had not been made. As a result, accrued liabilities were understated by $434,629.58, and benefits expense was understated by the same amount. The Assistant Vice President of Finance stated that the error likely occurred due to confusion over how Banner, the university's new accounting system, records the accruals since some of them are recorded automatically. We made an audit adjustment.

Depreciation errors

Based on our discussion with the Accountant 2, accumulated depreciation and depreciation expense were accounted for in a spreadsheet during fiscal year 2007 because of an error that occurred during fiscal year 2006 that caused some equipment items to be depreciated twice. Based on our review of the general ledger, accumulated depreciation and depreciation expense were not accounted for in the general ledger; however, the total historical cost of equipment was accounted for in the general ledger. Based on our review of the general ledger and the equipment depreciation listing provided by the Accountant II - Grants, the total equipment cost on the depreciation listing ($12,584,600.72) did not agree with the total equipment cost in the general ledger ($12,730,825.18). We noted a difference of $146,224.46. Based on our discussions with the Assistant Vice President of Finance, our review of the general ledger, and our review of the corrected depreciation list, we determined that 17 equipment items that were acquired by the university during fiscal year 2007 were not added to the original depreciation listing; therefore, depreciation expense and accumulated depreciation were understated by $62,538.74. In addition, $2,929.01 of the total equipment cost ($12,730,825.18) was not supported. Based on our equipment testwork, three equipment items were deleted during fiscal year 2007 and were not removed from the depreciation listing. Upon our further review of the depreciation listing provided by the Accountant II, we determined that 30 items were deleted from the depreciation listing during fiscal year 2007; however, these items were not deducted from the accumulated depreciation amount, resulting in accumulated depreciation being overstated by $883,301.32 for fiscal year 2007. We made audit adjustments for the $62,538.74 and the $883,301.32. The Assistant Vice President of Finance stated that these were unintentional errors.

Misstatements on statement of cash flows - university

When obtaining the amounts for federal student loan receipts and disbursements for the cash flows worksheet, the Assistant Vice President of Finance showed the loan disbursements amount that was obtained from Financial Aid as receipts on the original cash flows. The Assistant Vice President of Finance stated that the amount on the original cash flows for disbursements (which should have been shown on the cash flows worksheet as receipts) was also obtained per discussions with the Assistant Director of Financial Aid. We were able to determine the receipts amount that should have been reported based on our review of an SIS FOCUS report, and we were able to determine the correct disbursements amount based on our discussions with the Assistant Director of Financial Aid and review of SIS screens. The federal student loan receipts amount was overstated by $56,842.43, and the federal student loan disbursements amount was overstated by $409,934.06. We corrected these amounts on the audited cash flows statement as well as the changes in deposits held for others amount, which is calculated as loan disbursements minus loan receipts. The Assistant Vice President of Finance stated that this error occurred due to a miscommunication with Financial Aid personnel as to which amounts were receipts and which were disbursements.

Misstatements on statement of cash flows - component unit

We noted that the original foundation cash flows worksheet contained several amounts that we could not agree to support, as well as some amounts that were classified on the wrong line. The Assistant Vice President of Finance stated that these original errors occurred due to time constraints that were encountered when submitting their Financial Report to TBR. These delays were due in large part to the implementation of Banner, the university's new accounting system. We obtained a revised cash flows worksheet and receivable/payable analysis worksheet. The revised cash flows worksheet contained a difference of $763.83 that university personnel were unable to explain; however, this remaining difference was considered immaterial. Also, we noted that the reconciliation portion of the cash flows worksheet had not been properly reconciled. We had to make several corrections, including items that had to be added or deleted from this reconciliation, based on other information in the cash flows support. We revised the statement of cash flows for the audit report as follows:

Line Item	Original Amount	Revised Amount	Amount Overstated (Understated)
Cash flows from operating activities			
Gifts and contributions	472,113.79	909,664.31	(437,550.52)
Payments to suppliers and vendors	406,533.60	(32,701.61)	439,235.21
Payments for scholarships and fellowships	(440,460.00)	-	(440,460.00)
Payments to APSU	(391,867.80)	(372,187.80)	(19,680.00)
Net cash provided by operating activities	46,319.59	504,774.90	(458,455.31)
Cash flows from investing activities			
Proceeds from sales and maturities of investments	189,739.15	50,858.94	138,880.21
Income on investments	502,841.05	356,995.96	145,845.09
Purchase of investments	(1,337,299.73)	(1,511,029.74)	173,730.01
Net cash used by investing activities	(644,719.53)	(1,103,174.84)	458,455.31
Reconciliation of operating income to net cash Provided by operating activities			
Contributions for capital projects	-	(165,940.18)	165,940.18
Other adjustments	(472,811.48)	-	(472,811.48)
Receivables, net	(146,060.84)	5,253.17	(151,314.01)
Prepaid expenses and deferred charges	-	270.00	(270.00)
Noncash transactions			
Unrealized gains on investments	736,241.72	738,992.58	(2,750.86)

Errors in investments portion of component unit note

In our review of the investments section of the component unit note, we determined that the cost and market value information was inaccurate based on the related investment support. Total cost for June 30, 2007, in the note was $7,719,661.13; however, total cost based on the support was $7,392,340.23, a difference of $327,320.90, and some of the line item amounts were not correct. The market value, which is the amount reported on the statement of net assets, was correct in total; however, the line item amounts for the different investments were not. We noted similar problems for the June 30, 2006, information in the note. We corrected the information for the audited note. The Accountant II for the foundation stated that she was not sure why these errors occurred. Our discussions with her revealed that she had some uncertainty as to how to group certain types of investments and that she may not have used the correct support to get the cost information.

Error in management’s discussion and analysis - university

In management’s discussion and analysis (MD&A) in the narrative describing significant changes related to the university’s statement of net assets, management reported an increase of $3,130,239 in noncurrent liabilities; however, based on our review of the statement of net assets, the increase was $2,370,238; therefore, their amount was overstated by $760,001. We corrected the amount for the audit report. The Assistant Vice President of Finance stated that the error possibly occurred due to the fact that there are several versions of the statements; items in the statements sometimes change after being reviewed by the Tennessee Board of Regents, and staff fail to make the changes to the statements in the MD&A.

Error in management's discussion and analysis - component unit

In management's discussion and analysis (MD&A), on the component unit's statement of net assets, the capital assets and net assets invested in capital assets were not properly classified. Capital assets totaling $603,000 were included in other assets, and net assets invested in capital assets of the same amount were included in restricted nonexpendable net assets. The Assistant Vice President of Finance stated that this likely occurred to ensure consistency between years in the MD&A for their financial report. Our review of the prior-year working papers disclosed that this same error was present in the prior two audits. We corrected the MD&A for the audit report.

Without adequate proper review of staff's preparation of the financial statements and notes, individuals making decisions for the university may not have accurate information when basing their decisions on incorrect financial statements or other financial information.

Recommendation

The Vice President of Finance should ensure that the Assistant Vice President of Finance, the Director of Accounting Services, and all assisting fiscal staff have adequate, detailed knowledge of reporting requirements to perform their responsibilities, and that they perform those duties with appropriate care and attention.

The President and top management should ensure that the risks noted in this finding are adequately identified and assessed in management's documented risk-assessment activities which are currently ongoing. The President and top management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions in a timely manner. The President and top management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

Management's Comment

Management concurs with the finding and concurs in part with the recommendation.

We agree that staff responsible for closing out the fiscal year-end and the related reporting should have detailed knowledge of reporting requirements to perform their responsibilities; the Assistant Vice President of Finance and the Director of Accounting Services are familiar with and have a detailed knowledge of reporting requirements as established by generally accepted accounting principles and the Governmental Accounting Standards Board and are responsible for directing and overseeing other staff who are trained or who are generally knowledgeable about these processes. We recognize that errors may occur, and during year-end closing and reporting for future periods, everything practicable will be done to ensure that items are displayed properly in the unaudited financial statements. However, given the limited time allowed to close the fiscal year and complete the unaudited statements, the possibility of undetected errors and mistakes cannot be completely eliminated.

As an ongoing process of risk assessment by the university, a detailed risk assessment is scheduled for the Business Office, with an expected completion date of September 30, 2009. This assessment will consider risks that are applicable to the Business Office and mitigating controls. This assessment will assign all controls to specific managers that will be required to monitor those controls. The control footprint has a check off list for each manager to detail the date the control was checked as well as a signature certifying the adequacy of the control. The Assistant Vice President of Finance will review the control plans to ensure that proper monitoring has occurred. In instances of improper monitoring, progressive discipline will apply.

2. <u>The Director of Accounting Services did not provide the June 2007 bank reconciliations and related support to audit staff in a timely manner and did not complete other reconciliations timely, increasing the risk of misstatements in the accounting records due to error or fraud</u>

Finding

The Director of Accounting Services did not provide the June 2007 bank reconciliations and related support to audit staff in a timely manner. Also, when we tested the June 2007 bank reconciliations, we noted that the reconciliations contained numerous reconciling items, most of which had been outstanding for an excessive period of time. In addition, the Director of Accounting Services did not complete some of the bank reconciliations for July 2006 through May 2007 timely, and the reconciliations were not properly approved.

On December 13, 2007, we requested from the Director of Accounting Services the June 2007 bank reconciliations and related support, which included June and July 2007 bank statements for the operating, payroll, and insurance accounts. We made several additional requests and inquiries over the next four months and were told by the Director of Accounting Services that she was still compiling the data we requested. We did not receive the reconciliations and related support until April 14, 2008, 122 days after our original request.

In March 2008, we were permitted to observe the incomplete June 2007 reconciliations for the payroll account and insurance account and found that the payroll account reconciliation had not been signed by an approver. However, when we finally received the completed June 2007 payroll, insurance, and operating account bank reconciliations in April, all parts of the payroll account reconciliation had been signed and dated, and the date documented was prior to March 2008.

We discussed our concerns with the Assistant Vice President of Finance, who stated that his staff encountered problems in completing the July 2007 bank reconciliations and that the July bank statements and other support were needed in order to complete the July reconciliations. He also stated that the June bank reconciliations had been completed at the time of our original request in December 2007 and that the problems with the July reconciliations were the reason for the delay in providing the June reconciliations to us. However, we did not receive the payroll and insurance account reconciliations or the operating account reconciliation until March and April 2008.

Furthermore, when we reviewed the completed reconciliations, we noted numerous reconciling items that had been outstanding for several months. Some of these items dated back to the beginning of fiscal year 2007. The Director of Accounting Services stated that the transition to Banner, the university's new accounting system, was the reason for these items. When money is received for the university and the foundation, it is initially deposited into the university's operating account. Then fiscal staff prepare a journal entry or bank transfer to transfer the money to the foundation account or payroll account. The Director of Accounting Services stated that at the beginning of fiscal year 2007, there was a rule code error in the Banner software that caused cash receipts to be recorded in the general ledger as disbursements. Until management could assess the extent of this error, only amounts necessary to cover expenses were transferred from the operating account to the foundation and payroll accounts. As a result, university fiscal staff maintained funds belonging to the foundation in this account for most of the audit period. We believe the period of time that these reconciling items were outstanding was excessive.

Because of management's delay in providing the June 2007 bank reconciliations, we examined all of the operating account bank reconciliations and payroll account bank reconciliations for the period July 2006 through May 31, 2007, to determine when the reconciliations were completed and if the reconciliations were properly approved. We noted that no reconciliations were completed until at least March 2007. The Director of Accounting Services completed the July 2006 payroll account reconciliation on March 7, 2007, which was 6 months and 7 days after the August 2006 month-end. The July 2006 operating account reconciliation was not completed until April 10, 2007, which was 7 months and 10 days after the August 2006 month-end. The payroll account reconciliations for August 2006 through March 2007 were completed from 5 months and 8 days after the subsequent month-end to 20 days after the subsequent month-end. The payroll account reconciliations for April and May 2007 were completed by the end of the subsequent month. The other operating account reconciliations were completed from 6 months and 15 days after the subsequent month-end to one month and 2 days after the subsequent month-end. Based on our review, there was no evidence that the Assistant Vice President of Finance had approved any of the reconciliations for the period August 2006 through May 2007, and based on our discussion with the Assistant Vice President of Finance and the Director of Accounting Services, the reason for the delay was that management was trying to figure out how to complete the reconciliations after the implementation of the Banner system.

Neither Austin Peay State University nor the Tennessee Board of Regents (TBR) has a policy governing the reconciliation of bank accounts. However, TBR Policy 4:01:05:50 states "it is the responsibility of management of each TBR institution to establish and implement internal control systems and procedures to prevent and detect irregularities, including fraud, waste, and abuse.” In addition, monthly bank reconciliations that are completed and reviewed in a timely manner are considered to be a good business practice in providing accountability for cash.

The timely completion of monthly bank reconciliations and disposition of reconciling items provides reasonable assurance regarding the prevention or detection of errors or fraud. Not preparing bank reconciliations or disposing of reconciling items in a timely manner increases the risk that potential financial statement errors or fraud may occur and not be detected in a timely manner. Management has started its formal risk assessment process; however, management’s risk assessment for the Finance area has not been completed.

Recommendation

The President in conjunction with the Vice President of Finance should ensure that the Director of Accounting Services completes the bank reconciliations in a timely manner and that the Assistant Vice President of Finance reviews the bank reconciliations in a timely manner with evidence of completion and review documented. The dates on reconciliation documentation should be the actual dates that the reconciliations are completed and approved. Reconciling items should be investigated and resolved in a timely manner.

Management should be honest and forthcoming with any reasons that we may encounter delays in receiving audit documentation that has been requested. This includes circumstances where requested documentation is still needed by management to help complete subsequent bank reconciliations.

As management continues its risk assessment process, the Vice President of Finance should ensure that risks such as those noted in this finding are adequately identified and assessed in management’s documented risk assessments. The Vice President of Finance should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. The Vice President of Finance should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

Management’s Comment

Management concurs with the finding and concurs in part with the recommendation. Part of the recommendation implies that management was not honest in dealing with State Audit. While the Business Office may not have provided information to the auditors as timely and promptly as requested, we feel that our responses to the auditors regarding legitimate reasons for delays and all information provided to the auditors was honest.

Procedures have been implemented that require bank reconciliations to be completed on a monthly basis and signed and approved in a timely manner. Weekly meetings with all Business Office senior staff members have been implemented to discuss ongoing projects, workloads, upcoming assignments, and problems encountered in completing work of the department.

During the period audited, because certain critical aspects of the newly installed accounting system were missing (never installed), in conjunction with a lack of adequate reports from the system, the bank reconciliation was unusually complex and took an extraordinary amount of time to complete. The missing coding was noted by the current Assistant Vice President of Finance, and the system was belatedly corrected. A report that summarizes daily activity has now been developed and is used for promptly completing bank reconciliations.

Discussions between the Assistant Vice President of Finance, the Director of Accounting Services, and the Grants Accountant have been held about the preparation of the bank reconciliations. The Grants Accountant, who was employed in April 2008, will prepare the bank reconciliations for the university's operating account, which will be reviewed and approved by the Director of Accounting Services. As a further check, the Assistant Vice President of Finance, for a period of time, will review the bank reconciliations to assure the timeliness of the reconciliations and that the reconciliations have been signed, approved, and dated. Since the 2007-08 fiscal year had concluded and been reported prior to receiving the auditor's report, these procedures will be implemented during the 2008-09 fiscal year.

The Director of Accounting Services will prepare, sign, and date the reconciliations for the payroll, insurance, and foundation bank accounts, and present them to the Assistant Vice President of Finance for approving signature and date. During the weekly staff meetings, any problems encountered in completing the reconciliations will be discussed and solutions and/or action to be taken recommended.

As an ongoing process of risk assessment by the university, a detailed risk assessment is scheduled for the Business Office, with an expected completion date of September 30, 2009. This assessment will consider risks that are applicable to the Business Office and mitigating controls. This assessment will assign all controls to specific managers that will be required to monitor those controls. The control footprint has a check off list for each manager to detail the date the control was checked as well as a signature certifying the adequacy of the control. The Assistant Vice President of Finance will review the control plans to ensure that proper monitoring has occurred. In instances of improper monitoring, progressive discipline will apply.

3. Some revenue amounts on the NCAA Statement of Revenues and Expenses were not adequately supported or properly recorded, resulting in misstatements of operating revenues and operating expenses reported for the Department of Intercollegiate Athletics

Finding

Austin Peay State University (APSU) is a member institution of the National Collegiate Athletic Association (NCAA) in Division I. The agreed-upon procedures reporting requirements are mandated under the provisions of Constitution 6.2.3, which states, "All revenues, expenses and capital expenditures for or on behalf of a Division I member institution's intercollegiate athletics programs . . . shall be subject to annual agreed-upon procedures. . . ."

Our agreed-upon procedures on the NCAA Department of Intercollegiate Athletics Statement of Revenues and Expenses, which was prepared by the former Assistant Vice President for Finance, revealed multiple errors in four of the line items reported under operating revenues: ticket sales, guarantees, contributions, and NCAA/conference distributions including all tournament revenues. These errors included revenue amounts that were not adequately supported, revenue amounts that were recorded in the wrong accounts, and revenue amounts that were supported by receipts or other documentation but that the former Assistant Vice President of Finance failed to include on the NCAA statement. In addition, management was unable to provide us with a population of transactions from the revenue accounts in the general ledger that agreed with the total revenue reported on the statement, which we needed in order to select a sample of transactions for testwork.

Ticket sales

On the statement of revenues and expenses, the former Assistant Vice President of Finance reported ticket sales revenues under football, men's basketball, women's basketball, and other sports. The agreed-upon procedures call for agreeing the amounts on the statement to the general ledger. When we attempted to trace the amount shown for each category to the general ledger, we noted the following discrepancies:

- We could not trace the individual ticket sales amounts to the general ledger by sport because university personnel did not use sports specific fund numbers to record the individual ticket sales revenue. In addition, the amount recorded in the general ledger exceeded the amount reported on the NCAA statement by $967.86. We revised the amount reported on the statement to include the $967.86. As support for the statement, the Assistant Vice President for Finance provided an Unrestricted Revenue by Account 06-07 Report, which was prepared by the former Assistant Vice President of Finance. The individual ticket sales agreed to the Unrestricted Revenue by Account 06-07 Report, and individual ticket sales for baseball and football were supported by the athletics receipts worksheet; however, only $3,428 of the $49,275.25 reported on the NCAA statement as individual ticket sales for basketball was supported by the Unrestricted Revenue by Account Report. University personnel were not able to explain the difference of $45,847.25. We observed a note on the Unrestricted Revenue by Account Report that stated, "The list [Athletic Receipts] did not contain the night deposits from basketball so the basketball single ticket sales is estimated using the remainder of revenue after allocating all other by receipt list." This was not a reasonable method of allocating individual ticket sales revenues.

- We could not trace the season ticket sales to the general ledger by sport because university personnel did not use sports specific fund numbers to record the season ticket sales revenue. In addition, university personnel did not report the total season ticket sales amount as recorded in the general ledger on the NCAA statement. The amount recorded in the general ledger exceeded the amount reported on the NCAA statement by $13,461.14. Since the schedule was prepared by a former employee, current fiscal staff were unable to explain the discrepancy. We revised the amount reported on the statement to include the $13,461.14.

- We also found that the Unrestricted Revenue by Account Report showed that $18,200 was transferred from a ticket sales account to an "other revenue" account; however, we did not see any evidence of this transfer in the general ledger. We did find that the total for other operating revenues on the NCAA statement was $19,500 for account 58200, and in the general ledger, the balance for that account was $1,250; the difference was $18,200 so the transfer was reflected on the statement. Since the schedule was prepared by a former employee, current fiscal staff were unable to explain why the transfer was not recorded in the general ledger.

Game guarantees

The university receives guarantee amounts from other schools for playing certain games. On the statement of revenues and expenses, guarantees were shown under football, men's basketball, women's basketball, and other sports. The agreed-upon procedures call for agreeing the amounts on the statement to the general ledger. In our performance of the agreed-upon procedures, we noted the following discrepancies:

- University personnel improperly recorded a $600 game guarantee for a tennis match with Southeastern Louisiana University as a game guarantee for baseball. Since tennis and baseball were both included under other sports, the amount reported on the statement was not affected by the error.

- University personnel improperly recorded a $1,000 game guarantee for a volleyball game with Southern Illinois University in the out-of-state team travel expense account. We revised the statement to properly reflect the revenue and expense.

- University personnel improperly recorded a $2,000 game guarantee for a baseball game with the University of Mississippi in the out-of-state team travel expense account. We revised the statement to properly reflect the revenue and expense.

- University personnel improperly recorded a travel reimbursement received in the amount of $2,983.68 for a men's basketball game with the University of Illinois as game guarantee revenue. We revised the statement to properly reflect the revenue and expense.

Contributions

On the NCAA statement, the former Assistant Vice President of Finance reported contributions of $553,676.83. We were able to agree the amounts reported as contributions for each category to the ledger; however, when we compared the amounts on the statement to the detailed contributions listing provided by the Director of Development, we noted the following:

- some accounts included on the statement were not on the contributions listing (totaling $39,589.63);

- some accounts included on the contributions listing were not on the statement (totaling $21,796.22);

- the amounts for some accounts were greater on the statement (totaling $47,791.72); and

- the amounts for some accounts were less on the statement (totaling $5,870.63).

Because contributions reported on the statement agreed in total to the general ledger, we did not attempt to correct for any differences between the statement and the detailed contributions listing.

On the NCAA statement, university personnel did not report any revenue on the "royalties, advertisements, and sponsorships" line; however, based on our review of applicable agreements and the gift in-kind listing and our discussions with Internal Audit, we concluded that some royalties, advertisements, and sponsorships revenue was improperly included in contributions revenue on the NCAA statement. In trying to determine the amount of revenue that should have been reported, we encountered the following difficulties:

- The Athletics Department Secretary and the Director of Corporate Relations are responsible for maintaining corporate agreements; however, these individuals could not locate and provide all agreements that we requested. In addition, some contracts included in the Athletic Department's records were not included in the records of the Director of Corporate Relations, and some contracts included in the records of the Director of Corporate Relations were not included in the Athletic Department's records.

- We found that receipts apparently identified as related to the corporate agreements did not agree with the revenue amounts specifically stated in the agreements, and some agreements did not have corresponding receipts. We could not determine, and university personnel could not explain, the differences.

- Some of the agreements that we obtained from the Athletics Secretary and the Director of Corporate Relations were not on the gift in-kind listing.

The initial gift in-kind listing indicated that the university received $296,983.20 in royalties, advertisements, and sponsorships revenue; however, due to the numerous problems noted above, we were not able to determine what agreements the university was engaged in during the fiscal year or the amount of funds received from the agreements. As of the end of fieldwork, Internal Audit was working on a project to sort out the information related to contributions, royalties, advertisements, and sponsorships at the request of the Vice President of Finance.

NCAA/conference distributions including all tournament revenues

In our analysis of the conference distributions revenue transactions which supported the amount reported on the statement, we noted the following discrepancies:

- University personnel included some accounts in the revenues computation that should not have been included. Based on our examination of the general ledger and the cash receipts, a total of $4,577.48 should not have been included, which was made up of the following amounts: $10.00 from account 57011 - private cash gifts SFA; $3,503.87 from account 58360 - other sales and services; and $1,063.61 from account 58801 - investment income interest.

- University personnel correctly included one receipt in the amount of $60,800 in the revenues computation, but the receipt was credited to the wrong account in the ledger. It should have been credited to account 58160 - OVC and NCAA conference income, but it was credited to account 57012 - private cash gifts other. University personnel correctly included one receipt in the amount of $31,273 in the revenues computation, but the receipt was credited to the wrong account in the ledger. It should have been credited to account 58160 - OVC and NCAA conference income, but it was credited to account 58360 - other sales and services.

- University personnel did not include the Athletic Director Discretionary Fund (fund 260310) in the revenues computation; however, on an APSU master receipt dated 6/30/07, NCAA distributions were credited to this fund during fiscal year 2007. Five items credited to the fund totaling $32,364.50 should have been included in the revenues computation. In addition, university personnel did not classify these receipts in the proper revenue account. These items were recorded as other collegiate athletics, but they should have been recorded as OVC and NCAA conference income.

Because of the discrepancies noted above, the amount on the statement was understated by $27,787.02. We corrected the statement for presentation in the report.

The agreed-upon procedures also called for us to examine a sample of revenue transactions to determine if they were adequately supported and properly classified. However, after numerous attempts to create a listing of revenue transactions from which we could select a sample for examination, the Assistant Vice President was unable to provide a population of transactions from the revenue accounts in the general ledger that agreed with the total revenue reported on the statement. The total on the listing that was provided was greater than the total on the statement. Based on our preliminary review, we determined that university personnel had incorrectly included investment income transactions in the population. In selecting our sample, we excluded the investment income transactions. Based on our examination of the supporting documentation for a sample of operating revenue transactions, the revenue transactions in the sample were adequately supported and properly classified.

Reporting amounts without adequate support, recording amounts in the wrong accounts, and not including all applicable amounts in the reported amounts resulted in misstatements of the operating revenues and operating expenses reported on the Department of Intercollegiate Athletics Statement of Revenues and Expenses. Although management has started its risk assessment process, at the time we performed our testwork, management's risk assessment for Athletics had not been completed.

Recommendation

The Assistant Vice President of Finance should ensure that all amounts reported on the Department of Intercollegiate Athletics Statement of Revenues and Expenses are adequately supported. The Assistant Vice President should ensure that athletics revenues are properly recorded in the general ledger by ensuring that the cashiers use the correct fund number, organization code, account code, and program code when recording transactions. The Business Office, Athletics Department, and University Advancement should develop and implement the necessary controls to ensure that amounts reported on the statement include all applicable amounts.

As management continues its risk assessment process, the Vice President of Finance should ensure that risks such as those noted in this finding are adequately identified and assessed in management's documented risk assessments. The Vice President of Finance should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. The Vice President of Finance should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

Management's Comment

Management concurs with the finding and recommendation.

The former Assistant Vice President of Finance retired June 30, 2007. A new Finance system was implemented during the 2007 fiscal year, and receipts were not being posted correctly. The current Assistant Vice President of Finance implemented procedures to correct fund, organization, account, and program codes to be used for athletic revenues. Procedures were discussed with appropriate Business Office staff to ensure accurate reporting of operating revenue and expense for the Athletics Department. In addition, monthly reports are distributed to Athletics Department personnel who are expected to reconcile those reports and report differences to the Business Office as soon as they are detected.

A meeting with the Business Office, Athletics, and University Advancement was held to discuss the finding and establish adequate controls. Since the auditor's report was not available until December 2008, those controls will be implemented commencing January 2009. During that meeting, it was decided the revenue and expense report would be prepared and completed by the Athletics Department with a review provided by the Business Office.

As an ongoing process of risk assessment by the university, a detailed risk assessment is scheduled for the Business Office, with an expected completion date of September 30, 2009. This assessment will consider risks that are applicable to the Business Office and mitigating controls. This assessment will assign all controls to specific managers that will be required to monitor those controls. The control footprint has a check off list for each manager to detail the date the control was checked as well as a signature certifying the adequacy of the control. The Assistant Vice President of Finance will review the control plans to ensure that proper monitoring has occurred. In instances of improper monitoring, progressive discipline will apply.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
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Independent Auditor's Report

October 7, 2008

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. Timothy L. Hall, President
Austin Peay State University
601 College Street
Clarksville, Tennessee 37044

Ladies and Gentlemen:

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, 2007, and June 30, 2006, 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 generally accepted government auditing standards. 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.

As discussed in Note 1, the financial statements of Austin Peay State University, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Austin Peay State University. They do not purport to, and do not present fairly the financial position of the Tennessee Board of Regents as of June 30, 2007, and June 30, 2006, the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2007, and June 30, 2006, 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.

The management's discussion and analysis on pages 26 through 46 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 74 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 generally accepted government auditing standards, we have also issued our report dated October 7, 2008, 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 generally accepted 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/sah

Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis
For the Years Ended June 30, 2007, and June 30, 2006

This section of Austin Peay State University's report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2007, with comparative information presented for the fiscal years ended June 30, 2006, and June 30, 2005. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This 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.

Austin Peay State University
Statement of Net Assets
(in thousands of dollars)

	2007	2006	2005
Assets:			
Current assets	$ 18,587	$ 15,552	$ 14,643
Capital assets, net	110,764	106,111	95,232
Other assets	37,761	34,075	30,248
Total assets	**167,112**	**155,738**	**140,123**
Liabilities:			
Current liabilities	9,458	6,877	8,391
Noncurrent liabilities	37,727	35,357	30,581
Total liabilities	**47,185**	**42,234**	**38,972**
Net assets:			
Invested in capital assets, net of related debt	74,315	72,134	64,745
Restricted - nonexpendable	6,571	5,861	5,619
Restricted - expendable	2,654	3,681	3,065
Unrestricted	36,387	31,828	27,722
Total net assets	**$ 119,927**	**$ 113,504**	**$ 101,151**

The university had the following significant changes between fiscal years on the statement of net assets:

2007

- The major component of current assets is cash and cash equivalents. More cash was available at year-end because end-of-year spending by departments was reflected in a significant increase in accounts payable.

- Investment in capital assets increased due to significant capital projects being closed out, such as the McCord renovation.

- Current liabilities increased due to an increase in accounts payable by approximately $1,433,000. Accounts payable is comprised of many accounts from all departments too numerous to isolate.

- Noncurrent liabilities increased $2,370,238 due to increased long-term debt from capital projects.

- Total net assets increased as a result of an increase in enrollment and the capital projects in process on the APSU campus.

2006

- Net capital assets increased due to continued construction on the McCord renovation project and beginning the construction on the Recreation Center. In addition, there have been other related capital improvements (i.e., paving, infrastructure, various other office and classroom modifications).

- Total net assets increased as a result of an increase in enrollment and the capital projects in process on the APSU campus.

Component Unit
Statement of Net Assets
(in thousands of dollars)

	2007	2006	2005
Assets:			
Current assets	$ 1,371	$ 2,797	$ 2,120
Capital assets	603	633	239
Other assets	12,041	7,935	7,453
Total assets	**14,015**	**11,365**	**9,812**
Liabilities:			
Current liabilities	455	-	1
Noncurrent liabilities	-	-	-
Total liabilities	**455**	**-**	**1**
Net assets:			
Invested in capital assets	603	633	239
Restricted - nonexpendable	6,490	5,060	4,151
Restricted - expendable	5,923	5,123	4,973
Unrestricted	544	549	448
Total net assets	**$ 13,560**	**$ 11,365**	**$ 9,811**

The component unit had the following significant changes between fiscal years on the statement of net assets:

2007

- During the fiscal year 2006-07 the foundation's investments increased due to earnings growth.

- Current assets, which are primarily cash, decreased due to restricted and endowment cash being reclassified as noncurrent.

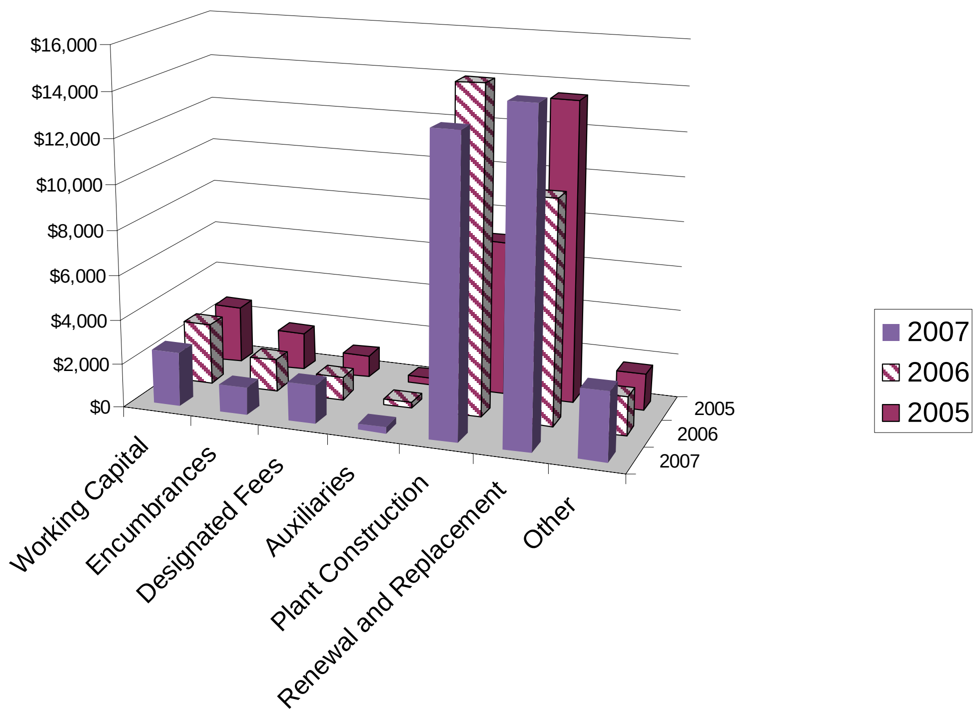
2006

- In the foundation, total assets continued to increase as a result of several major fundraising campaigns as well as an increase in donations.

- The foundation had no liabilities.

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

	2007	2006	2005
Working capital	$ 2,451	$ 2,750	$ 2,630
Encumbrances	1,250	1,470	1,704
Designated fees	1,737	1,046	994
Auxiliaries	298	259	282
Plant construction	12,979	14,597	6,968
Renewal and replacement	14,593	9,984	13,497
Other	3,079	1,722	1,647
	$ 36,387	$ 31,828	$ 27,722



2007

- Funds are being held in renewal and replacement in order to update faculty and staff computer equipment, as well as additional components needed for the enterprise resource program.

- Designated fees increased with the reclassification of business course fees that were inappropriately recognized as other in previous years.

2006

- The overall unrestricted net assets increased for 2006 as a result of the McCord renovation and the new Student Recreation Center.

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.

Austin Peay State University
Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	2007	2006	2005
Operating revenues:			
Net tuition and fees	$ 31,854	$ 28,720	$ 23,761
Grants and contracts	4,116	3,430	2,820
Auxiliaries	5,136	5,354	4,712
Other	2,747	2,030	2,661
Total operating revenues	**43,853**	**39,534**	**33,954**
Operating expenses	94,237	83,569	76,944
Operating loss	**(50,384)**	**(44,035)**	**(42,990)**
Nonoperating revenues and expenses:			
State appropriations	34,977	32,684	32,216
Gifts	785	778	648
Grants and contracts	18,755	16,182	14,879
Investment income	3,304	2,161	1,126
Other nonoperating revenues and expenses	(1,030)	(1,077)	(2,341)
Total nonoperating revenues and expenses	**56,791**	**50,728**	**46,528**
Income before other revenues, expenses, gains, or losses	**6,407**	**6,693**	**3,538**
Other revenues, expenses, gains, or losses:			
Capital appropriations	776	6,688	1,276
Additions to permanent endowments	35	35	2,277
Other	(795)	(1,063)	(218)
Total other revenues, expenses, gains, or losses	**16**	**5,660**	**3,335**
Increase in net assets	**6,423**	**12,353**	**6,873**
Net assets at beginning of year	113,504	101,151	94,278
Net assets at end of year	**$ 119,927**	**$ 113,504**	**$ 101,151**

Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)
For the Years Ended June 30, 2007, and June 30, 2006

Component Unit
Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

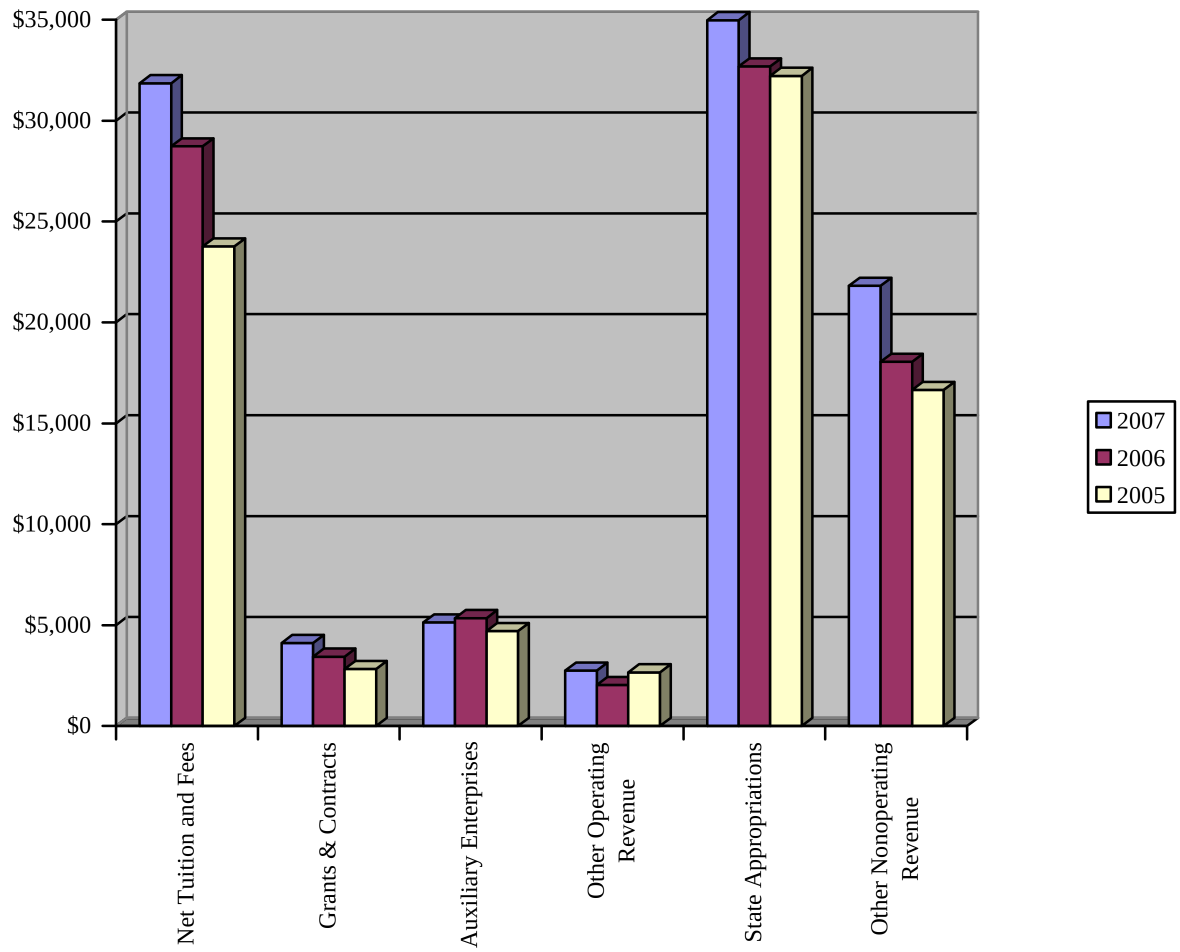
	2007	2006	2005
Operating revenues:			
Gifts and contributions	$ 1,071	$ 1,874	$ 2,535
Other	-	98	37
Total operating revenues	**1,071**	**1,972**	**2,572**
Operating expenses	861	1,454	1,009
Operating income	**210**	**518**	**1,563**
Nonoperating revenues and expenses:			
Investment income	1,195	435	738
Other nonoperating revenues and expenses	(22)	-	(4)
Total nonoperating revenues and expenses	**1,173**	**435**	**734**
Income before other revenues, expenses, gains, or losses	**1,383**	**953**	**2,297**
Other revenues, expenses, gains, or losses:			
Capital grants and gifts	31	-	-
Additions to permanent endowments	781	601	376
Total other revenues, expenses, gains, or losses	**812**	**601**	**376**
Increase in net assets	**2,195**	**1,554**	**2,673**
Net assets at beginning of year	11,365	9,811	7,138
Net assets at end of year	**$ 13,560**	**$ 11,365**	**$ 9,811**

Revenues

The following are graphic illustrations of revenues by source (both operating and nonoperating), which were used to fund the university's and its component unit's activities for the years ended June 30, 2007; June 30, 2006; and June 30, 2005 (amounts are presented in thousands of dollars).

Revenue by Source - University
(in thousands of dollars)

	2007	2006	2005
Operating revenues:			
Net tuition and fees	$ 31,854	$ 28,720	$ 23,761
Grants and contracts	4,116	3,430	2,820
Auxiliaries	5,136	5,354	4,712
Other operating revenue	2,747	2,030	2,661
Nonoperating revenues:			
State appropriations	34,977	32,684	32,216
Other nonoperating revenue	21,815	18,044	16,653
	$ 100,645	$ 90,262	$ 82,823



The university had the following significant changes in revenues between fiscal years:

2007

- The McCord renovation was completed during fiscal year 2006, which resulted in a decrease in capital appropriations of $5,912,724.

- Investment income increased due to endowed investments earning a significantly higher rate of return during the year as compared to previous years.

- Other income increased because of an increase of approximately $234,000 in the sales and services of educational departments and slight increases in other miscellaneous revenues.

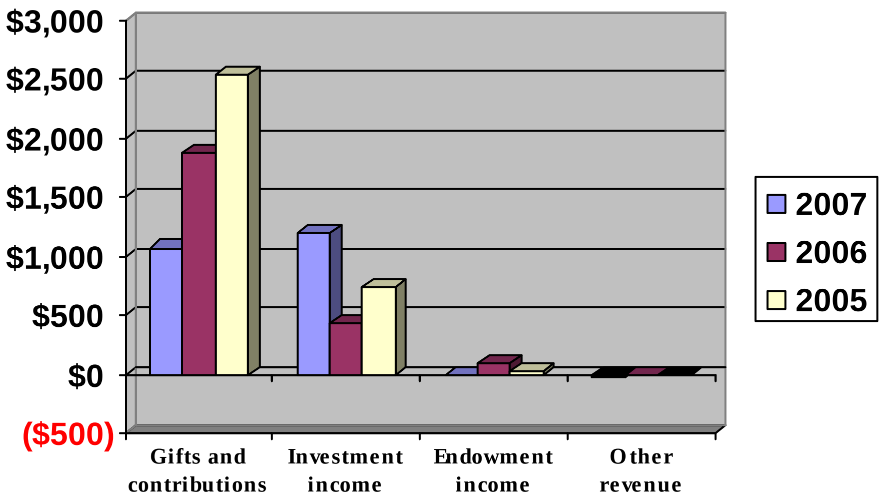
2006

- Tuition and fees reflect the 9% fee increase and the significant enrollment increase.

- Nonoperating revenue reflects the improved investment income.

Revenue by Source – Component Unit
(in thousands of dollars)

	2007	2006	2005
Gifts and contributions	$ 1,071	$ 1,874	$ 2,535
Investment income	1,195	435	738
Endowment income	-	98	37
Other revenue	(22)	-	(4)
	$ 2,244	$ 2,407	$ 3,306



The component unit had the following significant changes in revenues between fiscal years:

2007

- Investments earned a significantly higher rate of return during the year.

- There was a decline in gifts and contributions, primarily due to the completion of the Recreation Center.

2006

- The gifts and contributions to the foundation increased at an expected level for the past three years. However, due to the significant increase in 2005, there was a decline when comparing the two most recent years.

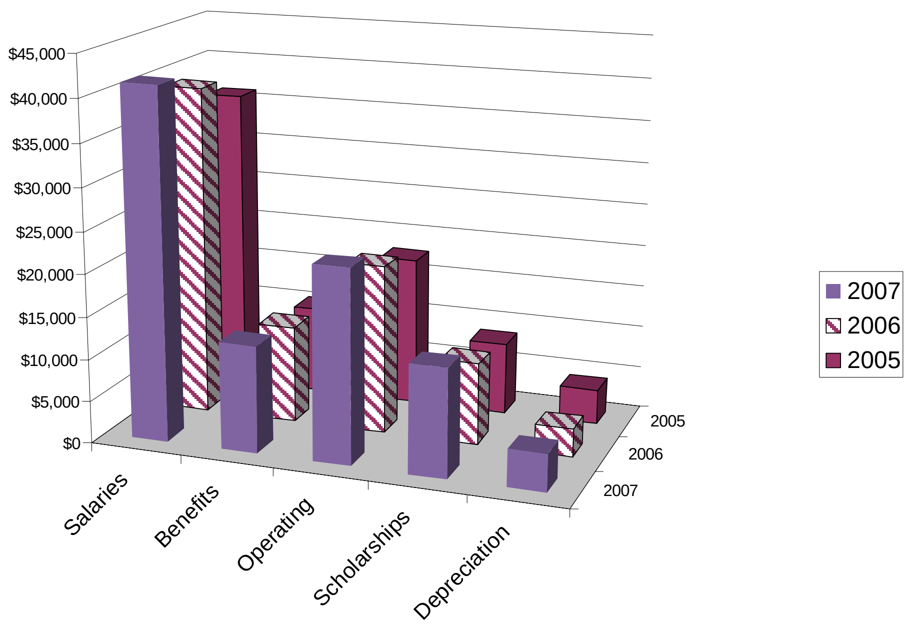
<u>Expenses</u>

Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below (in thousands of dollars).

Expenses by Natural Classification - University
(in thousands of dollars)

	2007	2006	2005
Salaries	$ 41,423	$ 39,064	$ 36,090
Benefits	12,709	11,494	10,385
Operating	22,851	20,000	17,765
Scholarships	12,807	9,718	8,544
Depreciation	4,447	3,293	4,160
Total	$ 94,237	$ 83,569	$ 76,944

Expenses by Natural Classification (University)



The university had the following significant changes in expenses between fiscal years:

2007

- The institution funded an additional portion of the salary equity plan.
- Operational expenses continued to grow with the expansion of the enterprise resource program.
- Presidential scholarships were funded in the scholarship function this year.

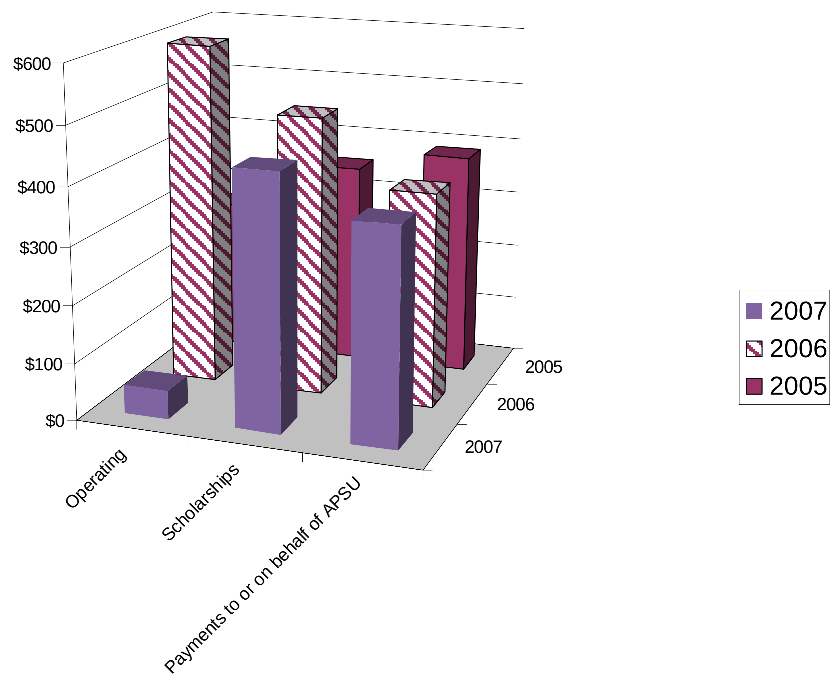
2006

- The enrollment increase resulted in increases in all categories as staff was added, operating costs went up, and scholarships increased.
- The institution funded an additional portion of the salary equity plan.

Expenses by Natural Classification - Component Unit
(in thousands of dollars)

	2007	2006	2005
Operating	$ 49	$ 595	$ 266
Scholarships	440	486	354
Payments to or on behalf of APSU	372	373	389
Total	$ 861	$ 1,454	$ 1,009

Expenses by Natural Classification (Component Unit)



The component unit had the following significant changes in expenses between fiscal years:

2007

- The foundation experienced a significant decrease of approximately $280,000 in operational supplies expense due to purchases in the prior year on behalf of the Student Recreation Center, Biology, and Physical Sciences.

2006

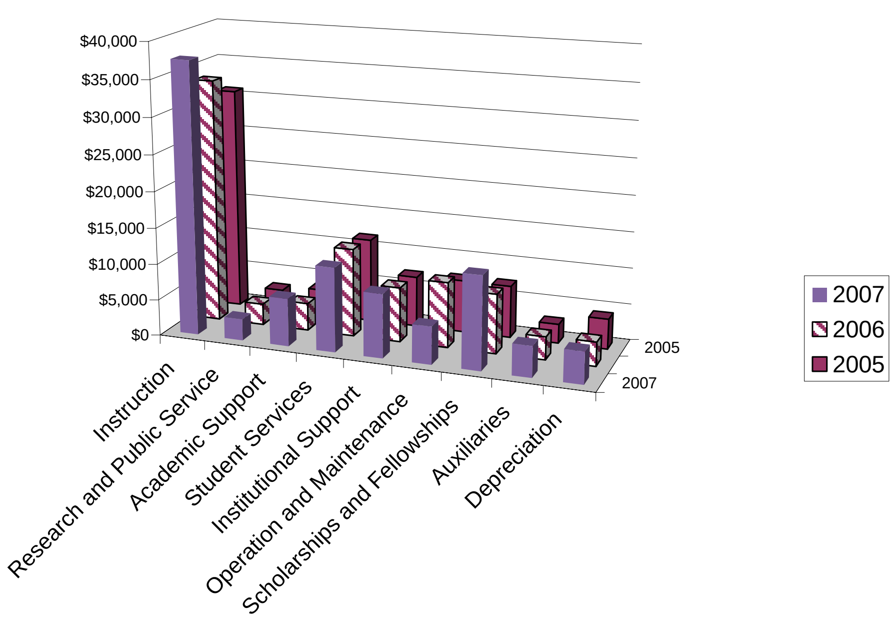
- Operational costs increased due to the funding of special projects that support the university.

- Scholarship expense continued to increase as a result of an increase in funds becoming available through donations and investment activity.

Expenses by Program Classification - University
(in thousands of dollars)

	2007	2006	2005
Instruction	$ 37,531	$ 33,552	$ 30,848
Research and public service	2,952	2,917	2,846
Academic support	6,609	3,786	3,561
Student services	11,603	12,138	11,538
Institutional support	8,819	7,531	6,975
Operation and maintenance	5,197	9,001	7,206
Scholarships and fellowships	12,807	8,180	7,183
Auxiliaries	4,272	3,171	2,627
Depreciation	4,447	3,293	4,160
Total	$ 94,237	$ 83,569	$ 76,944

Expenses by Program Classification (University)



The university had the following significant changes in program expenses between fiscal years:

2007

- A change in the current year of recognizing presidential scholarships and fellowships in the scholarship function resulted in a significant increase in the scholarship function.
- Continued improvements in salary contributed to increases in each function.
- The ID Card and Emergency Telephones projects designed to benefit the safety and convenience of students were major projects undertaken during the year, which contributed to additional spending.

2006

- Salary improvements were a major factor in the increase of expenses in all functions.
- The increase in enrollment contributed to increases in all functions as staff was added and operating costs increased.

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.

Austin Peay State University
Statement of Cash Flows
(in thousands of dollars)

	2007	2006	2005
Cash provided (used) by:			
Operating activities	$ (44,630)	$ (41,211)	$ (38,066)
Noncapital financing activities	55,421	49,847	49,916
Capital and related financing activities	(8,146)	(6,595)	(7,011)
Investing activities	1,643	2,513	(1,259)
Net increase in cash	**4,288**	**4,554**	**3,580**
Cash, beginning of year	**38,411**	**33,857**	**30,277**
Cash, end of year	**$ 42,699**	**$ 38,411**	**$ 33,857**

The university had the following significant changes in cash flows between fiscal years:

2007

- Cash used by operating activities increased because of increased payments for salaries and related benefits and also increased payments for scholarships.

- Noncapital financing increased due to additional amount of grants and gifts received approximating $2,342,000 and approximately $794,000 undistributed student loans as of June 30.

- Capital and related financing activities required additional cash due to an increase in bond debt payments. The significantly higher debt payments were required due to additional bonds with the completion of the Recreation Center.

- The cash flows for investing decreased due to fewer sales and increased purchases of investments during the year.

2006

- Investing activities reflect the improved earnings that were distributed and the liquidation of a large certificate of deposit.

- The institution's liquidity improved during the year. Overall, the main contributing factor was higher tuition and fee revenue than originally planned.

Component Unit
Statement of Cash Flows
(in thousands of dollars)

	2007	2006	2005
Cash provided (used) by:			
Operating activities	$ 505	$ (150)	$ 1,599
Noncapital financing activities	779	605	(11)
Capital and related financing activities	42	-	-
Investing activities	(1,103)	240	(908)
Net increase in cash	**223**	**695**	**680**
Cash, beginning of year	**2,593**	**1,898**	**1,218**
Cash, end of year	**$ 2,816**	**$ 2,593**	**$ 1,898**

The component unit had the following significant changes in cash flow between fiscal years:

2007

- Noncapital financing activities reflected an increase in gifts received.
- Investment earnings continued to improve. Only one purchase exceeding $500,000 was made during the year.

2006

- Cash from operating activities decreased significantly due to a decrease in gifts and contributions.
- Investment earnings improved. No significant new investments were made.

Capital Assets and Debt Administration

Capital Assets

The university had $110,764,247 invested in capital assets, net of accumulated depreciation at June 30, 2007; $106,110,711 invested in capital assets, net of accumulated depreciation at June 30, 2006; and $95,232,040 invested in capital assets, net of accumulated depreciation at June 30, 2005. Details of these assets are shown below.

Austin Peay State University
Schedule of Capital Assets, Net of Depreciation
(in thousands of dollars)

	2007	2006	2005
Land	$ 3,849	$ 3,846	$ 3,503
Land improvements and infrastructure	5,451	4,404	4,581
Buildings	90,398	75,857	78,864
Equipment	5,346	4,254	2,036
Library holdings	3,137	3,015	2,781
Software	1,787	1,166	-
Projects in progress	796	13,568	3,467
Total	$ 110,764	$ 106,110	$ 95,232

The major components of the McCord project were completed in 2006, and we completed several projects directly related to the McCord renovation and the Student Recreation Center projects (i.e., parking lot paving, various other office relocations, and small modifications). During 2004 and 2005, the two major projects were started—McCord and Student Recreation Center. The McCord Building cost approximately $7,500,000 and was funded by state appropriations. The new Student Recreation Center cost approximately $10,800,000 and was funded by student fees and private gifts.

More detailed information about the university's capital assets is presented in Note 6 to the financial statements.

Debt

The university had $36,449,577, $33,976,224, and $30,487,521 in debt outstanding at June 30, 2007; June 30, 2006; and June 30, 2005, respectively. The table below summarizes these amounts by type of debt instrument (in thousands of dollars).

Austin Peay State University
Schedule of Debt
(in thousands of dollars)

	2007	2006	2005
TSSBA bonds	$ 35,481	$ 28,309	$ 28,964
TSSBA commercial paper	969	5,668	1,523
Total debt	$ 36,450	$ 33,977	$ 30,487

In fiscal year 2007, commercial paper decreased as the Recreation Center project moved toward completion. In fiscal year 2006, commercial paper increased primarily due to the Recreation Center.

The Tennessee State School Bond Authority (TSSBA) currently has the following long-term debt ratings: Fitch rating of AA, Moody's Investor's rating of AA3, and Standard & Poor's rating of AA.

More detailed information about the university's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

The state's financial situation continues to be a major concern. There was a slight increase in state appropriations which allowed the Tennessee Board of Regents to limit the tuition fee increase to 6%. These increases primarily offset inflationary costs and some salary improvements. Overall, there does not appear to be any major improvement in state appropriations 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 post. 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 financial information should be directed to Tim Hurst, Assistant Vice President for Finance, Austin Peay State University, Box 4635, Clarksville, TN 37044.

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2007, AND JUNE 30, 2006

	Institution		Component Unit	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 18)	$ 12,759,877.10	$ 10,580,932.52	$ 908,487.92	$ 2,591,790.52
Short-term investments (Notes 3 and 18)	559,614.93	526,091.16	-	28,400.00
Accounts, notes, and grants receivable (net) (Note 4)	4,707,525.63	4,080,964.91	-	-
Pledges receivable (net) (Notes 5 and 18)	22,771.00	6,303.13	431,162.32	153,362.62
Inventories	241,922.02	183,107.57	-	-
Prepaid expenses and deferred charges	242,799.59	120,459.39	-	270.00
Accrued interest receivable	52,637.25	54,585.44	30,973.78	23,375.10
Total current assets	18,587,147.52	15,552,444.12	1,370,624.02	2,797,198.24
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 18)	29,939,446.93	27,830,094.49	1,907,593.01	-
Investments (Notes 3 and 18)	6,515,750.74	4,888,670.94	9,989,643.66	7,502,142.64
Accounts, notes, and grants receivable (net) (Note 4)	1,303,596.53	1,354,998.88	21,006.11	21,960.90
Pledges receivable (net) (Notes 5 and 18)	1,500.00	1,194.37	41,649.16	331,345.92
Capital assets (net) (Notes 6 and 18)	110,764,246.63	106,110,710.90	602,518.65	633,328.13
Other assets	-	-	82,237.33	79,486.47
Total noncurrent assets	148,524,540.83	140,185,669.58	12,644,647.92	8,568,264.06
Total assets	167,111,688.35	155,738,113.70	14,015,271.94	11,365,462.30
LIABILITIES				
Current liabilities:				
Accounts payable	2,195,395.44	761,999.07	455,173.83	-
Accrued liabilities	2,049,315.93	1,885,718.41	-	-
Student deposits	141,050.00	145,170.00	-	-
Deferred revenue	2,036,168.55	2,094,755.01	-	-
Compensated absences (Note 7)	474,502.71	479,623.75	-	-
Accrued interest payable	288,746.84	244,288.83	-	-
Long-term liabilities, current portion (Notes 7 and 17)	966,145.24	792,452.11	-	-
Deposits held in custody for others	869,353.98	157,190.74	-	-
Other liabilities	436,931.08	315,932.05	-	-
Total current liabilities	9,457,609.77	6,877,129.97	455,173.83	-
Noncurrent liabilities:				
Compensated absences (Note 7)	1,270,368.24	1,230,495.22	-	-
Long-term liabilities (Notes 7 and 17)	35,483,431.83	33,183,772.36	-	-
Due to grantors (Note 7)	973,299.35	942,593.61	-	-
Total noncurrent liabilities	37,727,099.42	35,356,861.19	-	-
Total liabilities	47,184,709.19	42,233,991.16	455,173.83	-
NET ASSETS				
Invested in capital assets, net of related debt	74,314,669.56	72,134,486.43	602,518.65	633,328.13
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	6,571,050.18	5,861,079.10	6,425,591.59	4,688,338.42
Research	-	-	-	371,382.43
Instructional department uses	-	-	64,814.95	-
Expendable:				
Scholarships and fellowships (Notes 8 and 18)	1,056,942.42	1,056,942.42	5,657,131.31	2,448,300.47
Research	389,879.66	389,879.66	51.25	48.65
Instructional department uses (Note 18)	187,458.45	187,458.45	266,133.78	313,080.24
Loans	52,507.91	640,178.53	-	-
Debt service	967,141.35	566,841.70	-	-
Other	-	839,310.93	-	2,361,544.53
Unrestricted (Note 9)	36,387,329.63	31,827,945.32	543,856.58	549,439.43
Total net assets	$ 119,926,979.16	$ 113,504,122.54	$ 13,560,098.11	$ 11,365,462.30

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

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Institution		Component Unit	
	Year Ended June 30, 2007	Year Ended June 30, 2006	Year Ended June 30, 2007	Year Ended June 30, 2006
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $10,827,824.51 for the year ended June 30, 2007, and $11,186,670.00 for the year ended June 30, 2006)	$ 31,853,718.14	$ 28,720,525.78	$ -	$ -
Gifts and contributions	-	-	1,071,306.11	1,874,151.42
Endowment income (per spending plan)	-	-	-	97,696.44
Governmental grants and contracts	3,811,550.52	3,430,022.45	-	-
Nongovernmental grants and contracts	304,857.98	-	-	-
Sales and services of educational departments	1,946,417.53	1,712,043.36	-	-
Auxiliary enterprises:				
Residential life (net of scholarship allowances of $1,272,855.73 for the year ended June 30, 2007, and $146,690.00 for the year ended June 30, 2006; all residential life revenues are used as security for revenue bonds; see Note 7)	3,745,068.99	4,860,724.51	-	-
Bookstore (all bookstore revenues are used as security for revenue bonds; see Note 7)	199,497.43	203,110.22	-	-
Food service (all food service revenues are used as security for revenue bonds; see Note 7)	207,117.23	244,743.36	-	-
Wellness facility (net of scholarship allowances of $114,825.76 for the year ended June 30, 2007; all wellness facility revenues are used as security for revenue bonds; see Note 7)	338,182.95	-	-	-
Other auxiliaries	646,453.85	45,972.65	-	-
Interest earned on loans to students	16,210.32	5,715.10	-	-
Other operating revenues	784,681.90	311,912.89	-	-
Total operating revenues	43,853,756.84	39,534,770.32	1,071,306.11	1,971,847.86
EXPENSES				
Operating expenses (Note 16):				
Salaries and wages	41,422,913.07	39,064,027.34	-	-
Benefits	12,710,111.86	11,493,658.47	-	-
Utilities, supplies, and other services	22,850,783.45	20,000,243.13	48,640.23	594,527.49
Scholarships and fellowships	12,807,401.23	9,717,771.97	440,460.00	486,252.62
Depreciation expense	4,446,741.91	3,293,286.82	-	-
Payments to or on behalf of Austin Peay State University (Note 18)	-	-	372,187.80	373,026.43
Total operating expenses	94,237,951.52	83,568,987.73	861,288.03	1,453,806.54
Operating income (loss)	(50,384,194.68)	(44,034,217.41)	210,018.08	518,041.32
NONOPERATING REVENUES (EXPENSES)				
State appropriations	34,976,800.00	32,683,937.77	-	-
Gifts, including $372,187.80 from component unit for the year ended June 30, 2007, and $373,026.43 for the year ended June 30, 2006	784,964.62	778,090.65	-	-
Grants and contracts	18,755,311.21	16,181,786.52	-	-
Investment income	3,304,368.00	2,160,686.56	1,195,408.72	435,008.73
Interest on capital asset-related debt	(1,527,839.23)	(1,463,594.83)	-	-
Other nonoperating revenues (expenses)	498,198.63	386,730.77	(21,782.79)	-
Net nonoperating revenues	56,791,803.23	50,727,637.44	1,173,625.93	435,008.73
Income before other revenues, expenses, gains, or losses	6,407,608.55	6,693,420.03	1,383,644.01	953,050.05
Capital appropriations	775,101.54	6,687,825.26	-	-
Capital grants and gifts	-	-	30,500.00	-
Additions to permanent endowments	34,366.72	34,574.34	780,491.80	601,311.75
Other	(794,220.19)	(1,062,530.96)	-	-
Total other revenues	15,248.07	5,659,868.64	810,991.80	601,311.75
Increase in net assets	6,422,856.62	12,353,288.67	2,194,635.81	1,554,361.80
NET ASSETS				
Net assets - beginning of year	113,504,122.54	101,150,833.87	11,365,462.30	9,811,100.50
Net assets - end of year	$ 119,926,979.16	$ 113,504,122.54	$ 13,560,098.11	$ 11,365,462.30

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, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 31,898,941.95	$ 28,764,302.52
Grants and contracts	4,155,390.63	3,055,811.25
Sales and services of educational activities	1,579,338.74	1,663,092.73
Payments to suppliers and vendors	(21,898,451.85)	(20,504,635.45)
Payments to employees	(40,912,081.25)	(38,763,182.81)
Payments for benefits	(12,649,203.17)	(11,388,490.97)
Payments for scholarships and fellowships	(12,807,401.23)	(9,717,771.97)
Loans issued to students and employees	(90,038.50)	(417,511.47)
Collection of loans from students and employees	119,855.13	457,418.16
Interest earned on loans to students	18,158.51	5,715.10
Auxiliary enterprise charges:		
Residence halls	3,777,406.69	4,841,102.80
Bookstore	199,562.67	203,612.22
Food services	207,117.23	240,093.80
Wellness facility	339,406.19	-
Other auxiliaries	647,000.34	45,972.67
Other receipts (payments)	784,681.90	303,686.39
Net cash used by operating activities	(44,630,316.02)	(41,210,785.03)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	34,987,700.00	32,655,537.77
Gifts and grants received for other than capital purposes, including $372,187.80 from Austin Peay State University Foundation for the year ended June 30, 2007, and $373,026.43 for the year ended June 30, 2006	19,106,966.51	16,764,527.69
Private gifts for endowment purposes	34,366.72	34,574.34
Federal student loan receipts	37,752,174.36	35,750,951.00
Federal student loan disbursements	(37,762,376.63)	(34,411,229.21)
Changes in deposits held for others	804,017.43	(1,333,672.73)
Other noncapital financing receipts (payments)	498,198.63	386,730.77
Net cash provided by noncapital financing activities	55,421,047.02	49,847,419.63
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	22,032,623.91	4,644,105.88
Capital appropriations	775,101.54	6,606,143.46
Purchases of capital assets and construction	(9,894,497.83)	(14,171,958.41)
Principal paid on capital debt	(19,559,271.31)	(1,155,401.72)
Interest paid on capital debt	(1,483,381.22)	(1,455,625.45)
Bond issue costs paid on new debt issue	(16,773.50)	-
Other capital and related financing receipts (payments)	-	(1,062,530.96)
Net cash used by capital and related financing activities	(8,146,198.41)	(6,595,267.20)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	552,168.12	1,041,306.83
Income on investments	2,682,465.61	1,997,934.36
Purchase of investments	(1,590,869.30)	(526,091.16)
Net cash provided by investing activities	1,643,764.43	2,513,150.03
Net increase in cash and cash equivalents	4,288,297.02	4,554,517.43
Cash and cash equivalents - beginning of year	38,411,027.01	33,856,509.58
Cash and cash equivalents - end of year (Note 2)	$ 42,699,324.03	$ 38,411,027.01

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (50,384,194.68)	$ (44,034,217.41)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	4,446,741.91	3,293,286.82
Gifts in-kind	286,160.28	195,349.48
Change in assets and liabilities:		
Receivables, net	(482,600.14)	(590,370.37)
Inventories	(58,814.45)	1,907.30
Prepaid expenses and deferred revenue	(122,340.20)	163,623.17
Other assets	1,948.19	-
Accounts payable	1,425,251.89	(748,035.57)
Accrued liabilities	163,597.52	28,200.11
Deferred revenue	(58,586.46)	201,896.87
Deposits	(4,120.00)	(7,910.00)
Compensated absences	34,751.98	285,484.57
Due to grantors	30,705.74	-
Loans to students and employees	(29,816.63)	-
Other	120,999.03	-
Net cash used by operating activities	$ (44,630,316.02)	$ (41,210,785.03)
Noncash transactions		
Gifts in-kind	$ 286,160.28	$ 195,349.48
Pledges	$ 24,271.00	$ 7,497.50
Unrealized gains on investments	$ 373,936.91	$ 167,309.33

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 financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Austin Peay State University.

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 18 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

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) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

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 Equivalents

This classification includes instruments 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/amortized 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

At June 30, 2007, cash consisted of $1,087,063.59 in bank accounts, $17,069.00 of petty cash on hand, $37,194,614.34 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $4,400,577.10 in LGIP deposits for capital projects. At June 30, 2006, cash consisted of $1,134,957.83 in bank accounts, $14,469.00 of petty cash on hand, $35,403,561.87 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $1,858,038.31 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 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. INVESTMENTS

All investments permitted to be reported at fair value under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools,* are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2007, 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	No Maturity Date
U.S. Treasury	$ 180,056.22	$ -	$ 70,880.86	$ 78,146.55	$ 31,028.81	$ -
U.S. agencies	295,560.53	-	75,178.04	-	220,382.49	-
Corporate stocks	1,857,744.67	-	-	-	-	1,857,744.67
Corporate bonds	144,674.92	-	106,230.95	32,645.09	5,798.88	-
Mutual bond funds	1,780,368.80	-	-	-	-	1,780,368.80
Mutual equity funds	2,195,026.69	-	-	-	-	2,195,026.69
Certificates of deposit	559,614.93	559,614.93	-	-	-	-
Money market funds	62,318.91	-	-	-	-	62,318.91
Total	$7,075,365.67	$559,614.93	$252,289.85	$110,791.64	$257,210.18	$ 5,895,459.07

At June 30, 2006, 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	No Maturity Date
U.S. Treasury	$ 114,700.56	$ -	$ -	$ -	$114,700.56	$ -
U.S. agencies	135,097.07	-	89,581.06	-	45,516.01	-
Corporate stocks	1,593,304.44	-	-	-	-	1,593,304.44
Corporate bonds	367,315.43	-	191,245.27	168,171.52	7,898.64	-
Mutual funds (Common Fund)	2,618,458.58	-	-	-	-	2,618,458.58
Certificates of deposit	526,091.16	526,091.16	-	-	-	-
Money market funds	59,794.86	59,794.86	-	-	-	-
Total	$5,414,762.10	$585,886.02	$280,826.33	$168,171.52	$168,115.21	$4,211,763.02

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 - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale. The university has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations.

At June 30, 2007, the university's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
LGIP	$41,595,191.44	$ -	$ -	$ -	$ -	$41,595,191.44
U.S. agencies	295,560.53	75,178.04	-	-	-	220,382.49
Corporate bonds	144,674.92	12,604.02	72,018.30	47,172.51	12,880.09	-
Common Fund	1,780,368.80	-	1,780,368.80	-	-	-
Total	$43,815,795.69	$87,782.06	$ 1,852,387.10	$47,172,51	$ 12,880.09	$41,815,573.93

At June 30, 2006, the university's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
LGIP	$ 37,261,600.18	$ -	$ -	$ -	$ -	$37,261,600.18
U.S. agencies	135,097.07	89,581.06	-	-	-	45,516.01
Corporate bonds	367,315.43	71,530.16	92,203.24	159,397.28	44,184.75	-
Common Fund	2,618,458.58	-	-	-	-	2,618,458.58
Total	$ 40,382,471.26	$161,111.22	$ 92,203.24	$ 159,397.28	$ 44,184.75	$39,925,574.77

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, 2007, the university had $2,540,355.25 of uninsured and unregistered investments for which the securities are held by the counterparty and $4,535,010.42 of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the university's name. At June 30, 2006, the university had $2,270,212.36 of uninsured and unregistered investments for which the securities are held by the counterparty and $3,144,549.74 of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the university's name.

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

	Carrying Value June 30, 2007	Carrying Value June 30, 2006
Certificate of deposit	$ 27,196.92	$ 26,091.16
Regions Investment Account	2,540,355.25	2,270,212.36
The Common Fund	3,975,395.49	2,618,458.58
Total	$6,542,947.66	$ 4,914,762.10

The certificate of deposit and the Regions Investment Account are each the investment for a single endowment fund. The investments for the remaining endowment funds are composed of two mutual funds managed by the Common Fund. Assets of these 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 at the beginning of the calendar quarter within which the transaction takes place. At June 30, 2007, there were a total of 10,601.945 units in the Multi-Strategy Equity Fund, each having a market value of $207.04, and a total of 135,183.660 units in the Multi-Strategy Bond Fund, each having a market value of $13.17. At June 30, 2006, there were a total of 10,644.499 units in the Multi-Strategy Equity Fund, each having a market value of $172.34, and a total of 60,727.004 units in the Multi-Strategy Bond Fund, each having a market value of $12.91.

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

FY 2007

	Pooled Assets Fair Value	Pooled Assets Cost	Net Gains (Losses)	Fair Value Per Unit
Multi-Strategy Equity Fund				
End of year	$2,195,026.69	$1,080,000.00	$1,115,026.69	$ 207.04
Beginning of year	$1,834,472.96	$1,080,000.00	754,472.96	172.34
			$ 360,553.73	$ 34.70
Multi-Strategy Bond Fund				
End of year	$1,780,368.80	$1,703,000.00	$ 77,368.80	$ 13.17
Beginning of year	$ 783,985.62	$ 720,000.00	63,985.62	12.91
			$ 13,383.18	$ 0.26
Unrealized net gains			$ 373,936.91	

Purchases of $973,000 in the Multi-Strategy Bond Fund were made during the year. The income was distributed to the university. The average annual earnings per unit, exclusive of net gains, were $2.848/unit for the Multi-Strategy Equity Fund and $0.653/unit for the Multi-Strategy Bond Fund for the year ended June 30, 2007.

FY 2006

	Pooled Assets Fair Value	Pooled Assets Cost	Net Gains (Losses)	Fair Value Per Unit
Multi-Strategy Equity Fund				
End of year	$ 1,834,472.96	$1,080,000.00	$754,472.96	$ 172.34
Beginning of year	$ 1,673,190.07	$1,080,000.00	593,190.07	156.56
			$161,282.89	$ 15.78
Multi-Strategy Bond Fund				
End of year	$783,985.62	$ 720,000.00	$ 63,985.62	$ 12.91
Beginning of year	$807,668.58	$ 720,000.00	87,668.58	13.26
			(23,682.96)	$ (0.35)
Unrealized net gains			$137,599.93	

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 \$2.039/unit for the Multi-Strategy Equity Fund and \$0.564/unit for the Multi-Strategy Bond Fund for the year ended June 30, 2006.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2007	June 30, 2006
Student accounts receivable	\$3,142,564.94	\$2,981,589.08
Grants receivable	1,177,552.21	956,207.69
Notes receivable	25,951.78	38,172.75
State appropriation receivable	114,100.00	125,000.00
Other receivables	842,295.21	450,942.15
Subtotal	5,302,464.14	4,551,911.67
Less allowance for doubtful accounts	(594,938.51)	(470,946.76)
Total receivables	\$4,707,525.63	\$4,080,964.91

Federal Perkins Loan Program funds included the following:

	June 30, 2007	June 30, 2006
Perkins loans receivable	\$1,494,472.06	\$1,542,488.57
Less allowance for doubtful accounts	(190,875.53)	(187,489.69)
Total	\$1,303,596.53	\$1,354,998.88

NOTE 5. PLEDGES RECEIVABLE

Pledges receivable are promises of private donations that are reported as a receivable and revenue, net of the estimated uncollectible allowance of \$8,891.00 at June 30, 2007, and \$7,710.23 at June 30, 2006.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 3,846,445.71	$ 2,700.00	$ -	$ -	$ 3,849,145.71
Land improvements and infrastructure	8,797,067.57	358,736.12	1,076,441.88	-	10,232,245.57
Buildings	119,740,853.45	5,882,196.10	12,099,778.18	45,352.00	137,677,475.73
Equipment	11,470,850.42	3,272,667.80	-	2,012,693.04	12,730,825.18
Library holdings	5,949,635.42	742,866.33	-	478,718.80	6,213,782.95
Software	1,165,937.38	974,400.79	-	-	2,140,338.17
Projects in progress	13,568,260.00	403,474.34	(13,176,220.06)	-	795,514.28
Total	164,539,049.95	11,637,041.48	-	2,536,763.84	173,639,327.59
Less accum. depreciation:					
Land improvements and infrastructure	4,392,912.23	387,967.35	-	-	4,780,879.58
Buildings	43,884,343.98	3,395,115.50	-	-	47,279,459.48
Equipment	7,216,790.12	1,051,331.18	-	883,301.32	7,384,819.98
Library holdings	2,934,292.72	621,378.33	-	478,718.80	3,076,952.25
Software	-	352,969.67	-	-	352,969.67
Total accum. depreciation	58,428,339.05	5,808,762.03	-	1,362,020.12	62,875,080.96
Capital assets, net	$106,110,710.90	$ 5,828,279.45	$ -	$1,174,743.72	$110,764,246.63

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 3,502,925.71	$ 343,520.00	$ -	$ -	$ 3,846,445.71
Land improvements and infrastructure	8,631,135.29	165,932.28	-	-	8,797,067.57
Buildings	119,714,278.45	26,575.00	-	-	119,740,853.45
Equipment	9,453,417.29	2,473,217.23	-	455,784.10	11,470,850.42
Library holdings	5,597,960.29	828,873.39	-	477,198.26	5,949,635.42
Software	-	548,256.89	747,229.09	129,548.60	1,165,937.38
Projects in progress	3,467,374.81	10,848,114.28	(747,229.09)	-	13,568,260.00

Total	150,367,091.84	15,234,489.07	-	1,062,530.96	164,539,049.95
Less accum. depreciation:					
Land improvements and infrastructure	4,050,243.84	342,668.39	-	-	4,392,912.23
Buildings	40,850,321.05	3,034,022.93	-	-	43,884,343.98
Equipment	7,417,959.91	831,751.66	-	1,032,921.45	7,216,790.12
Library holdings	2,816,527.43	594,963.55	-	477,198.26	2,934,292.72
Software	-	129,548.60	-	129,548.60	-
Total accum. depreciation	55,135,052.23	4,932,955.13	-	1,639,668.31	58,428,339.05
Capital assets, net	$ 95,232,039.61	$ 10,301,533.94	$ -	$ (577,137.35)	$106,110,710.90

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$28,308,595.18	$18,370,840.91	$11,199,271.31	$35,480,164.78	$ 966,145.24
Commercial paper	5,667,629.29	3,661,783.00	8,360,000.00	969,412.29	-
Subtotal	33,976,224.47	22,032,623.91	19,559,271.31	36,449,577.07	966,145.24
Other liabilities:					
Compensated absences	1,710,118.97	108,990.55	74,238.57	1,744,870.95	474,502.71
Due to grantors	942,593.61	30,705.74	-	973,299.35	-
Subtotal	2,652,712.58	139,696.29	74,238.57	2,718,170.30	474,502.71
Total long-term liabilities	$36,628,937.05	$22,172,320.20	$19,633,509.88	$39,167,747.37	$1,440,647.95

Long-term liabilities activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$28,964,418.43	$ 104,345.18	$ 760,168.43	$28,308,595.18	$ 792,452.11
Commercial paper	1,523,102.08	4,539,760.50	395,233.29	5,667,629.29	-

Subtotal	30,487,520.51	4,644,105.68	1,155,401.72	33,976,224.47	792,452.11
Other liabilities:					
Compensated absences	1,424,634.40	285,484.57	-	1,710,118.97	479,623.75
Due to grantors	950,820.11	-	8,226.50	942,593.61	-
Subtotal	2,375,454.51	285,484.57	8,226.50	2,652,712.58	479,623.75
Total long-term liabilities	$32,862,975.02	$ 4,929,590.25	$ 1,163,628.22	$36,628,937.05	$1,272,075.86

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 4.0% to 6.0%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to May 2036 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 included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve. The reserve amount was $0.00 at June 30, 2007, and $174,391.71 at June 30, 2006.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Total
2008	$ 966,145.24	$ 1,614,621.10	$ 2,580,766.34
2009	1,000,866.04	1,579,682.81	2,580,548.85
2010	1,040,244.11	1,543,362.05	2,583,606.16
2011	1,085,667.83	1,498,463.38	2,584,131.21
2012	1,148,383.27	1,451,577.36	2,599,960.63
2013-2017	5,152,308.26	6,545,659.36	11,697,967.62
2018-2022	5,662,679.35	5,325,825.47	10,988,504.82
2023-2027	7,109,464.18	3,882,189.36	10,991,653.54
2028-2032	9,042,404.71	2,029,559.07	11,071,963.78
2033-2036	3,272,001.79	291,962.48	3,563,964.27
	$35,480,164.78	$25,762,902.44	$61,243,067.22

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at the university was $969,412.29 at June 30, 2007, and $5,667,629.29 at June 30, 2006.

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.

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273, on-line at http://www.comptroller.state.tn.us/bf/bftssba.htm, or by calling (615) 401-7872.

NOTE 8. 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, 2007, net appreciation of $111,013.97 is available to be spent, all of which is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2006, net appreciation of $90,476.24 is available to be spent, all of which is included in restricted net assets expendable for scholarships and fellowships.

NOTE 9. UNRESTRICTED NET ASSETS

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

	June 30, 2007	June 30, 2006
Working capital	$ 2,451,530.85	$ 2,749,996.10
Encumbrances	1,249,761.79	1,469,930.73
Designated fees	1,736,817.75	1,045,508.99
Auxiliaries	297,689.85	258,882.14
Plant construction	12,978,857.04	14,597,059.19
Renewal and replacement of equipment	14,592,903.25	9,984,464.61
Unreserved/undesignated	3,079,769.10	1,722,103.56
Total	$36,387,329.63	$31,827,945.32

NOTE 10. PENSION PLANS

A. Defined Benefit Plan

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, by calling (615) 741-8202, or on-line at http://www.treasury.state.tn.us/tcrs/TCRS-AnnualReport.pdf.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 13.66% 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, 2007, 2006, and 2005 were $2,243,277.69, $1,614,166.09, and $1,454,717.54. 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 $1,968,930.05 for the year ended June 30, 2007, and $1,810,759.65 for the year ended June 30, 2006. Contributions met the requirements for each year.

NOTE 11. 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 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, on-line at http://www.state.tn.us/finance/act/cafr_fy07/cafr_fy07.pdf, or by calling (615) 741-2140.

NOTE 12. 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. 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 $5 million.

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, 2007, and June 30, 2006, 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 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, on-line at http://www.state.tn.us/finance/act/cafr_fy07/cafr_fy07.pdf, 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, 2007, the Risk Management Fund held $116.7 million in cash and cash equivalents designated for payment of claims. At June 30, 2006, the Risk Management fund held $133.2 million in cash and cash equivalents designated for payment of claims.

At June 30, 2007, the scheduled coverage for the university was $295,088,050 for buildings and $35,891,700 for contents. At June 30, 2006, the scheduled coverage for the university was $182,262,900 for buildings and $31,674,400 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 13. 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 $11,152,510.75 at June 30, 2007, and $11,734,794.46 at June 30, 2006.

Operating Leases - The university has entered into various operating leases for buildings. Such leases will probably continue to be required. Expenses under operating leases for real property were $3,067 for the year ended June 30, 2007, and

$15,000 for the year ended June 30, 2006. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2007, outstanding commitments under construction contracts totaled $465,860.11 for the McCord renovation, Memorial Health renovation, parking lot improvements, athletic facilities improvements, chiller repair, and Memorial Health pool repair, of which $311,106.33 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 $785,024.00 at June 30, 2007.

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

NOTE 14. CHAIRS OF EXCELLENCE

The university had $9,821,211.74 on deposit at June 30, 2007, and $8,640,603.57 on deposit at June 30, 2006, 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 15. 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, 2007, and $90,584 during the year ended June 30, 2006.

NOTE 16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2007, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$23,671,172.76	$ 6,452,315.91	$ 7,407,875.16	$ -	$ -	$37,531,363.83
Research	819,379.19	214,818.87	457,978.95	-	-	1,492,177.01
Public service	810,020.86	282,107.98	368,003.06	-	-	1,460,131.90
Academic support	3,890,068.82	1,285,881.52	1,433,316.21	-	-	6,609,266.55
Student services	4,938,349.20	1,775,626.66	4,888,793.33	-	-	11,602,769.19
Institutional support	4,350,684.15	1,578,745.73	2,889,555.79	-	-	8,818,985.67
Operation & maintenance	2,025,015.26	868,489.68	2,303,665.08	-	-	5,197,170.02
Scholar. & fellow.	-	-	-	12,807,401.23	-	12,807,401.23
Auxiliary	918,222.83	252,125.51	3,101,595.87	-	-	4,271,944.21
Depreciation	-	-	-	-	4,446,741.91	4,446,741.91
Total	$41,422,913.07	$12,710,111.86	$ 22,850,783.45	$ 12,807,401.23	$ 4,446,741.91	$94,237,951.52

The university's operating expenses by functional classification for the year ended June 30, 2006, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$22,191,373.61	$ 5,829,880.60	$ 4,982,273.84	$ 548,682.73	$ -	$33,552,210.78
Research	724,682.84	166,089.15	503,544.03	37,235.00	-	1,431,551.02
Public service	868,504.19	267,746.53	316,509.73	31,848.22	-	1,484,608.67
Academic support	3,649,017.21	1,214,478.01	(1,102,602.47)	24,833.32	-	3,785,726.07
Student services	5,090,598.71	1,687,291.53	4,593,538.13	766,618.11	-	12,138,046.48
Institutional support	4,042,228.12	1,342,295.24	2,141,314.70	5,563.85	-	7,531,401.91
Operation & maintenance	1,906,086.24	772,050.45	6,323,223.64	-	-	9,001,360.33
Scholar. & fellow.	-	-	201.72	8,179,938.84	-	8,180,140.56
Auxiliary	591,536.42	213,826.96	2,242,239.81	123,051.90	-	3,170,655.09
Depreciation	-	-	-	-	3,293,286.82	3,293,286.82
Total	$39,064,027.34	$11,493,658.47	$20,000,243.13	$ 9,717,771.97	$3,293,286.82	$83,568,987.73

NOTE 17. PRIOR-YEAR RESTATEMENT

In the prior year, the commercial paper payable was not accurately allocated between current and noncurrent long-term liabilities. The following amounts have been restated to comply with the requirements of Financial Accounting Standards Board Statement No. 6, *Classification of Short-term Obligations Expected to be Refinanced*.

		Original Amount		Increase/(Decrease)		Restated Amount
Statement of net assets:						
Long-term liabilities, current	$	1,623,122.03	$	(830,669.92)	$	792,452.11
Long-term liabilities, noncurrent	$	32,353,102.44	$	830,669.92	$	33,183,772.36

NOTE 18. 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, 2007, the foundation made distributions of $372,187.80 to or on behalf of the university for both restricted and unrestricted purposes. During the year ended June 30, 2006, the foundation made distributions of $373,026.43 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: Tim Hurst, Business Office, Box 4635, Clarksville, TN 37044.

Cash and cash equivalents - Cash and cash equivalents consists of demand deposit accounts, certificates of deposit, 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, 2007, and June 30, 2006, 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, 2007, were as follows:

	Cost	Market Value
U.S. Treasury notes	$ 86,627.25	$ 86,390.20
U.S. Treasury bonds	30,768.67	30,589.86
Federal Home Loan Mortgage Corporation	42,590.13	41,269.46
Federal National Mortgage Association	52,504.40	51,619.65
Domestic equities	2,485,731.22	2,861,091.43
Certificates of deposit	100,400.00	100,417.06
Mutual funds	3,560,729.44	5,735,219.25
Money market funds	881,011.73	881,011.73
International equities	151,977.39	202,035.02
Total investments	$ 7,392,340.23	$ 9,989,643.66

Investments held at June 30, 2006, were as follows:

	Cost	Market Value
U.S. Treasury notes	$ 115,976.68	$ 113,079.95
U.S. Treasury bonds	32,044.76	31,470.09
Federal Home Loan Mortgage Corporation	23,564.11	22,328.24
Federal National Mortgage Association	25,624.29	24,601.02
Federal Home Loan Bank	49,961.87	48,459.50
Domestic equities	1,222,893.76	2,138,432.31
Certificates of deposit	100,400.00	100,417.06

Mutual funds	3,090,288.81	4,619,516.35
Money market funds	301,078.91	301,078.91
International equities	112,819.82	131,084.21
Other - cash and cash equivalents	75.00	75.00
Total investments	$ 5,074,728.01	$ 7,530,542.64

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

	June 30, 2007	June 30, 2006
Current pledges	$ 173,864.74	$ 153,362.62
Pledges due in one to five years	352,936.52	330,895.92
Pledges due after five years	-	450.00
Subtotal	526,801.26	484,708.54
Less discount to net present value	(53,989.78)	(-)
Total pledges receivable, net	$ 472,811.48	$ 484,708.54

Capital assets - Capital assets at June 30, 2007, and June 30, 2006, were as follows:

	June 30, 2007	June 30, 2006
Land	$ 602,518.65	$ 633,328.13

Endowments - If a donor has not provided specific instructions to the foundation, the foundation’s policies and procedures permit it 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 foundation is required to consider the foundation’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 foundation 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 foundation, 5% of a three-year balance has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2007, net appreciation of $58,681.31 is available to be spent, of which $54,747.05 is included in restricted net assets expendable for scholarships and fellowships, and $3,934.26 is included in restricted net assets expendable for instructional departmental uses. At June 30, 2006, net appreciation of $49,877.12 is available to be spent, of which $48,785.80 is included in restricted net assets expendable for scholarships and fellowships, and $1,091.32 is included in restricted net assets expendable for instructional departmental uses.

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
SUPPLEMENTARY INFORMATION
SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 909,664.31	$ 1,238,510.36
Endowment income	-	97,696.44
Payments to suppliers and vendors	(32,701.61)	(627,596.25)
Payments for scholarships and fellowships	-	(486,252.62)
Payments to Austin Peay State University	(372,187.80)	(373,026.43)
Net cash provided (used) by operating activities	504,774.90	(150,668.50)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital or endowment purposes	780,491.80	-
Private gifts for endowment purposes	-	601,311.75
Other noncapital financing receipts (payments)	-	4,127.17
Net cash provided by noncapital financing activities	780,491.80	605,438.92
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	117,935.95	-
Purchases of capital assets	(75,737.40)	-
Net cash provided by capital and related financing activities	42,198.55	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	50,858.94	183,080.19
Income on investments	356,995.96	303,714.53
Purchases of investments	(1,511,029.74)	(88,400.00)
Other investing receipts (payments)	-	(158,857.63)
Net cash provided (used) by investing activities	(1,103,174.84)	239,537.09
Net increase in cash and cash equivalents	224,290.41	694,307.51
Cash and cash equivalents - beginning of year	2,591,790.52	1,897,483.01
Cash and cash equivalents - end of year	$ 2,816,080.93	$ 2,591,790.52
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 210,018.08	$ 518,041.32
Adjustments to reconcile operating income to net cash provided by operating activities:		
Contributions for capital projects	(165,940.18)	-
Change in assets and liabilities:		
Receivables, net	5,253.17	(32,280.44)
Prepaid expenses and deferred charges	270.00	(140.00)
Other assets	-	(635,641.06)
Accounts payable	455,173.83	(648.32)
Net cash provided by operating activitie	$ 504,774.90	$ (150,668.50)
Noncash transactions		
Gifts in-kind	$ 209,445.46	$ 648,285.96
Pledges	$ 472,411.48	$ 484,708.54
Unrealized gains on investments	$ 738,992.58	$ 104,065.18