AUDIT REPORT

Tennessee Board of Regents
Austin Peay State University

For the Year Ended
June 30, 2012

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
Department of Audit
Division of State Audit

Tennessee Comptroller of the Treasury

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September 26, 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, 2012. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The university's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/ddm
12/079

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, 2012

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDINGS

The institution needs improved preparation and review procedures to prevent errors in its financial statements
Austin Peay State University's procedures for financial statement preparation should be improved to ensure the accuracy and proper classification of information presented in its financial statements. Significant reporting errors were found, resulting in significant misstatements in the unaudited financial statements (page 9).

The Office of University Advancement did not maintain adequate documentation to support the classification of endowments for the university, increasing the risk that endowments could be misclassified on the statements of net assets, as well as increasing the risk that the intentions of donors could be misunderstood
The Office of University Advancement could not always support the classification of endowments as restricted nonexpendable on the university's statements of net assets (page 12).

COMPLIANCE FINDING

The Student Financial Aid Office did not always perform Title IV return-of-funds calculations, did not always properly verify documents, incorrectly awarded Title IV funds, and did not always comply with satisfactory academic progress policies, resulting in federal questioned costs of $4,486.50

The Student Financial Aid Office did not comply with certain special tests and provisions of the Student Financial Assistance Cluster, resulting in federal questioned costs of $4,486.50 (page 14).

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

- The institution needs improved preparation and review procedures to prevent errors in its financial statements.

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 university's financial statements will not be prevented, or detected and corrected on a timely basis.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 2012

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Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 2012

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 originally 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 public university and the state's leading developer of online classes, including 13 fully online degree programs, Austin Peay State University grants associate's degrees in such fields as computer technology and information management; liberal arts; management technology; and occupational studies, which includes 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, 2011, through June 30, 2012, 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, 2012. 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 and considers 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 management may establish new programs or discontinue older programs at any time, 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 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, 2012, 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. A significant deficiency and a material weakness, along with recommendations and management's responses, are detailed in the Findings and Recommendations section.

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. Immaterial instances of noncompliance, along with a recommendation and management's response, are included in the Findings and Recommendations section.

Fairness of Financial Statement Presentation

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

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

August 16, 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, 2012, and have issued our report thereon dated August 16, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be a significant deficiency.

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. We consider the following deficiency to be a material weakness:

- The institution needs improved preparation and review procedures to prevent errors in its financial statements.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency to be a significant deficiency:

- The Office of University Advancement did not maintain adequate documentation to support the classification of endowments for the university, increasing the risk that endowments could be misclassified on the statements of net assets, as well as increasing the risk that the intentions of donors could be misunderstood.

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

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 did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report.

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

Management's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. We did not audit the university's responses and, accordingly, we express no opinion on them.

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,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/ddm

FINDINGS AND RECOMMENDATIONS

1. <u>The institution needs improved preparation and review procedures to prevent errors in its financial statements</u>

Finding

Austin Peay State University's procedures for financial statement preparation should be improved to ensure the accuracy and proper classification of information presented in its financial statements. Control deficiencies resulted in the following significant reporting errors:

- On the unaudited statement of revenues, expenses, and changes in net assets, the June 30, 2012, residential life scholarship allowances were not updated from the June 30, 2011, amount. The June 30, 2012, residential life scholarship allowances totaled $2,640,452.47, while the 2011 balance only totaled $2,361,466.62, resulting in a $278,985.85 understatement. This error was only made in the printed version of the institution's financial report. Residential life scholarship allowances were correct on the financial statement format included on the institution's shared drive, which is provided to the Tennessee Board of Regents (TBR). The audited statements were corrected.

- In the pension plans note to the financial statements in the institution's 2012 financial report, contributions to the defined contribution plans were reported as $2,292,539.89 for the year ended June 30, 2012. However, actual contributions were $2,592,539.89, resulting in an understatement of $300,000.00. The audited note was corrected.

- On the schedule of capital assets displayed in the management's discussion and analysis (MD&A), the 2011 comparative amounts were not updated from the 2010 amounts. As a result, the 2011 capital asset amounts were understated by a total of $20,476,000. The 2011 capital assets balance reported on the schedule of capital assets was $135,941,000, while the actual balance was $156,417,000. The 2012 capital assets balance was correctly reported. The 2011 comparative amounts were corrected in the MD&A included in the audit report.

- On the unaudited statement of revenues, expenses, and changes in net assets, $1,921,304.29 of capital assets were misclassified as utilities, supplies, and other services expense. As a result, the error also caused depreciation expense to be understated by $75,122.82. In addition, on the unaudited statement of net assets, capital assets (net) were understated by $1,846,181.47. The audited statements were corrected.

For the first three problems listed, the Director of Accounting Services and Assistant Vice President of Finance did not update the information provided in the MD&A, financial statements, and accompanying notes. For the June 30, 2012, scholarship allowance amount, the Director of Accounting Services forgot to update the printed version of the unaudited statement of revenues, expenses, and changes in net assets from the June 30, 2011, amount even though all amounts provided to the Tennessee Board of Regents (TBR) were updated with the correct amount. For the pension plans note, the Director of Accounting Services did not update the institution's defined contribution amount after receiving updated information from the Payroll Manager. Furthermore, the Assistant Vice President of Finance did not update the 2011 comparative amounts on the schedule of capital assets from the 2010 amounts.

Finally, the institution's Director of Accounting Services incorrectly classified $1,921,304.29 of capital assets costs as utilities, supplies, and other services expense on the statement of revenues, expenses, and changes in net assets rather than capitalizing the costs on the statement of net assets. The $1,921,304.29 costs were related to the following four capital assets projects:

- underground electrical upgrade of $604,123.58;
- university parking expansion of $296,898.27;
- Main Street parking lot of $773,248.14; and
- Clement and Music and Mass Communication water heaters of $247,034.30.

TBR Guideline B-110: "Fixed Assets and Sensitive Minor Equipment" states that improvements should be capitalized if costs equal or exceed $50,000. The parking lots were new, and the electrical upgrade and water heaters were improvements. All projects exceeded the $50,000 threshold limit for capitalizing project expenses and, as a result, should have been capitalized rather than expensed. Furthermore, the university parking expansion, Main Street parking lot, and Clement and Music and Mass Communication water heaters were all completed by June 30, 2012; therefore, these projects were subject to depreciation. The Director of Accounting Services believed that all of the projects were replacements and therefore were not subject to capitalization. As a result of these projects not being capitalized, depreciation expense was understated by $75,122.82.

These reporting errors resulted in significant misstatements in the institution's MD&A, financial statements, and accompanying notes. Management is responsible for the fair presentation of the MD&A, financial statements, and accompanying notes that are included in the institution's financial report. Not preventing or not detecting and correcting material misstatements in the financial statements could adversely affect the users of the financial statements.

Recommendation

The institution's accounting and supervisory personnel should exercise additional care in preparing and reviewing the institution's financial statements and notes. Specifically, the Vice President of Business and Finance and Assistant Vice President of Finance should ensure that thorough reviews are conducted of subordinates' work, including the composition of reported amounts on the MD&A, financial statements, and accompanying notes, and should ensure the correction of any errors detected.

Management's Comment

With respect to the finding, we concur.

As noted in the finding, the audit detected certain clerical errors in the printed unaudited financial statements. These errors included an oversight of typing in a parenthetical amount displayed beside the amount of Residential Life revenues, which is shown as net; a typographical error while entering the amount of contributions to the defined contribution plans, which is displayed in the notes only, and is not reflected in the basic financial statements; and, removing 2010 year amounts and inserting 2011 year amounts in a table included in the Management Discussion and Analysis section that is also not included in the basic financial statements. The Vice President for Finance and Administration and the Assistant Vice President for Finance are very aware of the importance of no errors in the university's financial statements, and take very seriously the impact and result these may have on the state's *Comprehensive Annual Financial Report*. Therefore, the following action plan items will be implemented for the 2014 fiscal year, as the 2013 fiscal year closing was in process and near completion at the time this audit finding was received by the university accounting staff. We are pleased that these errors did not affect the basic financial statements.

- The year-end closing schedule will be reviewed by the Assistant Vice President for Finance in the spring preceding the year-end process to ensure adequate time remains toward the end of the process that will allow for additional review and checking by staff independent of the reporting process.

- The Assistant Vice President will conduct meetings with all staff involved with the year-end process to ensure they understand the importance and meaning of accurate and timely preparation of the unaudited financial statements.

- Internal and external training on the accounting issues of recognition, recording, and reporting will be provided to the accounting staff.

Austin Peay accounting and supervisory personnel are keenly aware of the importance of its unaudited financial statements and certainly desire to eliminate all errors, and mistakes, and will do all that is practicable to ensure that outcome; however, as with all manual processes, errors and mistakes may exist.

Management does recognize the importance of not only the reporting, but also the correct recognition of items into the financial system. The appropriate accounting staff related to these transactions will receive both internal and external training, as well as the Assistant Vice President conducting meetings to stress the importance of accurately recording transactions.

2. **<u>The Office of University Advancement did not maintain adequate documentation to support the classification of endowments for the university, increasing the risk that endowments could be misclassified on the statements of net assets, as well as increasing the risk that the intentions of donors could be misunderstood</u>**

Finding

Austin Peay State University's (APSU) Office of University Advancement could not always support the classification of endowments on the university's statements of net assets.

We obtained and reviewed schedules listing the amounts of each endowment. Based on our review of those schedules, as well as the related component unit note, we determined that all gift amounts were classified as restricted nonexpendable on the university's and foundation's statements of net assets.

Section 4, subsection (a) of the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) states

> Section 4 looks to written documents as evidence of donor's intent and does not require an institution to rely on oral expressions of intent. By requiring written evidence of intent, the Act protects reliance by the donor and the institution on the written terms of a donative agreement. Information conversations may be misremembered and may be subject to multiple interpretations.

For both the university and the foundation, we reviewed endowment agreements for endowments with significant additions (contributions or transfers) during the audit period. In addition, for the other existing endowments for both the university and the foundation, we reviewed 10 additional endowment agreements for both the university and foundation with the largest balances as of June 30, 2012. Based on the results of our testwork, we determined that for 5 of 11 (45.45%) university endowments totaling $1,618,481.71 at June 30, 2012, the endowment classification of restricted nonexpendable was not adequately supported by the documentation present.

For the errors noted, no form was provided; the form provided was not signed; or the scholarship establishment form or other document provided did not specify if the donor intended for the corpus to be spent or permanently invested. Therefore, for those items, we could not determine if the endowment and any related contributions and transfers were properly classified as restricted nonexpendable.

In addition, for the endowments tested, we noted that for most endowments, a scholarship establishment form was completed and included such things as the name of the scholarship, the area of study, the requirements for eligibility, the date established, the signature of the sponsor and an APSU representative (which is typically the APSU President), and the date signed. However, for several of the items, we noted that other forms, which were sometimes similar in nature, were completed. Some of these other forms did not include the date established and did not include a space for the donor and APSU representative to sign and date the form. We also noted that in some cases, signatures of the donor and/or APSU representative were not present on the forms. For the APSU Athletic and Library Collection endowments, which were both university endowments, no form was present. The Executive Director stated that these were older endowments that had been in place since the 1970s.

Once the Executive Director was aware of our concerns regarding the lack of documentation to support the classification of endowments and the results of our testwork, he obtained revised forms from donors for all of the 5 endowments that we questioned. The revised forms supported the classification of restricted nonexpendable for the amounts given. The Executive Director stated that the remaining scholarship establishment forms would be reviewed and updated with donors who are still living, to specify that the endowments are restricted nonexpendable, and that the forms would be signed and dated.

Not having a form on file or not including the donor's intentions for the gift could result in a misunderstanding of the availability of funds for expenditure. This failure could also result in endowments being misclassified on the statements of net assets and within the notes to the financial statements.

Recommendation

The Executive Director of University Advancement should ensure that endowments are adequately supported. The documentation maintained should be consistent for each endowment and should be filed in one location. The documentation for the endowment should explicitly state the donor's intentions for the gift, should clearly document when the endowment was established, and should be signed and dated by the donor and an appropriate university or foundation representative. The Executive Director should ensure that scholarship establishment forms or related documents for existing endowments are revised as needed to include the necessary information. If updated agreements with signatures cannot be obtained for such reasons as the death of the donor, management should consider having the governing bodies of the university and foundation approve board-designated endowments.

Management's Comment

With respect to the finding, we concur.

While University Advancement staff understands the necessity of such documentation that clearly states donors' intentions, these files are very old as some were in existence as early as 1978, and it will be difficult, if not impossible, to obtain such documentation. Nevertheless, the staff of University Advancement is currently in the process of reviewing and updating the files to confirm that Austin Peay State University and its endowments are adequately supported. Several donors have already been contacted and asked to sign an updated document, which specifies their intent of permanently restricting their gift. This updated agreement will ensure compliance with the Uniform Prudent Management of Institutional Funds Act.

As suggested in the auditor's recommendation, in cases where original donors or family members are deceased or cannot be located, the Finance Committee will be asked to approve board-designated endowments.

3. <u>The Student Financial Aid Office did not always perform Title IV return-of-funds calculations, did not always properly verify documents, incorrectly awarded Title IV funds, and did not always comply with satisfactory academic progress policies, resulting in federal questioned costs of $4,486.50</u>

Finding

The Student Financial Aid Office did not comply with certain special tests and provisions of the Student Financial Assistance Cluster as discussed below.

<u>Return of Title IV Funds Not Properly Calculated</u>

The Student Financial Aid Office did not properly calculate the amount of Title IV funds to be returned for a student who had withdrawn during the semester for which federal student aid was received.

According to the *Code of Federal Regulations*, Title 34, Part 668.22,

> When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date . . . [The] percentage of the payment period or period of enrollment completed [is determined] by dividing the total number of calendar days in the payment period or period of enrollment into the number of calendar days completed in that period as of the student's withdrawal date.

Also, the *Federal Student Aid Handbook*, Volume 5, Chapter 2, page 31, states, "Up through the 60% point in each payment period or period of enrollment, a prorata schedule is used to determine the amount of Title IV funds the student has earned at the time of withdrawal." In addition, page 53 states, "A school must return the amount of Title IV funds for which it is responsible as soon as possible, but no later than 45 days after it determines or should have determined that the student withdrew."

For one of eight students who withdrew and required a return-of-funds calculation (12.5%), no return calculation was performed. According to the Director of Student Financial Aid and Veterans Affairs, the Office of the Registrar did not process the student's withdrawal until May 7, 2012, even though the student withdrew on March 9, 2012. On July 25, 2012, we notified the Student Financial Aid Office that a return calculation had not been performed for the student after the withdrawal occurred. Costs of $1,655 are questioned for this student. The institution subsequently returned the $1,655 on July 26, 2012, to the Department of Education.

Verification Not Completed and Overaward Made

The Financial Aid Office did not comply with the institution's verification policy for students selected for verification during the 2011-2012 award year. According to the verification policy, "Required documents must be submitted by our priority deadline of June 1 for Fall term and November 1 for Spring term for the most efficient processing. The financial deadline for submitting verification documents is 90 days after your last day of enrollment for the current year or September of that award year, whichever is earlier. After that time, you forfeit eligibility for federal student aid for the award year."

The *Federal Student Aid Handbook*, Application and Verification Guide, Chapter 4, pages AVG-89 and AVG-92, states

> [Institutions] can make an interim disbursement of some Title IV funds before verification is complete if you [the institution] have no reason to believe the application information is inaccurate. Your school is liable for the interim disbursement if verification shows that the student received an overpayment or if he fails to complete verification . . . If a student fails to provide the required documentation by the deadline . . . [and] if the student already received Pell, FSEOG, or Perkins funds in a disbursement prior to being selected for verification, he must return that money. If he received it as an interim disbursement you [the institution] gave while waiting to complete verification, your school is responsible for returning the money to the programs.

Of the 22 students tested who were selected for verification, one student (4.5%) did not forfeit eligibility after failing to provide verification documents. As a result, the student received $7,558.50 in Title IV funds for award year 2011-2012. Although the school returned $943.50 due to the student's withdrawal from the 2011 fall term II, the school did not return the other funds, as discussed in the following paragraph. Based on our discussions with financial aid staff, the failure to take the funds back was an oversight.

The Financial Aid Office only returned $943.50 for the student's withdrawal from the 2011 fall term II to the Department of Education. The $2,831.50 Federal Pell and Federal Supplemental Education Opportunity Grant (FSEOG) portion of the student's award was not returned. As a result, the $2,831.50 of the Federal Pell and FSEOG portion of the student's award is questioned. The remaining Title IV funds for the award year were federal direct loans.

In addition, the Student Financial Aid Office did not comply with the *Code of Federal Regulations*, Title 34, part 690.63(g)(1), which states that "the amount of a student's award for an award year may not exceed his or her Scheduled Federal Pell Grant award for that award year."

The *Federal Student Aid Handbook*, Application and Verification Guide, Chapter 5, pages AVG-101 and AVG 104, states, "[Institutions] are required to review all subsequent transactions for a student for the entire processing year. . . . If you paid a student based on information that is updated later, you must use the revised EFC to determine the correct award and adjust future disbursements or require a repayment by the student if necessary."

We also noted that the same student received an excess of $1,575 over the Scheduled Federal Pell Grant award amount for applicable Expected Family Contribution (EFC). The Federal Pell Grant Program Payment Schedule for award year 2011-2012 shows a full-time student with an EFC of $3,153 receiving a maximum award of $2,400. Therefore, the student should have been awarded $1,200 per semester; however, the Financial Aid Office awarded this student $2,775 for the fall 2011 semester. According to the Director of Student Financial Aid and Veterans Affairs, this student had two Institutional Student Information Records (ISIRs) for the 2011-2012 award year. The first ISIR shows the student with an EFC of $0, while the second ISIR shows an EFC of $3,153. The Director of Student Financial Aid and Veterans Affairs stated that the award for the fall 2011 term was paid based on the first ISIR. The $1,575 Federal Pell Grant overpayment is included in the $2,831.50 amount questioned above for lack of verification.

Satisfactory Progress Not Always Calculated and Appeals Not Granted When Required

The Student Financial Aid Office did not comply with the institutional and federal satisfactory academic progress policies.

According to the institution's satisfactory academic progress (SAP) policy,

> A review of academic progress will be conducted three times each year; at the end of the Fall semester . . . the Spring semester . . . and at the end of summer. [Also,] The maximum time frame must be no longer than 150% of the published length of the educational program. Most undergraduate programs require 120 hours; therefore, 180 hours attempted is the maximum time frame allowed. If at any point it is clear the student will not be able to meet time frame or exceeds the maximum time frame, the student becomes ineligible for aid.

In addition, the *Federal Student Aid Handbook*, volume 1, chapter 1, page 11, states, "Financial aid warning [is] a status a school assigns to a student who is failing to make satisfactory academic progress. The school reinstates eligibility for aid for one payment period and may do so without a student appeal. This status may only be used . . . for students who were making SAP in the prior payment period."

For the year ended June 30, 2012, we reviewed the satisfactory academic progress for 59 students who received federal student aid during the fiscal year. We noted the following discrepancies.

For 3 of 59 (5.1%) students examined to determine if a satisfactory academic progress calculation was made, the Student Financial Aid Office did not calculate the students' satisfactory academic progress. The students took classes in the spring I term at the Fort Campbell campus. According to the Associate Director of Student Financial Aid and Veterans Affairs, the Banner system does not pull a partial term such as spring I. The students only attended the spring 1 term at the Fort Campbell campus and not spring II; therefore, the Banner system did not pull the students. This resulted in the satisfactory academic progress calculation not being performed for the students. Based on our testwork, the students were making satisfactory academic progress. However, this flaw in the Banner system could lead to ineligible students receiving aid.

Furthermore, for 1 of 59 (1.7%) students examined, the Student Financial Aid Office did not complete an appeal for the student exceeding the maximum time frame stated in the satisfactory academic progress policies. Per review of Banner, this student exceeded the 180 hours maximum time frame after completing the 2010 fall I term. The *Federal Student Aid Handbook*, volume 1, chapter 1, page 12, states, "Warning status lasts for one payment period, during which the student may continue to receive FSA [Federal student aid] funds. Students who are still failing to make satisfactory progress after the warning period lose their aid eligibility unless they successfully appeal and are placed on probation." The student was correctly placed on a warning status for the 2011 spring term. However, satisfactory progress for the 2011 spring term was not calculated. Since the student had exceeded the maximum time frame after the 2010 fall and 2011 spring terms, an appeal should have been required for the student to receive aid for the 2011 fall term. An appeal was not completed for the 2011 fall term. The Director of Student Financial Aid and Veterans Affairs believed this student did not need an appeal because the student was placed on warning and then graduated. The Director of Student Financial Aid and Veterans Affairs also stated that when the new satisfactory academic progress regulations were implemented, the institution had to delete the probation status. As a result, the Director of Student Financial Aid and Veterans Affairs stated that the institution had to decide whether to change all warning students to failed students or to reset all of the warning students back to warning. The Director stated that the institution decided to reset all warning students to warning status. As a result, this student was reset to warning status rather than failed status, which would have caused an appeal to be required. Although the Student Financial Aid Office did not have the student go through an appeals process after a warning was received the prior semester, we did not question costs for this student's financial aid since an appeal could have been granted to let the student finish the semester and graduate.

The questioned costs noted above were $4,486.50, and the sample of student financial aid payments was $540,691. The population of student financial aid payments was $37,505,995.

Recommendation

The President should direct staff to ensure the return-of-funds calculations are performed after students have withdrawn from the institution and to ensure there is proper communication between the Student Financial Aid Office and the Registrar for notification of students' withdrawal from the institution. The Director of Student Financial Aid and Veterans Affairs should ensure that verification documents have been provided by students in the allotted time when students are selected for verification. The Director should also ensure that students' eligibility for federal student aid is canceled for the award year for which verification documents are not received as required by federal regulations. In addition, the Director should ensure that the most current verification documents received during the award year are used in calculating students' awards. The Director of Student Financial Aid and Veterans Affairs should ensure that the satisfactory academic progress of students is calculated timely to confirm students' eligibility to receive aid and that appeals are completed when necessary. Any templates used in the satisfactory academic progress calculations should be properly reviewed for accuracy by the Director of Student Financial Aid and Veterans Affairs or the Assistant Director of Student Financial Aid.

The President should ensure that risks such as those noted in this finding are adequately identified and assessed in management's risk assessment activities. The President should identify specific staff to be responsible for ongoing monitoring for compliance with all requirements and to take prompt action should exceptions occur.

Management's Comment

Return of Title IV Funds Not Properly Calculated

- We concur in part. We concur this was an error; however, we do not concur with method used to classify as a finding for the one error from the sample.

- **Correction Measure**. We receive electronic notification from the Registrar on a daily basis. We have met with the Registrar to identify why there was a delay in processing this withdrawal. A procedure has been established to pick up withdrawals not included in the electronic notification that is already in place. We will do whatever is possible to ensure errors will not occur in the future.

- We cite the following reference from both *The Blue Book* (2013), Volume 4 – Financial Operations and Program Integrity, pp. 4-6, and from the *Federal Student Aid Handbook*, Volume 2 – School Eligibility and Operations, pp. 2-68. The error based on the sample population is within the allowable margin of error as determined by the Department of Education.

  http://ifap.ed.gov/bbook/attachments/2013BlueBookVol4.pdf and

  http://ifap.ed.gov/fsahandbook/attachments/Vol5Ch1FSAHdbk1213.pdf

  Compliance Thresholds for Timely Return of Funds

  The Department provides for a small margin of error in determining that a school has paid all required refunds and returns on time. The Department considers a school to have paid returns in a timely manner if—

  ♦♦*there is less than a 5% error rate in a sample of returns (composed of students for whom the school was required to return unearned funds) examined* ***in a compliance audit****, an audit conducted by the Office of the Inspector General (OIG), or a program review conducted by the Department or guaranty agency,* ***or***

♦♦*there are no more than two late returns in the sample (regardless of the number or percentage of late returns in the sample).*

➢ A late return is defined as …When an institution corrects a Return of Title IV Funds calculation and, as a result, returns funds after the 45-day deadline, it is a late return. This is according to the *Federal Student Aid Handbook*, Volume 5, pp. 5-40. *http://ifap.ed.gov/fsahandbook/attachments/Vol5Ch1FSAHdbk1213.pdf*

Verification Not Completed and Overaward Made

- We concur.

- **Correction Measure**. Our process to monitor subsequent ISIRs has been expanded through the development of a flow chart and quality control reports. We will do whatever is possible to ensure errors will not occur in the future.

Satisfactory Academic Progress (SAP) Not Always Calculated and Appeals Not Granted When Required

We concur.

Correction Measure. We took immediate action to correct this issue, as well as review all Spring I calculations. All students were making satisfactory academic progress (SAP). Spring I, as well as other part of term calculations will be included by manually calculating.

As an ongoing process of risk assessment by the university, a detailed risk assessment will consider risks that are applicable to the Office of Student Financial Aid and mitigating controls. This assessment will assign all controls to specific managers that will be required to monitor those controls. The Director of Financial Aid will review the controls to ensure that proper monitoring has occurred. In instances of improper monitoring, progressive discipline will apply.

Auditor's Comment

As we discuss in the finding, financial aid staff did not perform a return calculation and return the funds until we brought the matter to management's attention on July 25, 2012. The student withdrew on March 9, 2012. We consider this to be a return not made rather than a late return since we informed management of the error. If financial aid staff had discovered the error themselves and returned the funds, we would agree with management that it was a late return and would not have reported a late return in the finding in accordance with the guidance cited.

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

Independent Auditor's Report

August 16, 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, 2012, 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, 2012, 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 23 through 41 and the schedule of funding progress on page 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying financial information on page 74 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the university's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 August 16, 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

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, 2012, with comparative information presented for the fiscal year ended June 30, 2011. This discussion, along with the financial statements and related note disclosures, has been prepared by management 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.

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

	2012	2011
Assets		
Current assets	$ 26,575	$ 27,545
Capital assets, net	163,386	156,417
Other assets	50,411	52,793
Total assets	240,372	236,755
Liabilities		
Current liabilities	14,116	13,881
Noncurrent liabilities	72,124	64,707
Total liabilities	86,240	78,588
Net assets		
Invested in capital assets, net of related debt	96,008	95,929
Restricted - nonexpendable	6,818	6,742
Restricted - expendable	4,737	6,682
Unrestricted	46,569	48,814
Total net assets	$ 154,132	$ 158,167

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

- Capital net assets and the investment in capital assets, net of related debt, increased due to the continued and planned acquisition of privately owned property surrounding the campus and the completion of the Castle Heights residence hall. Castle Heights is a 416-bed facility and replaces three existing residence halls: Cross, Killebrew, and Rawlins.

- Investments are included in other assets, which decreased between the fiscal years because of the stalled market recovery over the last fiscal period and, as a consequence, investment gains suffered (see related comment below in revenue section).

- Because of a prior period adjustment to record bond premiums, the noncurrent liabilities increased. In prior years the bond premium was reflected in bond issuance cost. Additionally, Castle Heights was built through the use of financing. With the completion of the new residence hall, additional debt was secured.

- A decrease in restricted — expendable net assets is because of a presentation change in the debt service reserve. In fiscal year 2012, the debt service reserve was appropriately reclassified as unrestricted net assets.

- During the 2012 fiscal year, the university implemented many repair and replacement projects, which have reduced the unrestricted net assets between the two fiscal years. Those projects included the expansion and paving of significant parking lots for residence halls and renovations for ADA restrooms in academic buildings.

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

	2012	2011
Assets		
Current assets	$ 280	$ 406
Capital assets, net	1,761	880
Other assets	19,446	17,700
Total assets	21,487	18,986
Liabilities:		
Current liabilities	21	4
Total liabilities	21	4
Net assets		
Invested in capital assets, net of related debt	1,761	880
Restricted - nonexpendable	9,781	9,108
Restricted - expendable	9,330	8,367
Unrestricted	594	627
Total net assets	$ 21,466	$ 18,982

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

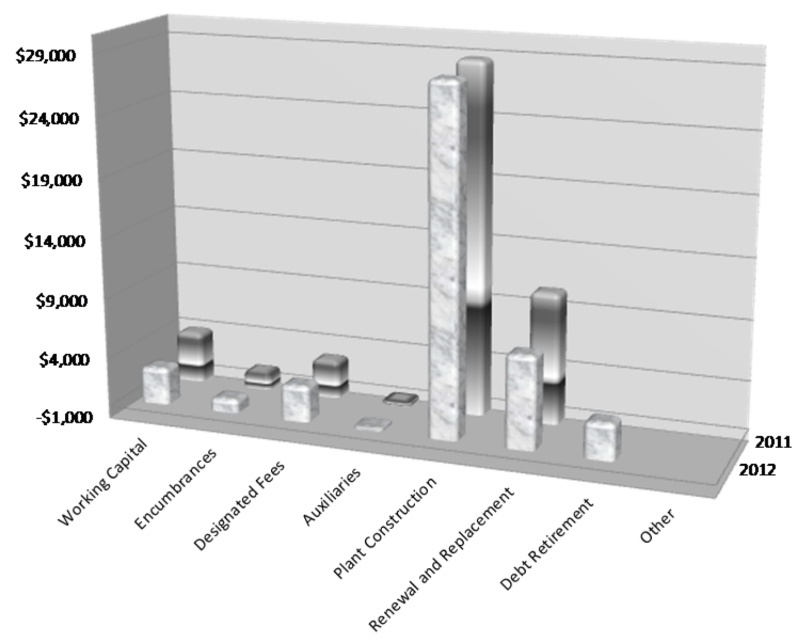
- Capital assets, net increased from the receipt of three charitable gifts of real property totaling $883,800 during the 2012 fiscal year. These gifts increased capital assets between the fiscal years.

- Other assets for the component unit increased due to an increase in pledges receivable. Pledges with expected payment dates greater than one year increased $938,600 for the current fiscal year.

- Invested in capital assets, net of related debt, increased due to the three charitable gifts of real property discussed above. These gifts increased capital assets between the fiscal years.

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:

Allocations of Unrestricted Net Assets (University)
(in thousands of dollars)



	Working Capital	Encumbrances	Designated Fees	Auxiliaries	Plant Construction	Renewal and Replacement	Debt Retirement	Other
2012	3,081	1,160	3,016	272	28,365	7,655	3,020	
2011	4,182	1,459	3,129	366	28,873	10,805		

- The reserve for encumbrances consists of many encumbrances from various university departments. While the total reserve for encumbrances decreased, there were no significant individual encumbrances liquidated from the 2011 fiscal year that would cause such a decrease, but rather an overall decrease in the amount of encumbrances in the 2012 fiscal year.

- Many campus improvement and capital projects have been funded with excess renewal and replacement reserves during the fiscal year 2012. Projects include the relocation of the campus server facility into the new Maynard Mathematics and Computer Science Building, various paving projects, and various other projects in Auxiliary Services.

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

The statement of revenues, expenses, and changes in net assets presents the operating results of the university, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States of America.

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

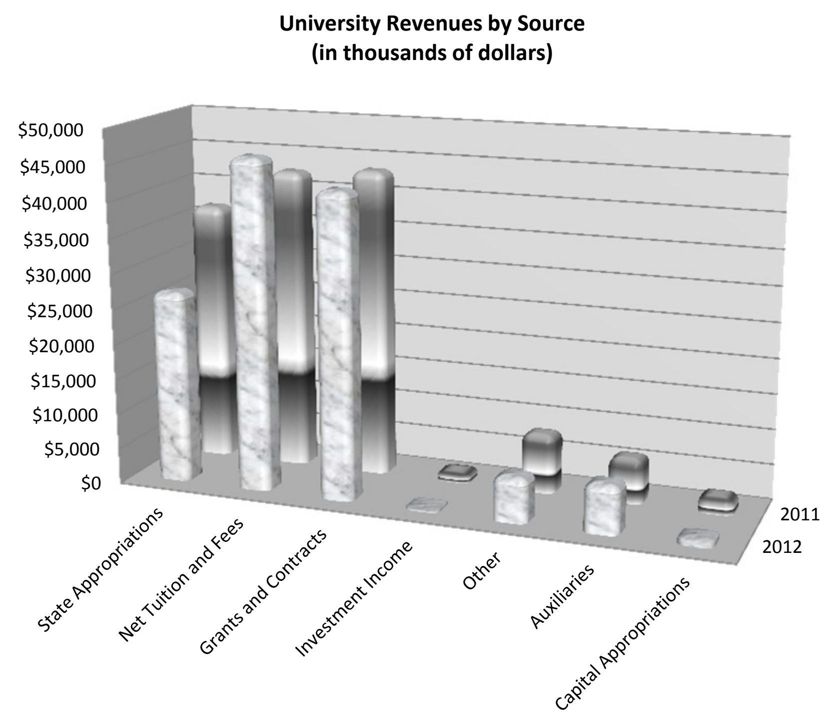
	2012	2011
Operating revenues:		
Net tuition and fees	$ 46,635	$ 42,625
Grants and contracts	5,271	6,031
Auxiliaries	6,846	6,269
Other	5,038	4,215
Total operating revenues	63,790	59,140
Operating expenses	132,332	123,982
Operating loss	(68,542)	(64,842)
Nonoperating revenues and expenses:		
State appropriations	27,213	36,864
Gifts	995	1,328
Grants and contracts	37,634	37,432
Investment income	298	1,328
Other revenues and expenses	(1,556)	(1,260)
Total nonoperating revenues and expenses	64,584	75,692
Income before other revenues, expenses, gains, or losses	(3,958)	10,850
Other revenues, expenses, gains, or losses:		
Capital appropriations	1,047	2,332
Capital grants and gifts	100	2,166
Additions to permanent endowments	13	16
Total revenues, expenses, gains, or losses	1,160	4,514
Increase (decrease) in net assets	(2,798)	15,364
Net assets at beginning of year	158,167	142,803
Prior period adjustment	(1,237)	-
Net assets at end of year	$ 154,132	$ 158,167

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

	2012	2011
Operating revenues:		
Gifts and contributions	$ 2,381	$ 1,473
Total operating revenues	2,381	1,473
Operating expenses	1,287	1,231
Operating income	1,094	242
Nonoperating revenues and expenses:		
Investment income	(86)	2,531
Total nonoperating revenues and expenses	(86)	2,531
Income before other revenues, expenses, gains, or losses	1,008	2,773
Other revenues, expenses, gains, or losses:		
Capital grants and gifts	883	430
Additions to permanent endowments	593	631
Total revenues, expenses, gains, or losses	1,476	1,061
Increase in net assets	2,484	3,834
Net assets at beginning of year	18,982	15,148
Net assets at end of year	$ 21,466	$ 18,982

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, 2012, and June 30, 2011 (amounts are presented in thousands of dollars).



	State Appropriations	Net Tuition and Fees	Grants and Contracts	Investment Income	Other	Auxiliaries	Capital Appropriations
2012	27,213	46,635	42,905	298	6,329	6,846	1,047
2011	36,864	42,625	43,463	1,328	8,260	6,269	2,332

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

- The university was approved by the Tennessee Board of Regents to increase the in-state undergraduate fee charged to students by 8%, and 8.2% for out-of-state tuition. Combined with a slight student enrollment growth, this caused the total tuition and fees to increase between the fiscal years.

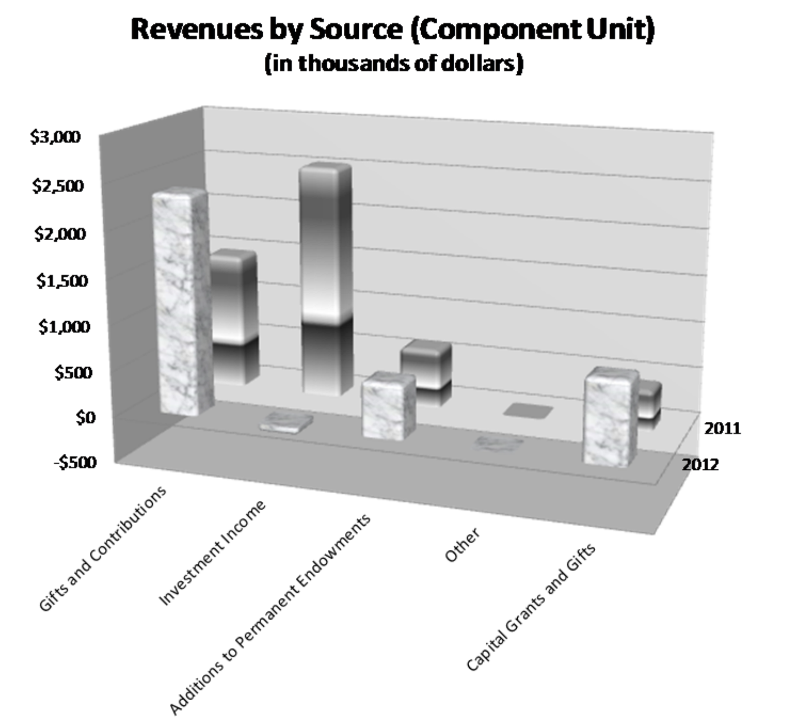
- Grants and contracts experienced a decrease in the 2012 fiscal year when compared to the 2011 fiscal year. This decrease is due to the culmination of the American Recovery & Reinvestment Act (ARRA). ARRA funding received in each fiscal year was $43,998 and $1,885,823 in the 2012 and 2011 fiscal years, respectively. However, much of the loss of ARRA funding was covered with new grants such as Momentum Building, Dmark 3, and Degree Compass, as well as increased spending on repeat grants such as Renaissance Center, UT Battelle, WET, and CFB grants. The Office of Grants and Sponsored Research experienced an increase in new externally sponsored funding during the 2012 fiscal year. This growth is due, in part, to 1) a 77.03% increase in the quantity of grant proposals prepared and submitted by the institution (with a 32% increase in those that were funded at the federal, state, local, or private levels), and 2) an improvement in the quality of services provided to the grant development process (including budget development and narrative preparation). The slight decrease in the average award amount is partially due to the increased number of junior faculty members who are becoming engaged in externally funded research and programming.

- The state continues to experience economic stress, which has resulted in a decrease in state appropriations. However, a new funding formula based on outcomes has shown to be more beneficial to the university with an increase to funding.

- Investment income decreased because the market recovery stalled over the last fiscal period and, as a consequence, investment gains suffered.

- Capital appropriations decreased between the fiscal years as a result of completing capital maintenance and building projects. During the 2012 fiscal year, the university completed phase II of the electrical upgrade maintenance project.

- In the 2011 fiscal year the university received a $2,000,000 capital gift of equipment and the related installation in the chemical engineering technology building for course education and training. While the university received capital gifts in the 2012 fiscal year, they did not equal the amount received in the previous fiscal year.



	Gifts and Contributions	Investment Income	Additions to Permanent Endowments	Other	Capital Grants and Gifts
2012	2,381	(86)	593	-	883
2011	1,473	2,531	631	-	430

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

- Gifts and contributions increased primarily due to a large change in pledges between the two fiscal years of $990,000, while actual cash gifts increased by $50,000 over the previous fiscal year.

- Investment income decreased because the market recovery stalled over the last fiscal period and, as a consequence, investment gains suffered. This slow growth led to an overall loss in the investment income for the component unit in fiscal year 2012, compared to the healthy gains enjoyed in fiscal year 2011 due to greater market recovery.

- Capital gifts to the component unit increased over 100% between the fiscal years due to three charitable gifts of real property received in fiscal year 2012. In fiscal year 2011, the component unit received property gifts of $430,000, while the 2012 fiscal year gifts totaled $883,800. Proceeds from the sale of the property will support scholarships in business, women's golf, and geography.

Expenses

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

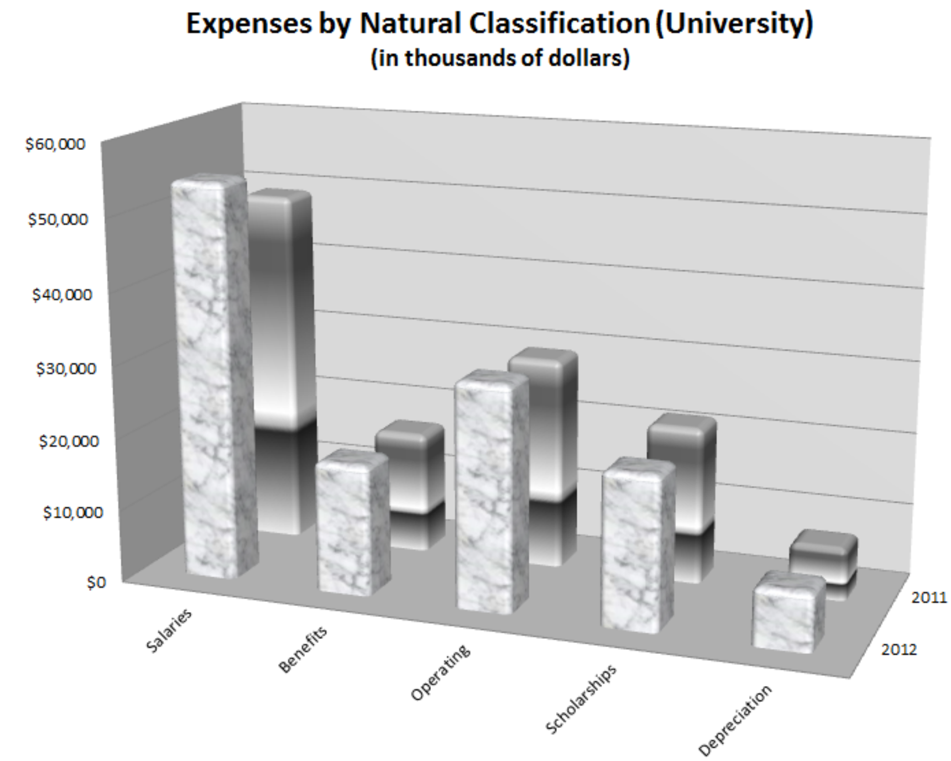
Natural Classification

Austin Peay State University
Natural Classification
(in thousands)

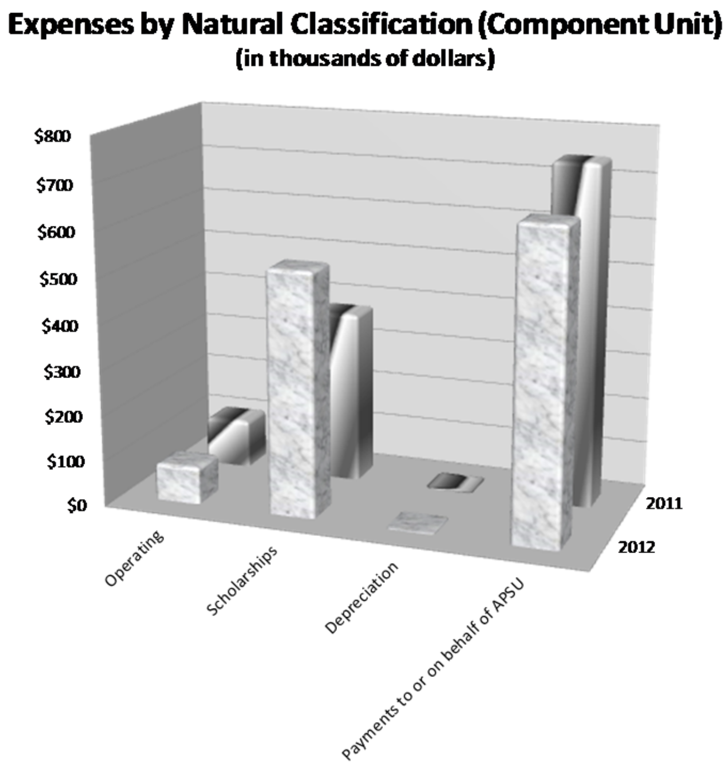
	2012	2011
Salaries	$ 54,452	$ 49,135
Benefits	18,034	16,808
Operating	30,885	29,220
Scholarships	21,017	21,640
Depreciation	7,944	7,179
Total	$ 132,332	$ 123,982

Component Unit
Natural Classification
(in thousands)

	2012	2011
Operating	$ 82	$ 106
Scholarships	534	378
Depreciation	3	3
Payments to or on behalf of Austin Peay State University	668	744
Total	$ 1,287	$ 1,231



	Salaries	Benefits	Operating	Scholarships	Depreciation
2012	54,452	18,034	30,885	21,017	7,944
2011	49,135	16,808	29,220	21,640	7,179



	Operating	Scholarships	Depreciation	Payments to or on behalf of APSU
2012	82	534	3	668
2011	106	378	3	744

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

- Expenses increased primarily because of increases in salaries and benefits. The university provided a 3% across-the-board salary increase effective July 1, 2011. Additionally, the university provided two rounds of equity adjustments. Round one was paid in the October 2011 paycheck and was retroactive to July. An additional round two of equity increase was paid in the April 2012 paycheck, which was made retroactive to January 1, 2012. The university was also allowed to provide employees a one-time bonus that was paid in November.

- The university made a change in the treatment of periodicals purchased for the library. The university expensed the remaining book value of all periodicals during the year. The amount of the adjustment to the current year's operating expenses is $782,023.

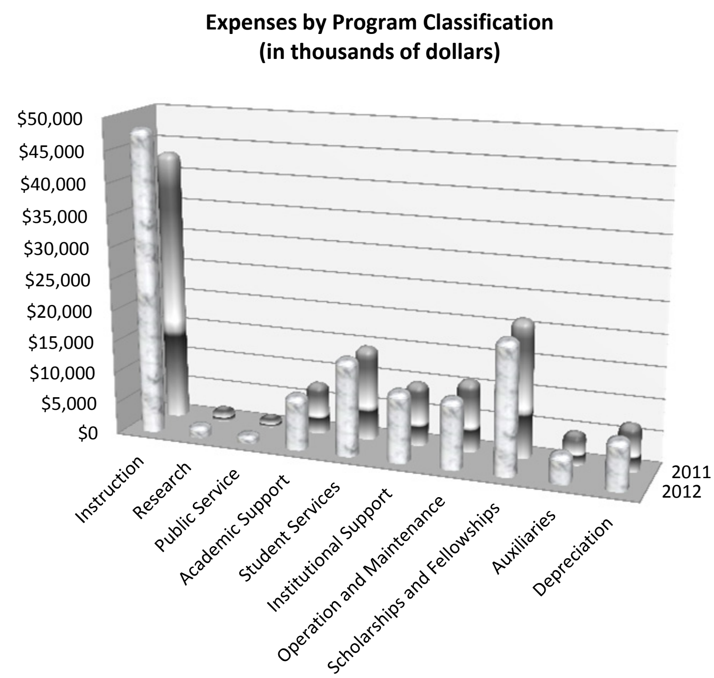
The component unit had the following significant changes in expenses between fiscal years:

- During fiscal year 2011, the component unit intentionally held back one-time scholarships while deliberately allowing endowment and scholarship funds to grow and recover from significant market losses in previous years. Beginning in fiscal year 2012, the component unit began awarding scholarships that had been held back.

Program Classification

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

	2012	2011
Instruction	$ 48,388	$ 43,252
Research	2,009	1,910
Public service	1,464	1,418
Academic support	8,810	7,927
Student services	15,464	14,760
Institutional support	11,328	9,859
Operation and maintenance	11,122	11,170
Scholarships and fellowships	21,017	21,640
Auxiliaries	4,786	4,867
Depreciation	7,944	7,179
Total	$ 132,332	$ 123,982



	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operation and Maintenance	Scholarships and Fellowships	Auxiliaries	Depreciation
2012	48,388	2,009	1,464	8,810	15,464	11,328	11,122	21,017	4,786	7,944
2011	43,252	1,910	1,418	7,927	14,760	9,859	11,170	21,640	4,867	7,179

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

- The university continues to fund a significant portion of its budget for the Instruction function. This is in compliance with the university's mission and goals of college completion.

Capital Assets and Debt Administration

Capital Assets

The university had $163,385,709 invested in capital assets, net of accumulated depreciation of $87,513,252 at June 30, 2012; and $156,417,199 invested in capital assets, net of accumulated depreciation of $83,033,940 at June 30, 2011. Depreciation charges totaled $7,943,766 and $7,178,491 for the years ended June 30, 2012, and June 30, 2011, respectively. Details of these assets are shown below.

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

	2012	2011
Land	$ 9,241	$ 8,683
Land improvements and infrastructure	21,262	19,746
Buildings	116,526	93,194
Equipment	6,940	6,767
Library holdings	1,378	2,428
Software	767	1,021
Projects in progress	7,272	24,578
Total	$ 163,386	$ 156,417

Highlights of the information presented on the schedule of capital assets for the university are as follows.

Land and buildings continue to increase because of commercial and residential purchases made by the university from private citizens and businesses. The university aggressively seeks to purchase all available property located within the approved campus master plan. Purchased properties serve as both areas for parking and faculty and staff offices. The purchase of properties is funded with one-time allocated plant funds. Additionally, the completion of the new residence hall, Castle Heights, which opened to residents in the fall of 2011, increased the value of buildings.

The August 2011 completion of Castle Heights caused the significant reduction in projects in progress. Equipment increases are predominately caused by instructional purchases with the Technology Access Fee sources. The amount of instructional and operational equipment purchased by Instruction for fiscal year 2012 was $572,111.

The state building commission has approved significant capital projects that will begin during the 2013 fiscal year. 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, as well as the complete renovation of the football stadium. The football stadium will include various athletic offices, locker rooms, training facilities, and skyboxes. The housing phase II project also started during the 2012 fiscal year and will be completed by fall 2014. More detailed information about the university's capital assets is presented in Note 5 to the financial statements.

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

	2012	2011
Land	$ 1,754	$ 871
Equipment	7	9
Total	$ 1,761	$ 880

Highlights of the information presented on the schedule of capital assets for the component unit are as follows.

Capital gifts to the component unit increased over 100% between the fiscal years due to three charitable gifts of real property received in fiscal year 2012. In fiscal year 2012, the component unit received property gifts of $883,800, while the 2011 fiscal year gifts totaled $430,000.

Debt

The university had $67,378,134 and $61,725,298 in debt outstanding at June 30, 2012, and June 30, 2011, respectively. The component unit had no debt outstanding at June 30, 2012, or June 30, 2011. The table below summarizes these amounts by type of debt instrument.

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

	2012	2011
TSSBA Bonds	$ 35,651	$ 36,334
TSSBA Commercial Paper	31,727	24,154
Total debt	$ 67,378	$ 60,488

The increase in commercial paper obligations is due to the substantial completion of the undergraduate housing phase I, Castle Heights. Additional new obligations include the sprinkler system improvements to the married student housing. The planning and design of the undergraduate housing phase II was completed, and construction began late in the 2012 fiscal year.

The Castle Heights residence hall opened 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, 2012, were as follows:

Fitch	AA+
Moody's Investor Service	Aa1
Standard & Poor's	AA

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

Economic Factors That Will Affect the Future

For fiscal year 2013, the Tennessee Board of Regents authorized an individual campus fee increase of 3.4% that is expected to generate approximately $1.7 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 $1,790,000 for fiscal year 2013. The capital markets remain unstable, which 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 PO Box 4635, Clarksville, TN 37044.

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Institution	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 20)	$ 19,364,261.54	$ 219,111.54
Short-term investments (Notes 3 and 20)	20,179.40	-
Accounts, notes, and grants receivable (net) (Note 4)	6,483,208.90	39,530.56
Due from primary government	115,700.00	-
Pledges receivable (net) (Note 20)	-	530.24
Inventories	290,523.88	-
Prepaid expenses and deferred charges	200,628.28	-
Accrued interest receivable	100,877.72	21,229.23
Total current assets	26,575,379.72	280,401.57
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 20)	42,292,077.09	4,162,967.94
Investments (Notes 3 and 20)	7,069,743.30	13,756,197.84
Accounts, notes, and grants receivable (net) (Note 4)	1,049,571.75	179,212.70
Pledges receivable (net) (Note 20)	-	1,347,318.70
Capital assets (net) (Notes 5 and 20)	163,385,709.47	1,760,566.10
Total noncurrent assets	213,797,101.61	21,206,263.28
Total assets	240,372,481.33	21,486,664.85
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	3,246,274.36	20,736.99
Accrued liabilities	2,619,653.78	-
Student deposits	288,070.00	-
Deferred revenue	3,991,775.88	-
Compensated absences (Note 7)	696,491.41	-
Accrued interest payable	364,937.34	-
Long-term liabilities, current portion (Note 7)	1,699,259.28	-
Deposits held in custody for others	1,210,109.34	-
Total current liabilities	14,116,571.39	20,736.99
Noncurrent liabilities:		
Net OPEB obligation (Note 12)	4,101,714.58	-
Compensated absences (Note 7)	1,626,516.81	-
Long-term liabilities (Note 7)	65,678,874.76	-
Due to grantors (Note 7)	717,011.48	-
Total noncurrent liabilities	72,124,117.63	-
Total liabilities	86,240,689.02	20,736.99
NET ASSETS		
Invested in capital assets, net of related debt	96,007,575.43	1,760,566.10
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	6,702,339.12	9,362,623.27
Research	-	60,207.60
Instructional department uses	4,565.81	71,741.99
Other	111,327.97	286,656.43
Expendable:		
Scholarships and fellowships (Notes 8 and 20)	1,577,476.33	4,969,976.08
Research	713,903.43	16,378.36
Instructional department uses	312,676.92	611,405.72
Loans	43,720.56	-
Other	2,089,176.20	3,732,329.93
Unrestricted (Note 9)	46,569,030.54	594,042.38
Total net assets	$ 154,131,792.31	$ 21,465,927.86

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, 2012

	Institution	Component Unit
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $23,805,183.77)	$ 46,634,870.77	$ -
Gifts and contributions	-	2,381,117.24
Governmental grants and contracts	5,270,273.07	-
Nongovernmental grants and contracts	767.00	-
Sales and services of other activities	4,103,532.21	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $2,640,452.47; all residential life revenues are used as security for revenue bonds; see Notes 7 and 10)	5,172,703.60	-
Bookstore (all bookstore revenues are used as security for revenue bonds; see Notes 7 and 10)	484,119.66	-
Food service (all foodstore revenues are used as security for revenue bonds; see Notes 7 and 10)	443,338.99	-
Wellness facility (net of scholarship allowances of $275,921.90; all wellness facility revenues are used as security for revenue bonds; see Notes 7 and 10)	547,386.98	-
Other auxiliaries	198,879.33	-
Interest earned on loans to students	243,430.97	-
Other operating revenues	690,873.19	200.00
Total operating revenues	63,790,175.77	2,381,317.24
EXPENSES		
Operating expenses (Note 17):		
Salaries and wages	54,451,805.90	-
Benefits	18,033,588.10	-
Utilities, supplies, and other services	30,885,372.94	82,183.55
Scholarships and fellowships	21,017,158.69	533,607.60
Depreciation expense	7,943,766.37	2,711.40
Payments to or on behalf of Austin Peay State University (Note 20)	-	668,579.42
Total operating expenses	132,331,692.00	1,287,081.97
Operating income (loss)	(68,541,516.23)	1,094,235.27
NONOPERATING REVENUES (EXPENSES)		
State appropriations	27,213,363.93	-
Gifts (including $688,579.42 from component unit) (Note 20)	995,030.90	-
Grants and contracts	37,633,912.16	-
Investment income (net of investment expense of $18,599.78 for the university and $48,035.80 for the component unit)	297,358.59	(86,728.69)
Interest on capital asset-related debt	(1,739,420.58)	-
Other nonoperating revenues (expenses)	182,354.84	-
Net nonoperating revenues (expenses)	64,582,599.84	(86,728.69)
Income before other revenues, expenses, gains, or losses	(3,958,916.39)	1,007,506.58
Capital appropriations	1,047,150.03	-
Capital grants and gifts	100,000.00	883,800.00
Additions to permanent endowments	12,849.87	593,069.33
Total other revenues	1,159,999.90	1,476,869.33
Increase in net assets	(2,798,916.49)	2,484,375.91
NET ASSETS		
Net assets - beginning of year	158,167,542.37	18,981,551.95
Prior period adjustment (Note 18)	(1,236,833.57)	-
Net assets - end of year	$ 154,131,792.31	$ 21,465,927.86

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	47,051,801.17
Grants and contracts		3,977,434.70
Sales and services of other activities		4,106,206.15
Payments to suppliers and vendors		(29,216,954.08)
Payments to employees		(54,265,333.80)
Payments for benefits		(17,392,593.17)
Payments for scholarships and fellowships		(21,017,158.69)
Interest earned on loans to students		228,372.05
Auxiliary enterprise charges:		
Residence halls		5,076,378.58
Bookstore		569,532.55
Food services		460,534.27
Wellness facility		547,386.98
Other auxiliaries		198,879.33
Net cash used by operating activities		(59,675,513.96)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		27,149,675.00
Gifts and grants received for other than capital purposes, including $593,916.21 from component unit		38,187,888.45
Private gifts for endowment purposes		12,849.87
Federal student loan receipts		58,229,001.00
Federal student loan disbursements		(59,198,919.00)
Changes in deposits held for others		1,104,232.88
Other noncapital financing receipts (payments)		182,354.75
Net cash provided by noncapital financing activities		65,667,082.95
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		7,572,552.16
Capital appropriations		1,047,150.03
Purchase of capital assets and construction		(13,672,994.97)
Principal paid on capital debt		(1,919,716.46)
Interest paid on capital debt		(1,666,052.11)
Net cash used by capital and related financing activities		(8,639,061.35)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		1,244,415.45
Income on investments		300,770.08
Purchase of investments		(1,270,112.74)
Net cash provided by investing activities		275,072.79
Net increase in cash and cash equivalents		(2,372,419.57)
Cash and cash equivalents - beginning of year		64,028,758.20
Cash and cash equivalents - end of year (Note 2)	$	61,656,338.63

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(68,541,516.23)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		7,943,766.37
Gifts in-kind		439,554.61
On-behalf payments		61,788.93
Change in assets and liabilities:		
Receivables, net		(292,813.26)
Inventories		3,529.78
Prepaid expenses and deferred revenue		(39,946.14)
Other assets		(15,058.92)
Accounts payable		371,563.89
Accrued liabilities		596,968.05
Deferred revenue		(350,957.95)
Deposits		28,761.20
Compensated absences		161,236.51
Due to grantors		(42,390.80)
Net cash used by operating activities	$	(59,675,513.96)

Noncash investing, capital, or financing transactions		
Unrealized loss on investments	$	(148,134.28)
Loss on disposal of capital assets	$	(51,374.67)

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, 2012

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 20 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.

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 (GASB). The university has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The university has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

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

All other activity is nonoperating in nature. This activity 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 and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net assets. There is no liability for unpaid accumulated sick leave since the university's policy is to pay this only if the employee dies or is absent because of illness, injury, or related family death.

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/amortization. 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 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 that the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, as well as 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, 2012, cash consisted of $1,880,933.69 in bank accounts, $14,314.00 of petty cash on hand, $55,919,807.76 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $3,841,283.18 in LGIP Deposits - Capital Projects account.

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

NOTE 3. INVESTMENTS

All investments permitted to be reported at fair value under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools,* 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, 2012, 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
US Treasury	$ 168,769.97	$ -	$ 86,728.42	$ 54,763.41	$ 27,278.14	$ -
US Agencies	198,340.24	-	33,972.80	14,857.04	149,510.40	-
Corporate Stocks	1,651,861.20	-	-	-	-	1,651,861.20
Corporate Bonds	350,346.06	20,179.40	120,968.37	106,499.84	27,830.80	74,867.65
Mutual Bond Funds	1,308,111.18	-	-	-	1,308,111.18	-
Mutual Equity Funds	2,750,443.66	-	-	-	-	2,750,443.66
Certificates of Deposit	593,931.03	-	593,931.03	-	-	-
Money Market	68,119.36	68,119.36	-	-	-	-
Total	$ 7,089,922.70	$ 88,298.76	$ 835,600.62	$ 176,120.29	$ 1,512,730.52	$ 4,477,172.51

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; banker’s acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool (LGIP). The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale.

Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the ratings services that have rated the issuer. 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 that are 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, 2012, the university's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
LGIP	$ 59,761,090.94	$ -	$ -	$ -	$ -	$ 59,761,090.94
US Agencies	198,340.24	-	33,972.80	-	-	164,367.44
Corporate Bonds	350,346.06	20,179.40	39,242.39	182,098.11	33,958.51	74,867.65
Mutual Bond Funds	1,308,111.18	143,892.23	39,243.34	156,973.34	183,135.57	784,866.70
Total	$ 61,617,888.42	$ 164,071.63	$ 112,458.53	$ 339,071.45	$ 217,094.08	$ 60,785,192.73

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The university does not have a policy for custodial credit risk. At June 30, 2012, the university had $2,437,436.83 of uninsured and unregistered investments for which the securities are held by the counterparty and $4,058,554.84 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

Concentration of credit risk is the risk of loss attributed to the magnitude of the university's investment in a single issuer. 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:

	Fair Value June 30, 2012
Certificates of Deposit	$ 29,654.01
Regions Investment Account	2,437,436.83
The Common Fund	4,058,554.84
Total	$ 6,525,645.68

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, 2012, there were a total of 14,166.655 units in the Multi-Strategy Equity Fund. Each unit had a fair value of $194.15, and there were a total of 89,175.382 units in the Multi-Strategy Bond Fund, each having a market value of $14.67.

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

FY 2012	Pooled Assets			Fair
	Fair Value	Cost	Net Gains (Losses)	Value Per Unit
Multi-Strategy Equity Fund				
End of year	$2,750,443.66	$1,110,000.00	$1,640,443.66	$194.15
Beginning of year	$2,263,573.82	$1,080,000.00	1,183,573.82	200.66
			456,869.84	$ (6.51)
Multi-Strategy Bond Fund				
End of year	$1,308,111.18	$1,748,000.00	$ (439,888.82)	$ 14.67
Beginning of year	$1,730,625.80	$1,703,000.00	27,625.80	14.23
			(467,514.62)	$ 0.44
Total net losses			$ (10,644.78)	

The average annual earnings (loss) per unit, exclusive of net gains, were $35.25 per unit for the Multi-Strategy Equity Fund and $(5.243) for the Multi-Strategy Bond Fund for the year ended June 30, 2012.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2012
Student accounts receivable	$ 6,586.586.10
Grants receivable	652,083.31
Notes receivable	12,542.34
Other receivables	1,947,040.38
Subtotal	9,198,252.13
Less allowance for doubtful accounts	(2,715,043.23)
Total receivables	$ 6,483,208.90

Federal Perkins Loan Program funds included the following:

	June 30, 2012
Perkins loans receivable	$ 1,391,897.10
Less allowance for doubtful accounts	(342,325.35)
Total	$ 1,049,571.75

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 8,682,877.09	$ 557,562.80	$ -	$ -	$ 9,240,439.89
Land improvements and infrastructure	27,480,655.94	2,881,830.36	-	-	30,362,486.30
Buildings	155,206,692.38	4,255,782.25	23,628,643.65	1,670,879.29	181,420,238.99
Equipment	15,198,573.76	1,607,586.40	-	475,676.88	16,330,483.28
Library holdings	5,914,227.01	120,175.03	-	2,151,294.71	3,883,107.33
Intangible assets	2,389,851.44	-	-	-	2,389,851.44
Projects in progress	24,578,261.76	6,322,737.18	(23,628,643.65)	-	7,272,355.29
Total	239,451,139.38	15,745,674.02	-	4,297,850.88	250,898,962.52

Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	7,734,899.78	1,365,661.28	-	-	9,100,561.06
Buildings	62,012,729.64	4,551,957.54	-	1,670,879.29	64,893,807.89
Equipment	8,431,762.35	1,382,492.52	-	424,302.21	9,389,952.66
Library holdings	3,486,073.97	388,310.74	-	1,369,271.85	2,505,112.86
Intangible assets	1,368,474.29	255,344.29	-	-	1,623,818.58
Total	83,033,940.03	7,943,766.37	-	3,464,453.35	87,513,253.05
Capital assets, net	$156,417,199.35	$ 7,801,907.65	$ -	$ 833,397.53	$163,385,709.47

Of the $2,151,294.71 decrease in library holdings, $1,603,432.32 is due to a change in accounting estimate. During fiscal year 2012, it was determined that periodicals are more appropriately expensed. The estimated useful life of periodicals was decreased from 10 years to 0 years, resulting in a current-year adjustment of $1,603,432.32.

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2012
Vendors payable	$ 3,213,519.39
Other payables	32,754.97
Total accounts payable	$ 3,246,274.36

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$36,333,813.14	$ 0.01	$ 1,830,180.02	$34,503,633.13	$ 1,699,259.28
Unamortized bond premium/discount	1,236,833.56	-	89,536.43	1,147,297.13	-
Commercial paper	24,154,651.63	7,572,552.15	-	31,727,203.78	-
Subtotal	61,725,298.33	7,572,552.16	1,919,716.45	67,378,134.04	1,699,259.28
Other liabilities:					
Compensated absences	2,161,771.71	2,245,008.89	2,083,772.38	2,323,008.22	696,491.41
Due to grantors	759,402.28	-	42,390.80	717,011.48	-
Subtotal	2,921,173.99	2,245,008.89	2,126,163.18	3,040,019.70	696,491.41
Total long-term liabilities	$ 64,646,472.32	$ 9,817,561.05	$ 4,045,879.63	$ 70,418,153.74	$ 2,395,750.69

TSSBA Debt - Bonds Payable

Bonds, with interest rates ranging from 2% to 5.5%, were issued by the Tennessee State School Bond Authority. The bonds are due serially until May 2036 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations; see Note 10 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. The reserve amount was $864,351.71 at June 30, 2012. Unexpended debt proceeds were $0.00 at June 30, 2012.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2012, are as follows:

Year Ending June 30	Principal	Interest	Total
2013	$ 1,699,259.28	$ 1,630,666.12	$ 3,329,925.40
2014	1,236,668.24	1,551,902.42	2,788,570.66
2015	1,264,331.31	1,481,759.29	2,746,090.60
2016	1,172,163.13	1,424,576.08	2,596,739.21
2017	1,226,687.99	1,369,688.28	2,596,376.27
2018 – 2022	6,752,525.97	5,972,680.30	12,725,206.27
2023 – 2027	8,501,896.69	4,237,015.71	12,738,912.40
2028 – 2032	9,378,098.72	2,076,495.12	11,454,593.84
2033 – 2036	3,272,001.80	291,962.48	3,563,964.28
Total	$ 34,503,633.13	$ 20,036,745.80	$ 54,540,378.93

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance costs of various capital projects during the 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 outstanding for projects at the university was $31,727,203.78 at June 30, 2012.

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

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report is available on the state's website at http://tn.gov/comptroller/bf/tssbacafr.htm.

NOTE 8. ENDOWMENTS

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

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, all investment earnings have been authorized for expenditure. 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, 2012, net appreciation of $97,998.87 is available to be spent, all of which is included in restricted net assets expendable for scholarships and fellowships.

NOTE 9. UNRESTRICTED NET ASSETS

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

	June 30, 2012
Working capital	$ 3,080,510.49
Encumbrances	1,160,287.38
Designated fees	3,015,852.08
Auxiliaries	271,671.50
Plant construction	28,365,422.19
Renewal and replacement of equipment	7,655,491.10
Debt retirement	3,019,795.80
Undesignated	0.00
Total	$46,569,030.54

NOTE 10. PLEDGED REVENUES

The university has pledged certain revenues and fees, including state appropriations, to repay $34,503,633.13 in revenue bonds issued from April 2002 to April 2009. Proceeds from the bonds provided financing for dorm renovation, university center equipment, recreation center, Hand Village, Emerald Hills Apartments No. 4, housing infrastructure upgrade, Marion Street apartments, housing sprinkler system, and Fort Campbell classroom building. The bonds are payable through May 2036. Annual principal and interest payments on the bonds are expected to require 2.52% of available revenues. The total principal and interest remaining to be paid on the bonds is $54,540,378.93. Principal and interest paid for the current year and total available revenues were $3,514,264.16 and $111,544,807.41, 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.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at 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, 2012; 2011; and 2010 were $3,143,730.87; $2,766,516.99; and $2,321,141.50, 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 $2,592,539.89 for the year ended June 30, 2012, and $2,379,199.99 for the year ended June 30, 2011. Contributions met the requirements for each year.

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

Health care is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that 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. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* (TCA) 8-27-201 for the state plan and TCA 8-27-701 for the Medicare Supplement Plan. Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for health care benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. The state makes on-behalf payments to the Medicare Supplement Plan for the university's eligible retirees; see Note 19. The plans are reported in the State of

Tennessee *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 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%; 20 but less than 30 years, 70%; and less than 20 years, 60%. Retired employees 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; 20 but less than 30 years, $37.50; and 15 years but less than 20 years, $25. Contributions for the State Employee Group Plan for the year ended June 30, 2012, were $8,569,989.77, which consisted of $6,958,113.61 from the university and $1,611,876.16 from the employees.

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

Annual required contribution (ARC)	$ 1,313,000.00
Interest on the net OPEB obligation	150,103.85
Adjustment to the ARC	(159,332.38)
Annual OPEB cost	1,303,771.47
Amount of contribution	(954,653.19)
Increase in net OPEB obligation	349,118.28
Net OPEB obligation – beginning of year	3,752,596.30
Net OPEB obligation – end of year	$ 4,101,714.58

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2012	State Employee Group Plan	$1,303,771.47	73.2%	$4,101,714.58
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

Funded Status and Funding Progress

The funded status of the university's portion of the State Employee Group Plan as of July 1, 2011, was as follows:

State Employee Group Plan	
Actuarial valuation date	July 1, 2011
Actuarial accrued liability (AAL)	$9,831,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$9,831,000.00
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	$42,481,355.51
UAAL as percentage of covered payroll	23.14%

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, 2011, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual health care cost trend rate of 9.5% in fiscal year 2012, decreased to 8.75% in fiscal year 2013 and then reduced by decrements to an ultimate rate of 5% in fiscal year 2021. All rates include a 2.5% 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. CHAIRS OF EXCELLENCE

The university had $10,401,235.70 on deposit at June 30, 2012, 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.

NOTE 14. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical 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, builder's risk (for construction projects starting prior to July 1, 2012) and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012, thus builder's risk is no longer covered by the Risk Management Fund. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

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, 2012, and June 30, 2011, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. 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, 2012, the Risk Management Fund held $97.2 million in cash and cash equivalents designated for payment of claims.

At June 30, 2012, the scheduled coverage for the university was $429,707,300 for buildings and $68,269,900 for contents.

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

NOTE 15. COMMITMENTS AND CONTINGENCIES

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $14,843,964.49 at June 30, 2012.

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 $22,914 for the year ended June 30, 2012. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2012, outstanding commitments under construction contracts totaled $12,514,336.25 for the math and computer science building, infrastructure improvements, electrical upgrade, university-wide parking, farm building replacement, master plan, undergraduate housing, library water heaters, Dunn Center sprinklers, baseball field house, campus-wide paving, Clement and Music Mass Communication water heaters, Clement window replacement, Emerald Hill fire safety, ADA adaptations, new student housing, and Clement foundation repair, of which $1,542,804.14 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 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 $99,903 from these funds during the year ended June 30, 2012.

NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses for the year ended June 30, 2012, are as follows:

Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
	Natural Classification					
Instruction	$ 31,017,686.09	$ 9,039,607.08	$ 8,331,178.64	$ -	$ -	$ 48,388,471.81
Research	1,040,706.09	322,391.14	645,704.32	-	-	2,008,801.55
Public service	909,148.17	267,102.27	287,260.68	-	-	1,463,511.12
Academic support	5,251,525.03	1,977,688.17	1,581,241.05	-	-	8,810,454.25
Student services	6,660,138.63	2,627,701.37	6,175,913.30	-	-	15,463,753.30
Institutional support	5,692,484.15	2,295,475.06	3,340,362.54	-	-	11,328,321.75
Maintenance & operation	2,522,601.30	1,159,831.30	7,439,521.63	-	-	11,121,954.23
Scholarships & fellowships	-	-	-	21,017,158.69	-	21,017,158.69
Auxiliary	1,357,516.44	343,791.71	3,084,190.78	-	-	4,785,498.93
Depreciation	-	-	-	-	7,943,766.37	7,943,766.37
Total	$ 54,451,805.90	$ 18,033,588.10	$ 30,885,372.94	$ 21,017,158.69	$ 7,943,766.37	$ 132,331,692.00

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $2,854,221.28 were reallocated from academic support to the other functional areas.

NOTE 18. PRIOR-YEAR ADJUSTMENT

In the year ended June 30, 2012, the university began amortizing TSSBA bond premiums and discounts greater than $100,000 over the life of the bonds. Prior issuances were reviewed for materiality. The university identified six projects with bond premiums exceeding the $100,000 threshold. Unamortized premiums of $1,236,833.57 at June 30, 2011, were recorded. As a result, invested in capital assets, net of related debt, was reduced by $1,236,833.57 at June 30, 2011.

NOTE 19. ON-BEHALF PAYMENTS

During the year ended June 30, 2012, the State of Tennessee made payments of $61,788.93 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit health care plan and is discussed further in Note 12. The plan is reported in the *Tennessee*

Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 20. COMPONENT UNIT

The Austin Peay State University Foundation is a legally separate, tax-exempt organization supporting Austin Peay State University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 148-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, 2012, the foundation made distributions of $668,579.42 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, 2012.

	Total Fair Value at June 30, 2012	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Money Market Funds	$ 601,790.14	$ 601,790.14	$ -	$ -
Certificates of deposit	100,426.93	-	100,426.93	-
Marketable debt securities	2,840,364.53	2,840,364.53	-	-
Marketable equity securities	8,713,396.28	8,713,396.28	-	-
Mutual funds	940,126.90	940,126.90	-	-
Hedge funds	470,184.92	231,954.23	-	238,230.69
Life insurance	89,908.14	-	89,908.14	-
Total assets	$ 13,756,197.84	$ 13,327,632.08	$ 190,335.07	$ 238,230.69

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts, certificates of deposit, money market funds, and State of Tennessee Local Government Investment Pool.

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, 2012, were as follows:

	Cost	Fair Value
Money market funds	$ 601,752.60	$ 601,790.14
Certificate of deposit	100,426.93	100,426.93
Marketable debt securities	2,577,279.62	2,840,364.53
Marketable equity securities	6,955,932.41	8,713,396.28
Mutual funds	1,021,935.14	940,126.90
Hedge funds	500,000.00	470,184.92
Life insurance	-	89,908.14
Total investments	$ 11,757,326.70	$ 13,756,197.84

Alternative investments - The foundation has investments in hedge funds that consist of offshore funds and mutual fund of funds. The estimated fair value of these assets is $470,184.92 at June 30, 2012.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2012. 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. Each hedge fund owned by the foundation has an annual audit performed by an independent registered public accounting firm. Hedge fund values are determined by using monthly reports received directly from the foundation's registered investment advisors and/or investment custodian.

Pledges Receivable

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

	June 30, 2012
Current pledges	$ 582.49
Pledges due in one to five years	1,263,090.11
Pledges due after five years	222,250.00
Subtotal	1,485,922.60
Less discount to net present value	(138,073.66)
Total pledges receivable, net	$1,347,848.94

Capital Assets

Capital assets at June 30, 2012, were as follows:

	June 30, 2012
Land	$1,754,487.50
Equipment	16,363.00
Total	1,770,850.50
Less accumulated depreciation/amortization:	
Equipment	10,284.40
Capital assets, net	$1,760,566.10

Endowments

The Austin Peay State University Foundation's endowment consists of 159 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 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 requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. 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; and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Composition of Endowment by Net Asset Class
As of June 30, 2012

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$ 9,781,229.29	$ 2,396,297.07	$ (29,311.01)	$ 12,148,215.35
Total funds	$ 9,781,229.29	$ 2,396,297.07	$ (29,311.01)	$ 12,148,215.35

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2012

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets, beginning of year	$ 9,107,630.74	$ 2,814,714.94	$ (10,388.99)	$ 11,911,956.69
Investment return:				
Investment income	-	265,367.07	-	265,367.07
Net depreciation (realized and unrealized)	-	(415,286.94)	(18,922.02)	(434,208.96)
Total investment return	-	(149,919.87)	(18,922.02)	(168,841.89)
Contributions	661,229.12	-	-	661,229.12
Difference in pledges	(68,159.79)	-	-	(68,159.79)
Appropriations of endowment assets for expenditure	-	(260,298.73)	-	(260,298.73)
Other changes:				
Transfers	80,529.22	(8,199.27)	-	72,329.95
Endowment net assets, end of year	$ 9,781,229.29	$ 2,396,297.07	$ (29,311.01)	$ 12,148,215.35

Funds with deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the foundation is required to retain in a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and/or continued appropriation for fees and previously approved budgeted expenditures. At June 30, 2012, deficiencies of this nature totaled $(29,311.01).

Return objectives and risk parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that will achieve a total return equivalent to or greater than the foundation's financial requirements over the time horizon. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7% 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 porfolio'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% 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, 2011	State Employee Group Plan	$0.00	$9,831,000	$9,831,000	0.00	$42,481,356	23.14%
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%

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	1,278,640.10
Payments to suppliers and vendors		(48,002.87)
Payments for scholarships and fellowships		(533,607.60)
Payments to Austin Peay State University		(593,916.21)
Other receipts (payments)		200.00
Net cash provided by operating activities		103,313.42
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes		650,057.38
Net cash provided by noncapital financing activities		650,057.38
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		2,902,010.24
Income on investments		345,027.70
Purchases of investments		(4,671,705.40)
Other investing receipts (payments)		1,122,649.04
Net cash used by investing activities		(302,018.42)
Net increase in cash and cash equivalents		451,352.38
Cash and cash equivalents - beginning of year		3,930,727.10
Cash and cash equivalents - end of year	$	4,382,079.48
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	1,094,235.27
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		2,711.40
Pledges		(1,003,517.43)
Change in assets and liabilities:		
Accounts receivable		(7,124.96)
Accounts payable		17,009.14
Net cash provided by operating activities	$	103,313.42
Noncash investing, capital, or financing transactions		
Gifts in-kind - capital	$	883,800.00
Unrealized gain/(loss) on investments	$	(874,091.55)