AUDIT REPORT

Tennessee Board of Regents
Austin Peay State University

For the Year Ended
June 30, 2008

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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January 14, 2010

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, 2008. 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
09/048

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, 2008

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

Controls Related to Receipting, Recording, and Documenting Contributions and Pledges Received in the University Advancement Office Were Not Adequate, Which Increased the Risk of Misstatements in the University's, Foundation's, and Athletics Department's Financial Statements*

The Office of University Advancement personnel did not establish policies and procedures for monitoring pledges receivable and did not comply with established policies and procedures related to receipting, recording, and documenting contributions and pledges received from donors. While obtaining an understanding of controls over cash receipting and pledges receivable in the Office of University Advancement and while completing agreed-upon procedures on the Athletics Department's National Collegiate Athletic Association (NCAA) Statement of Revenues and Expenses, we noted that staff recorded Athletics Department revenue amounts in the wrong account; management failed to establish policies or procedures to monitor pledges receivable to determine which amounts should be written off, and staff failed to follow established policies for maintaining pledges receivable documentation; and the Executive Director of the foundation failed to ensure adequate controls over cash receipting and recording functions. Because staff recorded Athletics Department revenue amounts in the wrong accounts, management misstated operating revenues reported on the NCAA Statement of Revenues of Expenses. Also, without adequate policies and procedures governing pledges receivable write-off and staff's failure to maintain supporting documentation for pledges, the risk of misstatement of the APSU Foundation's financial statements is increased. Finally, the lack of controls over the cash receipting and recording process of pledge donations could result in staff not depositing funds timely, or at all, thus increasing the risks of fraud, waste, and abuse, as well as increasing the risk of misstatements in the university's and foundation's financial statements (page 9).

Because the Student Accounts Receivable Subsidiary Ledger Was Not Reconciled to the General Ledger Periodically or at Year-end, Management Was Not Promptly Aware of Problems Within the Subsidiary Ledger, Increasing the Risk That Receivable Balances on the Statement of Net Assets Could Be Misstated

During our testwork to gain an understanding of controls related to accounts receivable, we were told by the Bursar and Assistant Vice President of Finance that university personnel did not reconcile the student accounts receivable subsidiary ledger to the student receivables general ledger during the audit period, and we found that management did not promptly detect when problems occurred. As a result, we encountered various problems when performing procedures related to student accounts receivable to support amounts on the statement of net assets (page 15).

One of the significant deficiencies described above was considered a material weakness:

- Because the student accounts receivable subsidiary ledger was not reconciled to the general ledger periodically or at year-end, management was not promptly aware of problems within the subsidiary ledger, increasing the risk that receivable balances on the statement of net assets could be misstated.

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.

* This finding is partially repeated from the prior audit.

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, 2008

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Austin Peay State University
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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 Executive 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, 2007, through June 30, 2008, 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, 2008. Austin Peay State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

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

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

4. to recommend appropriate actions to correct any deficiencies.

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

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university is scheduled to file its report with the Department of Audit by September 1, 2009. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the university corrected previous audit findings concerning the Director of Accounting Services or the Assistant Vice President of Finance not ensuring that amounts were properly reported in the financial statements, the accompanying notes to the financial statements, and management's discussion and analysis and the Director of Accounting Services not providing the June 2007 bank reconciliations and related support to audit staff in a timely manner and not completing other reconciliations timely.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning revenue amounts on the NCAA Statement of Revenues and Expenses not being adequately supported or properly recorded. This finding has not been fully resolved and is partially repeated in this 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, 2008, 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 of this report.

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.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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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*

July 14, 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:

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, 2008, and have issued our report thereon dated July 14, 2009. During the year ended June 30, 2008, the university implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. 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:

- Controls related to receipting, recording, and documenting contributions and pledges received in the University Advancement Office were not adequate, which increased the risk of misstatements in the university's, foundation's, and Athletics Department's financial statements

- Because the student accounts receivable subsidiary ledger was not reconciled to the general ledger periodically or at year-end, management was not promptly aware of problems within the subsidiary ledger, increasing the risk that receivable balances on the statement of net assets could be misstated

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:

- Because the student accounts receivable subsidiary ledger was not reconciled to the general ledger periodically or at year-end, management was not promptly aware of problems within the subsidiary ledger, increasing the risk that receivable balances on the statement of net assets could be misstated.

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.

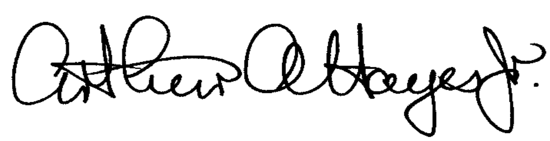
Compliance and Other Matters

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.

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

AAH/ddb

FINDINGS AND RECOMMENDATIONS

1. **Controls related to receipting, recording, and documenting contributions and pledges received in the University Advancement Office were not adequate, which increased the risk of misstatements in the university's, foundation's, and Athletics Department's financial statements**

Finding

The Office of University Advancement personnel did not establish policies and procedures for monitoring pledges receivable and did not comply with established policies and procedures related to receipting, recording, and documenting contributions and pledges received from donors. The Office of University Advancement receives contributions and pledges for both the university and the foundation. While obtaining an understanding of controls over cash receipting and pledges receivable in the Office of University Advancement and while completing agreed-upon procedures on the Athletics Department's National Collegiate Athletic Association (NCAA) Statement of Revenues and Expenses, we noted that

- staff recorded Athletics Department revenue amounts in the wrong account;
- management failed to establish policies or procedures to monitor pledges receivable to determine which amounts should be written off, and staff failed to follow established policies for maintaining pledges receivable documentation; and
- the Executive Director of the foundation failed to ensure adequate controls over cash receipting and recording functions.

Athletics Revenue

As noted in the prior audit, university personnel did not report any revenue as "royalties, advertisements, and sponsorships" for fiscal year 2008 on the NCAA Statement of Revenues and Expenses even though they received this classification of revenue. Based on our review of corporate agreements and the gift in-kind listing as well as our discussions with the Assistant Vice President of Finance in the university's fiscal office, the Director and Staff Auditor in the Office of Internal Audit, and the Director of Development in the Austin Peay State University Advancement Office, we concluded that the Athletics Compliance Coordinator improperly included "royalties, advertisements, and sponsorships" revenue received as contributions revenue on the NCAA Statement of Revenues and Expenses. Our agreed-upon procedures and discussions with management disclosed the following specific problems:

- We nonstatistically selected nine corporate agreements for our review. We specifically reviewed the agreements for items recorded as gifts in-kind and determined that the Assistant Vice President of Business and Finance incorrectly reported $22,751.06 as “contributions” rather than “royalties, advertisements, and sponsorships” on the NCAA statement. We corrected the NCAA statement for this error.

- We also found that the University Advancement personnel incorrectly recorded revenues received from the sale of advertisements as gifts/contributions. The Director of Development told us that University Advancement personnel entered all contribution type transactions into the Banner Advancement module as gift in-kind transactions even though they were aware that some of the transactions may not have actually been gift in-kind transactions, but rather transactions related to trade agreements. The University Advancement Office personnel use the amount recorded in the Banner Advancement module as the official record of any and all “donations.” We concluded that keeping track of donors in this manner was not practical since the Banner Advancement module feeds directly into the Banner Finance module and, thus, created erroneous amounts for financial reporting purposes.

The university’s Internal Audit section performed a detailed review of contribution revenues for fiscal year 2007 to determine which, if any, contributions should have been recorded as “royalties, advertisements, and sponsorships” revenue. The problems they encountered included the following:

- The Director of Corporate Relations is responsible for maintaining copies of the corporate agreements. However, he could not locate and provide 14 of the agreements that Internal Audit staff requested.

- Internal Audit staff identified revenue receipts related to 16 corporate agreements that did not agree in total with revenue amounts stated in the agreements. Internal Audit staff were not able to locate revenue receipts for 6 corporate agreements. The largest difference between the agreements and the related receipts was $5,000.

We noted similar problems when performing our agreed upon procedures for the year ended June 30, 2008.

Management concurred with our prior finding and stated:

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 [NCAA] revenue and expense report would be prepared and completed by the Athletics Department with a review provided by the Business Office.

Pledges Receivable

Based on our review of the university's procedures for accounting for pledges receivable, we found that procedures were not adequate to ensure that pledges receivable were properly supported and that uncollectible pledges were written off in a consistent or timely manner. We noted the following problems related to pledges receivable procedures:

- Our testwork disclosed that pledge cards were not maintained for 6 of 8 pledges receivable tested (75%). The total due for these items was $55.00. The Director of Development stated that due to space limitations in the University Advancement Office, documentation was only maintained for the previous two phonathons. Phonathons are held in the spring and fall of each year. The Director of Development also stated that all other pledge documentation was destroyed. Tennessee Board of Regents (TBR) Guideline G-070, *Disposal of Records – RDA 2161*, requires a five-year retention period for "accounts receivable [and] invoices billing individuals and organizations for accounts receivable." The guideline also states that "prior to disposal or destruction, these business records must have been subjected to the completion of an annual or bi-annual audit conducted by the State Audit Division of the Comptroller's Office as required by T.C.A. § 4-3-304. . . .'Completion' includes the issuance of the final audit report and the resolution of any audit exceptions or questions arising from the audit."

- The Executive Director of University Advancement stated that no policies or procedures were in place to periodically monitor the pledges receivable to determine which amounts should be written off.

- Our review of the short-term pledges receivable write-off requests for the prior three fiscal years disclosed that 72%, 28%, and 8% of the pledges written off had been outstanding longer than 365 days. The largest outstanding pledge amount was $470. We used 365 days as a reasonable period to classify the receivable as uncollectible for management to pursue write-off of the short-term pledges in the absence of any management policies or procedures.

Cash Receipting

In obtaining an understanding of controls over the cash receipting procedures for pledges in the University Advancement Office, we noted several significant deficiencies in the cash controls and receipting procedures for pledges. Specifically, we noted the following deficiencies:

- Advancement Office personnel did not prepare a mail log when cash and checks for pledges were received.

- Advancement Office personnel did not restrictively endorse pledge checks upon receipt. Checks were restrictively endorsed when they were posted to the Banner system by the Technical Clerk. The Advancement Office Supervisor and Technical Clerk each stated that a delay of one to three days often occurred between the time the pledge checks were received in the Advancement Office and the time staff posted the revenue to the Banner system.

- Advancement Office personnel did not deposit timely pledge monies received. The Office Supervisor and Technical Clerk stated that a delay of one to three days may have occurred between the time money was received in the Advancement Office and when the money was deposited into the bank by Business Office personnel. Cash and checks that were not deposited on the same business day they were received were locked in the Technical Clerk's desk drawer. Our testwork specifically disclosed that cash receipts for pledges were not deposited in a timely manner for 14 of 25 cash receipts we tested (56%). Since we could not determine the actual date the pledges were received, we used the date that the amount was posted to Banner and compared that date to the deposit date. TBR policy 4:01:01:10, *Deposit and Investment of Funds*, part E. Depositing Funds, states, "Each institutional department will deposit funds each day when $500 in funds have been accumulated. All funds must be adequately secured. In all cases, a deposit must be made at least once each work week (Monday-Friday) if there are any funds to be deposited." We noted in our testwork that (1) the amount of monies received each day exceeded $500; (2) the number of days a required deposit was late ranged from two to six business days; and (3) the total amount of the 14 late cash receipts equaled $6,165.00.

- During a walkthrough of procedures in the Advancement Office, we observed that cash and checks were left unsecured on the Technical Clerk's desk while the clerk was in another office talking to a coworker. We went into the hallway for approximately 10 minutes to discuss receipting procedures with the Office Supervisor and observed several people going into and out of the Advancement Office. When we returned to the office, we observed the unsecured cash and checks in the same location, and the Technical Clerk was still in the other office talking to a coworker.

Effect of Weaknesses in Controls

Because staff recorded Athletics Department revenue amounts in the wrong accounts, management misstated operating revenues reported on the NCAA Statement of Revenues of Expenses. Also, without adequate policies and procedures governing pledge receivable write-off and staff's failure to maintain supporting documentation for pledges, the risk of misstatement of the APSU Foundation's financial statements is increased. Finally, the lack of controls over the cash receipting and recording process of pledge donations could result in staff not depositing funds timely, or at all, thus increasing the risks of fraud, waste, and abuse, as well as increasing the risk of misstatements in the university's and foundation's financial statements. Although management had started its risk assessment process, management's risk assessment for the Athletics Department had not been completed at the time we performed our testwork.

Recommendation

The Executive Director of the foundation and The Director of Development should ensure that Athletics Department revenues related to corporate agreements are properly classified and recorded in the proper accounts in Banner. The Director of Corporate Relations should ensure that copies of all corporate agreements are maintained. The Executive Director should also ensure that supporting documentation for pledges is maintained in accordance with applicable TBR guidelines. The Executive Director should ensure that written policies and procedures are developed and implemented to monitor pledges receivable and determine which amounts should be written off. The Executive Director should immediately ensure that controls related to cash receipting and recording of pledges are strengthened. A mail log should be maintained, checks should be restrictively endorsed upon receipt, and deposits should be made in a timely manner. Any cash or checks received but not immediately deposited should be put in a locked bank bag and either locked in the safe in the University Advancement Office or taken to the cashiers for safekeeping in the vault in the Business Office until the next business day. The University Advancement Office personnel should follow applicable TBR policies regarding the timely deposit of funds.

As management continues its risk assessment process, the Vice President of Business and 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 Business and Finance 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 Vice President of Business and Finance should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and take prompt action should exceptions occur.

Management's Comment

We concur with the finding and recommendation. In order to correct the issue regarding agreements that could not be located, the official copy of corporate agreements is now typed and maintained in the Athletic Department. To correct the matter of receipts related to the corporate sponsorships not agreeing with the amounts stated in the agreements, a follow-up is performed on a regular basis with corporate partners by the Athletic Department's Administrative Assistant to ensure terms of agreements are upheld. At times, corporate partners do not follow through on their commitments and in these cases, this information will be documented in the file. The Athletic Department will do everything practicable, including providing information to employees on the proper classification of revenues, to ensure that revenues conform to NCAA reporting instructions. As discussed with auditors, and reliance based on Internal Revenue Service guidance, sponsorship revenues will be recognized as gift revenue for financial purposes. In order to comply with the NCAA reporting requirements, Advancement developed specific gift codes for the recording of sponsorship revenues. In conjunction with using these specific codes, Advancement developed a report to identify the sponsorship amounts that are not gifts which will be listed separately in accordance with the NCAA reporting instructions.

Effective August 2009, a mail log is being utilized by the Advancement Office to record the receipt of checks. Technical Clerk 1 opens the mail, logs in monies received, and immediately endorses all checks with the appropriate university or foundation stamp. Technical Clerk 2 has been relocated to a private office to process money, ensuring that it is not easily observed by individuals walking past or entering the Advancement Office. Risers have been installed on front desks to ensure that any money being processed within the Advancement Office cannot be easily observed by individuals walking past or entering the office. After the cash and checks are properly logged and receipted, a deposit ticket is completed in triplicate. A copy of the deposit ticket is made, and all three of the deposit tickets along with the cash and checks are placed in a locked bank bag that only Advancement Office staff and the bank have the capability access to unlock. The locked bag is transported to the bank with other Business Office deposits daily. Upon return, the Advancement Office receives one copy of the bank validated deposit ticket that is reconciled to the log and receipts. Another copy of the validated deposit ticket is retained by the Business Office where the foundation bank account is reconciled monthly. Monies received but not deposited are placed in locked bank bags and locked in a safe for safekeeping.

The Advancement Office has a written policy in place indicating that pledges of $99 or less will be written off if not received after 365 days. Pledges receivable are monitored at the end of each fiscal year and are discounted to net present value in accordance with the Financial Accounting Standards Board (FASB). Pledges receivable are also presented net of an allowance for uncollectable amounts in the financial statements. The allowance provides that pledges that have not been paid in five years are considered 100% uncollectable. Other pledges are reviewed individually and length of time and collections are considered factors of validity. Annually, the Advancement Office manager will compile a list of all pledges that exceed $1,000.00 to be reviewed by the Executive Director of the foundation to determine the necessity of writing them off.

The Advancement Office will modify the foundation's current record retention policy to that of the Tennessee Board of Regents record retention policy.

As an ongoing process of risk assessment by the university, a detailed risk assessment will consider risks that are applicable to the Advancement 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 Executive Director of the foundation will review the control plans to ensure that proper monitoring has occurred. In instances of improper monitoring, progressive discipline will apply.

2. Because the student accounts receivable subsidiary ledger was not reconciled to the general ledger periodically or at year-end, management was not promptly aware of problems within the subsidiary ledger, increasing the risk that receivable balances on the statement of net assets could be misstated

Finding

The university began using the Banner Student module as its subsidiary ledger for student accounts receivable during fiscal year 2008. During our testwork to gain an understanding of controls related to accounts receivable, we were told by the Bursar and Assistant Vice President of Finance that university personnel did not reconcile the student accounts receivable subsidiary ledger to the student receivables general ledger during the audit period, and we found that management did not promptly detect when problems, such as those noted below, occurred.

Lack of Reconciliations

Through discussions with the Director of Accounting Services and the Bursar, we determined that monthly accounts receivable reconciliations were not performed during the year ended June 30, 2008, or for the period July 1, 2008, through April 30, 2009. The Assistant Vice President of Business and Finance stated that neither Austin Peay State University (APSU) nor the Tennessee Board of Regents (TBR) had a policy or procedure that required monthly reconciliations to be performed. Although this comment is true, we believe management should establish best practices which include periodic reconciliations of accounts receivable to facilitate management's efforts to identify and address any problems as soon as possible.

The Bursar, who was hired in September 2008, and the Assistant Vice President of Finance stated that they plan for staff to start performing quarterly reconciliations in fiscal year 2010. The Bursar stated that she and the Accounts Receivable Supervisor were looking at the various receivable accounts in an attempt to determine that recent transactions were correctly coded within the system. They started the process to reconcile the June 30, 2009, accounts receivable balance in April 2009.

We requested the year-end June 30, 2008, accounts receivable reconciliation from the Director of Accounting Services, and she provided us with an Excel worksheet containing student accounts receivable subsidiary ledger information. However, we found that the student accounts receivable subsidiary ledger total on the worksheet did not reconcile with the student accounts receivable balance in the general ledger. We also noted that the Assistant Vice President of Finance had not ensured that an independent third party had reviewed and approved the worksheet or that this review and approval was documented. The Director of Accounting Services stated that the Banner report used for the reconciliation of the student accounts receivable subsidiary ledger, TZRARSA, was not reliable because the report, which was developed by TBR, could not be generated to reflect the balance at a previous point in time such as June 30, 2008. The report could only be generated to reflect the balance as of the current date.

Unsupported Account Balances

We performed our analytical procedures to compare current-year accounts receivable balances with prior-year balances, and we noted a 91% increase in the student receivables balance from the prior year. Total student receivables were $6,005,542.27 at June 30, 2008, as compared to $3,142,564.94 at June 30, 2007. We asked the Director of Accounting Services for an explanation; however, she was unable to give us an immediate answer. We further analyzed the student receivables balance and noted that $1,907,072.06 of the variance was in the Accounts Receivable Offset account, which usually has a zero balance at year-end. We also noted that the Assistant Vice President of Finance prepared and posted a year-end journal entry on August 5, 2008, that reduced the offset account to zero and increased three contra-receivable accounts to zero. We obtained and reviewed a copy of the journal entry which had no explanation attached as to why the entry was made. On the same day, the Assistant Vice President of Finance prepared an entry to reverse this closing entry during fiscal year 2009. We discussed this issue with the Assistant Vice President of Finance, the Director of Accounting Services, the Bursar, and the Accounts Receivable Supervisor. After our discussions, they all stated that there was a strong possibility there may have been a problem with the accounts receivable balance when preparing the financial statements. The Assistant Vice President of Finance stated that the detail account codes were either set up wrong or not working properly in Banner, which led to the offset account not having a zero balance at year-end. Because this issue was discovered during the closing process, Business Office personnel did not have the time needed to research and correct the problem in Banner before the financial statement deadline set by the Tennessee Board of Regents. Thus, the year-end entry was posted to correct the Accounts Receivable Offset account's year-end balance, and the reversing entry was posted to give Business Office personnel time to research and correct the problem. The Assistant Vice President of Finance stated that he believes the detail account codes are now set up correctly and are working properly in Banner. This problem would most likely have been identified and corrected before the year-end if management had performed monthly reconciliations. We proposed an audit adjustment.

Inaccurate Sample Population

In an effort to ensure the completeness of the population of accounts receivable transactions, our testwork found problems with the original population provided by university personnel to State Audit Information Systems (IS). From our sample of this population, we determined that 3 of the 16 items selected in our sample (18.75%) should not have been included in the population given to State Audit IS. Apparently, the original population was identified from the Banner report TZRARSA, which was developed by Tennessee Board of Regents (TBR) personnel. Due to incorrect parameters included in this report, the population included items pulled from the Residential Management System (RMS) related to student housing for students who pre-registered for the fall 2008 semester. We brought this reporting problem to management's attention during the current audit. The Director of Financial Systems and Reporting stated in an e-mail:

> We have a housing system that links to Banner (RMS). This system had some open date fields and when it came across these date fields, it populated the "beginning" date for the record (the best we can tell) in the transaction date. TZRARSA pulls the data for the outstanding AR from the transaction date instead of the effective date so these incorrect amounts were pulled once we received the final okay from TBR to run these files.

The Assistant Vice President of Finance stated that this problem should be corrected for the year ended June 30, 2009.

Monthly reconciliations, as well as a year-end reconciliation, provide management with evidence that the Banner Student Module is functioning properly. These reconciliations also provide a mechanism for management to detect and correct misstatements, whether due to error or fraud, in the account balances throughout the year and at year-end, and allow management to reduce the potential for numerous adjustments to the receivables and contra-receivables accounts at year-end. Management has started its formal risk assessment process; however, management's risk assessment for the finance area, which should include risks associated with the accounts receivable balances, has not been completed.

Recommendation

The Assistant Vice President of Finance should ensure that monthly and year-end accounts receivable reconciliations are performed to determine whether Banner is functioning properly and to detect any misstatements in the account balances, whether due to error or fraud. The Assistant Vice President of Finance should also ensure that all such reconciliations are reviewed and approved by someone independent of the person performing the reconciliation. These reviews and approvals should be documented. The Assistant Vice President of Finance and the Director of Accounting Services should ensure that all journal entries are properly supported.

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 assessment. 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 in a timely manner. The Vice President of Finance should identify staff to be responsible for ongoing monitoring for compliance with all requirements and take prompt action should exceptions occur.

Management's Comment

We concur with the finding and recommendation. We agree with the necessity of performing timely reconciliations to ensure the validity, completeness, and value of the subsidiary ledger. However, as discussed, and agreed upon, with the Audit Manager and In-charge auditor at the audit exit conference, management will ensure the subsidiary ledger will be reconciled at a minimum quarterly, and at year-end.

As mentioned in the auditor's documentation above, the finance area was restructured, and a bursar position was filled during the 2009 fiscal year. This position was vital for the redistribution of duties subsequent to the university's conversion to new student and accounting software. The bursar implemented a process whereby the subsidiary ledgers are reconciled quarterly, monthly if practicable, by the accounts receivable supervisor. The bursar reviews and approves the reconciliations, and documents that review by signing or initialing and dating the reconciliation. The assistant vice president for finance is to be notified immediately of significant variances or unusual circumstances. The audit exit conference took place on August 20, 2009. Although we had begun the reconciliation process in April 2009, quarterly reconciliations for a complete fiscal year will not occur until the 2009-2010 fiscal year.

As an ongoing process of risk assessment by the university, a detailed risk assessment is scheduled for the business office, with an expected completion in May 2010. 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
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
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Independent Auditor's Report

July 14, 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:

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 year ended June 30, 2008, 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 audit.

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. 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 audit provides 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, 2008, and the changes in its financial position and cash flows for the year 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, 2008, 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.

As discussed in Note 10, during the year ended June 30, 2008, the university implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The management's discussion and analysis on pages 22 through 38 and the OPEB schedule of funding progress on page 64 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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 audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 65 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 July 14, 2009, 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

Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis
June 30, 2008, and June 30, 2007

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, 2008, with comparative information presented for the fiscal year ended June 30, 2007. 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
Net Assets
(in thousands of dollars)**

	2008	2007
Assets:		
Current assets	$ 18,912	$ 18,587
Capital assets, net	111,391	110,764
Other assets	39,453	37,761
Total assets	169,756	167,112
Liabilities:		
Current liabilities	8,105	9,458
Noncurrent liabilities	40,128	37,727
Total liabilities	48,233	47,185
Net assets:		
Invested in capital assets, net of related debt	73,791	74,315
Restricted – nonexpendable	6,120	6,571
Restricted – expendable	6,286	2,654
Unrestricted	35,326	36,387
Total net assets	$ 121,523	$ 119,927

The university had the following significant changes between fiscal years on the Statement of Net Assets:

- Current assets increased between fiscal years due to an increase in receivables at year end. The most significant increase of receivables is attributable to third-party contracts.

- The increase in net capital assets between fiscal years is a result of additions to the university's capitalized assets. More detailed information about the university's capitalized assets is presented in the Capital Assets and Debt Administration section of Management's Discussion and Analysis.

- Other assets had a significant increase due to an increase in the amount of restricted noncurrent cash and cash equivalents.

- The restricted – expendable section of net assets increased due to several significant capital projects being started on campus. More detailed information about the university's capitalized assets is presented in the Capital Assets and Debt Administration section of Management's Discussion and Analysis.

- The unrestricted section of net assets was reduced due to the increase of capital projects and other restricted – expendable funds.

Component Unit
Net Assets
(in thousands of dollars)

	2008	2007
Assets:		
Current assets	$ 1,332	$ 1,371
Capital assets, net	932	603
Other assets	13,302	12,041
Total assets	15,566	14,015
Liabilities:		
Current liabilities	1,066	455
Total liabilities	1,066	455
Net assets:		
Invested in capital assets	932	603
Restricted – nonexpendable	7,797	6,490
Restricted – expendable	5,331	5,923
Unrestricted	440	544
Total net assets	$ 14,500	$ 13,560

The component unit had the following significant changes between fiscal years on the Statement of Net Assets:

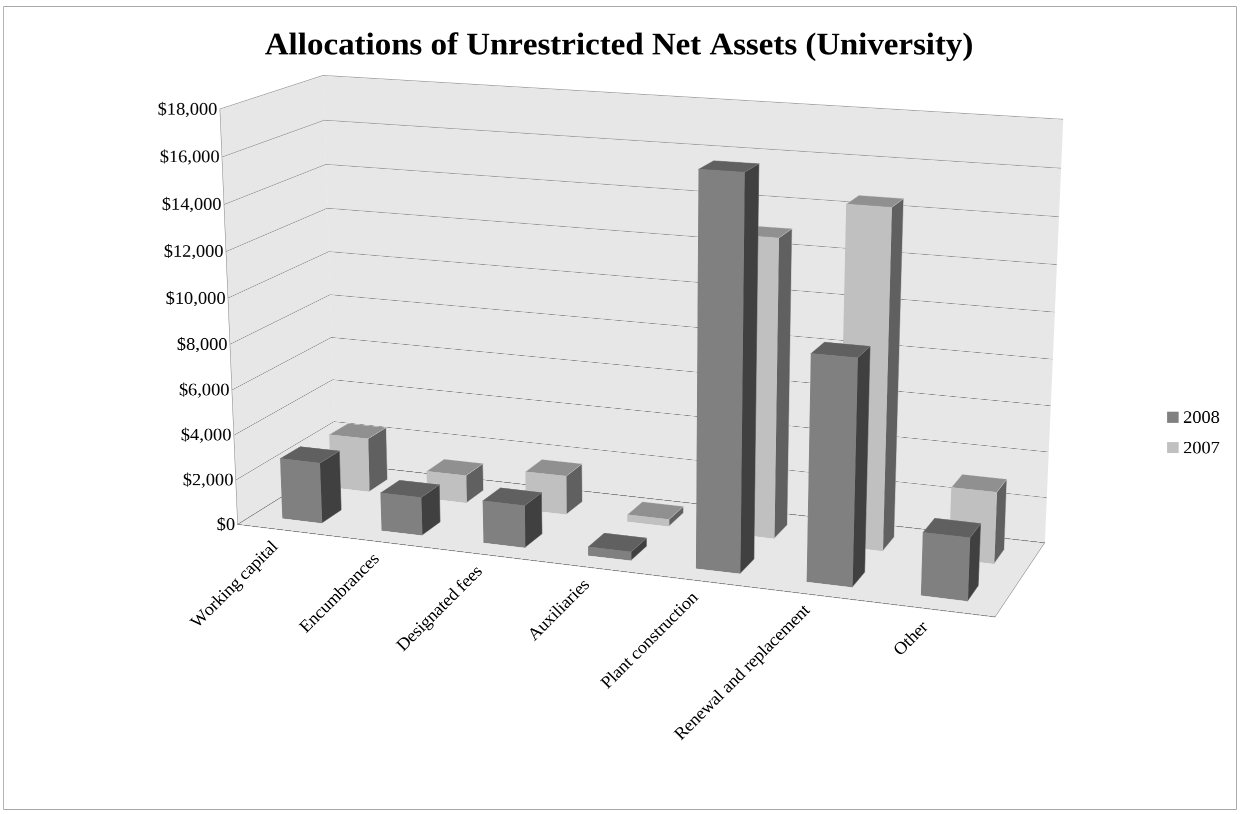
- The decrease in current assets is primarily due to a deficit in cash and a reduction in pledges and gifts-in-kind as compared to prior years.

- The increase in other assets is because of a large land gift that exceeded $200,000 and a large receivable from the university.

- The increase in current liabilities is due to checks written in excess of cash. Cash in bank was positive at June 30, and the component unit collected a large receivable near year end that covered all disbursements.

- The component unit purchased several residential properties in the acquisition area of the university. The property will be rented as commercial property rentals. This increase of properties is the primary reason for the increase in invested in capital assets.

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



- The increase in plant construction is due to the accumulation of funds for the steam line project, renovation of McReynolds and Memorial Health Buildings, and various smaller projects.

- Funds were used in renewal and replacement in order to update faculty and staff computer equipment, as well as additional components needed for the Enterprise Resource Program.

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

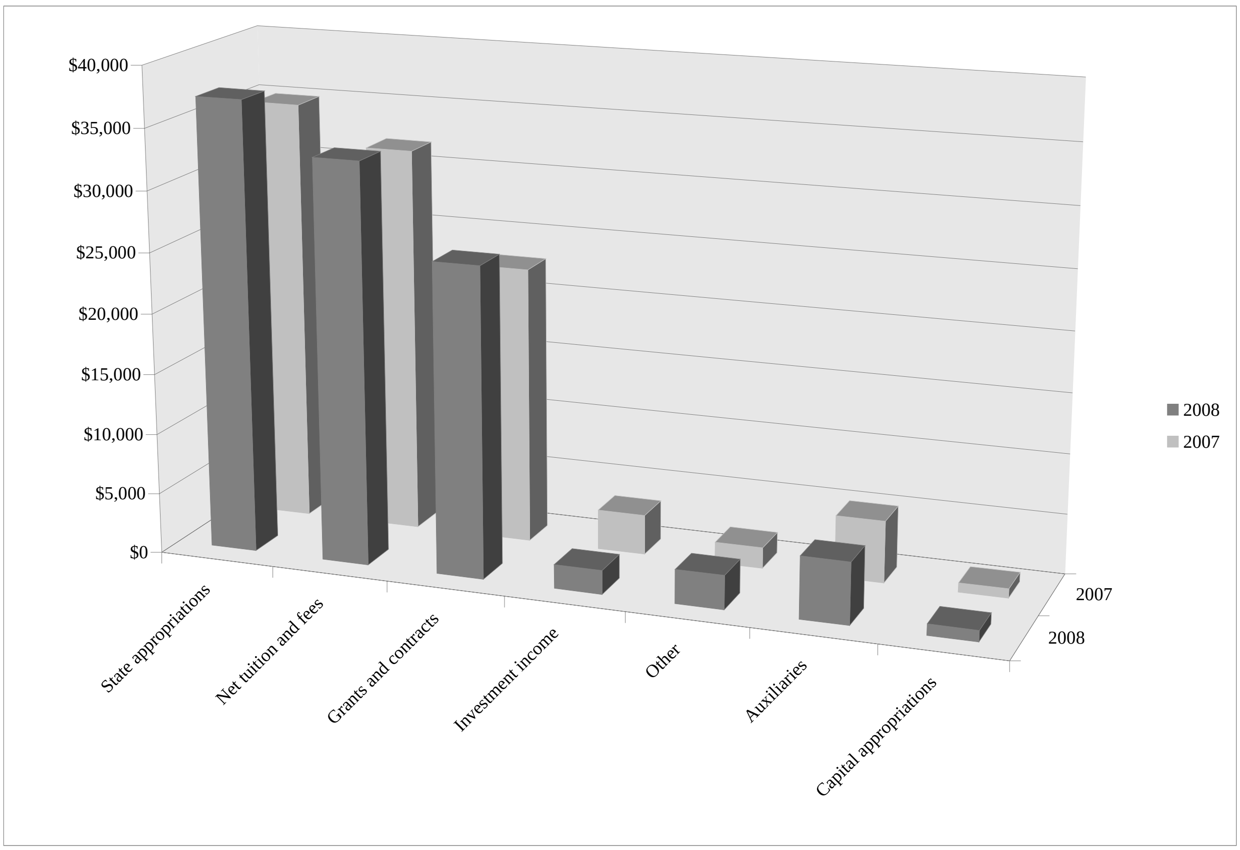
	2008	2007
Operating revenues:		
Net tuition and fees	$ 33,040	$ 31,854
Grants and contracts	4,529	4,116
Auxiliaries	5,106	5,136
Other	3,337	2,747
Total operating revenues	46,012	43,853
Operating expenses	105,577	94,237
Operating loss	(59,565)	(50,384)
Nonoperating revenues and expenses:		
State appropriations	37,201	34,977
Gifts	948	785
Grants and contracts	21,016	18,755
Investment income	1,968	3,304
Other nonoperating revenues and expenses	(1,223)	(1,030)
Total nonoperating revenues and expenses	59,910	56,791
Income before other revenues, expenses, gains, or losses	345	6,407
Other revenues, expenses, gains, or losses:		
Capital appropriation	928	776
Capital grants and gifts	27	-
Additions to permanent endowments	-	35
Other	296	(795)
Total other revenues, expenses, gains, or losses	1,251	16
Increase in net assets	1,596	6,423
Net assets at beginning of year	119,927	113,504
Net assets at end of year	$ 121,523	$ 119,927

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

	2008	2007
Operating revenues:		
Gifts and contributions	$ 614	$ 1,071
Total operating revenues	614	1,071
Operating expenses	922	861
Operating gain (loss)	(308)	210
Nonoperating revenues and expenses:		
Investment income	(730)	1,195
Other nonoperating revenues and expenses	-	(22)
Total nonoperating revenues and expenses	(730)	1,173
Income (loss) before other revenues, expenses, gains, or losses	(1,038)	1,383
Other revenues, expenses, gains, or losses:		
Capital grants and gifts	220	31
Additions to permanent endowments	1,758	781
Total other revenues, expenses, gains, or losses	1,978	812
Increase in net assets	940	2,195
Net assets at beginning of year	13,560	11,365
Net assets at end of year	$ 14,500	$ 13,560

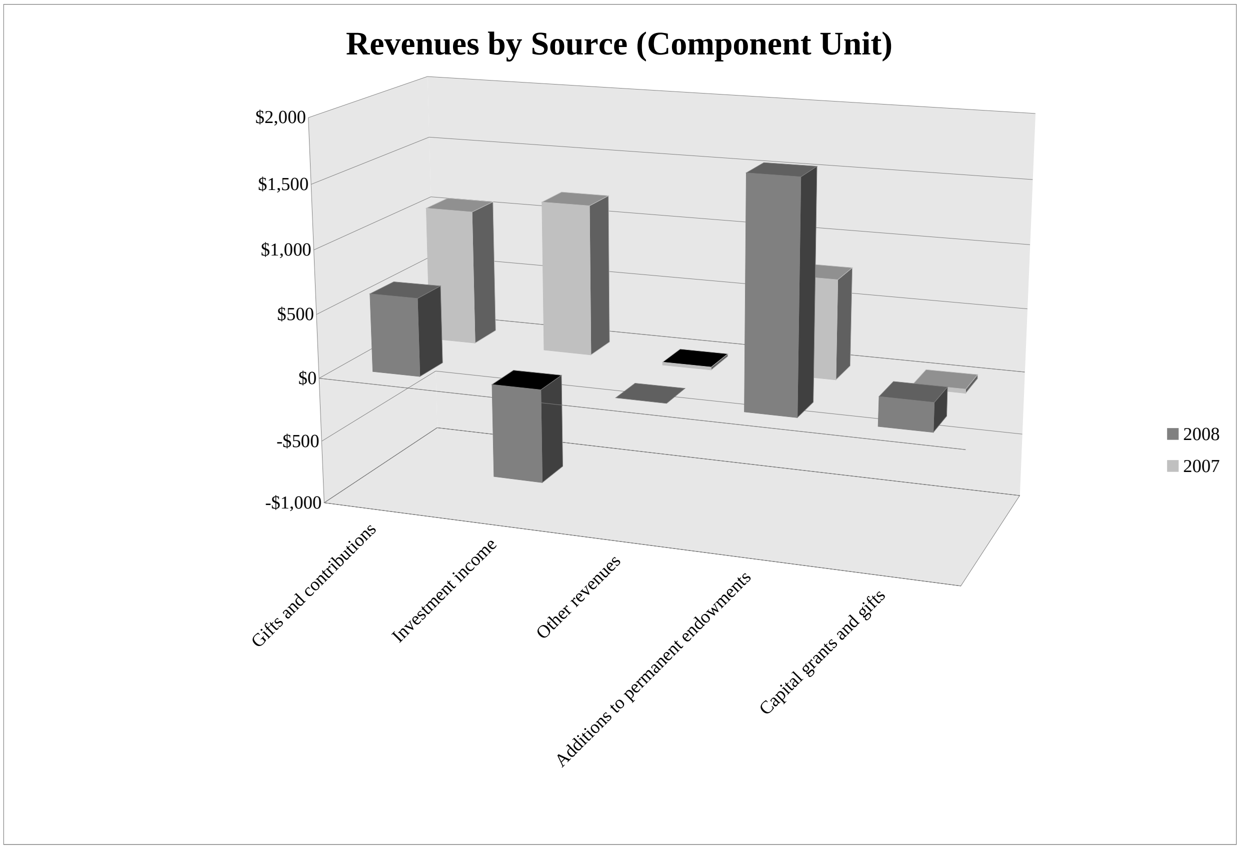
Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the university's operating activities for the years ended June 30, 2008, and June 30, 2007 (amounts are presented in thousands of dollars).



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

- The investment income was reduced significantly because of the conservative mix of investments and the general downturn of the stock market.



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

- The investment income was reduced significantly because of the conservative mix of investments and the general downturn of the stock market.
- The increase in capital grants and gifts is the result of an increased focus on soliciting gifts.
- The increase in additions to permanent endowments is because of a significant gift in the second quarter of the fiscal year. The gift was a result of the giving campaign from the Development Office.

Expenses

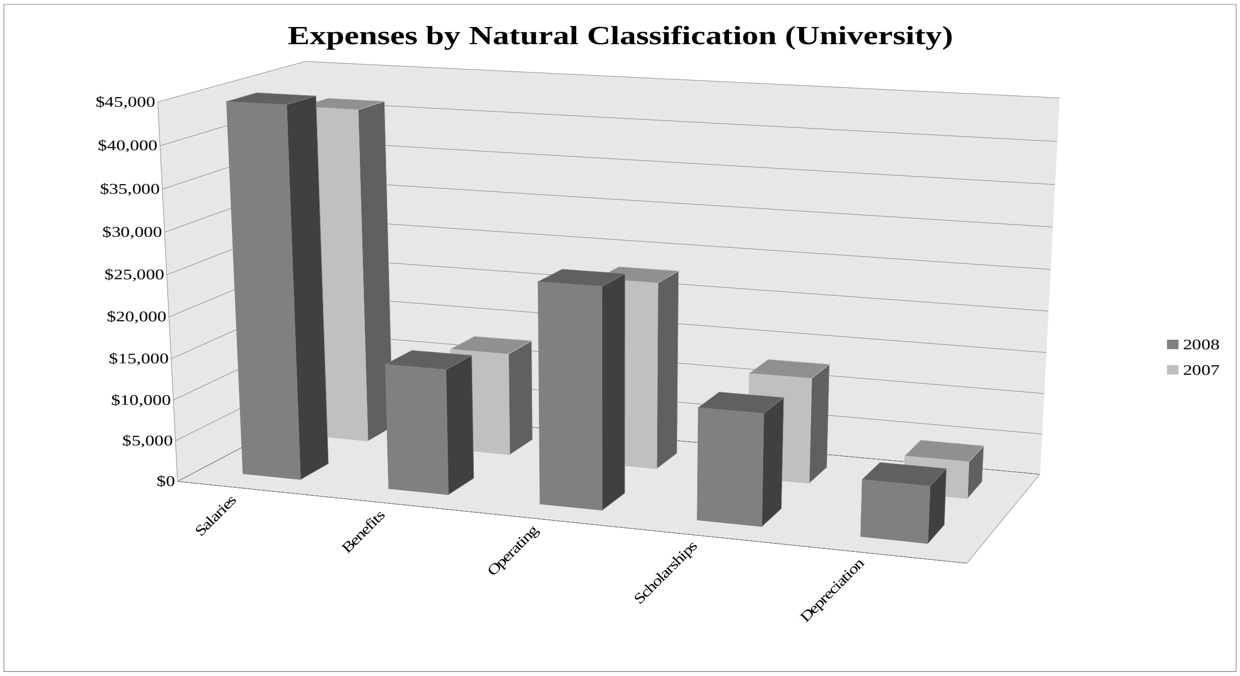
Operating expenses can be displayed in two formats: natural classification and program classification. Both formats are displayed below.

Austin Peay State University
Natural Classification
(in thousands of dollars)

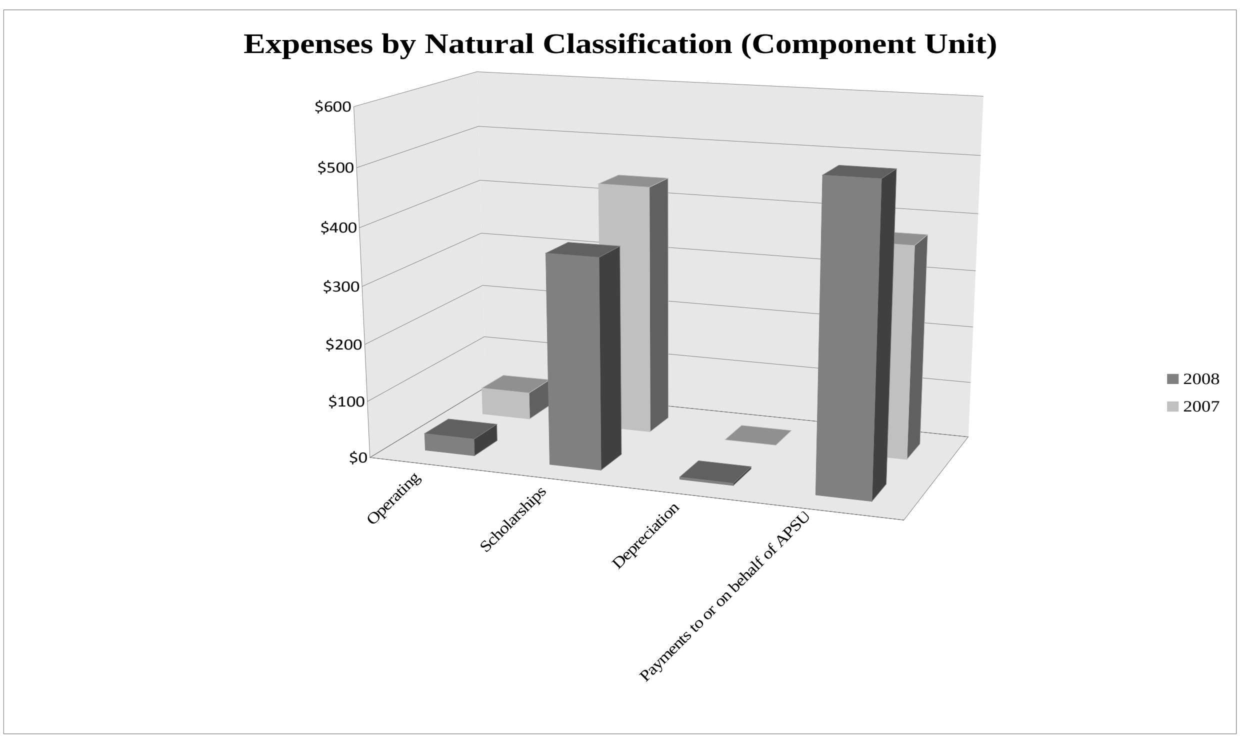
	2008	2007
Salaries	$ 44,570	$ 41,423
Benefits	15,046	12,709
Operating	26,165	22,851
Scholarships	13,184	12,807
Depreciation	6,612	4,447
	$ 105,577	$ 94,237

Component Unit
Natural Classification
(in thousands of dollars)

	2008	2007
Operating	$ 30	$ 49
Scholarships	365	440
Depreciation	4	-
Payment to or on behalf of APSU	523	372
	$ 922	$ 861



Expenses by Natural Classification (University)
$45,000
$40,000
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0
Salaries
Benefits
Operating
Scholarships
Depreciation
2008
2007



Expenses by Natural Classification (Component Unit)
$600
$500
$400
$300
$200
$100
$0
Operating
Scholarships
Depreciation
Payments to or on behalf of APSU
2008
2007

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

- During the 2007-08 fiscal year the institution funded an additional portion of the salary equity plan.

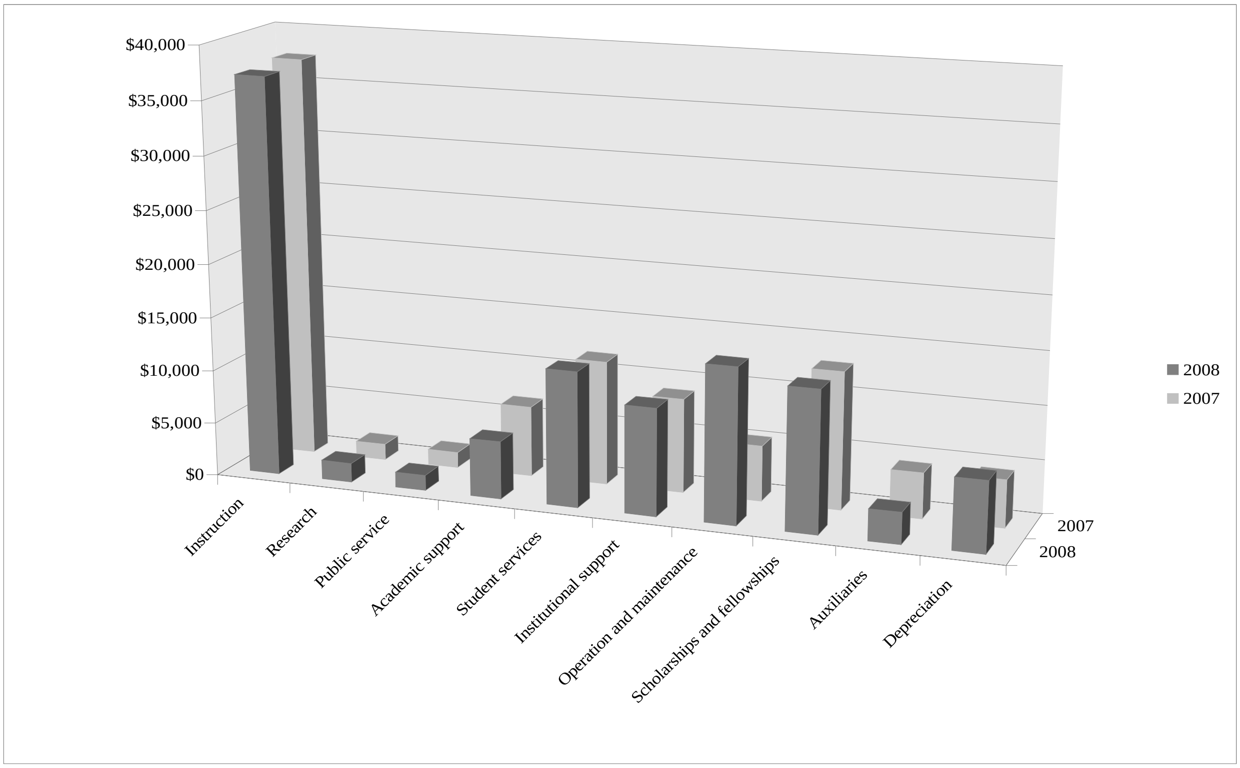
The component unit had the following significant changes in expenses between fiscal years:

- Scholarship expense decreased due to only a slight gain in enrollment the university experienced over the last year as well as a decrease in HCA scholarships.

- Payments to or on behalf of APSU increased due to the funding of special projects that support the university.

Austin Peay State University
Program Classification
(in thousands of dollars)

	2008	2007
Instruction	$ 37,144	$ 37,531
Research	1,772	1,492
Public service	1,434	1,460
Academic support	5,395	6,609
Student services	12,619	11,603
Institutional support	10,013	8,819
Operation and maintenance	14,469	5,197
Scholarships and fellowships	13,184	12,807
Auxiliaries	2,935	4,272
Depreciation	6,612	4,447
	$ 105,577	$ 94,237



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

- A change in the current year of recognizing Presidential Scholarships and scholarships and fellowships in the scholarship function resulted in a significant increase in the scholarship function.

- Continued improvements in salary contributed to increases in some functions.

- The ID card and emergency telephones, major projects designed to benefit the safety and convenience of students, were undertaken during the year, which contributed to additional spending.

- The increases in operation and maintenance and institutional support are related to several major emergency repairs over the year. The university was forced to repair a major sinkhole on Drain Street. Additionally, two separate major repairs on electrical transformers were made. Steam lines continue to rupture and require expensive repair.

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
Cash Flows
(in thousands of dollars)

	2008	2007
Cash provided (used) by:		
Operating activities	$ (52,269)	$ (44,630)
Noncapital financing activities	58,207	55,421
Capital and related financing activities	(6,549)	(8,146)
Investing activities	2,368	1,643
Net increase in cash	1,757	4,288
Cash and cash equivalents, beginning of year	42,699	38,411
Cash and cash equivalents, end of year	$ 44,456	$ 42,699

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

- Decreases in operating activities were recognized due to a significant increase in fuel inventory due to a mild winter as well as significant grant deferred revenues which resulted in net cash used in operating activities. Also, deposits held for others significantly increased due to undistributed student loans.

- Capital and related financing activities required additional cash in 2007 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.

- No major purchases of investments were made during the year.

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

Component Unit
Cash Flows
(in thousands of dollars)

	2008	2007
Cash provided (used) by:		
Operating activities	$ (556)	$ 505
Noncapital financing activities	1,499	779
Capital and related financing activities	(115)	42
Investing activities	(937)	(1,103)
Net increase (decrease) in cash	(109)	223
Cash, beginning of year	2,816	2,593
Cash, end of year	$ 2,707	$ 2,816

The component unit had the following significant change in cash flows between fiscal years:

- The increase in noncapital financing is due to additions to permanent endowments. One purchase exceeding $750,000 was made due to a single contribution.

Capital Assets and Debt Administration

Capital Assets

The university had $111,391,270 invested in capital assets, net of accumulated depreciation of $66,042,189 at June 30, 2008, and $110,764,247 invested in capital assets, net of accumulated depreciation of $62,875,081 at June 30, 2007. Depreciation charges totaled $6,611,710 and $4,446,742 for the years ended June 30, 2008, and June 30, 2007, respectively. Details of these assets are shown below.

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

	2008	2007
Land	$ 4,706	$ 3,849
Land improvements and infrastructure	5,063	5,451
Buildings	89,351	90,398
Equipment	5,013	5,346
Library holdings	3,148	3,137
Software	1,746	1,787
Projects in progress	2,364	796
Total	$ 111,391	$ 110,764

Residential Housing continues planning, and is still on target for completing, new Residential Housing. The project will replace three existing student dormitories when complete. The university is completing the planning stages for the renovation of McReynolds Hall in order to provide space for distance education and the Upward Bound Trio Block grant programs.

Planning is being completed for the Memorial Hall renovations, while the renovation for the Marks building is coming to a close.

More detailed information about the university's capital assets is presented in Note 5 to the financial statements.

Debt

The university had $37,600,742 and $36,449,577 in debt outstanding at June 30, 2008, and June 30, 2007, respectively. The table below summarizes these amounts by type of debt instrument.

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

	2008	2007
TSSBA bonds	$ 34,514	$ 35,481
TSSBA commercial paper	3,087	969
Total debt	$ 37,601	$ 36,450

In fiscal year 2008, commercial paper increased as the housing sprinkler phase 1 project comes close to completion. Residential Housing will continue its project to install safety sprinklers in all student housing. Fitch, Moody's Investors Service, and Standard & Poor have rated the bonds AA, Aa3, and AA respectively.

More detailed information about the university's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors That Will Affect the Future

The state's financial situation continues to be a major concern. For the 2008-09 fiscal year, the university received a 6.0% reduction to the operating budget.

The Tennessee Board of Regents approved a 6.0% fee increase for 2008-09 at the June 2008 board meeting.

We are not aware of any other factors, decisions, or conditions that are expected to have a significant impact on the financial position or results of operation during this fiscal year.

Requests for Information

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

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Institution	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 12,902,268.66	$ -
Short-term investments (Note 3)	28,083.35	-
Accounts, notes, and grants receivable (net) (Note 4)	5,318,998.23	1,089,810.10
Pledges receivable (net) (Note 18)	-	213,724.23
Inventories	261,000.43	-
Prepaid expenses and deferred charges	342,197.40	-
Accrued interest receivable	59,201.75	28,317.11
Total current assets	18,911,749.82	1,331,851.44
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 18)	31,553,964.17	2,706,556.52
Investments (Notes 3 and 18)	6,618,245.64	10,346,562.48
Accounts, notes, and grants receivable (net) (Note 4)	1,281,018.26	-
Pledges receivable (net) (Note 18)	-	248,553.56
Capital assets (net) (Notes 5 and 18)	111,391,270.11	932,129.38
Total noncurrent assets	150,844,498.18	14,233,801.94
Total assets	169,756,248.00	15,565,653.38
LIABILITIES		
Current liabilities:		
Accounts payable	2,381,639.12	1,065,886.99
Accrued liabilities	2,102,846.51	-
Student deposits	1,848.62	-
Deferred revenue	1,778,915.11	-
Compensated absences (Note 6)	509,414.22	-
Accrued interest payable	269,630.35	-
Long-term liabilities, current portion (Note 6)	1,000,866.04	-
Deposits held in custody for others	59,183.24	-
Other liabilities	745.01	-
Total current liabilities	8,105,088.22	1,065,886.99
Noncurrent liabilities:		
Net OPEB obligation (Notes 6 and 10)	1,142,868.16	-
Compensated absences (Note 6)	1,499,502.44	-
Long-term liabilities (Note 6)	36,599,875.67	-
Due to grantors (Note 6)	885,540.26	-
Total noncurrent liabilities	40,127,786.53	-
Total liabilities	48,232,874.75	1,065,886.99
NET ASSETS		
Invested in capital assets, net of related debt	73,790,528.40	932,129.38
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	6,120,227.80	7,355,869.21
Research	-	375,880.24
Instructional department uses	-	52,324.76
Other	-	12,437.96
Expendable:		
Scholarships and fellowships (Notes 7 and 18)	1,472,756.07	2,161,048.00
Research	732,256.98	3,399.59
Instructional department uses	243,372.39	153,078.14
Loans	90,791.99	-
Debt service	2,540,020.35	-
Other	1,206,699.77	3,013,099.13
Unrestricted (Note 8)	35,326,719.50	440,499.98
Total net assets	$ 121,523,373.25	$ 14,499,766.39

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

Exhibit B

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

	Institution	Component Unit
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $13,130,625.56)	$ 33,040,413.58	$ -
Gifts and contributions	-	613,745.91
Governmental grants and contracts	4,488,606.21	-
Nongovernmental grants and contracts	39,941.44	-
Sales and services of educational departments	2,840,476.97	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $1,566,200.88; all residential life revenues are used as security for revenue bonds; see Note 6)	3,940,205.77	-
Bookstore (all bookstore revenues are used as security for revenue bonds; see Note 6)	561,318.04	-
Food service (all food service revenues are used as security for revenue bonds; see Note 6)	246,579.72	-
Wellness facility (net of scholarship allowances of $106,584.56; all wellness facility revenues are used as security for revenue bonds; see Note 6)	296,852.31	-
Other auxiliaries	60,738.81	-
Interest earned on loans to students	17,846.30	-
Other operating revenues	478,975.53	-
Total operating revenues	46,011,954.68	613,745.91
EXPENSES		
Operating expenses (Note 15):		
Salaries and wages	44,569,894.08	-
Benefits	15,046,126.23	-
Utilities, supplies, and other services	26,164,642.22	30,039.74
Scholarships and fellowships	13,184,332.64	364,752.67
Depreciation expense	6,611,709.51	3,879.16
Payments to or on behalf of Austin Peay State University (Note 18)	-	523,443.14
Total operating expenses	105,576,704.68	922,114.71
Operating loss	(59,564,750.00)	(308,368.80)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	37,200,736.89	-
Gifts (including $523,443.14 from component unit) (Note18)	948,384.76	-
Grants and contracts	21,015,652.59	-
Investment income	1,968,383.16	(729,990.78)
Interest on capital asset-related debt	(1,692,933.28)	-
Other nonoperating revenues (expenses)	470,199.22	-
Net nonoperating revenues (expenses)	59,910,423.34	(729,990.78)
Income (loss) before other revenues, expenses, gains, or losses	345,673.34	(1,038,359.58)
Capital appropriations	927,745.56	-
Capital grants and gifts	26,500.00	220,000.00
Additions to permanent endowments	-	1,758,027.86
Other	296,475.19	-
Total other revenues	1,250,720.75	1,978,027.86
Increase in net assets	1,596,394.09	939,668.28
NET ASSETS		
Net assets - beginning of year	119,926,979.16	13,560,098.11
Net assets - end of year	$ 121,523,373.25	$ 14,499,766.39

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

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	30,819,408.53
Grants and contracts		4,837,559.66
Sales and services of educational activities		2,820,953.65
Payments to suppliers and vendors		(24,257,447.77)
Payments to employees		(45,187,088.38)
Payments for benefits		(13,593,590.25)
Payments for scholarships and fellowships		(13,184,332.64)
Loans issued to students and employees		(184,003.52)
Collection of loans from students and employees		197,503.96
Interest earned on loans to students		40,376.36
Auxiliary enterprise charges:		
Residence halls		3,824,528.63
Bookstore		561,318.70
Food services		246,579.72
Wellness facility		305,205.52
Other auxiliaries		63,601.81
Other receipts (payments)		420,605.32
Net cash used by operating activities		(52,268,820.70)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		37,194,836.89
Gifts and grants received for other than capital purposes, including $212,677.34 from component unit		21,781,232.76
Federal student loan receipts		40,678,755.26
Federal student loan disbursements		(41,936,975.44)
Changes in deposits held for others		445,947.21
Other noncapital financing receipts (payments)		42,504.91
Net cash provided by noncapital financing activities		58,206,301.59
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		2,117,309.88
Capital appropriations		927,745.56
Purchases of capital assets and construction		(6,915,757.80)
Principal paid on capital debt		(966,145.24)
Interest paid on capital debt		(1,712,049.77)
Net cash used by capital and related financing activities		(6,548,897.37)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		963,817.18
Income on investments		2,351,343.97
Purchase of investments		(946,835.87)
Net cash provided by investing activities		2,368,325.28
Net increase in cash and cash equivalents		1,756,908.80
Cash and cash equivalents - beginning of year		42,699,324.03
Cash and cash equivalents - end of year (Note 2)	$	44,456,232.83

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(59,564,750.00)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		6,611,709.51
Gifts in-kind		182,804.59
Change in assets and liabilities:		
Receivables, net		(122,025.99)
Inventories		(19,078.41)
Prepaid expenses and deferred revenue		(99,397.81)
Other assets		22,530.06
Accounts payable		192,843.32
Accrued liabilities		1,196,398.74
Deferred revenue		(257,253.44)
Deposits		(139,201.38)
Compensated absences		264,045.71
Due to grantors		(87,759.09)
Loans to students and employees		(13,500.44)
Other		(436,186.07)
Net cash used by operating activities	$	(52,268,820.70)
Noncash transactions:		
Gifts in-kind	$	182,804.59
Unrealized losses on investments	$	(437,324.65)
Bad debt expense	$	41,957.73
State on-behalf payment of the university for retirees participating in the Medicare Supplement Plan	$	58,370.21

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*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html. 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 AND CASH EQUIVALENTS

At June 30, 2008, cash consisted of $2,524,572.85 in bank accounts, $14,514.00 of petty cash on hand, $35,800,538.08 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $6,116,607.90 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, 2008, 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	$ 76,818.15	$ 27,223.56	$ 23,388.24	$ 19,383.52	$ 6,822.83	$ -
U.S. Agencies	318,172.18	-	19,834.74	14,288.82	284,048.62	-
Corporate Stocks	1,611,755.26	-	-	-	-	1,611,755.26
Corporate Bonds	193,110.37	-	116,246.84	55,537.43	21,326.10	-
Mutual Bond Funds	1,803,318.50	-	-	-	1,803,318.50	-
Mutual Equity Funds	2,006,633.57	-	-	-	2,006,633.57	-
Certificates of Deposit	576,439.61	28,083.35	548,356.26	-	-	-
Money Market Funds	60,081.35	-	60,081.35	-	-	-
Total	$ 6,646,328.99	$ 55,306.91	$ 767,907.43	$ 89,209.77	$ 4,122,149.62	$ 1,611,755.26

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, banker’s 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. Tennessee Board of Regents policy restricts investments in banker’s acceptances and commercial paper. The policy requires that prime banker’s acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The policy further requires that commercial paper must be issued by corporations with a minimum rating of A1 or equivalent as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt must be rated A1 by all rating services (minimum of two). Commercial paper of a banking institution must not be purchased.

At June 30, 2008, the university's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
LGIP	$ 41,917,145.98	$ -	$ -	$ -	$ -	$ 41,917,145.98
U.S. Agencies	318,172.18	261,075.20	-	-	-	57,096.98
Corporate Bonds	193,110.37	13,093.60	40,300.54	114,094.49	25,621.74	-
Mutual Bond Funds	1,803,318.50	-	1,803,318.50	-	-	-
Total	$ 44,231,747.03	$ 274,168.80	$ 1,843,619.04	$ 114,094.49	$ 25,621.74	$ 41,974,242.96

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, 2008, the university had $2,259,937.31 of uninsured and unregistered investments for which the securities are held by the counterparty and $4,386,391.68 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, 2008
Certificates of Deposit	$ 28,083.35
Regions Investment Account	2,259,937.31
The Common Fund	3,809,952.07
	$ 6,097,972.73

The certificates 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 endowments are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit market value at the beginning of the month within which the transaction takes place. At June 30, 2008, there were a total of 10,559.562 units in the Multi-Strategy Equity Fund, each having a market value of $190.03, and a total of 134,777.168 units in the Multi-Strategy Bond Fund, each having a market value of $13.38.

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

	Pooled Assets		Net Gains	Fair Value
	Fair Value	Cost	(Losses)	Per Unit
Multi-Strategy Equity Fund				
End of year	$ 2,006,633.57	$ 1,080,000.00	$ 926,633.57	$ 190.03
Beginning of year	$ 2,195,026.69	$ 1,080,000.00	1,115,026.69	207.04
			(188,393.12)	$ (17.01)
Multi-Strategy Bond Fund				
End of year	$ 1,803,318.51	$ 1,703,000.00	$ 100,318.51	$ 13.38
Beginning of year	$ 1,780,368.80	$ 1,703,000.00	77,368.80	13.17
			22,949.71	$ 0.21
Unrealized net losses			$ (165,443.41)	

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/(losses), were ($17.841)/unit for the Multi-Strategy Equity Fund and $0.374/unit for the Multi-Strategy Bond Fund for the year ended June 30, 2008.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2008
Student accounts receivable	$ 4,098,470.21
Grants receivable	919,857.55
Notes receivable	12,451.34
State appropriation receivable	120,000.00
Other receivables	842,199.40

Subtotal	5,992,978.50
Less allowance for doubtful accounts	(673,980.27)
Total receivables	$ 5,318,998.23

Federal Perkins Loan Program funds included the following:

	June 30, 2008
Perkins loans receivable	$ 1,513,851.52
Less allowance for doubtful accounts	(232,833.26)
Total	$ 1,281,018.26

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 3,849,145.71	$ 856,212.58	$ -	$ -	$ 4,705,358.29
Land improvements and infrastructure	10,232,245.57	-	-	-	10,232,245.57
Buildings	137,677,475.73	2,448,280.05	-	-	140,125,755.78
Equipment	12,730,825.18	1,241,491.94	-	2,728,541.14	11,243,775.98
Library holdings	6,213,782.95	652,998.60	-	453,347.65	6,413,433.90
Software	2,140,338.17	208,405.47	-	-	2,348,743.64
Projects in progress	795,514.28	1,568,631.32	-	-	2,364,145.60
Total	173,639,327.59	6,976,019.96	-	3,181,888.79	177,433,458.76
Less accum. depreciation:					
Land improvements and infrastructure	4,780,879.58	387,967.43	-	-	5,168,847.01
Buildings	47,279,459.48	3,495,880.55	-	-	50,775,340.03
Equipment	7,384,819.98	1,837,046.36	-	2,991,254.17	6,230,612.17
Library holdings	3,076,952.25	641,343.42	-	453,347.65	3,264,948.02
Software	352,969.67	249,471.75	-	-	602,441.42
Total accum. depreciation	62,875,080.96	6,611,709.51	-	3,444,601.82	66,042,188.65
Capital assets, net	$ 110,764,246.63	$ 364,310.45	$ -	$ (262,713.03)	$111,391,270.11

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 35,480,164.78	$ -	$ 966,145.24	$ 34,514,019.54	$ 1,000,866.04
Commercial paper	969,412.29	2,117,309.88	-	3,086,722.17	-
Subtotal	36,449,577.07	2,117,309.88	966,145.24	37,600,741.71	1,000,866.04
Other liabilities:					
Compensated absences	1,744,870.95	1,315,785.37	1,051,739.66	2,008,916.66	509,414.22
Due to grantors	973,299.35	-	87,759.09	885,540.26	-
Net OPEB obligation	-	1,727,000.00	584,131.84	1,142,868.16	-
Subtotal	2,718,170.30	3,042,785.37	1,723,630.59	4,037,325.08	509,414.22
Total long-term liabilities	$ 39,167,747.37	$ 5,160,095.25	$ 2,689,775.83	$ 41,638,066.79	$ 1,510,280.26

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 4% to 6%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 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 and unexpended debt proceeds. The TSSBA held no debt service reserve or unexpended debt proceeds for the university at June 30, 2008.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2008, are as follows:

Year Ending June 30	Principal	Interest	Total
2009	$ 1,000,866.04	$ 1,579,682.51	$ 2,580,548.55
2010	1,040,244.11	1,543,362.05	2,583,606.16
2011	1,085,667.83	1,498,463.68	2,584,131.51
2012	1,148,383.27	1,451,577.36	2,599,960.63

2013	995,595.15	1,402,002.52	2,397,597.67
2014 – 2018	5,197,617.00	6,310,211.74	11,507,828.74
2019 – 2023	5,909,012.02	5,062,961.05	10,971,973.07
2024 – 2028	7,456,670.69	3,548,712.30	11,005,382.99
2029 – 2033	8,553,394.58	1,600,264.48	10,153,659.06
2034 – 2036	2,126,568.85	151,043.64	2,277,612.49
	$ 34,514,019.54	$ 24,148,281.33	$ 58,662,300.87

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 $3,086,722.17 at June 30, 2008.

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, or by calling (615) 401-7872.

NOTE 7. 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, 2008, net appreciation of $159,437.93 is available to be spent, all of which is included in restricted net assets expendable for scholarships and fellowships.

NOTE 8. 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, 2008
Working capital	$ 2,702,939.95
Encumbrances	1,676,377.64
Designated fees	1,846,282.12
Auxiliaries	367,447.75
Plant construction	16,576,054.06
Renewal and replacement of equipment	9,520,666.66
Undesignated	2,636,951.32
Total	$ 35,326,719.50

NOTE 9. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

Annotated, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 13.62% 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, 2008, 2007, and 2006 were $2,282,052.26, $2,243,277.69, and $1,614,166.09. 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 $2,182,833.32 for the year ended June 30, 2008, and $1,968,930.05 for the year ended June 30, 2007. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees – the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 101, *Tennessee Code Annotated*. Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retires; see Note 17. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Funding Policy. The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. In accordance with TCA 8-27-205 (b), retirees not eligible for Medicare pay a percentage of the total state premium under the State Employee Group Plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the State Employee Group Plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the State Employee Group Plan. Retirees with 20 but less than 30 years of service pay 30% of the total premium under the State Employee Group Plan. Retirees 55 and older with less than 20 but more than 10 years of service pay 40% of the total premium under the State Employee Group Plan. Contributions for the State Employee Group Plan for the year ended June 30, 2008, were $6,583,048.78, which consisted of $5,363,928.77 from the university and $1,219,120.01 from the employees.

Annual OPEB Cost and Net OPEB Obligation

	State Employee Group Plan
Annual required contribution (ARC)	$1,727,000.00
Interest on the net OPEB obligation	-
Adjustment to the ARC	-
Annual OPEB cost	1,727,000.00
Amount of contribution	(584,131.84)
Increase (decrease) in net OPEB obligation	1,142,868.16
Net OPEB obligation – beginning of year	-
Net OPEB obligation – end of year	$1,142,868.16

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2008	State Employee Group Plan	$1,727,000.00	33.8%	$1,142,868.16

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2008, was as follows:

	State Employee Group Plan
Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL)	$15,132,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$15,132,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$41,440,910.90
UAAL as percentage of covered payroll	36.5%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7 percent initially, increased to 11 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent after twelve years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 11. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The amount of settlements has not exceeded insurance coverage for each of the three past 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 year ended June 30, 2008, is 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, by visiting the state's website at http://tennessee.gov/finance/act/cafr.html, 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, 2008, the Risk Management Fund held $123.9 million in cash and cash equivalents designated for payment of claims.

At June 30, 2008, the scheduled coverage for the university was $298,136,240 for buildings and $37,002,000 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 12. 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 $11,795,140.78 at June 30, 2008.

Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $15,000 for the year ended June 30, 2008. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2008, outstanding commitments under construction contracts totaled $329,330.94 for ADA improvements, McCord Building renovations, Armory demolition/Memorial Health upgrade, Marks building code correction, McReynolds building code correction, and infrastructure improvements, of which $155,674.50 will be funded by future state capital outlay appropriations.

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

NOTE 13. CHAIRS OF EXCELLENCE

The university had $9,329,976.03 on deposit at June 30, 2008, 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 14. 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, 2008.

NOTE 15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2008, are as follows:

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$25,236,066.95	$7,262,759.43	$ 4,645,266.12	$ -	$ -	$37,144,092.50
Research	861,105.13	211,599.34	699,913.67	-	-	1,772,618.14
Public service	824,741.78	324,851.05	284,073.83	-	-	1,433,666.66
Academic support	4,014,197.77	1,525,092.96	(144,524.76)	-	-	5,394,765.97
Student services	5,545,649.21	2,338,130.23	4,735,507.30	-	-	12,619,286.74
Institutional support	4,994,091.44	1,991,355.89	3,027,226.84	-	-	10,012,674.17
Operation & maintenance	2,168,582.69	1,109,874.89	11,190,541.90	-	-	14,468,999.48
Scholar. & fellow.	-	-	-	13,184,332.64	-	13,184,332.64
Auxiliary	925,459.11	282,462.44	1,726,637.32	-	-	2,934,558.87
Depreciation	-	-	-	-	6,611,709.51	6,611,709.51
Total	$44,569,894.08	$15,046,126.23	$ 26,164,642.22	$ 13,184,332.64	$ 6,611,709.51	$105,576,704.68

NOTE 16. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2008, the university implemented Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosures, and required supplementary information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

NOTE 17. ON-BEHALF PAYMENTS

During the year ended June 30, 2008, the State of Tennessee made payments of $58,370.21 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

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, 2008, the foundation made distributions of $523,443.14 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: Donna Johansen, Business Office, PO Box 4635, Clarksville, TN 37044.

<u>Cash and cash equivalents</u> - Cash and cash equivalents consists of demand deposit accounts, certificates of deposit, money market funds, and State of Tennessee Local Government Investment Pool. The bank balances of deposits at June 30, 2008, were entirely insured.

<u>Investments</u> - 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, 2008, were as follows:

	Cost	Market Value
Cash and cash equivalents	$ 344,359.70	$ 344,359.70
Certificates of deposit	100,417.06	100,417.06
Marketable debt securities	2,634,768.97	2,760,737.43
Marketable equity securities	4,591,831.24	6,115,824.07
Mutual funds	227,110.46	194,222.40
Other investments	811,333.52	746,375.32
Cash surrender value of life insurance policy	-	84,626.50
Total investments	$ 8,709,820.95	$ 10,346,562.48

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

	June 30, 2008
Current pledges	$ 62,488.41
Pledges due in one to five years	447,155.00
Pledges due after five years	-
Subtotal	509,643.41
Less discount to net present value	(47,365.62)
Total pledges receivable, net	$ 462,277.79

Capital assets - Capital assets at June 30, 2008, were as follows:

Land	$ 780,842.16
Buildings	155,166.38
Total	936,008.54
Less accumulated depreciation:	
Buildings	3,879.16
Total accumulated depreciation	3,879.16
Capital assets, net	$ 932,129.38

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, five percent (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, 2008, a net loss of $36,399.88 was incurred.

Tennessee Board of Regents
Austin Peay State University
Required Supplementary Information
OPEB Schedule of Funding Progress
Unaudited

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
7/1/2007	State Employee Group Plan	$ -	$15,132,000.00	$15,132,000.00	0%	$41,440,910.90	36.5%

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	776,280.06
Payments to suppliers and vendors		(485,473.90)
Payments for scholarships and fellowships		(364,752.67)
Payments to or on behalf of Austin Peay State University		(482,194.00)
Net cash used by operating activities		(556,140.51)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes		1,499,426.41
Net cash provided by noncapital financing activities		1,499,426.41
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets and construction		(189,227.29)
Proceeds from sale of capital assets		73,744.29
Net cash used by capital and related financing activities		(115,483.00)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		122,035.10
Income on investments		350,230.40
Purchases of investments		(1,409,592.81)
Net cash used by investing activities		(937,327.31)
Net decrease in cash and cash equivalents		(109,524.41)
Cash and cash equivalents - beginning of year		2,816,080.93
Cash and cash equivalents - end of year	$	2,706,556.52
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(308,368.80)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		3,879.16
Pledges		217,438.09
Stock gifts		(13,654.80)
Change in assets and liabilities:		
Accounts payable		610,713.16
Accounts receivable		(1,066,147.32)
Net cash used by operating activities	$	(556,140.51)
Noncash transactions:		
Gifts in-kind	$	41,249.14
Pledges	$	(10,533.69)
Unrealized loss on investments	$	(1,080,617.24)
Realized gain on investments	$	8,396.76
Realized loss on investments	$	(26,799.91)
Prior period adjustment	$	9,936.01