AUDIT REPORT

Tennessee Board of Regents

Austin Peay State University

For the Year Ended
June 30, 2014

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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February 2, 2015

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Alisa White, President

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, 2014. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

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Audit Report
Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 2014

TABLE OF CONTENTS

State of Tennessee

A u d i t   H i g h l i g h t s

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit

Tennessee Board of Regents

Austin Peay State University

For the Year Ended June 30, 2014

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

The audit report contains no findings.

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

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Alisa White, President

Report on the Financial Statements

We have audited the accompanying 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, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2014, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14 and the schedule of funding progress on page 41 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, which 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The schedule of cash flows – component unit on page 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of cash flows – component unit 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of cash flows – component unit is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014, on our consideration of the university's internal control over financial reporting and on 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 *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 4, 2014

Tennessee Board of Regents
AUSTIN PEAY STATE UNIVERSITY
Management's Discussion and Analysis

Introduction

This section of Austin Peay State University's financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2014, with comparative information presented for the fiscal year ended June 30, 2013. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the financial statements, and the notes to the financial statements.

The university has one discretely presented component unit, the Austin Peay State University Foundation. More detailed information about the foundation is presented in Note 18 to the financial statements. This discussion and analysis focuses on the university and does not include the foundation.

Overview of the Financial Statements

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the university as a whole. The full scope of the university's activities is considered to be a single business-type activity and, accordingly, is reported within a single column in the basic financial statements.

The university's financial report includes the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

The Statement of Net Position

The statement of net position is a point-in-time financial statement. The statement of net position presents the financial position of the university at the end of the fiscal year. To aid the reader in determining the university's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows of resources, and net position of the university and segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities, inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The statement of net position is prepared under the accrual basis of accounting; assets and liabilities are recognized when goods or services are provided or received despite when cash is actually exchanged.

From the data presented, readers of the statement are able to determine the assets available to continue the operations of the university. They are also able to determine how much the university owes vendors, lenders, and others. Net position represents the difference between the university's assets and liabilities, along with the difference between deferred outflows and deferred inflows of resources, and is one indicator of the university's current financial condition.

The statement of net position also indicates the availability of net position for expenditure by the university. Net position is divided into three major categories. The first category, net investment in capital assets, represents the university's total investment in property, plant, and equipment, net of outstanding debt obligations related to these capital assets. To the extent debt or deferred inflows of resources have been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is sub-divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is 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 resources. The final category is unrestricted net position. Unrestricted net position is available to the university for any lawful purpose of the university.

The following table summarizes the university's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2014, and June 30, 2013.

Summary of Net Position
(in thousands of dollars)

	2014	2013
Assets:		
Current assets	$ 29,350	$ 26,321
Capital assets, net	208,622	187,905
Other assets	42,034	47,947
Total Assets	280,006	262,173
Deferred Outflows of Resources:		
Deferred amount on debt refunding	192	-
Total Deferred Outflows of Resources	192	-
Liabilities:		
Current liabilities	18,125	14,435
Noncurrent liabilities	105,966	91,339
Total Liabilities	124,091	105,774
Deferred Inflows of Resources:		
Deferred amount on debt refunding	-	466
Total Deferred Inflows of Resources	-	466

Net position:		
Net investment in capital assets	107,897	101,792
Restricted – nonexpendable	8,942	7,727
Restricted – expendable	3,989	4,657
Unrestricted	35,279	41,757
Total net position	$ 156,107	$155,933

- Current assets increased due to increases in accounts receivable, including an $800 thousand receivable due for the renovation of the football stadium. In addition, students' third-party billing increased approximately $900 thousand primarily due to the slow payment from federal agencies, and grant and contract receivables increased approximately $121 thousand from various sponsors.

- Capital assets increased because of new acquisitions of property and the construction of several campus projects. The university purchased additional property located in the campus master plan in the amount of $410 thousand to be used for future expansion of student facilities and other growth. Construction in progress also had significant increases with new and continued projects, such as the new football stadium, which added $12 million, and the library mechanical system replacement, which added another $1 million.

- Other assets decreased due to a decrease in cash with the completion of renovation and construction projects.

- Current liabilities increased primarily because of an increase in accounts payable for construction projects. Significant construction costs were recognized close to the end of the fiscal year causing accounts payable for the stadium project to exceed $3 million. Other notable increases included $402 thousand in the current portion of compensated absences and $478 thousand in the current portion of long-term debt.

- Noncurrent liabilities increased due to a $14.8 million increase in long-term debt due to the construction and completion of several capital projects.

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

The statement of revenues, expenses, and changes in net position presents the results of operations for the fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statement indicates whether the university's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by the university, both operating and nonoperating; the expenses paid by the university, operating and nonoperating; and any other revenues, expenses, gains, or losses received or spent by the university.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the university. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the university. Nonoperating revenues are revenues received for which goods and services are not provided directly to the payor. Although Austin Peay State University is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as nonoperating revenues, as is investment income. As a result, the university has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase in net position" is more indicative of overall financial results for the year.

A summary of the university's revenues, expenses, and changes in net position for the year ended June 30, 2014, and June 30, 2013, follows.

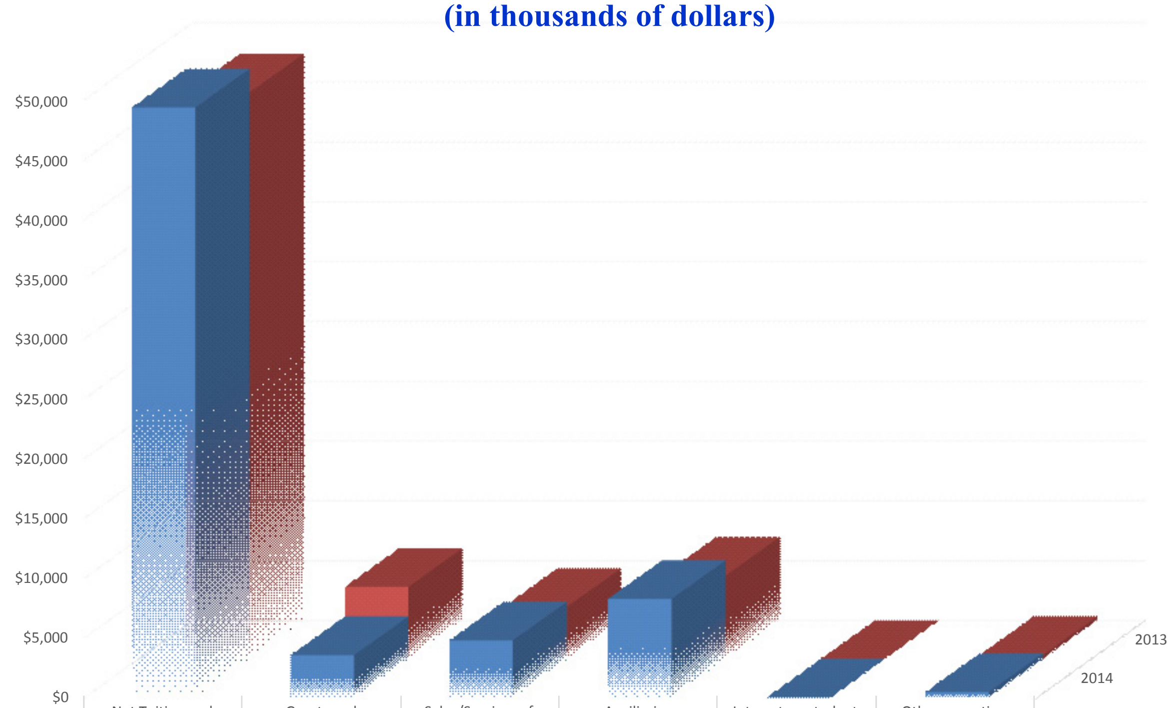
Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2014	2013
Operating revenues	$ 66,552	$ 65,224
Operating expenses	138,523	131,658
Operating loss	(71,971)	(66,434)
Nonoperating revenues and expenses	69,749	66,256
Loss before other revenues, expenses, gains, or losses	(2,222)	(178)
Other revenues, expenses, gains, or losses	2,396	1,979
Increase in net position	174	1,801
Net position, July 1	155,933	154,132
Net position, June 30	$ 156,107	$ 155,933

Operating Revenues

The following summarizes the operating revenues by source that were used to fund operating activities for the last two fiscal years:

Operating Revenues by Source
(in thousands of dollars)



	Net Tuition and Fees	Grants and Contracts	Sales/Services of other activities	Auxiliaries	Interest on student loans	Other operating
2014	49,371	3,575	4,807	8,277	32	490
2013	47,398	6,049	4,385	7,001	31	360

Comparison of FY 2014 to FY 2013

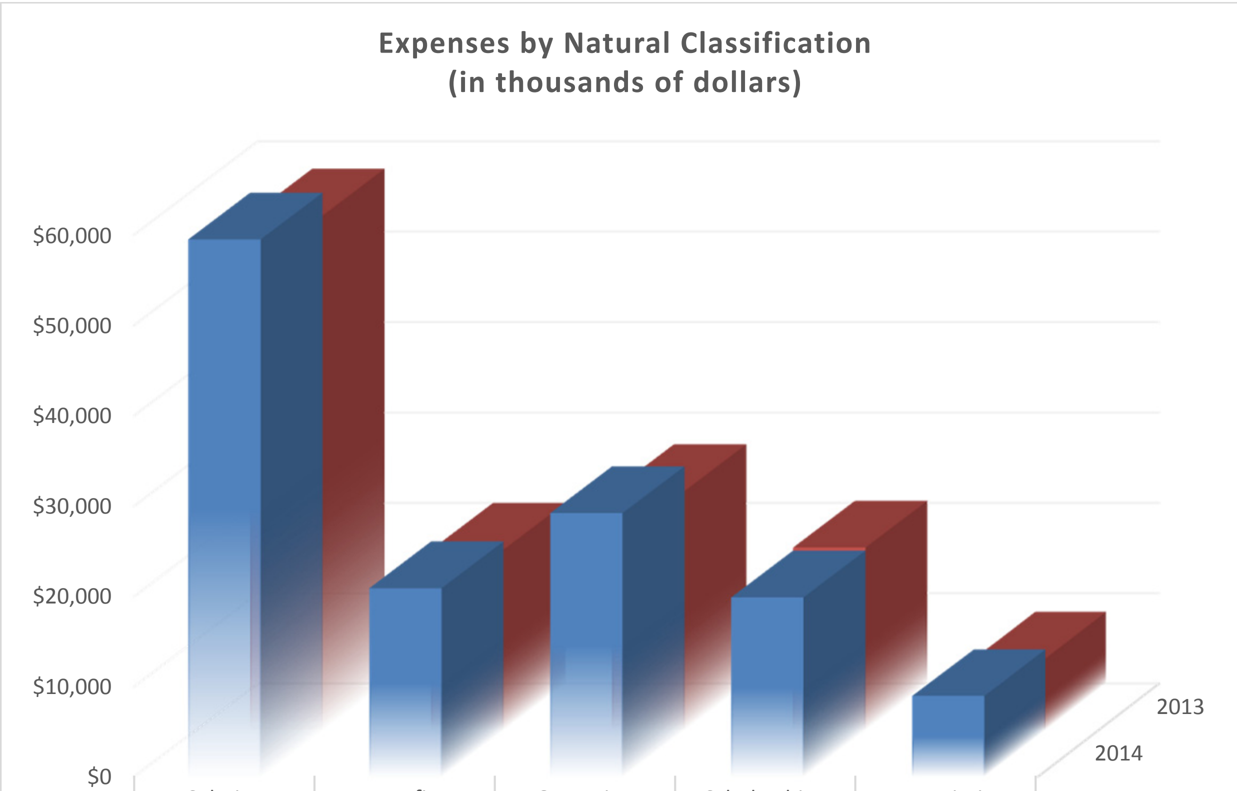
- Net tuition and fees increased $2 million due to an overall average fee increase of three percent.

- Grants and contracts realized a decrease in the amount of $2.5 million due primarily to the completion of the 2013 construction projects for new residence halls, Eriksson and Governors Terrace North and South halls, which included a $1.5 million Federal Emergency Management Agency (FEMA) grant to include safe shelters in each of the buildings. Additionally, there was an overall decrease in grants and contracts such as the Title IV – Social Work grant.

- Auxiliaries realized an increase from 2013 to 2014 primarily due to residential life. Student housing revenues increased over 2013 by the amount of $961 thousand from the addition of approximately 400 new beds as a result of the addition of the new residence halls, Eriksson Hall and Governors Terrace North and South. The wellness center also realized an increase of $249 thousand over 2013 from an increase in the student recreation fee.

Operating Expenses

Operating expenses may be reported by nature or function. The university has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to the financial statements. The following summarizes the operating expenses by natural classifications for the last two fiscal years:



	Salaries	Benefits	Operating	Scholarships	Depreciation
2014	59,501	20,921	29,225	19,906	8,969
2013	56,959	20,012	26,495	20,241	7,951

Comparison of FY 2014 to FY 2013

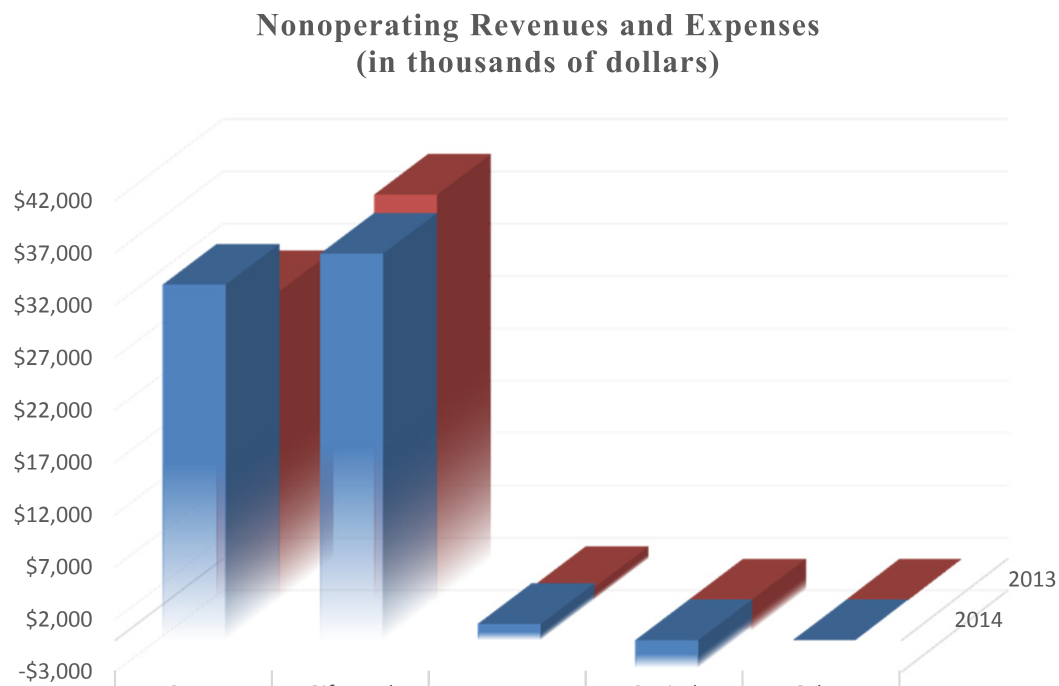
- Salaries and benefits expense increases mainly occurred due to a state 1.5% across-the-board salary increase. The university also provided an equity adjustment to ensure that all employees were making at least minimum wage and then ensured all employees were within the minimum salary range for their position. The remainder of the funds allotted to the equity adjustment were distributed equally to all employees who were due equity, resulting in increases ranging from 0.57% to 4.8% of salaries. The institution continues to increase faculty lines as possible to continue to improve the faculty to student ratio. Benefits also increased due to an increase in insurance rates.

- Operating expenses increased a total of $2.7 million. This increase is made up of many accounts being used by all the institutional units and departments and generally increased overall. The more significant increases occurred in utilities and supplies, which increased from 2013 to 2014 by $686 thousand and $802 thousand, respectively. The utilities increase is mostly due to the increased buildings, and a harsher winter than in the past. Supplies are controlled by each department and will vary from year to year.

- Depreciation expense increased due to newly constructed and purchased buildings, and equipment placed in the buildings.

Nonoperating Revenues and Expenses

Certain revenue sources that the university relies on to provide funding for operations, including state noncapital appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the university's nonoperating revenues and expenses for the last two fiscal years:



	State noncapital appropriations	Gifts and Grants	Investment income	Capital financing costs	Other nonoperating revenues/ (expenses)
2014	33,940	36,900	1,545	(2,633)	(3)
2013	29,449	38,652	1,174	(2,955)	(64)

Comparison of FY 2014 to FY 2013

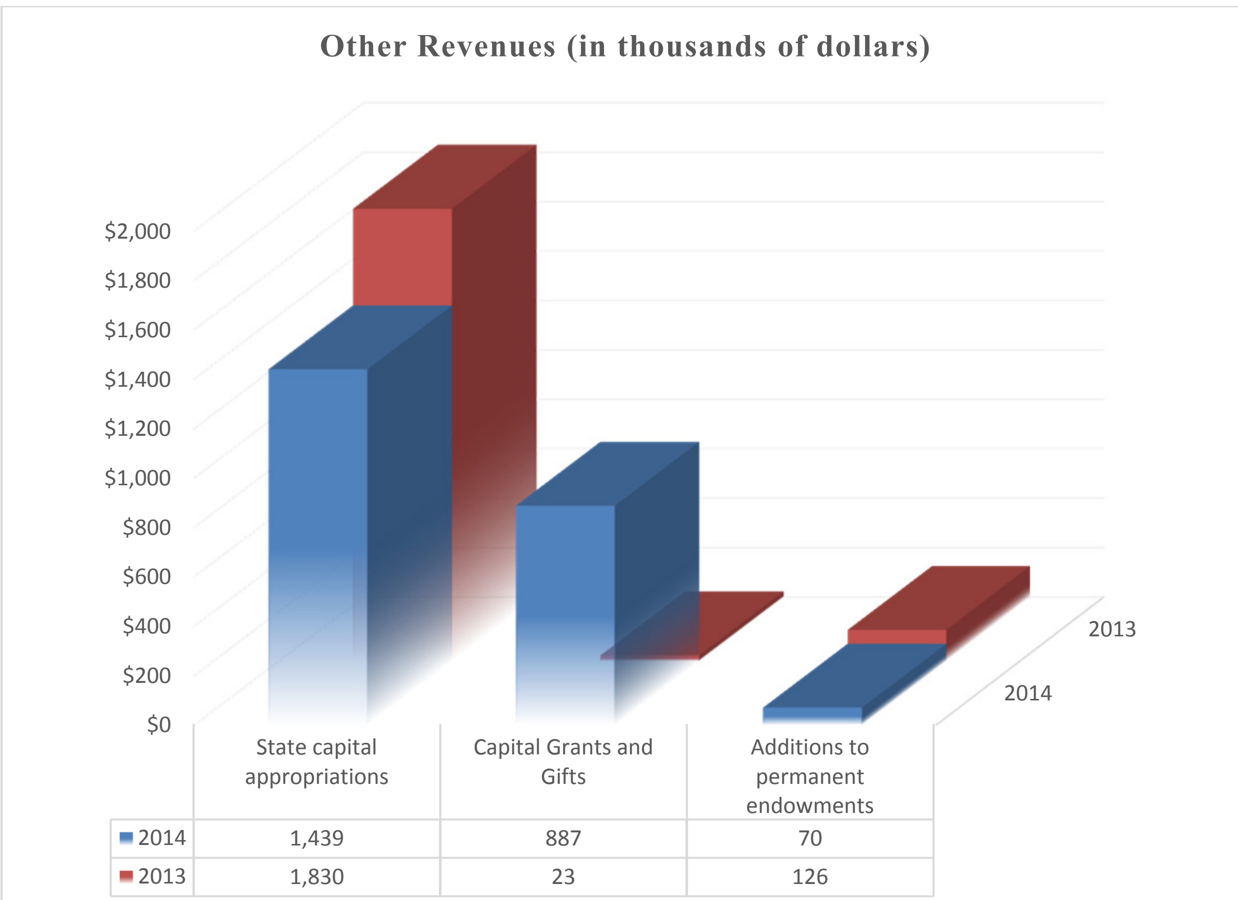
- State noncapital appropriations increased because of the outcomes achieved by Austin Peay under the new funding formula. The new formula awards institutions that improve retention, progression, and graduation rates. The Tennessee Higher Education

Commission (THEC) recommends funding each year based on calculations that measure outcomes.

- Nonoperating gifts and grants decreased because of a reduction in the amount of federal and state financial aid awarded to students. The federal awards, PELL and Federal Supplemental Educational Opportunity Grant (FSEOG), decreased $881 thousand chiefly due to the decrease in students. The state awards financial aid through Tennessee Student Assistance Corporation (TSAC) and the Hope Lottery funds. The state-funded aid decreased by $227 thousand.

Other Revenues

This category is composed of state appropriations for capital purposes, capital grants and gifts, and additions to permanent endowments. These amounts were as follows for the last two fiscal years:



Comparison of FY 2014 to FY 2013

- State capital appropriations decreased as construction projects were completed. See the capital assets section for additional information.

- Capital grants and gifts were received in the amount of $800 thousand to aid in the construction of the new football stadium. An additional $87 thousand was received as a capital gift to provide partial funding for lighting on the baseball field.

Capital Assets and Debt Administration

Capital Assets

Austin Peay State University had $208.6 million invested in capital assets, net of accumulated depreciation of $101.8 million at June 30, 2014; and $187.9 million invested in capital assets, net of accumulated depreciation of $93.7 million at June 30, 2013. Depreciation charges totaled $9.0 million and $7.9 million for the years ended June 30, 2014, and June 30, 2013, respectively.

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

	2014	2013
Land	$ 9,730	$ 9,424
Land improvements and infrastructure	24,301	24,397
Buildings	152,822	116,028
Equipment	6,178	6,187
Library holdings	986	1,181
Intangible assets	255	511
Projects in progress	14,350	30,177
Total	$208,622	$187,905

Significant additions to capital assets occurred in fiscal year 2014. These additions were from the completion of construction of new residence halls, Eriksson Hall, Governors Terrace North, and Governors Terrace South. The new residence halls will add approximately 400 new beds for male and female residents. Additionally, the university started construction on a new football stadium that is scheduled to open with Austin Peay's first home game, September 13, 2014. The June 30, 2014, amount of construction in progress for the new stadium was $12.2 million.

At June 30, 2014, outstanding commitments under construction contracts totaled $10.3 million for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $2.4 million of these costs.

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

Debt

The university had $100.9 million and $85.6 million in debt outstanding at June 30, 2014, and June 30, 2013, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands of dollars)

	2014	2013
TSSBA Bonds	$ 90,807	$ 60,839
TSSBA Short-term Debt	10,110	24,809
Total Debt	$100,917	$ 85,648

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 0.35% to 5.00% due serially until November 2043 on behalf of Austin Peay State University. The university is responsible for the debt service of these bonds. The current portion of the $90.8 million outstanding at June 30, 2014, is $ 2.1 million.

The TSSBA received loans from the revolving credit facility on behalf of Austin Peay State University. The university is responsible for the debt service of these obligations. The outstanding amount at June 30, 2014, is $10.1 million.

The ratings on debt issued by the TSSBA at June 30, 2014, 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 the fiscal year 2015, the Tennessee Board of Regents authorized an in-state undergraduate fee increase of 5.6% and an in-state graduate fee increase of 5.3%. The undergraduate and graduate out-of-state fees were not increased from the prior year. The State of Tennessee legislature approved the Governor's budget, which included an outcome-based increase to Austin Peay's funding in the amount of $1.041 million of new state funding. The capital markets remain unstable, which will affect the university's investment income.

Tennessee Board of Regents

AUSTIN PEAY STATE UNIVERSITY

Statement of Net Position

June 30, 2014

	University	Component Unit
Assets		
Current assets:		
Cash (Notes 2 and 18)	$ 20,274,568.59	$ 422,447.19
Investments (Notes 3 and 18)	565,185.13	12,000.00
Accounts, notes, and grants receivable (net) (Note 4)	6,835,025.81	38,691.97
Due from primary government	104,900.00	-
Due from component unit	1,042,038.55	-
Pledges receivable (net) (Note 18)	-	63,196.45
Inventories (at lower of cost or market)	311,726.74	-
Prepaid expenses	83,830.98	-
Accrued interest receivable	132,730.49	26,741.14
Total current assets	29,350,006.29	563,076.75
Noncurrent assets:		
Cash (Notes 2 and 18)	32,084,525.08	6,039,285.26
Investments (Notes 3 and 18)	8,906,016.19	19,503,317.37
Accounts, notes, and grants receivable (net) (Note 4)	1,043,892.84	167,818.64
Pledges receivable (net) (Note 18)	-	8,220,225.40
Capital assets (net) (Notes 5 and 18)	208,621,905.18	1,544,897.49
Total noncurrent assets	250,656,339.29	35,475,544.16
Total assets	280,006,345.58	36,038,620.91
Deferred Outflows of Resources		
Deferred amount on debt refunding	192,273.49	-
Total deferred outflows of resources	192,273.49	-
Liabilities		
Current liabilities:		
Accounts payable (Note 6)	5,844,937.76	3,136.86
Accrued liabilities	2,832,084.37	-
Due to primary government	-	1,042,038.55
Student deposits	179,970.00	-
Unearned revenue	4,524,114.01	-
Compensated absences (Note 7)	832,489.43	-
Accrued interest payable	666,711.29	-
Long-term liabilities, current portion (Note 7)	2,127,451.01	-
Deposits held in custody for others	1,117,587.92	-
Total current liabilities	18,125,345.79	1,045,175.41
Noncurrent liabilities:		
Net OPEB obligation (Note 11)	4,708,007.55	-
Compensated absences (Note 7)	1,877,639.73	-
Long-term liabilities (Note 7)	98,789,394.98	-
Due to grantors (Note 7)	591,504.82	-
Total noncurrent liabilities	105,966,547.08	-
Total liabilities	124,091,892.87	1,045,175.41
Net Position		
Net investment in capital assets	107,897,332.68	1,544,897.49
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	8,781,868.14	16,495,697.48
Research	-	60,207.60
Instructional department uses	4,565.81	74,455.24
Other	155,518.17	290,689.19
Expendable:		
Scholarships and fellowships (Notes 8 and 18)	1,289,970.10	10,799,005.70
Research	642,690.63	43,294.21
Instructional department uses	339,511.46	1,898,690.20
Loans	73,091.03	-
Other (Note 8)	1,643,441.12	2,975,572.58
Unrestricted	35,278,737.06	810,935.81
Total net position	$156,106,726.20	$34,993,445.50

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 Position

For the Year Ended June 30, 2014

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $24,030,722.81)	$ 49,371,224.05	$ -
Gifts and contributions	-	2,209,043.39
Endowment income per spending plan	-	304,213.65
Governmental grants and contracts	3,476,090.43	-
Nongovernmental grants and contracts	98,862.33	-
Sales and services of other activities	4,806,955.69	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $2,886,879.79; all residential life revenues are used as security for revenue bonds; see Note 9)	6,131,874.26	-
Bookstore (all bookstore revenues are used as security for revenue bonds; see Note 9)	464,518.89	-
Food service (all food service revenues are used as security for revenue bonds; see Note 9)	691,008.93	-
Wellness facility (net of scholarship allowances of $377,867.15; all wellness facility revenues are used as security for revenue bonds; see Note 9)	792,773.84	-
Other auxiliaries	196,993.71	-
Interest earned on loans to students	31,771.49	-
Other operating revenues	489,975.52	221,941.05
Total operating revenues	66,552,049.14	2,735,198.09
Expenses		
Operating expenses (Note 16):		
Salaries and wages	59,501,470.91	-
Benefits	20,920,865.81	-
Utilities, supplies, and other services	29,225,155.85	219,791.06
Scholarships and fellowships	19,906,106.67	1,007,831.30
Depreciation expense	8,969,170.86	874.41
Payments to or on behalf of Austin Peay State University (Note 18)	-	2,089,241.99
Total operating expenses	138,522,770.10	3,317,738.76
Operating income (loss)	(71,970,720.96)	(582,540.67)
Nonoperating Revenues (Expenses)		
State appropriations	33,940,258.00	-
Gifts, including $1,202,490.88 from component unit	628,900.09	-
Grants and contracts	36,270,914.09	-
Investment income (net of investment expense of $19,734.85 for the university and $72,611.02 for the component unit)	1,545,132.25	2,415,635.45
Interest on capital asset-related debt	(2,482,193.40)	-
Bond issuance costs	(151,040.70)	-
University support (Note 18)	-	61,203.29
Other nonoperating expenses	(3,337.64)	-
Net nonoperating revenues	69,748,632.69	2,476,838.74
Income (loss) before other revenues, expenses, gains, or losses	(2,222,088.27)	1,894,298.07
Capital appropriations	1,438,912.33	-
Capital grants and gifts, including $886,751.11 from the component unit	886,751.11	-
Additions to permanent endowments	70,139.00	865,450.72
Total other revenues	2,395,802.44	865,450.72
Increase in net position	173,714.17	2,759,748.79
Net position - beginning of year	155,933,012.03	32,233,696.71
Net position - end of year	$156,106,726.20	$34,993,445.50

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, 2014

Cash Flows from Operating Activities	
Tuition and fees	$ 48,798,187.51
Grants and contracts	3,038,941.77
Sales and services of other activities	4,831,366.92
Payments to suppliers and vendors	(26,144,401.08)
Payments to employees	(59,491,787.05)
Payments for benefits	(20,529,470.99)
Payments for scholarships and fellowships	(19,906,106.67)
Interest earned on loans to students	15,916.42
Auxiliary enterprise charges:	
Residence halls	6,108,040.03
Bookstore	679,012.30
Food services	688,217.35
Wellness facility	792,773.84
Other auxiliaries	196,993.71
Net cash used by operating activities	(60,922,315.94)
Cash Flows from Noncapital Financing Activities	
State appropriations	33,777,900.00
Gifts and grants received for other than capital or endowment purposes, including $1,632,742.20 from component unit	36,799,488.86
Private gifts for endowment purposes	70,139.00
Federal student loan receipts	53,757,498.95
Federal student loan disbursements	(53,856,483.00)
Changes in deposits held for others	(1,025,738.06)
Other noncapital financing receipts	22,221.14
Net cash provided by noncapital financing activities	69,545,026.89
Cash Flows from Capital and Related Financing Activities	
Proceeds from capital debt	50,281,992.50
Capital appropriations	1,438,912.33
Capital grants and gifts received, including $86,751.11 from component unit	86,751.11
Purchases of capital assets and construction	(29,006,376.33)
Principal paid on capital debt	(35,013,232.08)
Interest paid on capital debt	(2,965,186.62)
Bond issue costs paid on new debt issue	(151,040.70)
Net cash used by capital and related financing activities	(15,328,179.79)
Cash Flows from Investing Activities	
Proceeds from sales and maturities of investments	1,476,845.38
Income on investments	365,157.48
Purchase of investments	(1,902,843.26)
Net cash used by investing activities	(60,840.40)
Net decrease in cash	(6,766,309.24)
Cash - beginning of year	59,125,402.91
Cash - end of year	$ 52,359,093.67

Tennessee Board of Regents
AUSTIN PEAY STATE UNIVERSITY
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2014

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (71,970,720.96)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	8,969,170.86
Gifts in-kind	6,337.68
Other adjustments (Note 17)	57,458.00
Change in assets and liabilities:	
Receivables, net	(1,017,909.73)
Inventories	(14,528.89)
Prepaid expenses	108,513.89
Other assets	(15,855.07)
Accounts payable	2,469,071.15
Accrued liabilities	214,511.61
Unearned revenues	233,554.74
Deposits	(800.00)
Compensated absences	129,604.75
Due to grantors	(90,723.97)
Net cash used by operating activities	$ (60,922,315.94)

Noncash investing, capital, or financing transactions	
Unrealized gains on investments	$ 928,333.08
Loss on disposal of capital assets	$ (121,480.29)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The university is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides 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 its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 18 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The university's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 of the provider's eligibility requirements have been met. All significant interfund transactions have been eliminated.

The university has classified its revenues and expenses as either operating or nonoperating according to the following criteria: Operating revenues and expenses are those that have the characteristics of exchange transactions. Operating revenues include (1) tuition and fees, net of scholarship discounts and allowances; (2) certain federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) interest on institutional loans. Operating expenses include (1) salaries and wages; (2) employee benefits; (3) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment income.

When both restricted and unrestricted resources are available for use, it is the university's policy to determine which to use first, depending upon existing facts and circumstances.

Inventories

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a lower of cost or market basis. All other items are maintained on an average cost or first-in, first-out basis.

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 position. 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, works of art, historical treasures/collections, and intangible assets, are reported in the statement of net position 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. The capitalization threshold for art, historical treasures/collections, and similar assets is set at $5,000.

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Net Position

The university's net position is classified as follows:

Net investment in capital assets – This represents the university's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows of resources 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 net investment in capital assets.

Nonexpendable restricted net position – Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

Expendable restricted net position – Expendable restricted net position includes resources that the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position – Unrestricted net position represents resources derived from student tuition and fees; state appropriations; sales and services of educational departments and other activities; 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 university's discretion 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 position. 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, 2014, cash consisted of $1,823,097.43 in bank accounts, $14,384.00 of petty cash on hand, $49,183,744.16 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $1,337,868.08 in LGIP deposits for capital projects.

The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

LGIP deposits for capital projects – Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, the Tennessee Board of Regents withdraws funds from the LGIP account and transfers them 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, 2014, the university had the following investments and maturities:

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. Treasury	$ 214,457.89	$ 5,174.20	$ 144,833.41	$ 64,450.28	$ -	$ -
U.S. agencies	182,342.32	47,546.80	33,580.39	871.94	100,343.19	-
Corporate stocks	2,104,872.10	-	-	-	-	2,104,872.10
Corporate bonds	425,014.74	27,351.63	377,333.43	20,329.68	-	-
Mutual bond funds	1,739,256.84	-	-	1,739,256.84	-	-
Mutual equity funds	4,168,171.13	-	-	-	-	4,168,171.13
Certificates of deposit	595,187.42	565,185.13	30,002.29	-	-	-
Money market	41,898.88	41,898.88	-	-	-	-
Total investments	$ 9,471,201.32	$ 687,156.64	$ 585,749.52	$ 1,824,908.74	$ 100,343.19	$ 6,273,043.23

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. 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 by Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

Tennessee Board of Regents policy restricts investments in bankers' acceptances and commercial paper. The policy requires that prime bankers' 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 bankers' 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 are 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, 2014, the university's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
LGIP	$ 50,521,612.24	$ -	$ -	$ -	$ -	$ 50,521,612.24
U.S. agencies	182,342.32	-	78,809.09	-	-	103,533.23
Corporate bonds	425,014.74	10,971.84	19,094.16	366,410.45	28,538.29	-
Mutual bond funds	1,739,256.84	-	-	1,739,256.84	-	-
Total	$ 52,868,226.14	$ 10,971.84	$ 97,903.25	$ 2,105,667.29	$ 28,538.29	$ 50,625,145.47

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 deposit policy for custodial credit risk. At June 30, 2014, the university had $2,968,585.93 of uninsured and unregistered investments for which the securities were held by the counterparty and $5,907,427.97 of uninsured and unregistered investments for which the securities were 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 bankers' acceptances, commercial paper, and money market mutual funds. The policy limits bankers' acceptances to not exceed 20% of the total investments on the date of acquisition and limits the combined amount of bankers' 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:

Investments	Fair Value June 30, 2014
Certificates of Deposit	$ 30,002.29
Regions Bank Investment Account	2,968,585.93
The Common Fund	5,907,427.97
Total	$ 8,906,016.19

The Certificates of Deposit and Regions Bank Investment Account are each the investment of a single endowment fund. The investments for the remaining permanent endowment funds are composed of two mutual funds managed by the Common Fund. Assets of these endowments are pooled on a fair-value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of the calendar quarter within which the transaction takes place. At June 30, 2014, there were a total of 14,512.25 units in the Multi-Strategy Equity Fund, each having a fair value of $287.22, and 115,460.72 units in the Multi-Strategy Bond Fund, each having a fair value of $15.06.

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

FY 2014	Pooled Assets			Fair
			Net Gains	Value
	Fair Value	Cost	(Losses)	Per Unit
Multi-Strategy Equity Fund				
End of year	$4,168,171.13	$1,378,000.00	$ 2,790,171.13	$ 287.22
Beginning of year	$3,296,092.03	$1,110,000.00	2,186,092.03	233.60
			604,079.10	$ 53.62
Multi-Strategy Bond Fund				
End of year	$1,739,256.84	$2,450,000.00	$ (710,743.16)	$ 15.06
Beginning of year	$1,303,896.90	$1,748,000.00	(444,103.10)	14.67
			(266,640.06)	$ 0.39
Total net gains			$ 337,439.04	

The average annual earnings per unit, exclusive of net gains, were $3.266 for the Multi-Strategy Equity Fund and $0.495 for the Multi-Strategy Bond Fund for the year ended June 30, 2014.

Note 4. Receivables

Receivables at June 30, 2014, included the following:

Student accounts receivable	$ 6,336,051.01
Grants receivable	1,232,038.22
Notes receivable	12,542.34
Other receivables	838,517.83
Subtotal	8,419,149.40

Less allowance for doubtful accounts	(1,584,123.59)
Total receivables	$ 6,835,025.81

Federal Perkins Loan Program funds at June 30, 2014, included the following:

Perkins loans receivable	$ 1,376,576.59
Less allowance for doubtful accounts	(332,683.75)
Total	$ 1,043,892.84

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 9,423,613.37	$ 306,093.29	$ -	$ -	$ 9,729,706.66
Land improvements and infrastructure	35,104,473.32	940,859.20	643,752.43	62,689.92	36,626,395.03
Buildings	185,279,533.57	13,430,057.40	28,772,596.59	-	227,482,187.56
Equipment	15,559,469.02	1,394,214.98	-	564,143.07	16,389,540.93
Library holdings	3,695,392.31	146,536.60	-	428,418.68	3,413,510.23
Intangible assets	2,389,851.44	-	-	-	2,389,851.44
Projects in progress	30,176,952.87	13,589,325.53	(29,416,349.02)	-	14,349,929.38
Total	281,629,285.90	29,807,087.00	-	1,055,251.67	310,381,121.23
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	10,706,983.06	1,634,532.62	-	16,543.43	12,324,972.25
Buildings	69,250,377.84	5,409,927.69	-	-	74,660,305.53
Equipment	9,372,601.20	1,328,015.22	-	488,809.27	10,211,807.15
Library holdings	2,514,691.60	341,351.04	-	428,418.68	2,427,623.96
Intangible assets	1,879,162.87	255,344.29	-	-	2,134,507.16
Total	93,723,816.57	8,969,170.86	-	933,771.38	101,759,216.05
Capital assets, net	$187,905,469.33	$ 20,837,916.14	$ -	$ 121,480.29	$ 208,621,905.18

Note 6. Accounts Payable

Accounts payable at June 30, 2014, included the following:

Vendors payable	$5,827,115.37
Unapplied student payments	17,822.39
Total accounts payables	$5,844,937.76

Note 7. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 56,584,997.74	$ 29,328,654.00	$ 1,633,156.78	$ 84,280,494.96	$ 2,127,451.01
Unamortized bond premium/discount	4,254,572.09	2,565,386.70	293,353.21	6,526,605.58	-
Commercial paper	24,808,515.74	-	24,808,515.74	-	-
Revolving credit facility	-	18,121,229.71	8,011,484.26	10,109,745.45	-
Subtotal	85,648,085.57	50,015,270.41	34,746,509.99	100,916,845.99	2,127,451.01
Other liabilities:					
Compensated absences	2,580,524.41	2,467,007.25	2,337,402.50	2,710,129.16	832,489.43
Due to grantors	682,228.79	-	90,723.97	591,504.82	-
Subtotal	3,262,753.20	2,467,007.25	2,428,126.47	3,301,633.98	832,489.43
Total long-term liabilities	$ 88,910,838.77	$ 52,482,277.66	$ 37,174,636.46	$104,218,479.97	$ 2,959,940.44

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.35% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2044 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 9 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $320,071.37 at June 30, 2014.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2014, are as follows:

Year Ending June 30	Principal	Interest	Total
2015	$ 2,127,451.01	$ 3,886,173.55	$ 6,013,624.56
2016	2,075,184.27	3,798,455.83	5,873,640.10
2017	2,166,507.65	3,707,674.79	5,874,182.44
2018	2,222,628.35	3,610,503.23	5,833,131.58
2019	2,337,266.08	3,504,157.43	5,841,423.51
2020 – 2024	13,363,962.97	15,737,410.09	29,101,373.06
2025 – 2029	16,617,587.77	12,241,085.86	28,858,673.63
2030 – 2034	17,573,016.31	8,062,765.39	25,635,781.70
2034 – 2039	13,286,484.88	4,577,530.17	17,864,015.05
2040 – 2044	12,510,405.67	1,379,831.65	13,890,237.32
Total	$84,280,494.96	$60,505,587.99	$144,786,082.95

TSSBA Debt – Revolving Credit Facility

The Tennessee State School Bond Authority (TSSBA) receives loans from the revolving credit facility to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and repays the revolving credit facility debt. The amount issued for projects at the university was $10,109,745.45 at June 30, 2014.

Prior to March 20, 2014, TSSBA issued short-term debt in the form of commercial paper. Since March 20, 2014, TSSBA has used the revolving credit facility.

More detailed information regarding the bonds and revolving credit facility can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report is available on the state's website at www.comptroller.tn.gov/tssba/cafr.asp.

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, 2014, net appreciation of $162,414.15 is available to be spent, of which $160,114.15 is included in restricted net position expendable for scholarships and fellowships, and $2,300 is included in restricted net position expendable for other.

Note 9. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $84,280,494.96 in revenue bonds issued from June 2005 to November 2013 (see Note 7 for further detail). Proceeds from the bonds provided financing for dorm renovation, university center equipment, the recreation center, Hand Village, Emerald Hills, the Fort Campbell classroom building, Marion Street Apartments, the housing sprinkler system upgrade, Castle Heights, and new student housing. The bonds are payable through November 2043. Annual principal and interest payments on the bonds are expected to require 4.77% of available revenues. The total principal and interest remaining to be paid on the bonds is $144,786,082.95. Principal and interest paid for the current year and total available revenues were $5,587,549.04 and $123,300,499.61, respectively

Note 10. Pension Plans

<u>Defined Benefit Plans</u>

Tennessee Consolidated Retirement System

<u>Plan description</u> – The State of Tennessee provides a pension plan that covers state and higher education employees. That plan is a part of the Public Employee Retirement Plan, an agent 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 the Public Employee Retirement Plan. That report is available on the state's website at www.treasury.tn.gov/tcrs.

<u>Funding policy</u> – Plan members are noncontributory. The university is required to contribute at an actuarially determined rate. The current rate is 15.03% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees.

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	$3,583,459.14	100%	$0
June 30, 2013	$3,397,023.53	100%	$0
June 30, 2012	$3,143,730.87	100%	$0

Additional information – Information about the funded status of the plan as of the most recent valuation date, information about the actuarial methods and assumptions used in the valuations, and required supplementary information is available in the *Tennessee Comprehensive Annual Financial Report*. A copy of that report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

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, ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company. 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 $2,864,415.92 for the year ended June 30, 2014, and $2,716,710.48 for the year ended June 30, 2013. Contributions met the requirements for each year.

Note 11. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated,* for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated,* 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 plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare Supplement Plan for the university's eligible retirees; see Note 17. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation

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

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs are allocated to plan participants. Retirees in the State Employee Group Plan pay the same base premium, adjusted for years of service, as active employees. Retirees with 30 years of service are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

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

Annual required contribution (ARC)	$ 1,143,000.00
Interest on the net OPEB obligation	180,308.33
Adjustment to the ARC	(175,663.78)
Annual OPEB cost	1,147,644.55
Amount of contribution	(947,345.28)
Increase in net OPEB obligation	200,299.27
Net OPEB obligation – beginning of year	4,507,708.28
Net OPEB obligation – end of year	$ 4,708,007.55

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2014	State Employee Group Plan	$1,147,644.55	82.5%	$4,708,007.55
June 30, 2013	State Employee Group Plan	$1,314,912.90	69.1%	$4,507,708.28
June 30, 2012	State Employee Group Plan	$1,303,771.47	73.2%	$4,101,714.58

Funded Status and Funding Progress

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

State Employee Group Plan	
Actuarial valuation date	July 1, 2013
Actuarial accrued liability (AAL)	$8,615,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$8,615,000.00
Actuarial value of assets as a percentage of the AAL	0.0%
Covered payroll (active plan members)	$50,022,447.08
UAAL as percentage of covered payroll	17.22%

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, 2013, 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 healthcare cost trend rate of 7.5% initially. The rate decreased to 7.0% in fiscal year 2015 and then reduces by decrements to an ultimate rate of 4.19% in fiscal year 2044. 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. Payroll is assumed to grow at a rate of 3.0%.

Note 12. 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 earthquakes 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 year ended June 30, 2014, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). 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, 2014, the Risk Management Fund held $116.3 million in cash designated for payment of claims.

At June 30, 2014, the scheduled coverage for the university was $440,039,200 for buildings and $67,417,200 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 13. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $16,739,710.18 at June 30, 2014.

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 $24,200 for the year ended June 30, 2014. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2014, outstanding commitments under construction contracts totaled $10,327,007.77 for the underground electrical update, mechanical systems update, the Governor's Stadium renovation, fine arts improvements, an animal science center, ADA adaptations, and new student housing, of which $2,359,054.14 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 14. Chairs of Excellence

The university had $12,521,595.33 on deposit at June 30, 2014, 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 15. Funds Held in Trust by Others

The university is a beneficiary under the Gracey trust. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $136,764 from these funds during the year ended June 30, 2014.

Note 16. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2014, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 34,012,923.20	$ 10,699,467.53	$ 6,652,027.93	$ -	$ -	$ 51,364,418.66
Research	863,797.86	366,145.23	581,988.65	-	-	1,811,931.74
Public service	714,148.63	251,325.72	274,594.25	-	-	1,240,068.60
Academic support	5,667,779.18	2,115,973.89	567,960.42	-	-	8,351,713.49
Student services	7,672,583.48	3,256,022.80	5,806,186.34	-	-	16,734,792.62
Institutional support	6,396,695.47	2,584,667.75	4,354,915.83	-	-	13,336,279.05
Maintenance & operation	2,746,321.85	1,247,006.19	6,384,587.25	-	-	10,377,915.29
Scholarships & fellowships	-	-	-	19,906,106.67	-	19,906,106.67
Auxiliary	1,427,221.24	400,256.70	4,602,895.18	-	-	6,430,373.12
Depreciation	-	-	-	-	8,969,170.86	8,969,170.86
Total	$ 59,501,470.91	$ 20,920,865.81	$ 29,225,155.85	$ 19,906,106.67	$ 8,969,170.86	$ 138,522,770.10

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 $3,159,660.83 were reallocated from academic support to the other functional areas.

Note 17. On-behalf Payments

During the year ended June 30, 2014, the State of Tennessee made payments of $57,458 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 18. Component Unit

The Austin Peay State University Foundation is a legally separate, tax-exempt organization supporting Austin Peay State University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 144-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, 2014, the foundation made distributions of $2,089,241.99 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, Accounting Services, PO Box 4635, Clarksville, TN 37044.

Fair-value Measurements

The foundation reports certain assets and liabilities at fair value. Fair value has been determined using quoted prices in active markets for identical assets and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair-value measurements for assets and liabilities at June 30, 2014.

	Total Fair Value at June 30, 2014	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Money market funds	$ 216,717.63	$ 216,717.63	$ -	$ -
Certificates of deposit	100,432.53	-	100,432.53	-
Marketable equity securities	6,291,834.54	6,291,834.54	-	-
Mutual funds	12,815,990.80	12,815,990.80	-	-
Life insurance	90,341.87	-	90,341.87	-
Total assets	$ 19,515,317.37	$ 19,324,542.97	$ 190,774.40	$ -

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, 2014, were as follows:

	Cost	Fair Value
Certificates of deposit	$ 100,432.53	$ 100,432.53
Corporate stock	4,994,352.63	6,291,834.54
Mutual bond funds	2,930,058.35	3,225,959.60
Mutual equity funds	4,978,332.10	8,355,927.69
Money market funds	216,717.63	216,717.63
Mixed asset mutual funds	1,136,809.19	1,234,103.51
Life insurance	-	90,341.87
Total investments	$14,356,702.43	$19,515,317.37

Pledges Receivable

Pledges receivable at June 30, 2014, are summarized below net of the allowance for doubtful accounts:

Current pledges	$ 63,196.45
Pledges due in one to five years	1,429,896.49
Pledges due after five years	12,530,762.00
Subtotal	14,023,854.94
Less discount to net present value	(5,740,433.09)
Total pledges receivable, net	$ 8,283,421.85

Capital Assets

Capital assets at June 30, 2014, were as follows:

Land	$ 1,536,140.62
Equipment	22,627.08
Total	1,558,767.70
Less accumulated depreciation:	
Equipment	13,870.21
Total	13,870.21
Capital assets, net	$ 1,544,897.49

Endowments

The Austin Peay State University Foundation's endowments consist of 183 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net position 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 position (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 position is classified as temporarily restricted net position until the foundation appropriates those amounts for expenditure 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 Position Class
as of June 30, 2014

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$ 16,921,049.51	$ 5,359,072.44	$ (12,969.00)	$ 22,267,152.95
Total funds	$ 16,921,049.51	$ 5,359,072.44	$ (12,969.00)	$ 22,267,152.95

Changes in Endowment Net Position
for the Fiscal Year Ended June 30, 2014

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$ 15,817,028.38	$ 3,916,769.92	$ (5,654.89)	$ 19,728,143.41
Investment return:				
Investment income	-	229,266.07	-	229,266.07
Net appreciation (realized and unrealized)	-	2,196,321.86	(7,314.11)	2,189,007.75
Total investment return		2,425,587.93	(7,314.11)	2,418,273.82
Contributions	865,450.72	110,300.00	-	975,750.72
Appropriations of endowment assets for expenditure	-	(304,213.65)	-	(304,213.65)
Transfers	238,570.41	(789,371.76)	-	(550,801.35)
Endowment net position, end of year	$ 16,921,049.51	$ 5,359,072.44	$ (12,969.00)	$ 22,267,152.95

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 position. 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, 2014, deficiencies of this nature totaled $12,969.00.

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 historical dollar value of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. 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 portfolio's average market value for the trailing twelve 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.

Support From Austin Peay State University

During fiscal year 2014, the university paid certain payroll costs amounting to $61,203.29 for university personnel who also performed services supporting the foundation. These supporting costs paid by the university are reflected in the statement of revenues, expenses, and changes in net position as University Support, with a like amount included in expenses. The university provides office space and the use of certain common facilities and services to the foundation at no cost. These costs have not been recorded as University Support because they are not considered to be significant to the operations of the foundation.

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

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, 2013	State Employee Group Plan	$ -	$8,615,000	$8,615,000	0%	$50,022,447	17.22%
July 1, 2011	State Employee Group Plan	$ -	$9,831,000	$9,831,000	0%	$42,481,356	23.14%
July 1, 2010	State Employee Group Plan	$ -	$12,961,000	$12,961,000	0%	$40,813,948	31.76%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

Tennessee Board of Regents

AUSTIN PEAY STATE UNIVERSITY FOUNDATION

Supplementary Schedule of Cash Flows - Component Unit

For the Year Ended June 30, 2014

Cash Flows from Operating Activities	
Gifts and contributions	$ 2,006,067.75
Payments to suppliers and vendors	938,712.33
Payments for scholarships and fellowships	(1,007,831.30)
Payments to Austin Peay State University	(1,719,493.31)
Other receipts (payments)	221,941.05
Net cash provided by operating activities	439,396.52
Cash Flows from Noncapital Financing Activities	
Private gifts for endowment purposes	638,237.32
Net cash provided by noncapital financing activities	638,237.32
Cash Flows from Capital and Related Financing Activities	
Proceeds from sale of capital assets	189,106.61
Purchases of capital assets and construction	(6,264.08)
Net cash provided by capital and related financing activities	182,842.53
Cash Flows from Investing Activities	
Proceeds from sales and maturities of investments	4,479,711.24
Income on investments	319,215.05
Purchases of investments	(6,474,177.68)
Other investing receipts (payments)	808,087.10
Net cash used by investing activities	(867,164.29)
Net increase in cash	393,312.08
Cash - beginning of year	6,068,420.37
Cash - end of year	$ 6,461,732.45
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$ (582,540.67)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	874.41
Endowment income per spending plan	(304,213.65)
Pledges and gifts in-kind	299,325.18
Changes in assets and liabilities:	
Receivables, net	(17,062.77)
Accounts payable	1,043,014.02
Net cash provided by operating activities	$ 439,396.52
Noncash investing, capital, or financing transactions	
Unrealized gains on investments	$ 2,055,678.80
Loss on disposal of capital assets	$ (45,168.46)

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

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Alisa White, President

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, 2014, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated December 4, 2014. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the university's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the university's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the university's financial statements are free from 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 *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 4, 2014