

AUDIT REPORT

Tennessee Board of Regents
Austin Peay State University

For the Year Ended
June 30, 2011



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



Deborah V. Loveless, CPA
Director

Edward Burr, CPA
Assistant Director

Derek Martin, CPA, CFE
Audit Manager

Erica Pettway, CFE
In-Charge Auditor

Christie Gabbard
Paula Keown
Sarina Oster, CPA
Tiffany Tanner, CFE
Staff Auditors

Gerry Boaz, CPA
Technical Manager

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-1402
(615) 401-7897

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

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

May 28, 2013

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 340
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, 2011. 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,

Deborah V. Loveless, CPA
Director

DVL/ddm
11/062

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, 2011

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 Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 2011

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTION		1
Post-Audit Authority		1
Background		1
Organization		2
AUDIT SCOPE		2
OBJECTIVES OF THE AUDIT		2
PRIOR AUDIT FINDINGS		3
OBSERVATIONS AND COMMENTS		3
Management's Responsibility for Risk Assessment		3
Fraud Considerations		4
RESULTS OF THE AUDIT		4
Audit Conclusions		4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		6
FINANCIAL SECTION		
Independent Auditor's Report		9
Management's Discussion and Analysis		12

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
Financial Statements		
Statement of Net Assets	A	31
Statement of Revenues, Expenses, and Changes in Net Assets	B	32
Statement of Cash Flows	C	33
Notes to the Financial Statements		35
Required Supplementary Information		
OPEB Schedule of Funding Progress		61
Supplementary Information		
Schedule of Cash Flows - Component Unit		62

**Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 2011**

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, Austin Peay State University grants associate degrees in such fields as computer technology and information management, liberal arts, management technology, and occupational studies with concentrations in automotive, construction, and electronics technology.

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

Master’s degree programs include biology, communication arts, education, English, health and human performance, management, military history, music, and psychology.

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, 2010, through June 30, 2011, 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, 2011. 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.

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

audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT’S RESPONSIBILITY FOR RISK ASSESSMENT

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

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management’s responsibility to design, implement, and monitor effective controls in the institution. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the controls 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, 2011, 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.



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SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

**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***

April 18, 2013

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 340
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, 2011, and have issued our report thereon dated April 18, 2013. 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

Management of the university is responsible for establishing and maintaining effective 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 deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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

We noted certain matters that we have reported to the management of Austin Peay State University in a separate letter.

April 18, 2013
Page Three

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,

A handwritten signature in black ink that reads "Deborah V. Loveless". The signature is written in a cursive style with a large initial 'D'.

Deborah V. Loveless, CPA
Director

DVL/ddm



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

SUITE 1500
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FAX (615) 532-2765

Independent Auditor's Report

April 18, 2013

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 340
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, 2011, 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, 2011, 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, 2011, 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.

As discussed in Note 19, the financial statements of Austin Peay State University Foundation, a discretely presented component unit of Austin Peay State University, include investments valued at \$416,442.77 (2 percent of net assets of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

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.

April 18, 2013
Page Three

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 April 18, 2013, 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 considered in assessing the results of our audit.

Sincerely,



Deborah V. Loveless, CPA
Director

DVL/ddm

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

This section of Austin Peay State University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2011, with comparative information presented for the fiscal year ended June 30, 2010. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This 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.

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

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

	<u>2011</u>	<u>2010</u>
Assets		
Current assets	\$ 27,545	\$ 26,221
Capital assets, net	156,417	135,941
Other assets	<u>52,793</u>	<u>41,392</u>
Total assets	<u>\$ 236,755</u>	<u>\$ 203,554</u>
Liabilities		
Current liabilities	\$ 13,881	\$ 12,062
Noncurrent liabilities	<u>64,707</u>	<u>48,689</u>
Total liabilities	<u>\$ 78,588</u>	<u>\$ 60,751</u>
Net assets		
Invested in capital assets, net of debt	\$ 95,929	\$ 91,040
Restricted - nonexpendable	6,742	5,695
Restricted - expendable	6,682	6,379
Unrestricted	<u>48,814</u>	<u>39,689</u>
Total net assets	<u>\$ 158,167</u>	<u>\$ 142,803</u>

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

- Capital net assets increased due to the substantial completion of phase 1 of the undergraduate housing, Castle Heights; completion of the Hemlock Semiconductor Building (HSB); property acquisitions; and capital gifts. The Hemlock Semiconductor Building includes classrooms, faculty offices, and a full-scale manufacturing laboratory to provide education and training in chemical engineering technology. Additionally, Hemlock Semiconductor contributed a capital equipment gift of \$2,000,000 that consisted of equipment with funding for the installation of the equipment in the HSB.
- Significant transfers to plant funds for approved and planned future capital projects and property acquisitions resulted in a large increase in restricted cash, which caused an increase in other assets.
- The increase in noncurrent liabilities is due to the substantial completion of the new student residence hall, Castle Heights. The new facility will house approximately 420 freshman residents, and will open in the fall 2011 semester. More detailed information

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

about the university's debt is presented in the Capital Assets and Debt Administration section of Management's Discussion and Analysis.

- As previously discussed, during the 2011 fiscal year, the completion of the HSB, significant capital gifts, and the substantial completion of Castle Heights all contributed to the increase in net assets, invested in capital assets, net of related debt.
- The university's endowment funds, which are primarily for scholarships, are invested in equity and bond mutual funds. The healthy recovery of economic markets during the year resulted in significant market gains in investments. Additionally, the university funded the current year's spending plan with stimulus funds received from the state in order to allow all current year income to be applied to the growth of endowments. The market recovery, earned income, and the use of stimulus funds resulted in an increase in the restricted – expendable net assets.
- Unexpended plant funds increased during the current fiscal year due to transferred supplemental state funding to unexpended plant funds to complete various approved and planned capital projects. Additional one-time excess funds were also transferred to fund planned future capital projects and property acquisitions. These transfers created an increase in the unrestricted net assets.

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

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

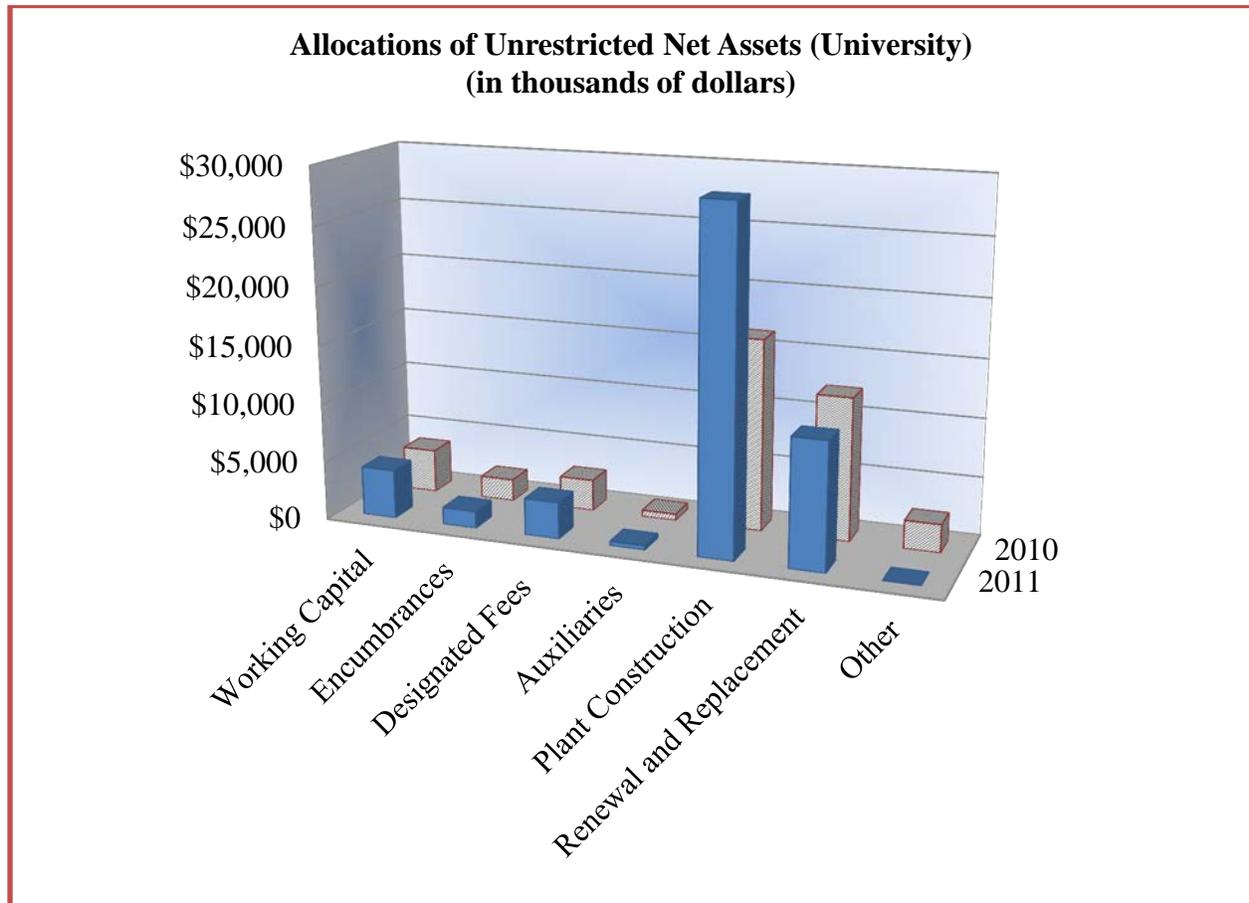
	<u>2011</u>	<u>2010</u>
Assets		
Current assets	\$ 406	\$ 533
Capital assets, net	880	725
Other assets	<u>17,700</u>	<u>13,903</u>
Total assets	<u>18,986</u>	<u>15,161</u>
Liabilities:		
Current liabilities	<u>4</u>	<u>13</u>
Total liabilities	<u>4</u>	<u>13</u>
Net assets		
Invested in capital assets, net of related debt	880	725
Restricted - nonexpendable	9,108	8,214
Restricted - expendable	8,367	5,795
Unrestricted	<u>627</u>	<u>414</u>
Total net assets	<u>\$ 18,982</u>	<u>\$ 15,148</u>

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

- Similar to the university's investments, the foundation's investments increased from the previous year by approximately 29 percent. This increase is due primarily to market gains from the recovery experienced in equity markets. The increase in investments caused an increase from the previous year in both other assets and restricted – expendable net assets. Other assets increased because a significant portion of investments are classified as noncurrent investments and represent endowment funds.
- Restricted expendable net assets increased due to additional land gifts during the current fiscal year, and land assets being transferred to temporarily restricted assets. Contributions and pledges also increased.

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

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



- Plant construction increased during the 2011 fiscal year because the university transferred supplemental state funding to unexpended plant funds to complete the energy management project and various other projects started in the previous year with funds provided through the federal stimulus programs. Additional funds were also transferred to fund planned future capital projects and property acquisitions. Further detailed information about the university's capitalized assets is presented in the Capital Asset and Debt Administration section of Management's Discussion and Analysis.
- The university previously procured several properties that were turned into student parking lots during the current fiscal year. The new parking lots are estimated to provide approximately 125 additional student spaces. Renewal and replacement funds were

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

expended for these projects, which caused a decrease in the balance from the previous year.

- A change in the budget process related to Other Post Employment Benefits (OPEB) allowed the university to decrease the allocated fund balance and allowed funds to be transferred to plant funds. This decreased the undesignated balance in unrestricted net assets.

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

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

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

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

	2011	2010
Operating revenues:		
Net tuition and fees	\$ 42,625	\$ 39,632
Grants and contracts	6,031	5,935
Auxiliaries	6,269	5,719
Other	4,215	3,199
Total operating revenues	59,140	54,485
Operating expenses	123,982	112,030
Operating loss	(64,842)	(57,545)
Nonoperating revenues and expenses:		
State appropriations	36,864	30,729
Gifts	1,328	972
Grants and contracts	37,432	38,244
Investment income	1,328	1,014
Other revenues and expenses	(1,260)	(1,347)
Total nonoperating revenues and expenses	75,692	69,612
Income before other revenues, expenses, gains, or losses	10,850	12,067
Other revenues, expenses, gains, or losses:		
Capital appropriations	2,332	6,291
Capital grants and gifts	2,166	21
Additions to permanent endowments	16	-
Total revenues, expenses, gains, or losses	4,514	6,312
Increase in net assets	15,364	18,379
Net assets at beginning of year	142,803	124,424
Net assets at end of year	\$ 158,167	\$ 142,803

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

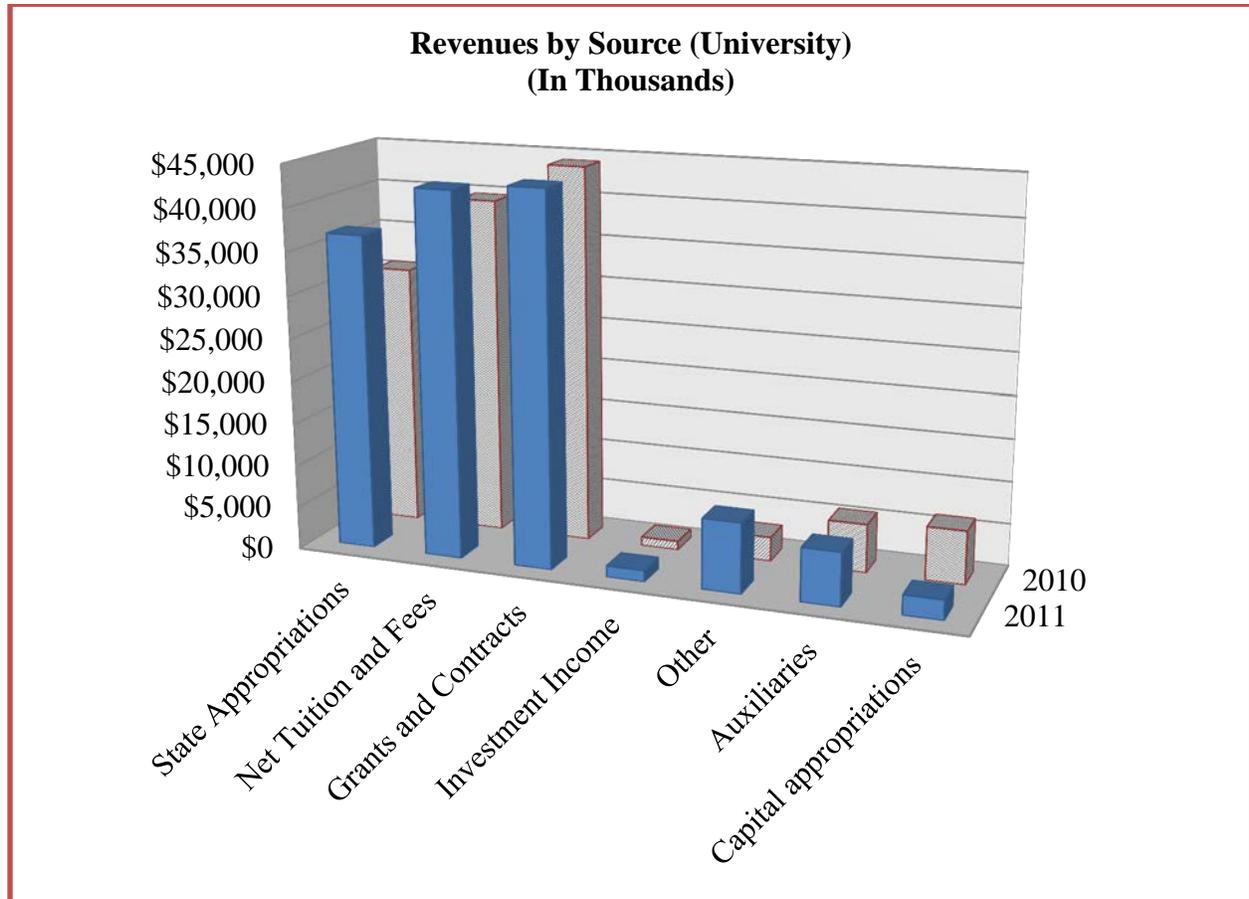
**Component Unit
Statement of Revenues, Expenses, and Changes in Net Assets Summary
(in thousands of dollars)**

	2011	2010
Operating revenues:		
Gifts and Contributions	\$ 1,473	\$ 1,375
Total operating revenues	1,473	1,375
Operating expenses	1,231	1,070
Operating income	242	305
Nonoperating revenues and expenses:		
Investment income	2,531	1,179
Total nonoperating revenues and expenses	2,531	1,179
Income before other revenues, expenses, gains, or losses	2,773	1,484
Other revenues, expenses, gains, or losses:		
Capital grants and gifts	430	-
Additions to permanent endowments	631	773
Total revenues, expenses, gains, or losses	1,061	773
Increase in net assets	3,834	2,257
Net assets at beginning of year	15,148	12,891
Net assets at end of year	\$ 18,982	\$ 15,148

Revenues

The following are graphic illustrations of revenues by source (both operating and nonoperating), which are used to fund the university's and its component unit's operating activities for the years ended June 30, 2011, and June 30, 2010 (amounts are presented in thousands of dollars).

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

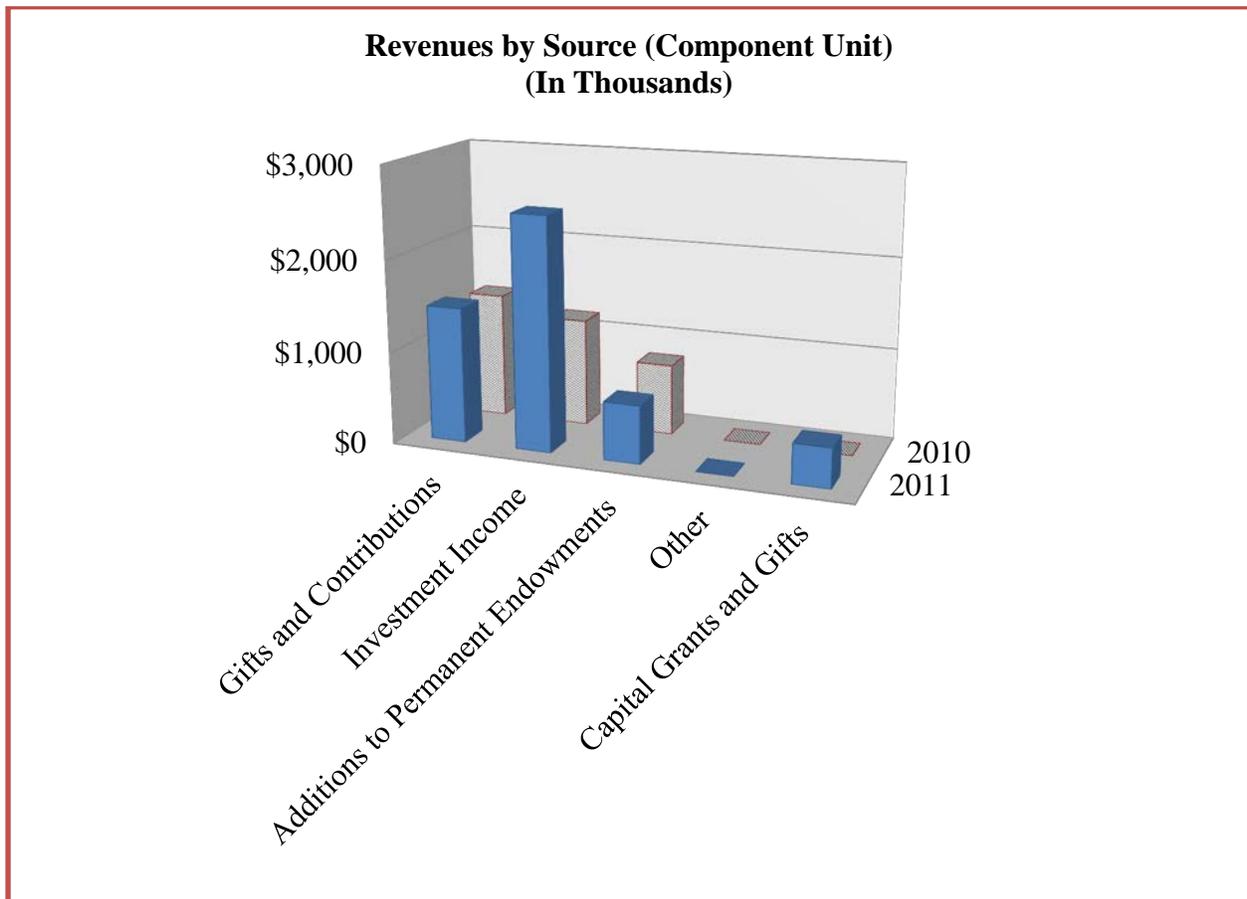


The university had the following significant changes in revenues between fiscal years:

- During the previous fiscal year, the university received significant funding as part of the American Recovery and Reinvestment Act of 2009 (ARRA) through the State Fiscal Stabilization Funds (SFSF). For the current fiscal year, the anticipated ARRA funding was replaced by the state with supplemental state appropriations. This switch caused an increase in state appropriations.
- The university continues to be the state's fastest growing public university. This continued growth in conjunction with tuition and fee increases approved by the Tennessee Board of Regents resulted in an increase in net tuition and fees.
- As previously discussed, the investments of the university had significant market gains. The realized and unrealized gains resulted in a 12.6 percent increase in value. This recovery resulted in an increase in investment income.

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

- Other income increased over last year principally due to increases in capital gifts and sales and services of educational departments. The university received a \$2,000,000 capital gift for equipment and the related installation in the Chemical Engineering Technology Building for course education and training. Sales and service revenues consist primarily of athletic fees and revenues. During the current fiscal year, significant game guarantees were received for certain athletic events, and the continued growth of student fees resulted in the increase in sales and services.
- With the completion of the HSB, the only major state-funded capital project during the current fiscal year was the replacement of electrical lines and transformers. The completion of the HSB caused a significant decrease in capital appropriations.



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

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

- As discussed previously in this analysis, the foundation's investment income increased between the fiscal years because of the market gains due to the recovery of the equity markets.
- The foundation received a charitable gift of real property, which stipulated that the property be sold and that the proceeds from the sale be used for business scholarships. This gift increased capital grants and gifts between the fiscal years.

Expenses

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

Natural Classification

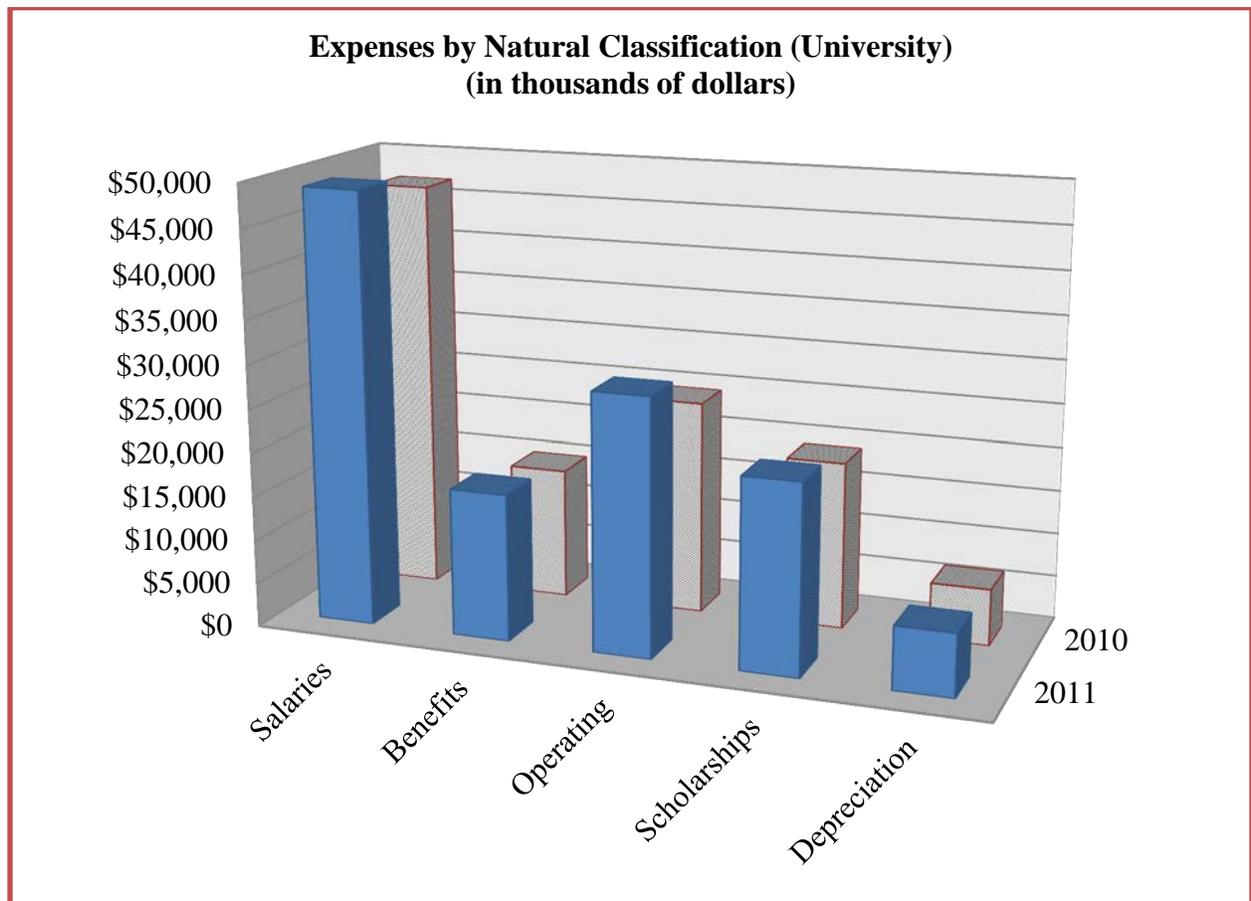
**Austin Peay State University
Natural Classification
(in thousands)**

	2011	2010
Salaries	\$ 49,135	\$ 46,966
Benefits	16,808	15,010
Operating	29,220	24,436
Scholarships	21,640	19,141
Depreciation	7,179	6,477
Total	\$ 123,982	\$ 112,030

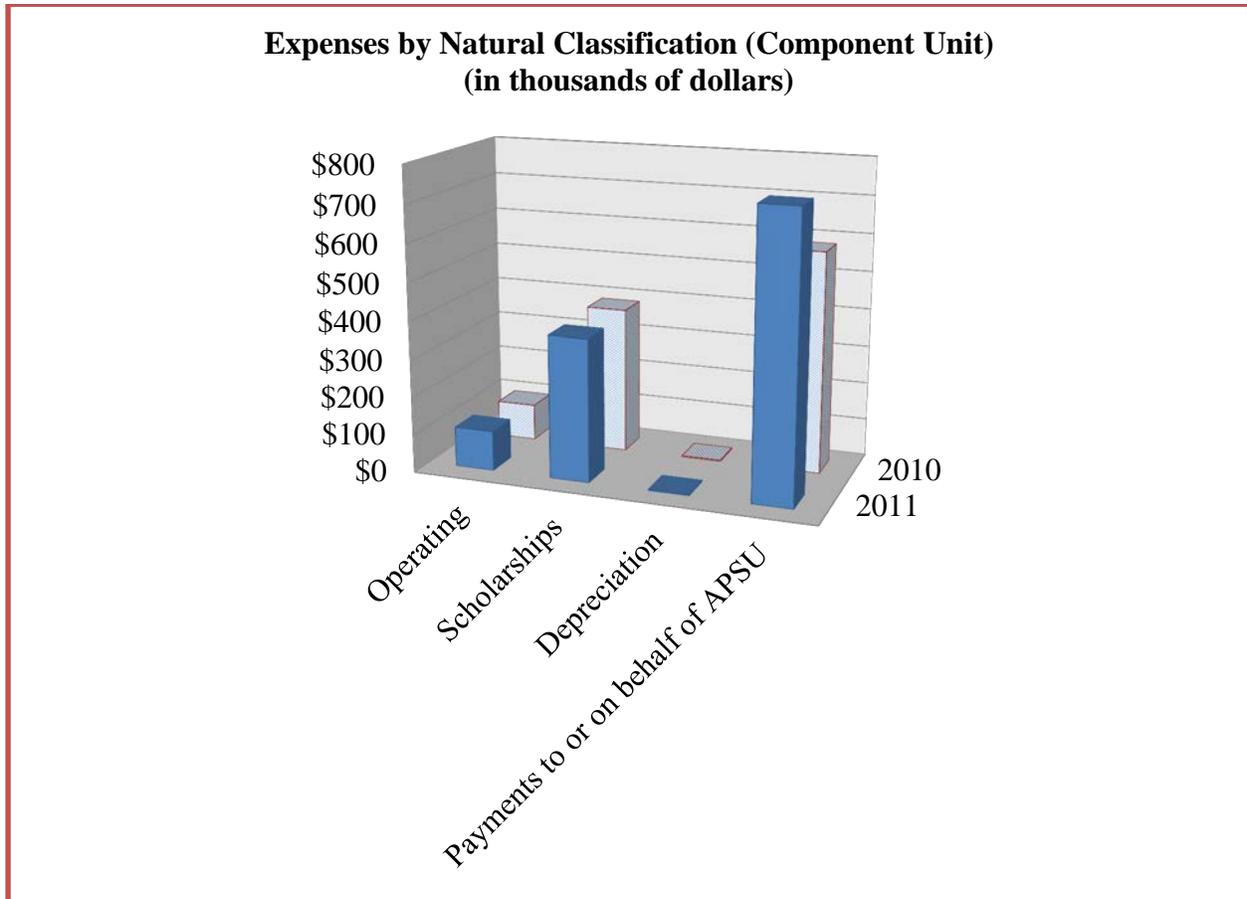
**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

**Component Unit
Natural Classification
(in thousands)**

	2011	2010
Operating	\$ 106	\$ 97
Scholarships	378	387
Depreciation	3	3
Payments to or on behalf of Austin Peay State University	744	583
TOTAL	\$ 1,231	\$ 1,070



**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**



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

- Employee benefits increased as a result of the state not requiring payments into the state insurance pool during the months of December 2009 and January 2010. During the current fiscal year, payments were made into the state insurance pool for all 12 months.
- The university's operating expenses saw moderate increases in all categories such as printing and duplicating, communications and shipping, and professional services. However, the category of maintenance and repairs and the category of supplies both increased significantly over last year. Maintenance and repairs increased in two areas, phone and data lines, and other. The increase in data lines is primarily due to the expansion of the campus fiber loop and the extension of data service to properties that are being purchased and converted for administration and faculty offices. Other maintenance and repairs increased due to the underground electrical project, which replaces the primary electrical lines and transformers across campus. Supplies also increased significantly over last year due not only to the conversion of campus space and purchased

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

properties into administration and faculty offices, but also to the equipping of those offices.

- The university continues to have an increasing number of students who qualify for federal and state grants and subsidies. This increase has caused a significant rise in the amount of federal and state-funded financial aid awarded to students. Additionally, due to efforts of attracting and retaining better students, performance scholarships were increased over the past year.

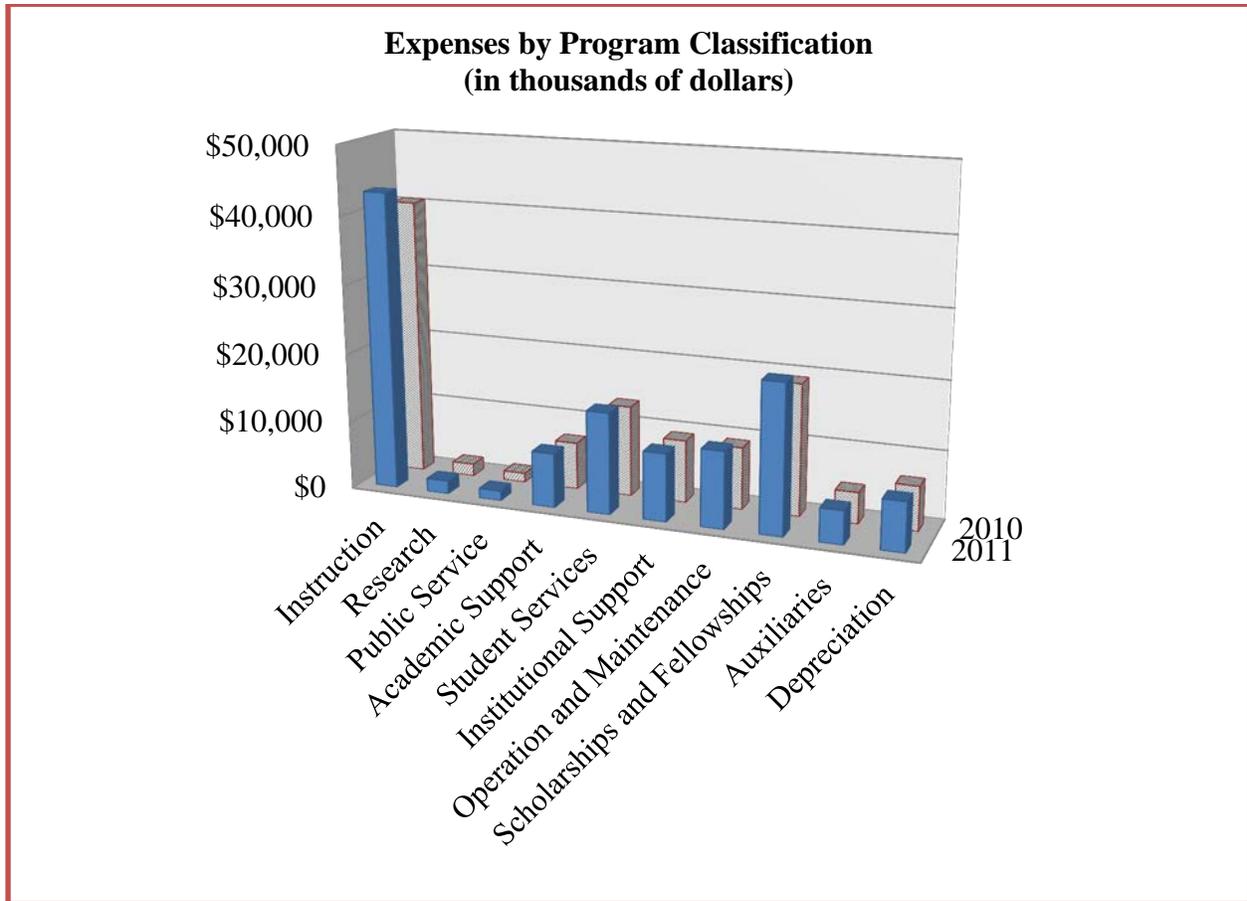
The component unit had the following significant changes in expenses between fiscal years:

- Payments to or on behalf of Austin Peay State University increased between fiscal years due to increases in travel expenses reimbursed to faculty and staff by the foundation and an increase in professional service payments to various vendors on behalf of the university.

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

	2011	2010
Instruction	\$ 43,252	\$ 40,415
Research	1,910	1,784
Public Service	1,418	1,348
Academic Support	7,927	6,905
Student Services	14,760	13,223
Institutional Support	9,859	9,132
Operation and Maintenance	11,170	9,053
Scholarships and Fellowships	21,640	19,141
Auxiliaries	4,867	4,552
Depreciation	7,179	6,477
Total	\$ 123,982	\$ 112,030

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**



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

- In accordance with the values and beliefs of the university's administration, additional funds related to student success and retention were spent in the instructional area. The increase also resulted from faculty promotions and additional faculty lines to accommodate student success and growth.
- As previously discussed in this analysis, the scholarships and fellowships have increased. Scholarships predominantly increased because of increases in the federal and state funding such as Pell, SEOG, and Lottery funds as well as student enrollment growth. Additional performance and athletic scholarships were approved by university administration to attract and retain better students and assist the athletic area.

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

Capital Assets and Debt Administration

Capital Assets

The university had \$156,417,199 invested in capital assets, net of accumulated depreciation of \$83,033,940, at June 30, 2011; and \$135,940,852 invested in capital assets, net of accumulated depreciation of \$76,790,777, at June 30, 2010. Depreciation charges totaled \$7,178,491 and \$6,476,865 for the years ended June 30, 2011, and June 30, 2010, respectively. Details of these assets are shown below.

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

	<u>2011</u>	<u>2010</u>
Land	\$ 8,683	\$ 6,999
Land improvements and infrastructure	19,746	13,731
Buildings	93,194	90,223
Equipment	6,767	5,048
Library holdings	2,428	2,489
Software	1,021	1,277
Projects in progress	24,578	16,174
Total	<u>\$ 156,417</u>	<u>\$ 135,941</u>

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 purchases made by the university from private citizens and businesses, and the completion of certain capital projects. The university aggressively seeks to purchase all available property located within the approved campus master plan. The purchase of properties is funded with one-time allocated plant funds.

During the current fiscal year, the completion of the Hemlock Semiconductor Building (HSB), the substantial completion of phase 1 of Castle Heights, and additional land purchases all added significant capital assets. The building houses classrooms, faculty offices, and a full-scale, fully functional manufacturing laboratory. The laboratory is used as course education and training in the chemical engineering technology curriculum. In addition, Hemlock Semiconductor, Inc.

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

donated a capital gift of \$2,000,000. The gift included capital equipment and cash funds for shipping and installation of the equipment.

Land improvements and infrastructure increased from the previous year because of several large capital projects. During the current fiscal year, the university completed an energy management project. Additionally, phase II and phase III of the campus steam and chilled water line replacement nears completion, and the projects are planned to be completed before students arrive on campus for the fall 2011 term.

A significant increase in projects in progress is due to the undergraduate housing phase I, Castle Heights. The new undergraduate housing building is scheduled to open in August 2011 for the fall semester. The residence hall will add approximately 420 new freshman beds. With the completion of phase I, phase II is scheduled to commence in the fall of 2011 to be completed in the fall of 2013. All residence halls are operated as auxiliary units and are funded with student rent.

Additional approved projects include a new math and computer science building that will house classrooms, faculty offices, computer labs, and the university's computer server room. Design is scheduled for fall 2011, with construction planned to commence immediately after.

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

	2011	2010
Land	\$ 871	\$ 714
Equipment	9	11
Total	\$ 880	\$ 725

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

The foundation's land balance increased between fiscal years because of a charitable gift of real property. The gift specified the property to be sold and the proceeds to be used for business scholarships. The foundation continues to sell parcels of a previous land gift, and as parcels are sold, the proceeds are added to an endowment to provide scholarships.

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

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

Debt

The university had \$60,488,465 and \$44,900,650 in debt outstanding at June 30, 2011, and June 30, 2010, respectively. The component unit had no debt outstanding at June 30, 2011, or June 30, 2010. The table below summarizes these amounts by type of debt instrument.

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

	2011	2010
TSSBA Bonds	\$ 36,334	\$ 38,086
TSSBA Commercial Paper	24,154	6,815
Total Debt	\$ 60,488	\$ 44,901

The reduction of bonds is due entirely to the amortization of semi-annual payments. The increase in commercial paper obligations is due to the substantial completion of the undergraduate housing phase I, Castle Heights. Additional new obligations include installing sprinkler systems in married student housing, and the planning and design of the undergraduate housing phase II.

The Castle Heights residence hall will open to students in the fall 2011 semester, and the university expects the related commercial paper to be converted into bonds.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2011, were as follows:

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

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

**Tennessee Board of Regents
Austin Peay State University
Management's Discussion and Analysis (Cont.)**

Economic Factors That Will Affect the Future

For fiscal year 2012, the Tennessee Board of Regents authorized an individual campus fee increase of 8% that is expected to generate approximately \$2 million in new funding, net of related scholarships, with a continued projected enrollment increase. State appropriations will continue to be reduced; however, based on Tennessee's new funding formula and the university's outcomes, the university will realize an appropriation increase in the amount of \$288,600 for fiscal year 2012. The capital markets remain unstable and will affect the university's investment income.

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, P.O. Box 4635, Clarksville, TN 37044.

**TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Institution	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 19)	\$ 18,794,981.64	\$ 293,978.74
Short-term investments (Notes 3 and 19)	735,356.29	60,017.06
Accounts, notes, and grants receivable (net) (Note 4)	6,175,237.16	26,884.41
Due from primary government	1,295,708.75	-
Pledges receivable (net) (Note 19)	-	3,784.18
Inventories	294,053.66	-
Prepaid expenses and deferred charges	160,682.14	-
Accrued interest receivable	88,915.53	21,582.20
Total current assets	<u>27,544,935.17</u>	<u>406,246.59</u>
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 19)	45,233,776.56	3,636,748.36
Investments (Notes 3 and 19)	6,329,183.88	13,469,719.31
Accounts, notes, and grants receivable (net) (Note 4)	1,230,434.75	184,380.92
Pledges receivable (net) (Note 19)	-	408,707.12
Capital assets (net) (Notes 5 and 19)	156,417,199.35	879,477.50
Total noncurrent assets	<u>209,210,594.54</u>	<u>18,579,033.21</u>
Total assets	<u>236,755,529.71</u>	<u>18,985,279.80</u>
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	2,875,785.80	3,727.85
Accrued liabilities	2,371,804.01	-
Student deposits	259,308.80	-
Deferred revenue	4,342,733.83	-
Compensated absences (Note 7)	624,672.17	-
Accrued interest payable	291,568.87	-
Long-term liabilities, current portion (Note 7)	1,830,180.02	-
Deposits held in custody for others	1,284,550.97	-
Total current liabilities	<u>13,880,604.47</u>	<u>3,727.85</u>
Noncurrent liabilities:		
Net OPEB obligation (Note 12)	3,752,596.30	-
Compensated absences (Note 7)	1,537,099.54	-
Long-term liabilities (Note 7)	58,658,284.75	-
Due to grantors (Note 7)	759,402.28	-
Total noncurrent liabilities	<u>64,707,382.87</u>	<u>-</u>
Total liabilities	<u>78,587,987.34</u>	<u>3,727.85</u>
NET ASSETS		
Invested in capital assets, net of related debt	95,928,734.58	879,477.50
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	6,625,922.92	8,689,609.33
Research	-	60,207.60
Instructional department uses	4,565.81	70,718.87
Other	111,327.97	287,094.94
Expendable:		
Scholarships and fellowships (Notes 8 and 19)	1,691,547.42	5,180,635.87
Research	680,754.67	16,551.35
Instructional department uses	301,770.18	571,833.66
Loans	109,794.26	-
Debt service	2,309,199.37	-
Other	1,589,784.99	2,598,032.02
Unrestricted (Note 9)	48,814,140.20	627,390.81
Total net assets	<u>\$ 158,167,542.37</u>	<u>\$ 18,981,551.95</u>

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

**TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

	Institution	Component Unit
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$21,918,110.57)	\$ 42,625,143.12	\$ -
Gifts and contributions	-	1,472,639.51
Governmental grants and contracts	6,028,593.02	-
Nongovernmental grants and contracts	2,273.00	-
Sales and services of educational departments	4,038,505.69	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of \$2,361,466.62; all residential life revenues are used as security for revenue bonds; see Notes 7 and 10)	4,584,086.18	-
Bookstore (all bookstore revenues are used as security for revenue bonds; see Notes 7 and 10)	527,325.14	-
Food service (all foodstore revenues are used as security for revenue bonds; see Notes 7 and 10)	416,378.40	-
Wellness facility (net of scholarship allowances of \$258,543.81; all wellness facility revenues are used as security for revenue bonds; see Notes 7 and 10)	502,801.86	-
Other auxiliaries	238,266.20	-
Interest earned on loans to students	27,081.16	-
Other operating revenues	149,251.61	326.00
Total operating revenues	<u>59,139,705.38</u>	<u>1,472,965.51</u>
EXPENSES		
Operating expenses (Note 17):		
Salaries and wages	49,135,116.22	-
Benefits	16,808,362.63	-
Utilities, supplies, and other services	29,219,713.27	106,732.14
Scholarships and fellowships	21,640,390.67	377,689.52
Depreciation expense	7,178,490.69	2,711.40
Payments to or on behalf of Austin Peay State University (Note 19)	-	744,266.72
Total operating expenses	<u>123,982,073.48</u>	<u>1,231,399.78</u>
Operating income (loss)	<u>(64,842,368.10)</u>	<u>241,565.73</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	36,864,113.00	-
Gifts (including \$744,266.72 from component unit) (Note 19)	1,327,551.45	-
Grants and contracts	37,431,923.63	-
Investment income (net of investment expense of \$20,039.58 for the University and \$46,900.52 for the component unit)	1,328,893.17	2,530,413.13
Interest on capital asset-related debt	(1,795,761.30)	-
Other nonoperating revenues (expenses)	535,397.06	-
Net nonoperating revenues (expenses)	<u>75,692,117.01</u>	<u>2,530,413.13</u>
Income before other revenues, expenses, gains, or losses	<u>10,849,748.91</u>	<u>2,771,978.86</u>
Capital appropriations	2,332,556.92	-
Capital grants and gifts	2,165,990.00	430,000.00
Additions to permanent endowments	16,409.10	631,119.75
Total other revenues	<u>4,514,956.02</u>	<u>1,061,119.75</u>
Increase in net assets	<u>15,364,704.93</u>	<u>3,833,098.61</u>
NET ASSETS		
Net assets - beginning of year	142,802,837.44	15,148,453.34
Net assets - end of year	<u>\$ 158,167,542.37</u>	<u>\$ 18,981,551.95</u>

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

**TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 43,072,779.47
Grants and contracts	4,919,539.79
Sales and services of educational activities	3,954,342.77
Payments to suppliers and vendors	(26,293,684.96)
Payments to employees	(49,121,704.79)
Payments for benefits	(16,111,334.33)
Payments for scholarships and fellowships	(21,640,390.67)
Interest earned on loans to students	12,045.81
Auxiliary enterprise charges:	
Residence halls	4,586,186.18
Bookstore	358,302.50
Food services	225,830.01
Wellness facility	502,801.86
Other auxiliaries	238,266.20
Net cash used by operating activities	<u>(55,297,020.16)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	36,809,423.00
Gifts and grants received for other than capital purposes, including \$584,897.70 from component unit	36,545,738.60
Private gifts for endowment purposes	16,409.10
Federal student loan receipts	56,324,984.74
Federal student loan disbursements	(56,397,461.76)
Changes in deposits held for others	217,182.56
Other noncapital financing receipts (payments)	563,060.64
Net cash provided by noncapital financing activities	<u>74,079,336.88</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	17,340,878.96
Capital appropriations	2,332,556.92
Proceeds from sale of capital assets	43,838.45
Purchase of capital assets and construction	(25,596,107.16)
Principal paid on capital debt	(1,753,064.48)
Interest paid on capital debt	(1,806,034.49)
Net cash used by capital and related financing activities	<u>(9,437,931.80)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	932,905.63
Income on investments	438,098.31
Purchase of investments	(995,297.22)
Net cash provided by investing activities	<u>375,706.72</u>

Net increase in cash and cash equivalents	9,720,091.64
Cash and cash equivalents - beginning of year	54,308,666.56
Cash and cash equivalents - end of year (Note 2)	<u>\$ 64,028,758.20</u>

**TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (64,842,368.10)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	7,178,490.69
Gifts in-kind	2,438,060.12
On-behalf payments	57,713.00
Change in assets and liabilities:	
Receivables, net	(2,268,170.28)
Inventories	(23,356.74)
Prepaid expenses and deferred revenue	(30,606.29)
Other assets	(15,035.35)
Accounts payable	534,826.15
Accrued liabilities	679,034.80
Deferred revenue	1,075,999.01
Deposits	(6,221.20)
Compensated absences	(5,651.65)
Due to grantors	(69,734.32)
Net cash used by operating activities	\$ <u><u>(55,297,020.16)</u></u>
 Noncash investing, capital, or financing transactions	
Gifts in-kind - capital	\$ 1,565,406.00
Unrealized gains on investments	\$ 874,961.43
Loss on disposal of capital assets	\$ (109,537.37)

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, 2011**

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 university's 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.

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

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.

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and intangible assets, 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 intangible assets 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

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

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

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2011, cash consisted of \$6,044,944.11 in bank accounts, \$14,365 of petty cash on hand, \$53,442,979.38 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$4,526,469.71 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 LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

NOTE 3. INVESTMENTS

All investments permitted to be reported at fair value under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment*

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

Pools (as amended), are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2011, 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	\$ 194,506.72	\$ 55,147.95	\$ 39,207.09	\$ 70,447.06	\$ 29,704.62	\$ -
U.S. Agencies	221,198.43	39,125.28	-	37,722.22	144,350.93	-
Corporate Stocks	1,762,287.00	-	-	-	-	1,762,287.00
Corporate Bonds	251,265.34	-	100,282.04	121,233.86	29,749.44	-
Mutual Bond Funds	1,730,625.80	-	-	-	1,730,625.80	-
Mutual Equity Funds	2,263,573.82	-	-	-	-	2,263,573.82
Certificates of Deposit	593,081.68	593,081.68	-	-	-	-
Money Market	48,001.38	48,001.38	-	-	-	-
Total	<u>\$ 7,064,540.17</u>	<u>\$ 735,356.29</u>	<u>\$ 139,489.13</u>	<u>\$ 229,403.14</u>	<u>\$ 1,934,430.79</u>	<u>\$ 4,025,860.82</u>

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
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

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. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must (1) arise out of the current shipment of goods between countries or with the United States, or (2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

The policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: (1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have 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 rating must be A1 by all rating services (minimum of two). (2) The rating should be based on the merits of the issuer or guarantee by a nonbank. (3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. (4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

At June 30, 2011, the university's investments were rated as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>				
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Unrated</u>
LGIP	\$ 57,969,449.09	\$ -	\$ -	\$ -	\$ -	\$ 57,969,449.09
U.S. Agencies	221,198.43	221,198.43	-	-	-	-
Corporate Bonds	251,265.34	-	53,280.59	197,984.75	-	-
Mutual Bond Funds	<u>1,730,625.80</u>	<u>1,315,275.61</u>	<u>51,918.77</u>	<u>173,062.58</u>	<u>155,756.32</u>	<u>34,612.52</u>
Total	<u>\$ 60,172,538.66</u>	<u>\$ 1,536,474.04</u>	<u>\$ 105,199.36</u>	<u>\$ 371,047.33</u>	<u>\$ 155,756.32</u>	<u>\$ 58,004,061.61</u>

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

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

does not have a policy for custodial credit risk. At June 30, 2011, the university had \$2,477,258.87 of uninsured and unregistered investments for which the securities are held by the counterparty and \$3,994,199.62 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. The amount invested in any one bank shall not exceed 5% of total investments on 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:

	<u>Fair Value</u> <u>June 30, 2011</u>
Certificates of Deposit	\$ 29,477.73
Regions Investment Account	2,477,258.87
The Common Fund	<u>3,994,199.62</u>
Total	<u>\$ 6,500,936.22</u>

The Certificates of Deposit and the Regions Investment Account are each the investment of 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, 2011, there were a total of 11,280.643 units in the Multi-Strategy Equity fund,

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

each unit having a fair value of \$200.66; there were a total of 121,618.117 units in the Multi-Strategy Bond Fund, each having a market value of \$14.23.

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

<u>FY 2011</u>	Pooled Assets		Net Gains	Fair
	<u>Fair Value</u>	<u>Cost</u>	<u>(Losses)</u>	<u>Value</u>
				<u>Per Unit</u>
Multi-Strategy Equity Fund				
End of year	\$2,263,573.82	\$1,080,000.00	\$1,183,573.82	\$200.66
Beginning of year	<u>\$1,670,811.63</u>	<u>\$1,080,000.00</u>	<u>590,811.63</u>	<u>159.50</u>
			<u>592,762.19</u>	<u>\$ 41.16</u>
Multi-Strategy Bond Fund				
End of year	\$1,730,625.80	\$1,703,000.00	\$ 27,625.80	\$ 14.23
Beginning of year	<u>\$1,848,750.91</u>	<u>\$1,703,000.00</u>	<u>145,750.91</u>	<u>13.80</u>
			<u>(118,125.11)</u>	<u>\$ 0.43</u>
Total net gains			<u>\$ 474,637.08</u>	

The average annual earnings per unit, exclusive of net gains were \$52.547 per unit for the Multi-Strategy Equity Fund and \$(0.971) per unit for the Multi-Strategy Bond Fund for the year ended June 30, 2011.

NOTE 4. RECEIVABLES

Receivables included the following:

	<u>June 30, 2011</u>
Student accounts receivable	\$ 6,099,427.56
Grants receivable	761,434.12
Notes receivable	12,542.34
State appropriation receivable	113,800.00
Other receivables	<u>789,663.87</u>
Subtotal	7,776,867.89
Less allowance for doubtful accounts	<u>(1,601,630.73)</u>

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

Total receivables \$ 6,175,237.16

Federal Perkins Loan Program funds included the following:

June 30, 2011

Perkins loans receivable \$ 1,529,297.78
Less allowance for doubtful accounts (298,863.03)

Total \$ 1,230,434.75

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 6,999,331.41	\$ 1,683,545.68	\$ -	\$ -	\$ 8,682,877.09
Land improvements and infrastructure	20,244,463.21	4,188,776.15	3,047,416.58	-	27,480,655.94
Buildings	148,345,706.96	676,116.45	6,184,868.97	-	155,206,692.38
Equipment	12,640,186.27	3,048,006.76	-	489,619.27	15,198,573.76
Library holdings	5,938,521.01	530,951.54	-	555,245.54	5,914,227.01
Intangible assets	2,389,851.44	-	-	-	2,389,851.44
Projects in progress	<u>16,173,568.82</u>	<u>17,636,978.49</u>	<u>(9,232,285.55)</u>	<u>-</u>	<u>24,578,261.76</u>
Total	<u>212,731,629.12</u>	<u>27,764,375.07</u>	<u>-</u>	<u>1,044,864.81</u>	<u>239,451,139.38</u>
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	6,513,014.27	1,221,885.51	-	-	7,734,899.78
Buildings	58,123,070.21	3,889,659.43	-	-	62,012,729.64
Equipment	7,591,665.50	1,220,178.75	-	380,081.90	8,431,762.35
Library holdings	3,449,896.80	591,422.71	-	555,245.54	3,486,073.97
Intangible assets	<u>1,113,130.00</u>	<u>255,344.29</u>	<u>-</u>	<u>-</u>	<u>1,368,474.29</u>
Total	<u>76,790,776.78</u>	<u>7,178,490.69</u>	<u>-</u>	<u>935,327.44</u>	<u>83,033,940.03</u>
Capital assets, net	<u>\$135,940,852.34</u>	<u>\$ 20,585,884.38</u>	<u>\$ -</u>	<u>\$ 109,537.37</u>	<u>\$156,417,199.35</u>

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

NOTE 6. ACCOUNTS PAYABLE

All accounts payable at June 30, 2011, were to vendors.

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$ 38,085,938.41	\$ 939.21	\$ 1,753,064.48	\$ 36,333,813.14	\$ 1,830,180.02
Commercial paper	<u>6,814,711.88</u>	<u>17,339,939.75</u>	<u>-</u>	<u>24,154,651.63</u>	<u>-</u>
Subtotal	<u>44,900,650.29</u>	<u>17,340,878.96</u>	<u>1,753,064.48</u>	<u>60,488,464.77</u>	<u>1,830,180.02</u>
Other liabilities:					
Compensated absences	2,167,423.36	1,940,616.29	1,946,267.94	2,161,771.71	624,672.17
Due to grantors	<u>829,136.60</u>	<u>-</u>	<u>69,734.32</u>	<u>759,402.28</u>	<u>-</u>
Subtotal	<u>2,996,559.96</u>	<u>1,940,616.29</u>	<u>2,016,002.26</u>	<u>2,921,173.99</u>	<u>624,672.17</u>
Total long-term liabilities	<u>\$47,897,210.25</u>	<u>\$ 19,281,495.25</u>	<u>\$ 3,769,066.74</u>	<u>\$ 63,409,638.76</u>	<u>\$ 2,454,852.19</u>

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 2% to 5.5%, 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. The reserve amount was \$864,351.71 at June 30, 2011.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2011, are as follows:

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,830,180.02	\$ 1,700,694.84	\$ 3,530,874.86
2013	1,699,259.28	1,630,666.11	3,329,925.39
2014	1,236,668.24	1,551,902.44	2,788,570.68
2015	1,264,331.31	1,481,759.28	2,746,090.59
2016	1,172,163.13	1,424,576.08	2,596,739.21
2017 – 2021	6,506,559.17	6,274,732.92	12,781,292.09
2022 – 2026	8,111,165.57	4,615,589.65	12,726,755.22
2027 – 2031	9,254,365.60	2,532,617.65	11,786,983.25
2032 – 2036	<u>5,259,120.82</u>	<u>524,901.67</u>	<u>5,784,022.49</u>
Total	<u>\$ 36,333,813.14</u>	<u>\$ 21,737,440.64</u>	<u>\$ 58,071,253.78</u>

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 \$24,154,651.63 at June 30, 2011.

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 www.comptroller.tn.gov/tssba/cafr.asp.

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

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 may be spent. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2011, net appreciation of \$28,887.32 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:

	<u>June 30, 2011</u>
Working capital	\$ 4,182,363.65
Encumbrances	1,458,564.17
Designated fees	3,128,726.02
Auxiliaries	365,979.12
Plant construction	28,873,078.24
Renewal and replacement of equipment	10,805,429.00
Undesignated	<u>0.00</u>
Total	<u>\$48,814,140.20</u>

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

NOTE 10. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay \$36,333,813.14 in revenue bonds issued from April 2002 to April 2009 (see Note 7 for further detail). Proceeds from the bonds provided financing for the University Center with equipment, Meacham Apartments, the Recreation Center, Hand Village, Emerald Hills Apartment No. 4, the Fort Campbell Classroom Building, renovation of four residence halls, and upgrade of the housing fire safety system. The bonds are payable through May 2036. Annual principal and interest payments on the bonds are expected to require 2.62 percent of available revenues. The total principal and interest remaining to be paid on the bonds is \$58,071,253.78. Principal and interest paid for the current year and total available revenues were \$3,548,825.78 and \$114,316,001.78, respectively.

NOTE 11. PENSION PLANS

A. Defined Benefit Plans

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.

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 www.treasury.tn.gov/tcrs.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 14.91% 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, 2011, 2010, and

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

2009 were \$2,766,516.99, \$2,321,141.50, and \$2,283,631.14, respectively. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans

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 contributions made by the university to the plans were \$2,379,199.99 for the year ended June 30, 2011, and \$2,308,673.84 for the year ended June 30, 2010. 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 available to higher education employees—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 8-27-101, *Tennessee Code Annotated*. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. In previous fiscal years, prior to reaching the age of 65, all members had the option of choosing a preferred provider

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed and as a result, all members now have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see Note 18. The plans are reported in the State of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

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 plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, 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 are subsidized 80%; 25 years, 70%; and 20 years, 60%. Retirees who are 65 years of age or older have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; 25 years, \$37.50; and 20 years, \$25.

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

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

Annual required contribution (ARC)	\$ 1,415,000.00
Interest on the net OPEB obligation	140,884.82
Adjustment to the ARC	<u>(133,445.88)</u>
Annual OPEB cost	1,422,438.94
Amount of contribution	<u>(800,616.50)</u>
Increase in net OPEB obligation	621,822.44
Net OPEB obligation – beginning of year	<u>3,130,773.86</u>
Net OPEB obligation – end of year	<u><u>\$ 3,752,596.30</u></u>

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2011	State Employee Group Plan	\$1,422,438.94	56.3%	\$3,752,596.30
June 30, 2010	State Employee Group Plan	\$1,564,202.89	39.8%	\$3,130,773.86
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, 2010, was as follows:

State Employee Group Plan

Actuarial valuation date	July 1, 2010
Actuarial accrued liability (AAL)	\$12,961,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$12,961,000.00
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	\$40,813,948.04
UAAL as percentage of covered payroll	31.8%

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

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, 2010, 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 10 percent in fiscal year 2011. The rate decreased to 9.5 percent in fiscal year 2012, and then reduced by decrements of 0.5 percent per year to an ultimate rate of 5 percent in fiscal year 2021. All 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

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

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, 2011, and June 30, 2010, 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, 2011, the Risk Management Fund held \$107.6 million in cash and cash equivalents designated for payment of claims.

At June 30, 2011, the scheduled coverage for the university was \$417,633,400 for buildings and \$67,680,800 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.

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

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 \$12,938,539.99 at June 30, 2011.

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 \$22,140 for the year ended June 30, 2011. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2011, outstanding commitments under construction contracts totaled \$9,162,393.98 for Infrastructure Improvements, Underground Electrical Updates, Parking Expansion, Undergraduate Housing, Baseball Fieldhouse, Campus Wide Paving, Clement Hall and Music Mass Communication Buildings Water Heaters, Clement Window Replacement, Emerald Hills Fire Safety Upgrades, HVAC Upgrades, New Student Housing, and Clement Hall Foundation Repairs, of which \$990,793.05 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 \$10,100,327.93 on deposit at June 30, 2011, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

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 \$93,137 from these funds during the year ended June 30, 2011.

NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses for the year ended June 30, 2011, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>					
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 27,573,150.73	\$ 8,208,272.65	\$ 7,470,544.17	\$ -	\$ -	\$ 43,251,967.55
Research	1,002,640.37	320,299.81	586,824.77	-	-	1,909,764.95
Public service	850,184.62	258,260.50	309,701.26	-	-	1,418,146.38
Academic support	4,791,751.80	1,809,207.08	1,326,443.76	-	-	7,927,402.64
Student services	6,126,160.42	2,557,976.21	6,076,290.81	-	-	14,760,427.44
Institutional support	5,287,353.35	2,173,874.63	2,397,904.02	-	-	9,859,132.00
Maintenance & operation	2,296,165.45	1,132,732.44	7,740,643.17	-	-	11,169,541.06
Scholarships & fellowships	-	-	-	21,640,390.67	-	21,640,390.67
Auxiliary	1,207,709.48	347,739.31	3,311,361.31	-	-	4,866,810.10
Depreciation	-	-	-	-	7,178,490.69	7,178,490.69
Total	<u>\$ 49,135,116.22</u>	<u>\$ 16,808,362.63</u>	<u>\$ 29,219,713.27</u>	<u>\$ 21,640,390.67</u>	<u>\$ 7,178,490.69</u>	<u>\$ 123,982,073.48</u>

NOTE 18. ON-BEHALF PAYMENTS

During the year ended June 30, 2011, the State of Tennessee made payments of \$57,713 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 www.tn.gov/finance/act/cafr.shtml.

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

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. 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 adjustments, 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, 2011, the foundation made distributions of \$744,266.72 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, P.O. 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, 2011.

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

	Total Fair Value at June 30, 2011	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Money market funds	\$ 721,433.57	\$ 721,433.57	\$ -	\$ -
Certificates of deposit	100,417.06	-	100,417.06	-
Marketable debt securities	2,380,090.62	2,380,090.62	-	-
Marketable equity securities	8,786,047.03	8,786,047.03	-	-
Mutual funds	1,049,124.15	1,049,124.15	-	-
Hedge funds	403,536.91	151,631.80	-	251,905.11
Life insurance	<u>89,087.03</u>	<u>-</u>	<u>89,087.03</u>	<u>-</u>
Total assets	<u>\$ 13,529,736.37</u>	<u>\$ 13,088,327.17</u>	<u>\$ 189,504.09</u>	<u>\$ 251,905.11</u>

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, 2011, were entirely insured.

Investments

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

Investments held at June 30, 2011, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 721,387.99	\$ 721,433.57
Certificates of deposit	100,417.06	100,417.06
Marketable debt securities	2,154,506.07	2,380,090.62
Marketable equity securities	6,344,963.99	8,786,047.03
Mutual funds	970,488.89	1,049,124.15
Hedge funds	400,000.00	403,536.91
Life insurance	<u>-</u>	<u>89,087.03</u>
Total investments	<u>\$ 10,691,764.00</u>	<u>\$ 13,529,736.37</u>

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

Alternative investments - The foundation has investments in hedge funds and real estate. The estimated fair value of these assets is \$416,442.77 at June 30, 2011.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2011. Because these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

Pledges Receivable

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

	<u>June 30, 2011</u>
Current pledges	\$ 4,165.76
Pledges due in one to five years	280,567.05
Pledges due after five years	<u>170,000.00</u>
Subtotal	454,732.81
Less discount to net present value	<u>(42,241.51)</u>
Total pledges receivable, net	<u>\$ 412,491.30</u>

Capital Assets

Capital assets at June 30, 2011, were as follows:

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

	<u>June 30, 2011</u>
Land	\$ 870,687.50
Equipment	<u>16,363.00</u>
Total	<u>887,050.50</u>
Less accumulated depreciation/amortization:	
Equipment	<u>7,573.00</u>
Capital assets, net	<u>\$ 879,477.50</u>

Endowments

The Austin Peay State University Foundation's endowment consists of 144 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. 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 foundation. 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

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

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, 2011

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 9,107,630.74	\$ 2,814,714.94	\$ (10,388.99)	\$ 11,911,956.69
Total funds	<u>\$ 9,107,630.74</u>	<u>\$ 2,814,714.94</u>	<u>\$ (10,388.99)</u>	<u>\$ 11,911,956.69</u>

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2011

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 8,214,352.63	\$ 1,095,425.82	\$ (378,256.68)	\$ 8,931,521.77
Investment return:				
Investment income	-	230,521.94	-	230,521.94
Net appreciation (realized and unrealized)	-	<u>1,488,767.18</u>	<u>367,867.69</u>	<u>1,856,634.87</u>
Total investment return	-	1,719,289.12	367,867.69	2,087,156.81
Contributions	626,501.88	-	-	626,501.88
Difference in pledges	4,617.87	-	-	4,617.87
Appropriations of endowment assets for expenditure				
Other changes:				
Transfers	229,970.86	-	-	229,970.86
Land Adjustment	<u>32,187.50</u>	<u>-</u>	<u>-</u>	<u>32,187.50</u>
Endowment net assets, end of year	<u>\$ 9,107,630.74</u>	<u>\$ 2,814,714.94</u>	<u>\$ (10,388.99)</u>	<u>\$ 11,911,956.69</u>

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-

**Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements (Cont.)
June 30, 2011**

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 7 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 12 quarters ending December 31 multiplied by the spending rate. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. 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
Unaudited**

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2010	State Employee Group Plan	\$0.00	\$12,961,000	\$12,961,000	0.00	\$40,813,948	31.76%
July 1, 2009	State Employee Group Plan	\$0.00	\$14,121,000	\$14,121,000	0.00	\$39,864,731	35.42%
July 1, 2007	State Employee Group Plan	\$0.00	\$15,132,000	\$15,132,000	0.00	\$41,440,911	36.51%

An additional year will be reported as the data become available. The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

**SUPPLEMENTARY INFORMATION
AUSTIN PEAY STATE UNIVERSITY FOUNDATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES

Gifts and contributions	\$ 1,226,968.03
Payments to suppliers and vendors	(656,559.60)
Payments for scholarships and fellowships	(377,689.52)
Payments to Austin Peay State University	(181,428.15)
Other receipts (payments)	326.00
Net cash provided by operating activities	<u>11,616.76</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Private gifts for endowment purposes	571,957.88
Net cash provided by noncapital financing activities	<u>571,957.88</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from sale of capital assets	200,000.00
Net cash provided by capital and related financing activities	<u>200,000.00</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	1,399,787.32
Income on investments	300,084.62
Purchases of investments	(2,891,607.87)
Other investing receipts (payments)	767,051.31
Net cash used by investing activities	<u>(424,684.62)</u>

Net increase in cash and cash equivalents	358,890.02
Cash and cash equivalents - beginning of year	3,571,837.08
Cash and cash equivalents - end of year	<u>\$ 3,930,727.10</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 241,565.73
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	2,711.40
Pledges	(12,734.76)
Change in assets and liabilities:	
Accounts receivable	(210,299.77)
Accounts payable	(9,625.84)
Net cash provided by operating activities	<u>\$ 11,616.76</u>

Noncash investing, capital, or financing transactions

Gifts in-kind - capital	\$ 430,000.00
Unrealized gains investments	\$ 2,157,491.96
Loss on disposal of capital assets	\$ (73,000.00)