AUDIT REPORT

Tennessee Board of Regents
Austin Peay State University

For the Year Ended
June 30, 2009

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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May 12, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, 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, 2009. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ddm
09/078

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, 2009

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 2009

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 2009

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 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, APSU 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.

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, 2008, through June 30, 2009, 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, 2009. 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 as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements;

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

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

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on May 6, 2010. A follow-up of all prior audit findings was conducted as part of the current audit.

The current audit disclosed that the university has corrected previous audit findings concerning controls related to receipting, recording, and documenting contributions and pledges received in the University Advancement Office not being adequate and the student accounts receivable subsidiary ledger not being reconciled to the general ledger periodically or at year-end resulting in management not being promptly aware of problems within the subsidiary ledger.

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, 2009, 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. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

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.

Fairness of Financial Statement Presentation

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

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

November 29, 2010

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, 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, 2009, and have issued our report thereon dated November 29, 2010. 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.

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.

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

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

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/ddm

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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Independent Auditor's Report

November 29, 2010

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, 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, 2009, 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, 2009, 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 Austin Peay State University, and its discretely presented component unit as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 12 through 30 and the schedule of funding progress on page 61 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 62 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 November 29, 2010, 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/ddm

Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis

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, 2009, with comparative information presented for the fiscal year ended June 30, 2008. 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 notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

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

The Statement of Net Assets

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

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

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

	2009	2008
Assets:		
Current assets	$ 22,610	$ 18,912
Capital assets, net	120,042	111,391
Other assets	38,292	39,453
Total assets	180,944	169,756
Liabilities:		
Current liabilities	12,950	8,105
Noncurrent liabilities	43,570	40,128
Total liabilities	56,520	48,233
Net Assets:		
Invested in capital assets, net of debt	79,395	73,791
Restricted - nonexpendable	5,063	6,120
Restricted - expendable	5,794	6,286
Unrestricted	34,172	35,326
Total net assets	$ 124,424	$ 121,523

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

- Current assets have increased principally from a significant increase in cash due to the significant increase in the current liabilities, deposits held in custody for others, and due to primary government.

- The increase in capital assets between fiscal years was 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.

- The increase in current liabilities was primarily because the university acted upon guidance provided by the Tennessee Recovery Act Management Office. The total allotment of FY 2008-09 State Fiscal Stabilization Funds, $2,855,400.00, was drawn down and receipted as of June 30, 2009. It was subsequently determined that institutions would not lose the availability of funds not drawn down at June 30, 2009, and SFSF of $2,855,400.00 were returned on July 13, 2009, and are included on the Statement of Net Assets as Due to Primary Government. Funds not returned on July 13, 2009, represent

SFSF disbursements made prior to June 30, 2009, for which the institution requested reimbursement.

- Noncurrent liabilities increased between fiscal years due to the issuance of bonds and/or commercial paper by the Tennessee State School Bond Authority (TSSBA) on behalf of the university for various capital projects. More detailed information about the university's debt is presented in the Capital Assets and Debt Administration section of Management's Discussion and Analysis. Additionally, a significant increase in the Net Other Post Employment Benefits (OPEB) obligation was recognized. More detailed information about the university's Other Post employment Benefits is presented in Note 12 to the financial statements.

- The increase in capital assets, net of related debt, between fiscal years was 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.

- Restricted – nonexpendable net assets consist of various investments related to endowments. The decrease in this fund was due to significant changes in market value. Additionally, as funds were required to be drawn down for scholarship funding, the university had larger than normal realized losses.

- Restricted – expendable net assets decreased due to a reduction in the debt service balance of certain Replacement and Renewal funds and a decrease in research funds in the prior year.

Component Unit
Statements of Net Assets Summary
(in thousands of dollars)

	2009	2008
Assets		
Current assets	$ 442	$ 1,332
Capital assets, net	747	932
Other assets	11,758	13,302
Total assets	12,947	15,566
Liabilities:		
Current liabilities	56	1,066
Total liabilities	56	1,066
Net assets:		
Invested in capital assets	747	932
Restricted - nonexpendable	6,970	7,797
Restricted - expendable	4,626	5,331
Unrestricted	548	440
Total net assets	$ 12,891	$ 14,500

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

- The decrease in current assets from 2008 to 2009 was because of a payable the foundation had from the university at June 30, 2008. This payable was due to a transfer of funds from an account maintained in the Local Government Investment Pool from the foundation to the university in the amount of $1,032,432.75 that were to be wired to the bank account; however, those funds were not wired until July 1, 2008.

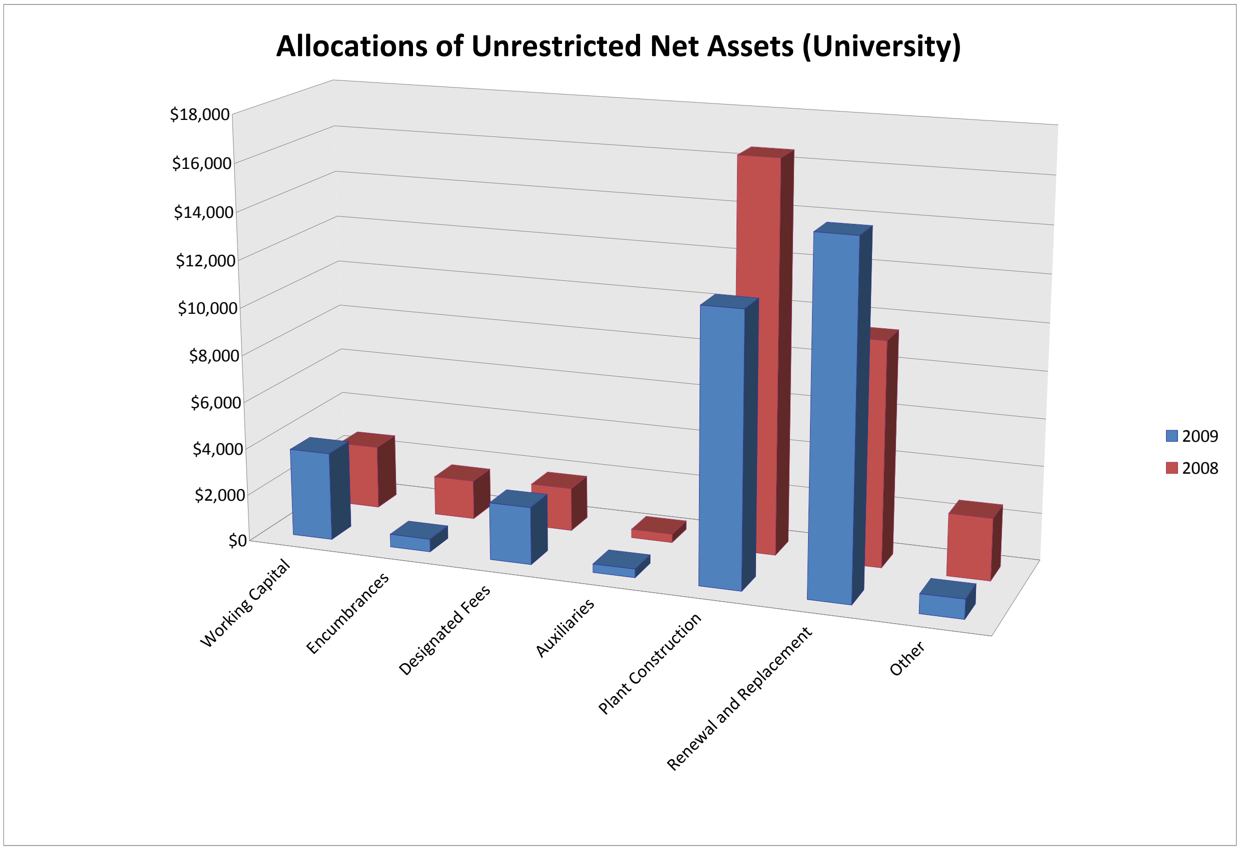
- A decrease in capital assets between fiscal years occurred from the selling of real estate holdings the foundation purchased in the prior year for commercial rentals.

- The decrease in other assets was due to a significant decrease in the market value of investments held as endowments, and other invested funds.

- Current liabilities decreased because the component unit had checks written in excess of cash in the 2008 fiscal year due to a cash transfer not completed prior to June 30. Thus, the checks written were reflected as accounts payable according to generally accepted accounting principles.

- Net assets, both nonexpendable and expendable, consist primarily of investments held for student scholarships. Because of the market situation in the previous year, significant market value losses have been recognized. More detailed information about the foundation's investments is presented in Note 19 to the financial statements.

Many of the university's unrestricted net assets have been designated for specific purposes such as repairs and replacement of equipment, future debt service, quasi-endowments, capital projects, and student loans. The following graph shows the allocations:



- The decrease in plant construction resulted from the completion of the Fort Campbell classroom and the first phase of the residence hall fire sprinkler project. More detailed information about the university's capital assets is presented in the Capital Assets and Debt Administration section of Management's Discussion and Analysis.

- The increase in renewal and replacement included a transfer from unrestricted net assets in anticipation of needed and necessary paving requirements for streets, and parking areas in the upcoming year.

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 non-operating revenues according to accounting principles generally accepted in the United States of America.

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

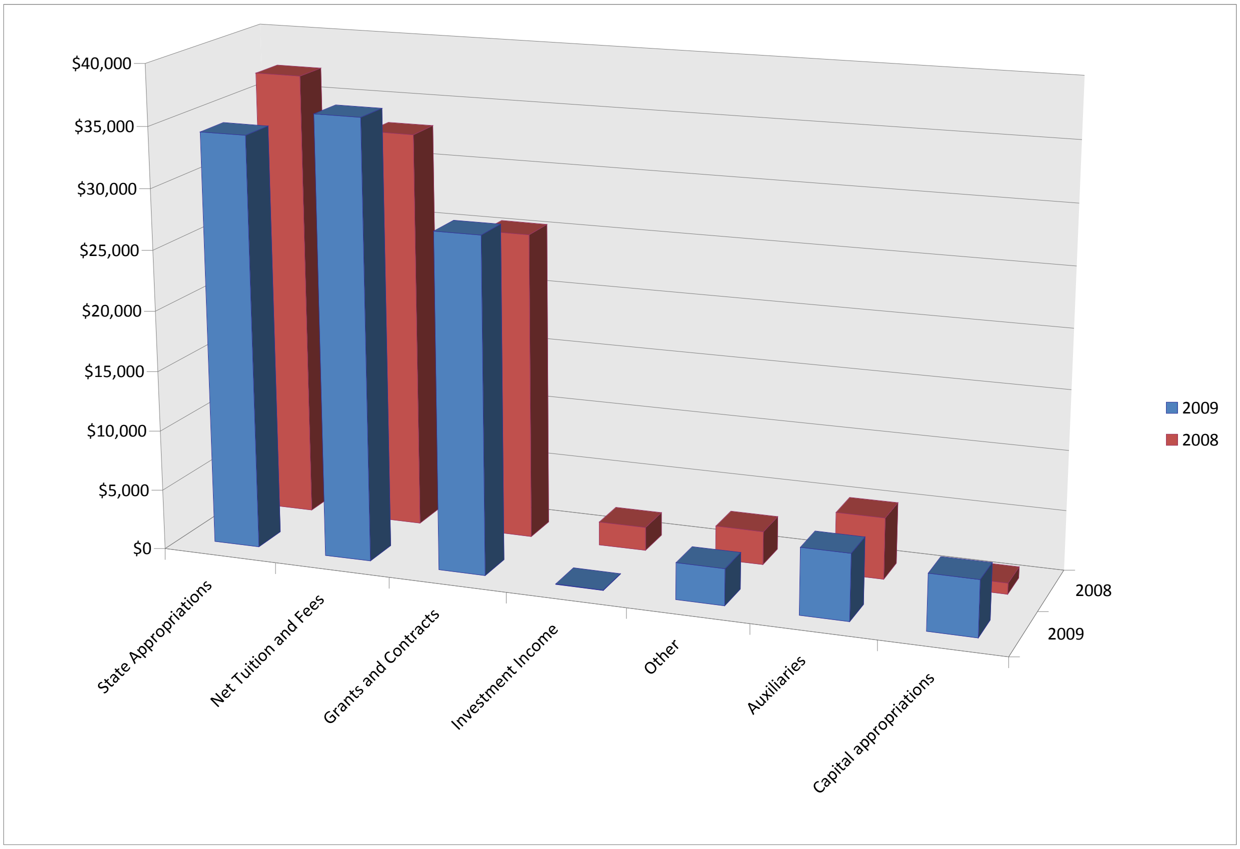
	2009	2008
Operating revenues:		
Net tuition and fees	$ 36,302	$ 33,040
Grants and contracts	4,764	4,529
Auxiliaries	5,492	5,106
Other	3,568	3,337
Total operating revenues	50,126	46,012
Operating expenses	108,556	105,577
Operating loss	(58,430)	(59,565)
Nonoperating revenues and expenses:		
State appropriations	34,201	37,201
Gifts	1,041	948
Grants and contracts	22,994	21,016
Investment income	35	1,968
Other revenues and expenses	(1,604)	(1,223)
Total nonoperating revenues and expenses	56,667	59,910
Income (loss) before other revenues, expenses, gains, or losses	(1,763)	345
Other revenues, expenses, gains, or losses:		
Capital appropriations	4,639	928
Capital grants and gifts	24	27
Other	-	296
Total revenues, expenses, gains, or losses	4,663	1,251
Increase (decrease) in net assets	2,900	1,596
Net assets at beginning of year	121,523	119,927
Net assets at end of year	$ 124,423	$ 121,523

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

	2009	2008
Operating revenues:		
Gifts and contributions	$ 978	$ 614
Total operating revenues	978	614
Operating expenses	963	922
Operating gain (loss)	15	(308)
Nonoperating revenues and expenses:		
Investment income	(2,163)	(730)
Other nonoperating revenues and expenses	6	-
Total nonoperating revenues and expenses	(2,157)	(730)
Income (loss) before other revenues, expenses, gains, or losses	(2,142)	(1,038)
Other revenues, expenses, gains, or losses:		
Capital grants and gifts	-	220
Additions to permanent endowments	533	1,758
Total other revenues, expenses, gains, or losses	533	1,978
Increase (decrease) in net assets	(1,609)	940
Net assets at beginning of year	14,500	13,560
Net assets at end of year	$ 12,891	$ 14,500

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the university's operating activities for the years ended June 30, 2009, and June 30, 2008 (amounts are presented in thousands of dollars).



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

- As part of the state's budget cutting measures for the 2009 fiscal year, the university's base state appropriation amount was reduced six percent, $2,188,000. Additionally, in January, the state further reduced the appropriated amount with a budget reversion of 3.4 percent, $1,175,100.

- Net tuition and fee revenue increased from 2008 to 2009 as a result of an across-the-board fee increase of 6 percent and an increase of 3.4 percent in full-time student enrollment.

- Auxiliary unit revenues increased from 2008 to 2009 because of unused student meal plans. Additionally, an increased amount of student activity fees was transferred to the Student Recreation Center.

- Other revenues realized an increase between fiscal years primarily due to increased university facility rentals.

- Nonoperating grants and contracts principally consist of federal and state funded student award grants such as the federal grants: Pell, Supplemental Educational Opportunity Grant (SEOG) receipts, and state aid such as Lottery and Tennessee Student Assistance Corporation (TSAC). These funds are received for payments to students for educational assistance. The increase from 2008 to 2009 was due to the increases in student tuition and fees, and student enrollment.

- Investment income decreased from fiscal year 2008 to fiscal year 2009 because endowment investments experienced severe market value losses in the amount of $938,479 due to the overall downturn of market values during the fiscal year.

- The increase in capital appropriations from 2008 to 2009 was due to the appropriation of funds for new and renovated facilities. 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 component unit had the following significant changes in revenues between fiscal years:

- The increase in gifts from 2008 to 2009 was the result of an increased focus in soliciting gifts and pledges over the prior fiscal year. This increase affected the temporarily restricted gifts of the foundation.

- Investment income decreased from fiscal year 2008 to fiscal year 2009 because endowment investments experienced severe market value losses in the amount of $1,052,761 due to the overall downturn of market values during the fiscal year.

- The decrease in additions to permanent endowments from 2008 to 2009 was due to a decrease in bequests to the foundation.

Expenses

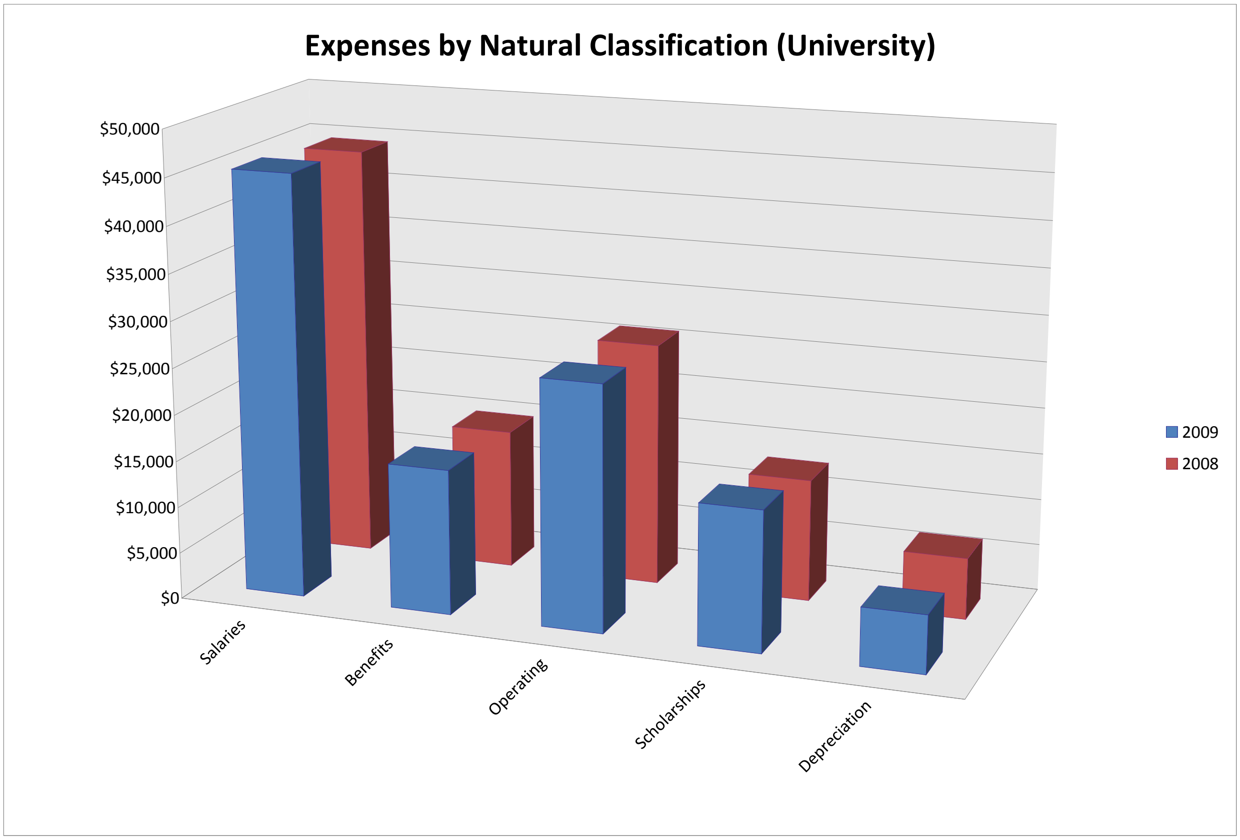
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

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

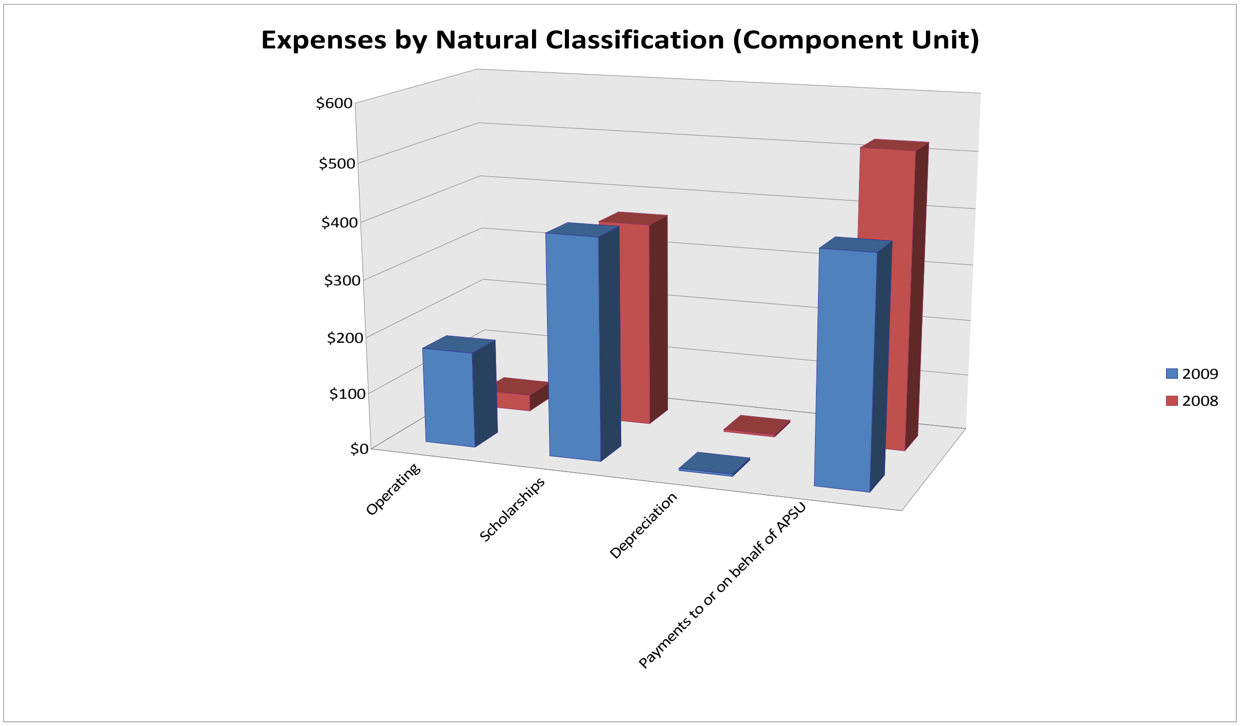
	2009	2008
Salaries	$ 45,327	$ 44,570
Benefits	15,604	15,046
Operating	26,351	26,165
Scholarships	15,060	13,184
Depreciation	6,214	6,612
	$ 108,556	$ 105,577

Component Unit
Natural Classification
(in thousands of dollars)

	2009	2008
Operating	$ 170	$ 30
Scholarships	390	365
Depreciation	4	4
Payments to or on behalf of APSU	399	523
	$ 963	$ 922



Expenses by Natural Classification (University)
$50,000
$45,000
$40,000
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0
Salaries
Benefits
Operating
Scholarships
Depreciation
2009
2008



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

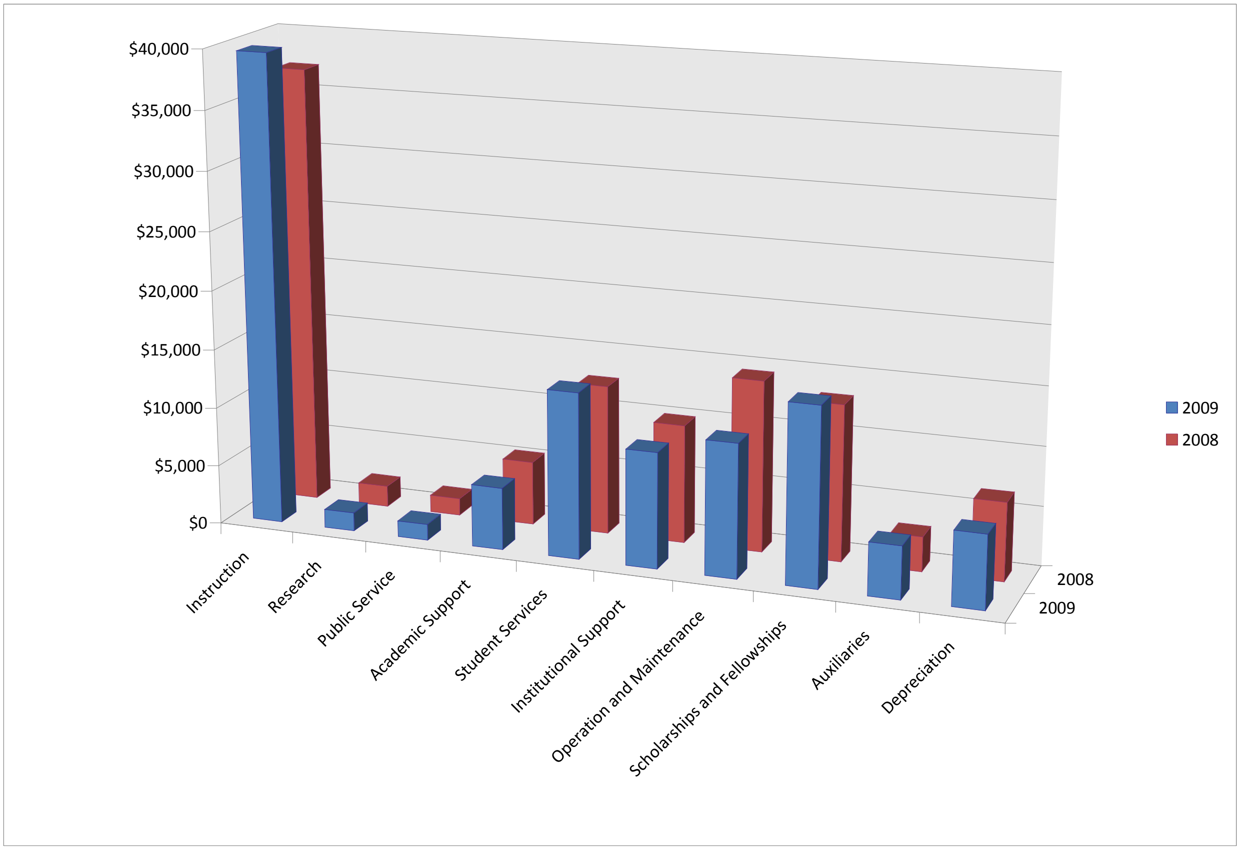
- The increase in salary expenses from 2008 to 2009 was due to new faculty positions, new support and staff positions. During 2009, the university did not provide pay increases other than certain classification changes or approved education and certification based increases. No bonuses other than state approved longevity were awarded to employees.
- Employee benefit expenses increased between fiscal years mainly as a result of increases in the state's group insurance premiums, increases in Tennessee Consolidated Retirement System (TCRS) rates, and/or added benefits for new positions.
- Scholarship expenses increased predominantly in consequence of the university's student success and retention initiatives, and an increase in available student aid from federal sources such as the Federal Pell Grant and SEOG.

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

- Operating expenses for the component unit increase and decrease each year based on the amount of requests received from university departments to purchase items to support university functions. Also, there were $147,500 unrestricted gifts in kind recorded in FY 2009 as opposed to $0 for FY 2008.

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

	2009	2008
Instruction	$ 39,651	$ 37,144
Research	1,561	1,772
Public Service	1,361	1,434
Academic Support	5,250	5,395
Student Services	13,997	12,619
Institutional Support	9,757	10,013
Operation and Maintenance	11,256	14,469
Scholarships and Fellowships	15,060	13,184
Auxiliaries	4,449	2,935
Depreciation	6,214	6,612
	$ 108,556	$ 105,577



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

- In accordance with the university administration's values and beliefs, additional funds related to student success and retention were spent in the Instructional area. The increase also resulted from faculty promotions, additional faculty lines to accommodate student success and growth.

- The increase in student services was also related to the success of students at the university with the expansion of student support services of labs and tutoring. Increases in athletic expenses also contributed to the increase.

- The decrease in institutional support and operation and maintenance between the fiscal years is due to deliberate budget cuts in response to a significant decrease in state funding.

- Scholarship expenses increased predominantly because of increases in the federal and state funding such as Pell, SEOG, and Lottery funds. Additional scholarships were approved by university administration to assist the athletic area.

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
Statements of Cash Flows Summary
(in thousands of dollars)

	2009	2008
Cash provided (used) by:		
Operating activities	$ (50,750)	$ (52,269)
Noncapital financing activities	62,193	58,207
Capital and related financing activities	(8,608)	(6,549)
Investing activities	1,101	2,368
Net increase (decrease) in cash	3,936	1,757
Cash and cash equivalents, beginning of year	44,456	42,699
Cash and cash equivalents, end of year	$ 48,392	$ 44,456

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

- The increase of cash provided in the noncapital financing activities resulted from a significant increase in deposits held in custody for others. Additionally, upon guidance provided by the Tennessee Recovery Act Management Office, the total allotment of FY 2008-09 State Fiscal Stabilization Funds, $2,855,400.00, was drawn down and receipted as of June 30, 2009. It was subsequently determined that institutions would not lose the availability of funds not drawn down at June 30, 2009, and SFSF of $2,855,400.00 were returned on July 13, 2009, and are included on the Statement of Net Assets as Due to Primary Government. Funds not returned on July 13, 2009, represent SFSF disbursements made prior to June 30, 2009, for which the institution requested reimbursement.

- Cash used by the capital and related financing activities increased due to TSSBA-funded projects increasing significantly in addition to the major locally funded projects of the McReynolds building, and the Memorial Health Center. More detailed information about the university's capital assets is presented in the Capital Assets and Debt Administration section of Management's Discussion and Analysis.

- The decrease in cash provided in investing activities represented the significant losses in market value related to endowment investments and the lower rates of return realized in investment income. In addition, realized losses were recognized as funds were sold in order for the university to draw down cash to fund scholarships.

- The university's liquidity improved by $3.9 million during the year chiefly due to substantial short-term liabilities such as the amount due to primary government, $2.9 million, discussed above in this report.

Capital Assets and Debt Administration

Capital Assets

The university had $120,041,581 invested in capital assets, net of accumulated depreciation of $71,301,036 at June 30, 2009; and $111,391,270 invested in capital assets, net of accumulated depreciation of $66,042,189 at June 30, 2008. Depreciation charges totaled $6,213,429 and $6,611,710 for the years ended June 30, 2009, and June 30, 2008, respectively. Details of these assets are shown below.

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

	2009	2008
Land	$ 6,604	$ 4,706
Land improvements and infrastructure	6,798	5,063
Buildings	92,939	89,351
Equipment	4,907	5,013
Library holdings	2,798	3,148
Software	1,532	1,746
Projects in progress	4,464	2,364
Total	$ 120,042	$ 111,391

Highlights of the information presented on the Schedule of Capital Assets for the university are as follows:

Land and buildings increased because of commercial and residential property purchases presented to the university from private citizens, and the completion of certain capital projects. The university, in complying with the approved campus master plan, aggressively seeks to purchase all available property. Significant purchases include Home Court apartments, which has been converted into Greek Village. The individual units are leased to campus organizations for exclusive use by the organization. The use may include the residence of selected organization officers. The purchase of these properties was funded with available funds set aside in the Plant Funds of the university.

During the fiscal year 2009, the university used resources from university Plant Funds to improve, update, and bring back on-line the McReynolds building. This building will house several educational and administrative departments of the university such as Continuing Education, Upward Bound TRIO block programs, and Sponsored Research. Additionally, the Memorial Health building received significant updates including the closing and filling of the indoor pool, the creation of a large dance floor to be used for educational departments, and updating the ROTC area. The Marks building project, which houses academic and student support services, was also concluded during the 2009 fiscal year.

Additionally, major projects that had funds provided from TSSBA bonds and/or commercial paper were completed during the 2009 fiscal year. The Fort Campbell facility, which contains classrooms, labs, student areas, and faculty offices, was completed and brought into service during the 2009 fiscal year. The first phase of the residential housing fire sprinkling project was also completed during the year.

Significant projects started or continuing during the 2009 fiscal year include the Housing fire sprinkler project. A Residential Housing project was started during the 2009 fiscal year that is scheduled to be completed prior to fall 2010.

Land improvements increased because of the completion of the first phase of Housing's residential fire sprinkler project, which approximated $1.6 million.

Component Unit
Schedule of Capital Assets, Net of Depreciation
(in thousands of dollars)

	2009	2008
Land	$ 738	$ 781
Buildings	-	151
Equipment	9	-
Total	$ 747	$ 932

Highlights of the information presented on the Schedule of Capital Assets for the component unit are as follows:

Land and buildings balances decreased between fiscal years because the foundation sold to the university certain properties that were purchased in the 2008 fiscal year. The properties are residential and will be converted to commercial rental property in order to assist in providing a source of income for future property acquisition.

Planned capital expenditures in the next fiscal year include the completion of the residential housing fire sprinkler project, which will be funded through the use of TSSBA bonds and/or commercial paper. Additionally, the new residential housing project, also funded with TSSBA bonds, is planned to be completed and available for students in the fall of 2010.

Because of a successful campaign from the Governor and other state and local leaders, the university, in collaboration with private industry, is planning a multi-million dollar educational facility that will educate and train students to be eligible for employment with a major world-wide silicone producer locating in the area. The facility will provide classroom and specific laboratory and faculty spaces. The funding will be provided by state and private funds.

The university will continue purchasing commercial and private property located within the campus master plan. The university is also anticipating several paving projects across the campus.

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

Debt

The university had $40,646,860 and $37,600,742 in debt outstanding at June 30, 2009, and June 30, 2008, respectively. The component unit had $0 and $0 in debt outstanding at June 30, 2009, and June 30, 2008, respectively. The table below summarizes these amounts by type of debt instrument.

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

	2009	2008
TSSBA Bonds	$ 39,724	$ 34,514
TSSBA Commercial Paper	923	3,087
Total Debt	$ 40,647	$ 37,601

Since the first phase of the residential housing fire sprinkler project was completed, the project was removed from commercial paper, and bonded via the TSSBA. Additionally, with the completion of the Fort Campbell facility, it also was removed from commercial paper and bonded.

With the commencement of the new residential housing project, new commercial paper was issued for initial design and planning expenses. Upon completion, it is anticipated the commercial paper will be converted to TSSBA bonds.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2009, were as follows:

Fitch	AA
Moody's Investor Service	Aa2
Standard & Poor's	AA

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

Economic Factors That Will Affect the Future

The state's financial condition continues to be a concern among public colleges and universities. For the first time in the state's history, Tennessee has experienced a loss in tax revenue. During the 2009 fiscal year, significant state appropriation cuts have been made. The specific amount of appropriation cut was determined on formula funding provided by the Tennessee Higher Education Commission (THEC). The amount of budget cut allocated to APSU amounted to six percent, or $2,188,000. Subsequent to the initial budget cut, an additional budget reversion of 3.4 percent, or $1,175,100, was made in January.

During the 2009 fiscal year, the federal government passed the American Recovery and Reinvestment Act (ARRA) of 2009. The State of Tennessee applied for and was approved for State Fiscal Stabilization Funds (SFSF). Accordingly, the State of Tennessee Recovery Act Management (TRAM) office is the official administrator of these funds for the state. The Tennessee Board of Regents has been identified as a primary recipient of these funds with the university being a subrecipient. Funds that will be available for reimbursement to the university through September 2011 total $15,540,000. University administrators continue to consider the best possible uses for these funds including such uses as instructional salaries and scholarship expenses, which further the university's mission and act in accordance with the university values and ambition of student success and retention.

During the June meeting of the Tennessee Board of Regents, the Regents approved the removal of the student maintenance fee cap. The cap had previously been set at 12 hours for undergraduate students and 10 hours for graduate students. Removing the cap allows for students to be assessed the approved hourly fee for all hours; however, for the academic year beginning fall 2009, hours over 12 will be discounted 95 percent. An additional one percent fee increase was approved for all hours less than 12.

Significant apprehension continues to exist related to financial and investment opportunities by both the university and foundation administration. This concern exists due to the necessity of healthy investment returns and income to continue funding the growth of both university and foundation endowments and provide ample scholarships to students.

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 financial information should be directed to Tim Hurst, Assistant Vice President for Finance, APSU Box 4635, Clarksville, TN 37044.

Exhibit A

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF NET ASSETS
June 30, 2009

	Institution	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 16,971,075.41	$ 245,890.03
Short-term investments (Note 3)	28,722.22	-
Accounts, notes, and grants receivable (net) (Note 4)	5,046,704.89	52,862.77
Due from primary government	118,700	-
Pledges receivable (net) (Note 19)	-	118,429.99
Inventories	262,544.59	-
Prepaid expenses and deferred charges	116,730.09	-
Accrued interest receivable	65,093.45	25,147.63
Total current assets	22,609,570.65	442,330.42
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 19)	31,420,954.60	3,284,931.51
Investments (Notes 3 and 19)	5,551,286.12	8,081,827.23
Accounts, notes, and grants receivable (net) (Note 4)	1,320,639.06	-
Pledges receivable (net) (Note 19)	-	390,874.69
Capital assets (net) (Notes 5 and 19)	120,041,581.01	747,335.17
Total noncurrent assets	158,334,460.79	12,504,968.60
Total assets	180,944,031.44	12,947,299.02
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	1,684,362.31	55,905.46
Accrued liabilities	2,259,518.61	-
Due to primary government	2,855,400.00	-
Student deposits	87,045.00	-
Deferred revenue	2,308,328.75	-
Compensated absences (Note 7)	528,886.58	-
Accrued interest payable	317,134.19	-
Long-term liabilities, current portion (Note 7)	1,681,303.84	-
Deposits held in custody for others	1,228,410.61	-
Total current liabilities	12,950,389.89	55,905.46
Noncurrent liabilities:		
Net OPEB obligation (Notes 7 and 12)	2,189,702.42	-
Compensated absences (Note 7)	1,508,182.61	-
Long-term liabilities (Note 7)	38,965,556.67	-
Due to grantors (Note 7)	906,875.27	-
Total noncurrent liabilities	43,570,316.97	-
Total liabilities	56,520,706.86	55,905.46
NET ASSETS		
Invested in capital assets, net of related debt	79,394,720.50	747,335.17
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	4,947,100.93	6,588,408.22
Research	-	51,575.17
Instructional department uses	4,565.81	52,423.86
Other	111,327.97	277,407.09
Expendable:		
Scholarships and fellowships (Notes 8 and 19)	1,458,022.45	2,477,604.02
Research	652,669.28	5,552.97
Instructional department uses	261,882.85	479,008.38
Loans	76,190.04	-
Debt service	1,982,881.69	-
Other	1,362,671.59	1,664,111.23
Unrestricted (Note 9)	34,171,291.47	547,967.45
Total net assets	$ 124,423,324.58	$ 12,891,393.56

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, 2009

	Institution	Component Unit
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $14,626,326.31)	$ 36,302,222.50	$ -
Gifts and contributions	-	977,726.02
Governmental grants and contracts	4,714,221.22	-
Nongovernmental grants and contracts	50,237.68	-
Sales and services of educational departments	2,975,763.23	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $1,639,682.48; all residential life revenues are used as security for revenue bonds; see Notes 7 and 10)	4,069,656.12	-
Bookstore (all bookstore revenues are used as security for revenue bonds; see Notes 7 and 10)	350,000.04	-
Food service (all foodstore revenues are used as security for revenue bonds; see Notes 7 and 10)	552,248.23	-
Wellness facility (net of scholarship allowances of $177,994.39; all wellness facility revenues are used as security for revenue bonds; see Notes 7 and 10)	441,778.19	-
Other auxiliaries	78,485.03	-
Interest earned on loans to students	19,237.86	-
Other operating revenues	571,797.90	-
Total operating revenues	50,125,648.00	977,726.02
EXPENSES		
Operating expenses (Note 17):		
Salaries and wages	45,326,940.72	-
Benefits	15,604,348.21	-
Utilities, supplies, and other services	26,351,411.13	169,517.91
Scholarships and fellowships	15,059,474.29	389,493.42
Depreciation expense	6,213,429.04	4,413.04
Payments to or on behalf of Austin Peay State University (Note 18)	-	399,202.20
Total operating expenses	108,555,603.39	962,626.57
Operating income (loss)	(58,429,955.39)	15,099.45
NONOPERATING REVENUES (EXPENSES)		
State appropriations	34,201,215.50	-
Gifts (including $399,202.20 from component unit) (Note 19)	1,041,380.63	-
Grants and contracts	22,993,832.91	-
Investment income (loss) (net of investment expense of $26,366.26 for the University and $33,725.32 for the component unit)	35,462.83	(2,162,635.89)
Interest on capital asset-related debt	(1,714,392.13)	-
Bond issuance premium (costs)	213,724.85	-
Other nonoperating revenues (expenses)	(104,413.72)	6,142.00
Net nonoperating revenues (expenses)	56,666,810.87	(2,156,493.89)
Income (loss) before other revenues, expenses, gains, or losses	(1,763,144.52)	(2,141,394.44)
Capital appropriations	4,639,320.49	-
Capital grants and gifts	23,775.36	-
Additions to permanent endowments	-	533,021.61
Other	-	-
Total other revenues	4,663,095.85	533,021.61
Increase (decrease) in net assets	2,899,951.33	(1,608,372.83)
NET ASSETS		
Net assets - beginning of year	121,523,373.25	14,499,766.39
Net assets - end of year	$ 124,423,324.58	$ 12,891,393.56

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

Exhibit C

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	37,659,489.82
Grants and contracts		4,457,566.35
Sales and services of educational activities		2,898,768.95
Payments to suppliers and vendors		(27,242,522.99)
Payments to employees		(45,200,139.81)
Payments for benefits		(14,443,260.42)
Payments for scholarships and fellowships		(15,059,474.29)
Loans issued to students		(167,232.10)
Collection of loans from students		167,141.10
Interest earned on loans to students		14,866.66
Auxiliary enterprise charges:		
Residence halls		4,173,121.78
Bookstore		350,004.39
Food services		552,248.23
Wellness facility		439,580.76
Other auxiliaries		78,485.03
Other receipts (payments)		571,797.90
Net cash used by operating activities		(50,749,558.64)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		34,150,100.00
Gifts and grants received for other than capital purposes, including $75,082.57 from component unit		26,521,216.22
Federal student loan receipts		59,079,681.87
Federal student loan disbursements		(58,350,600.23)
Changes in deposits held for others		472,018.48
Other noncapital financing receipts (payments)		320,365.23
Net cash provided by noncapital financing activities		62,192,781.57
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		10,898,930.36
Capital appropriations		4,639,320.49
Purchases of capital assets and construction		(14,839,964.58)
Principal paid on capital debt and leases		(7,852,811.56)
Interest paid on capital debt and leases		(1,666,888.29)
Bond issuance costs/premium on new debt issue		213,724.85
Net cash used by capital and related financing activities		(8,607,688.73)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		1,561,530.88
Income on investments		945,541.51
Purchase of investments		(1,406,809.41)
Net cash provided by investing activities		1,100,262.98
Net increase in cash and cash equivalents		3,935,797.18
Cash and cash equivalents - beginning of year		44,456,232.83
Cash and cash equivalents - end of year (Note 2)	$	48,392,030.01

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(58,429,955.39)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		6,213,429.04
Gifts in-kind		369,397.32
On-behalf payments		52,415.50
Change in assets and liabilities:		
Receivables, net		(341,439.48)
Inventories		(1,544.16)
Prepaid expenses and deferred revenue		225,467.31
Other assets		(4,371.20)
Accounts payable		(699,907.49)
Accrued liabilities		1,203,506.36
Deferred revenue		529,413.64
Deposits		85,196.38
Compensated absences		28,152.53
Due to grantors		21,335.01
Loans to students and employees		91.00
Other		(745.01)
Net cash used by operating activities	$	(50,749,558.64)

Noncash investing, capital, or financing transactions		
Unrealized losses on investments	$	(917,174.29)

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

Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements
June 30, 2009

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 significant financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Austin Peay State University.

The Austin Peay State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 19 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, 2009, cash consisted of $2,129,946.28 in bank accounts, $14,514.00 of petty cash on hand, $44,216,242.48 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $2,031,327.25 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, 2009, 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	$ 75,124.10	$ 33,582.90	$ -	$ 32,629.32	$ 8,911.88	$ -
U.S. Agencies	291,048.09	-	34,456.48	13,053.72	243,537.89	-
Corporate Stocks	1,192,693.40	-	-	-	-	1,192,693.40
Corporate Bonds	188,371.25	-	86,687.25	83,937.11	17,746.89	-
Mutual Bond Funds	1,680,989.19	-	-	-	1,680,989.19	-
Mutual Equity Funds	1,488,204.18	-	-	-	1,488,204.18	-
Certificates of Deposit	584,252.28	28,722.22	555,530.06	-	-	-
Money Market	79,325.85	79,325.85	-	-	-	-
Total	$ 5,580,008.34	$ 141,630.97	$ 676,673.79	$ 129,620.15	$ 3,439,390.03	$ 1,192,693.40

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 ratings 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, 2009, the university's investments were rated as follows:

		Credit Quality Rating					
Investment Type	Fair Value	AAA	AA	A	BBB	BB	Unrated
LGIP	$ 46,247,569.73	$ -	$ -	$ -	$ -	$ -	$46,247,569.73
U.S. Agencies	291,048.09	291,048.09	-	-	-	-	-
Corporate Bonds	188,371.25	-	30,359.13	138,374.68	19,637.44	-	-
Mutual Bond Funds	1,680,989.19	874,114.38	84,049.46	184,908.81	134,479.14	151,289.03	252,148.37
Total	$ 48,407,978.26	$ 1,165,162.47	$ 114,408.59	$ 323,283.49	$ 154,116.58	$ 151,289.03	$46,499,718.10

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, 2009, the university had $1,826,562.69 of uninsured and unregistered investments for which the securities are held by the counterparty and $3,169,193.37 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.

Concentration of Credit Risk

Tennessee Board of Regents policy restricts investments in banker's acceptances, commercial paper, and money market mutual funds. The policy limits banker's acceptances to not exceed 20% of the total investments on the date of acquisition and limits the combined amount of banker's acceptances and commercial paper to not exceed 35% of the total investments at the date of acquisition. Additionally, no more than 5% of total investments at the date of acquisition may be invested in the commercial paper of a single issuer. The policy further limits the total holdings of an issuer's commercial paper to not more than 2% of the issuing corporation's total outstanding commercial paper. Tennessee Board of Regents policy limits investments in money market mutual funds to not exceed 10% of total investments on the date of acquisition.

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

	Carrying Value June 30, 2009
Certificates of Deposit	$ 28,722.22
Regions Investment Account	1,826,562.69
The Common Fund	3,169,193.37
Total	$ 5,024,478.28

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 fair value per unit at the beginning of the calendar quarter within which the transaction takes place. At June 30, 2009, there was a total of 10,517.344 units in the Multi-Strategy Equity Fund, each having a market value of $141.50, and a total of 134,371.638 units in the Multi-Strategy Bond Fund, each having a market value of $12.51.

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	$ 1,488,204.18	$ 1,080,000.00	$ 408,204.18	$ 141.50
Beginning of year	$ 2,006,633.57	$ 1,080,000.00	926,633.57	190.03
			(518,429.39)	$ (48.53)

Multi-Strategy Bond Fund				
End of year	$ 1,680,989.19	$ 1,703,000.00	$ (22,010.81)	$ 12.51
Beginning of year	$ 1,803,318.50	$ 1,703,000.00	100,318.50	13.38
			(122,329.31)	$ 0.87
Unrealized net losses			$ (640,758.70)	

The average annual earnings per unit, exclusive of net gains/(losses), were $(49.293)/unit for the Multi-Strategy Equity Fund and ($0.910)/unit for the Multi-Strategy Bond Fund for the year ended June 30, 2009.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2009
Student accounts receivable	$ 4,595,861.76
Grants receivable	937,536.40
Notes receivable	12,542.34
Other receivables	434,339.91
Subtotal	6,098,980.41
Less allowance for doubtful accounts	(933,575.52)
Total	$5,046,704.89

Federal Perkins Loan Program funds included the following:

	June 30, 2009
Perkins loans receivable	$ 1,550,711.41
Less allowance for doubtful accounts	(230,072.35)
Total	$ 1,320,639.06

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 4,705,358.29	$ 1,898,510.23	$ -	$ -	$ 6,603,868.52
Land improvements and Infrastructure	10,232,245.57	581,914.33	1,635,709.18	-	12,449,869.08
Buildings	140,125,755.78	7,299,299.88	-	-	147,425,055.66
Equipment	11,243,775.98	1,069,903.29	-	463,353.48	11,850,325.79
Library holdings	6,413,433.90	265,349.94	-	518,604.62	6,160,179.22
Software	2,348,743.64	41,107.80	-	-	2,389,851.44
Projects in progress	2,364,145.60	3,735,031.11	(1,635,709.18)	-	4,463,467.53
Total	177,433,458.76	14,891,116.58	-	981,958.10	191,342,617.24
Less accumulated depreciation:					
Land improvements and Infrastructure	5,168,847.01	482,723.89	-	-	5,651,570.90
Buildings	50,775,340.03	3,710,753.72	-	-	54,486,093.75
Equipment	6,230,612.17	1,148,589.23	-	435,976.84	6,943,224.56
Library holdings	3,264,948.02	616,017.91	-	518,604.62	3,362,361.31
Software	602,441.42	255,344.29	-	-	857,785.71
Total accumulated depreciation	66,042,188.65	6,213,429.04	-	954,581.46	71,301,036.23
Capital assets, net	$111,391,270.11	$ 8,677,687.54	$ -	$ 27,376.64	$120,041,581.01

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2009
Vendors payable	$1,684,280.95
Other payables	81.36
Total accounts payable	$1,684,362.31

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 34,514,019.54	$ 6,210,569.96	$ 1,000,866.05	$ 39,723,723.45	$ 1,681,303.84
Commercial paper	3,086,722.17	4,688,360.40	6,851,945.51	923,137.06	-
Subtotal	37,600,741.71	10,898,930.36	7,852,811.56	40,646,860.51	1,681,303.84
Other liabilities:					
Compensated absences	2,008,916.66	1,391,378.13	1,363,225.60	2,037,069.19	528,886.58
Due to grantors	885,540.26	21,335.01	-	906,875.27	-
Net OPEB obligation	1,142,868.16	1,046,834.26	-	2,189,702.42	-
Subtotal	4,037,325.08	2,459,547.40	1,363,225.60	5,133,646.88	528,886.58
Total long-term liabilities	$ 41,638,066.79	$ 13,358,477.76	$ 9,216,037.16	$ 45,780,507.39	$ 2,210,190.42

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 2% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to May 2036 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 10 for further details. 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 reserve amount was $864,351.71 at June 30, 2009. Unexpended debt proceeds were $17,650.70 at June 30, 2009.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2009, are as follows:

Year Ending June 30	Principal	Interest	Total
2010	$ 1,681,303.84	$ 1,830,883.57	$ 3,512,187.41
2011	1,753,064.48	1,760,929.08	3,513,993.56
2012	1,830,180.00	1,700,694.83	3,530,874.83
2013	1,699,259.28	1,630,666.10	3,329,925.38
2014	1,236,668.24	1,551,902.40	2,788,570.64
2015 – 2019	6,203,983.95	6,849,725.96	13,053,709.91
2020 – 2024	7,371,477.30	5,325,960.35	12,697,437.65
2025 – 2029	8,986,109.32	3,420,024.38	12,406,133.70
2030 – 2034	8,031,677.04	1,198,754.08	9,230,431.12
2035 – 2036	930,000.00	59,712.50	989,712.50
Total	$ 39,723,723.45	$ 25,329,253.25	$ 65,052,976.70

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 $923,137.06 at June 30, 2009.

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 is available on the state’s website at http://www.comptroller1.state.tn.us/TSSBA/cafr.asp.

NOTE 8. ENDOWMENTS

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

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, all investment earnings can be spent. At June 30, 2009, net appreciation of $210,182.42 is available to be spent, all of which is included in restricted net assets expendable for scholarships and fellowships.

NOTE 9. UNRESTRICTED NET ASSETS

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

	June 30, 2009
Working capital	$ 3,744,446.50
Encumbrances	545,497.99
Designated fees	2,438,482.64
Auxiliaries	364,027.39
Plant construction	11,510,226.53
Renewal and replacement of equipment	14,746,800.22
Undesignated	821,810.20
Total	$34,171,291.47

NOTE 10. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay $39,723,723.45 in revenue bonds issued from April 2002 to April 2009. Proceeds from the bonds provided financing for Meacham Apartments, University Center with equipment, Recreation Center, Hand Village, Emerald Hills Apartments No. 4, Fort Campbell Classroom Building, renovation of four residence halls, and upgrade of housing fire safety system. The bonds are payable through May 2036. Annual principal and interest payments on the bonds are expected to require 4.2 percent of available revenues. The total principal and interest remaining to be paid on the bonds is $65,052,976.70. Principal and interest paid for the current year and total available revenues were $2,628,064.71 and $79,340,222.41, respectively.

NOTE 11. PENSION PLANS

A. Defined Benefit Plans

1. Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at http://www.state.tn.us/treasury/tcrs/index.html.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 13.02% 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, 2009, 2008, and 2007 were $2,283,631.14, $2,282,052.26, and $2,243,277.69. 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), ING 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 $2,208,528.66 for the year ended June 30, 2009, and $2,182,833.32 for the year ended June 30, 2008. Contributions met the requirements for each year.

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible university retirees. This program includes two plans—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated*, for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, retirees may participate in the

State Employee Group Plan. Members of this plan 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, retirees who are also in the state's retirement system may participate in the Medicare Supplement Plan that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see Note 18. 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, or by calling (615) 741-2140.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including Austin Peay State University. The state is the sole contributor for the university retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is 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. Administrative costs of the plan are allocated to participants. Retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

University's Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan

Annual required contribution (ARC)	$ 1,746,000.00
Interest on the net OPEB obligation	51,429.07
Adjustment to the ARC	(50,055.54)
Annual OPEB cost	1,747,373.53
Amount of contribution	(700,539.27)
Increase (decrease) in net OPEB obligation	1,046,834.26
Net OPEB obligation – beginning of year	1,142,868.16
Net OPEB obligation – end of year	$ 2,189,702.42

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2009	State Employee Group Plan	$1,747,373.53	40.1%	$2,189,702.42

Funded Status and Funding Progress

The funded status of the university's portion of the State Employee Group Plan as of July 1, 2007, 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%
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 Required Supplementary Information 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 12 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 13. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The amounts of settlements have 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 years ended June 30, 2009, and June 30, 2008, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html. 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, 2009, the Risk Management Fund held $127.0 million in cash and cash equivalents designated for payment of claims.

At June 30, 2009, the scheduled coverage for the university was $400,499,800 for buildings and $46,277,000 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, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Sick Leave

The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $11,992,436.24 at June 30, 2009.

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 $10,800 for the year ended June 30, 2009. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2009, outstanding commitments under construction contracts totaled $833,545.65 for ADA Improvements, McCord Renovation, Armory Demolition and Memorial Health, McReynolds Code Corrections, Fort Campbell Classroom Building, Astronomy Observatory, Harvill/Blount Upgrade, Infrastructure Improvements, Archwood Exterior Renovation, Morgan University Center, Chemical Engineering Technology Building, and Meacham Sewer Repair, of which $611,660.72 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 15. CHAIRS OF EXCELLENCE

The university had $8,121,556.75 on deposit at June 30, 2009, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 16. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the Gracey Trust. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $104,473.89 from these funds during the year ended June 30, 2009.

NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2009, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 25,124,146.47	$ 7,603,758.28	$ 6,923,238.79	$ -	$ -	$ 39,651,143.54
Research	844,864.79	243,079.97	473,491.50	-	-	1,561,436.26
Public service	854,776.16	317,893.53	187,993.89	-	-	1,360,663.58
Academic support	3,882,594.62	1,456,823.79	(89,136.95)	-	-	5,250,281.46
Student services	5,983,358.84	2,483,250.26	5,530,631.07	-	-	13,997,240.17
Institutional support	5,207,205.76	2,043,683.82	2,505,623.68	-	-	9,756,513.26
Operation & maintenance	2,341,241.87	1,151,747.60	7,763,385.79	-	-	11,256,375.26
Scholarships & fellowships	-	-	-	15,059,474.29	-	15,059,474.29
Auxiliary	1,088,752.21	304,110.96	3,056,183.36	-	-	4,449,046.53
Depreciation	-	-	-	-	6,213,429.04	6,213,429.04
Total	$ 45,326,940.72	$ 15,604,348.21	$ 26,351,411.13	$ 15,059,474.29	$ 6,213,429.04	$ 108,555,603.39

NOTE 18. ON-BEHALF PAYMENTS

During the year ended June 30, 2009, the State of Tennessee made payments of $52,415.50 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 12. 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 19. 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, 2009, the foundation made distributions of $399,202.20 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Donna Johansen, Business Office, PO Box 4635, Clarksville, TN 37044.

Fair Value Measurements

The foundation reports certain assets and liabilities at fair value. Fair value has been determined using quoted prices in active markets for identical assets and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair value measurements for assets and liabilities at June 30, 2009.

	Total Fair Value at June 30, 2009	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Money Market Funds	$ 467,312.47	$ 467,312.47	$ -	$ -
Certificates of deposit	100,417.06	100,417.06	-	-
Marketable debt securities	2,061,653.18	2,061,653.18	-	-
Marketable equity securities	4,871,346.22	4,871,346.22	-	-
Mutual funds	232,249.54	232,249.54	-	-
Other	262,264.50	262,264.50	-	-
Cash surrender value of life insurance	86,584.26	86,584.26	-	-
Pledges receivable	509,304.68	-	-	509,304.68
Total assets	$ 8,591,131.91	$ 8,081,827.23	$ -	$ 509,304.68

The following table reconciles beginning and ending balances of all assets and liabilities valued using Level 3 inputs.

	Beginning Balance	Total Realized and Unrealized Gains/(Losses)	Purchases, Issuances, and Settlements	Transfers In/(Out) of Level 3	Ending Balance
Assets:					
Pledges Receivable	$ 462,277.79	$ (52,163.83)	$ 99,190.72	$ -	$ 509,304.68
Total assets	$ 462,277.79	$ (52,163.83)	$ 99,190.72	$ -	$ 509,304.68

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net assets as investment income. Of this total, $(928,218.65) is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2009.

Cash and Cash Equivalents

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, 2009, were entirely insured.

Investments

Investments are recorded on the date of contribution and are stated at market value. Unrealized gains and losses are determined by the difference between market values at the beginning and end of the year.

Investments held at June 30, 2009, were as follows:

	Cost	Market Value
Money market funds	$ 467,245.98	$ 467,312.47
Certificates of deposit	100,400.00	100,417.06
Marketable debt securities	1,979,910.35	2,061,653.18
Marketable equity securities	4,408,990.69	4,871,346.22
Mutual funds	246,414.73	232,249.54
Other	1,077,989.07	262,264.50
Life Insurance	-	86,584.26
Total investments	$ 8,280,950.82	$ 8,081,827.23

Pledges Receivable

Pledges receivable are summarized below net of the allowance for doubtful accounts. At June 30, 2009, the allowance for doubtful accounts was $344,099.88.

	June 30, 2009
Current pledges	$ 43,193.51
Pledges due in one to five years	328,275.00
Pledges due after five years	190,000.00
Subtotal	561,468.51
Less discount to net present value	(52,163.83)
Total pledges receivable, net	$ 509,304.68

Capital Assets

Capital assets at June 30, 2009, were as follows:

		June 30, 2009
Land	$	738,734.37
Equipment		10,751.00
Total		749,485.37
Less accumulated depreciation:		
Equipment		2,150.20
Total accumulated depreciation		2,150.20
Capital assets, net	$	747,335.17

Endowments

The Austin Peay State University Foundation's endowment consists of approximately 118 individual donor-restricted funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Trustees of the Austin Peay State University Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as a necessary tool to guide the investment policy and record keeping of the APSU Foundation. The APSU Foundation will strive to adhere to the guidelines set out by the Act with the following notable exceptions:

A. The APSU Foundation does not plan to release or modify the restrictions set for endowments, especially if the donor or a donor's relative is alive.
B. The APSU Foundation will not invade the corpus of an endowment.

As a result of this interpretation, the Austin Peay State University Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Composition of Endowment by Net Asset Class
As of June 30, 2009

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$ 6,969,814.34	$ -	$ -	$ 6,969,814.34
Total funds	$ 6,969,814.34	$ -	$ -	$ 6,969,814.34

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2009

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets beginning of year	$ 7,796,512.17	$ -	$ -	$ 7,796,512.17
Investment return:				
Investment Income	91,874.38	-	-	91,874.38
Net depreciation (realized and unrealized)	(1,473,884.04)	-	-	(1,473,884.04)
Total investment return	(1,382,009.66)	-	-	(1,382,009.66)
Contributions	533,021.61	-	-	533,021.61
Appropriations of endowment assets for expenditure	-	-	-	-
Other changes				
Transfers	14,243.34	-	-	14,243.34
Land sale	8,046.88	-	-	8,046.88
Endowment net assets, end of year	$ 6,969,814.34	$ -	$ -	$ 6,969,814.34

Return objectives and risk parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that will achieve a total return equivalent to or greater than the foundation's financial requirements over the time horizon. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately five percent annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives - To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

Spending policy and how the investment objectives relate - The foundation has a policy of appropriating for distribution each year an amount equal to the product of the investment portfolio's average market value for the trailing twelve quarters ending December 31 multiplied by the spending rate. For the fiscal year ended June 30, 2009, the spending rate was 4%. In establishing this policy, the foundation considered the long-term expected return on its endowment. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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

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%

SUPPLEMENTARY INFORMATION
AUSTIN PEAY STATE UNIVERSITY FOUNDATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	879,709.11
Payments to suppliers and vendors		(270,191.11)
Payments for scholarships and fellowships		(389,493.42)
Payments to Austin Peay State University		(75,082.57)
Net cash provided by operating activities		144,942.01
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes		354,230.10
Net cash provided by noncapital financing activities		354,230.10
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets		183,085.29
Purchase of capital assets and construction		(10,751.00)
Other capital and related financing receipts		6,142.00
Net cash provided by capital and related financing activities		178,476.29
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		2,112,949.33
Income on investments		278,575.01
Purchases of investments		(1,841,337.59)
Other investing payments		(403,570.13)
Net cash provided by investing activities		146,616.62
Net increase in cash and cash equivalents		824,265.02
Cash and cash equivalents - beginning of year		2,706,556.52
Cash and cash equivalents - end of year (Note 19)	$	3,530,821.54
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	15,099.45
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		4,413.04
Pledges		95,294.24
Change in assets and liabilities:		
Accounts receivable		1,040,116.81
Accounts payable		(1,009,981.53)
Net cash provided by operating activities	$	144,942.01
Noncash investing, capital, or financing transactions		
Unrealized loss on investments	$	(2,008,835.89)