Tennessee Board of Regents
Austin Peay State University

For the Year Ended
June 30, 1999

Arthur A. Hayes, Jr., CPA, JD, CFE
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Editor

February 24, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles E. Smith, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Sherry Hoppe, Interim President
Austin Peay State University
Clarksville, Tennessee 37044

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Austin Peay State University, for the year ended June 30, 1999. You will note from the independent auditor's report that an unqualified opinion was 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,

John G. Morgan
Comptroller of the Treasury

JGM/ks
99/088

State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit
Austin Peay State University
For the Year Ended June 30, 1999

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 1999

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 1999

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Austin Peay State University. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Austin Peay State University began as a two-year junior college and teacher-training institution. Created by an act of the General Assembly in 1927, the institution was named Austin Peay Normal School in honor of Governor Austin Peay. On February 4, 1943, the General Assembly changed the name to Austin Peay State College. In 1967, the State Board of Education conferred university status on the college.

The university grants the degrees of Associate of Applied Science, Associate of Science, Bachelor of Arts, Bachelor of Business Administration, Bachelor of Fine Arts, Bachelor of Science, Bachelor of Science in Education, Bachelor of Science in Nursing, Master of Arts, Master of Music, Master of Arts in Education, and Education Specialist.

ORGANIZATION

The governance of Austin Peay State University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 1998, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1999, and for comparative purposes, the year ended June 30, 1998. Austin Peay State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

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

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

4. to recommend appropriate actions to correct any deficiencies.

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

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on June 24, 1999. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the university has corrected previous audit findings concerning Pell awards not being recalculated when students did not begin attending some of their classes, and concerning significant numbers of unbilled long-distance calls that were made and not detected promptly.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 1999, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

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

TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

Tennessee Code Annotated, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. Austin Peay State University did not file its compliance report and implementation plan by June 30, 1999, in violation of this statutory requirement.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity, is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that Austin Peay State University is not in compliance with the federal law.

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

October 29, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

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, as of and for the year ended June 30, 1999, and have issued our report thereon dated October 29, 1999. Our report was unqualified. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

We noted certain less significant instances of noncompliance, which we have reported to the university's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ks

Independent Auditor's Report

October 29, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of Austin Peay State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1999, and June 30, 1998, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Austin Peay State University, as of June 30, 1999, and June 30, 1998, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 14, Austin Peay State University implemented GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* which requires certain investments be reported at fair value.

The Year 2000 Disclosures on page 32 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the university is or will become year 2000 compliant, that the university's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the university does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 1999, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ks

Exhibit A

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

ASSETS	June 30, 1999	June 30, 1998
Current funds:		
Unrestricted:		
General:		
Cash (Note 2)	$ 3,976,896.40	$ 3,182,261.43
Investments (Note 3)	1,000,000.00	1,000,000.00
Accrued interest receivable	35,199.22	39,227.40
Accounts receivable (net of allowance of $223,601.01 at June 30, 1999, and $122,614.72 at June 30, 1998)	898,744.84	810,671.00
Inventories	167,869.98	171,741.70
Prepaid expenses and deferred charges	43,647.34	27,677.96
Due from agency funds	127,732.04	-
Total general	6,250,089.82	5,231,579.49
Auxiliary enterprises		
Cash (Note 2)	557,814.70	440,391.50
Accounts receivable (net of allowance of $171,782.03 at June 30, 1999, and $49,187.31 at June 30, 1998)	232,552.67	228,676.70
Inventories	1,017,699.92	947,328.40
Other assets	17,584.51	34,726.68

LIABILITIES AND FUND BALANCES	June 30, 1999	June 30, 1998
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 717,727.61	$ 579,133.32
Accrued liabilities	1,395,009.21	1,388,425.31
Student deposits	16,300.00	15,620.00
Deferred revenue	730,989.10	601,925.56
Compensated absences	1,274,418.56	1,086,334.48
Other liabilities	7,375.11	5,344.37
Total liabilities	4,141,819.59	3,676,783.04
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	910,847.71	815,444.54
Allocation for encumbrances	905,811.63	510,273.41
Allocation for stipulation settlement	25,528.31	8,789.27
Discretionary allocations:		
Allocation for subsequent budget	920,000.00	840,000.00
Athletic revenue contingency	45,294.35	45,099.33
Student activity fee carry forward	101,171.62	124,087.28
Technology access fee carry forward	217,328.42	37,901.72
Allocation for compensated absences	(1,274,418.56)	(1,086,334.48)
Unallocated	256,706.75	259,535.38
Total fund balances	2,108,270.23	1,554,796.45
Total general	6,250,089.82	5,231,579.49
Auxiliary enterprises:		
Liabilities:		
Accounts payable	67,925.99	11,856.37
Accrued liabilities	14,176.80	13,521.94
Student deposits	111,200.00	106,500.00
Deferred revenue	27,213.34	25,533.34
Long-term obligations	17,324.51	34,726.68
Compensated absences	41,638.09	43,785.54
Total liabilities	279,478.73	235,923.87
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	1,254,322.59	1,180,075.00
Allocation for encumbrances	545.45	767.00
Discretionary allocation:		
Allocation for contingencies	238,447.15	229,782.13
Allocation for compensated absences	(41,638.09)	(43,785.54)
Unallocated	94,495.97	48,360.82
Total fund balances	1,546,173.07	1,415,199.41

Exhibit A (Cont.)

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

ASSETS	June 30, 1999	June 30, 1998
Total auxiliary enterprises	1,825,651.80	1,651,123.28
Total unrestricted	8,075,741.62	6,882,702.77
Restricted:		
Cash (Note 2)	612,980.13	1,053,832.37
Accrued interest receivable	-	18,436.73
Accounts and grants receivable	669,373.03	348,983.38
Total restricted	1,282,353.16	1,421,252.48
Total current funds	$ 9,358,094.78	$ 8,303,955.25
Loan funds:		
Cash (Note 2)	$ 30,231.65	$ 31,942.72
Notes receivable (net of allowance of $454,051.79 at June 30, 1999, and $477,403.16 at June 30, 1998)	1,518,630.86	1,504,839.61
Accrued interest receivable	112,816.74	101,004.39
Total loan funds	$ 1,661,679.25	$ 1,637,786.72
Endowment and similar funds:		
Cash (Note 2)	$ 841,275.06	$ 919,315.79
Investments (Note 3)	2,220,667.54	2,086,647.64
Accrued interest receivable	15,916.16	-
Accounts and notes receivable	-	16,811.40
Total endowment and similar funds	$ 3,077,858.76	$ 3,022,774.83
Plant funds:		
Unexpended plant		
Cash (Note 2)	$ 2,254,981.95	$ 1,965,398.01
Accounts receivable	1,094.27	-
LGIP deposit - capital projects	41,479.91	120,539.51
Other assets	1,050.00	300.00
Total unexpended plant	2,298,606.13	2,086,237.52

LIABILITIES AND FUND BALANCES	June 30, 1999	June 30, 1998
Total auxiliary enterprises	1,825,651.80	1,651,123.28
Total unrestricted	8,075,741.62	6,882,702.77
Restricted:		
Liabilities:		
Accounts payable	41,449.66	31,172.95
Accrued liabilities	31,794.13	25,861.79
Total liabilities	73,243.79	57,034.74
Fund balance	1,209,109.37	1,364,217.74
Total restricted	1,282,353.16	1,421,252.48
Total current funds	$ 9,358,094.78	$ 8,303,955.25
Loan funds:		
Liabilities:		
Accounts payable	$ -	$ 892.10
Fund balances:		
U.S. government grants refundable	1,284,163.21	1,278,226.69
Institutional funds:		
Restricted - matching	150,340.03	149,000.92
Restricted - other	52,507.91	52,507.91
Unrestricted	174,668.10	157,159.10
Total fund balance	1,661,679.25	1,636,894.62
Total loan funds	$ 1,661,679.25	$ 1,637,786.72
Endowment and similar funds:		
Fund balance:		
Endowment	$ 2,553,986.05	$ 2,349,496.64
Quasi endowment - restricted	523,872.71	673,278.19
Total endowment and similar funds	$ 3,077,858.76	$ 3,022,774.83
Plant funds:		
Unexpended plant		
Liabilities:		
Accounts payable	$ 13,424.70	$ 284.18
Fund balances:		
Unrestricted	2,285,181.43	2,085,953.34
Total unexpended plant	2,298,606.13	2,086,237.52

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

ASSETS	June 30, 1999	June 30, 1998
Renewals and replacements:		
Cash (Note 2)	1,911,074.90	1,851,555.32
Accounts receivable	-	7,971.93
Total renewals and replacements	1,911,074.90	1,859,527.25
Retirement of indebtedness		
Cash (Note 2)	1,374,386.63	1,008,504.85
Accrued interest receivable	3,952.95	6,025.27
Other assets	4,000.00	4,000.00
Total retirement of indebtedness	1,382,339.58	1,018,530.12
Investment in plant:		
Land	2,679,944.13	2,553,064.53
Buildings	48,368,297.45	48,313,776.45
Improvements other than buildings	4,361,396.25	4,361,396.25
Equipment	13,488,561.78	12,697,710.40
Library books	15,228,096.00	15,047,472.00
Livestock	23,125.00	19,780.00
Construction in progress	16,341,980.37	1,526,485.58
Other library holdings	2,701,068.00	2,660,076.00
Total investment in plant	103,192,468.98	87,179,761.21
Total plant funds	$ 108,784,489.59	$ 92,144,056.10
Agency funds:		
Nonfoundation funds:		
Cash (Note 2)	$ -	$ 429,934.54
Accounts receivable	369,979.22	6,132.11
Total nonfoundation funds	369,979.22	436,066.65
Foundation funds:		
Cash (Note 2)	982,556.48	454,377.51
Investments (Note 3)	2,883,615.34	2,726,743.35
Accrued interest receivable	22,617.12	21,994.22
Accounts and notes receivable	895.00	-
Cash value of life insurance policies	45,986.33	42,385.97
Total foundation funds	3,935,670.27	3,245,501.05
Total agency funds	$ 4,305,649.49	$ 3,681,567.70

LIABILITIES AND FUND BALANCES	June 30, 1999	June 30, 1998
Renewals and replacements:		
Accounts payable	6,774.33	3,818.13
Fund balance:		
Unrestricted	1,904,300.57	1,855,709.12
Total renewals and replacements	1,911,074.90	1,859,527.25
Retirement of indebtedness		
Accrued interest payable	50,522.91	51,131.47
Fund balances:		
Unrestricted	1,331,816.67	967,398.65
Total fund balances	1,331,816.67	967,398.65
Total retirement of indebtedness	1,382,339.58	1,018,530.12
Investment in plant:		
Liabilities:		
Notes payable (Note 5)	248,097.34	282,995.78
Commercial paper payable (Note 5	2,704,196.77	235,198.64
Long-term obligations	39,508.19	78,938.70
TSSBA indebtedness (Note 5)	4,142,869.85	4,556,489.05
Total liabilities	7,134,672.15	5,153,622.17
Net investment in plant	96,057,796.83	82,026,139.04
Total investment in plant	103,192,468.98	87,179,761.21
Total plant funds	$ 108,784,489.59	$ 92,144,056.10
Agency funds:		
Nonfoundation funds:		
Accounts payable	$ 1,148.00	$ 519.08
Due to current unrestricted funds	127,732.04	-
Deposits held in custody for others	241,099.18	435,547.57
Total nonfoundation funds	369,979.22	436,066.65
Foundation funds:		
Liabilities:		
Accounts payable	975.00	-
Deposits held in custody for others	3,934,695.27	-
Assets held in custody for foundation	-	3,245,501.05
Total foundation funds	3,935,670.27	3,245,501.05
Total agency funds	$ 4,305,649.49	$ 3,681,567.70

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

Exhibit B

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1999

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
REVENUES AND OTHER ADDITIONS								
Current fund revenues	$ 45,862,849.36	$ 47,101.40	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	4,768,943.02	-	-	-	-	-	-	-
State appropriations	-	744,900.00	-	-	15,013,599.08	-	-	-
Federal grants and contracts	-	6,313,699.19	15,261.00	-	-	-	-	-
State grants and contracts	-	769,421.11	-	-	-	-	-	-
Local grants and contracts	-	142,500.00	-	-	-	-	-	-
Private gifts, grants, and contracts	-	551,809.06	-	55,780.89	-	-	-	-
Investment income	-	37,518.55	525.72	29,049.85	128.26	44,018.65	52,814.71	-
Net increase in the fair value of investments	-	-	-	134,615.99	-	-	-	-
Interest on loans receivable	-	-	50,035.50	-	-	-	-	-
Reduction in doubtful accounts	-	-	23,351.37		-	-	-	-
Endowment income	-	175,758.57	-	-	-	-	-	-
Tennessee State School Bond Authority debt proceeds	-	-	-	-	2,468,998.13	-	1,099,307.15	-
Student debt service fees	-	-	-	-	-	-	-	-
Equipment use charges	-	-	-	-	-	509,320.00	-	-
Expended for plant facilities (including $1,463,428.59	-							
charged to current fund expenditures)	-	-	-	-	-	-	-	16,971,874.99
Retirement of indebtedness	-	-	-	-	-	-	-	1,547,717.59
Other (Note 9)	-	77,145.55	18,930.45	-	59,080.52	154.00	-	118,701.51
Total revenues and other additions	50,631,792.38	8,859,853.43	108,104.04	219,446.73	17,541,805.99	553,492.65	1,152,121.86	18,638,294.09
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	44,052,246.77	8,840,970.84	-	-	-	-	-	-
Auxiliary enterprise expenditures	3,900,357.29	308.99	-	-	-	-	-	-
Indirect costs recovered	-	123,815.41	-	-	-	-	-	-
Refunded to grantors	-	14,710.90	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	53,143.72	-	-	-	-	-
Administrative and collection costs	-	-	35,262.69	-	-	-	-	-
Provision for doubtful accounts	-	-	-	-	-	-	-	-
Expended for plant facilities (including noncapitalized expenditures of $3,441,087.31)	-	-	-	-	18,349,615.54	599,918.17	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,547,717.59	-
Interest on indebtedness	-	-	-	-	-	-	307,173.68	-
Disposal of plant assets	-	-	-	-	-	-	-	739,994.60
Library holding revaluation	-	-	-	-	-	-	-	296,988.62
Increase in indebtedness	-	-	-	-	-	-	-	3,568,198.08
Other (Note 9)	-	19,834.73	-	4.13	-	-	91.44	1,455.00
Total expenditures and other deductions	47,952,604.06	8,999,640.87	88,406.41	4.13	18,349,615.54	599,918.17	1,854,982.71	4,606,636.30

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1999

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)								
Mandatory:								
Principal and interest	(681,037.06)	-	-	-	-	-	681,037.06	-
Loan fund matching grant	(5,087.00)	-	5,087.00	-	-	-	-	-
Nonmandatory:								
Principal and interest	(986,241.81)	-	-	-	-	-	-	-
Unrestricted current funds	(50,000.00)	-	-	-	-	-	-	-
Auxiliaries	50,000.00	-	-	-	-	-	-	-
Endowment and similar funds	-	(15,320.93)	-	15,320.93	-	-	-	-
Unexpended plant	(135,800.00)	-	-	(179,679.60)	1,007,037.64	(91,558.04)	(600,000.00)	-
Renewals and replacements	(186,575.01)	-	-	-	-	186,575.01	-	-
Retirement of Indebtedness	-	-	-	-	-	-	986,241.81	-
Total transfers	(1,994,740.88)	(15,320.93)	5,087.00	(164,358.67)	1,007,037.64	95,016.97	1,067,278.87	-
Net increase (decrease) for the year	684,447.44	(155,108.37)	24,784.63	55,083.93	199,228.09	48,591.45	364,418.02	14,031,657.79
Fund balances at beginning of the year	2,969,995.86	1,364,217.74	1,636,894.62	3,022,774.83	2,085,953.34	1,855,709.12	967,398.65	82,026,139.04
Fund balance at end of year	$ 3,654,443.30	$ 1,209,109.37	$ 1,661,679.25	$ 3,077,858.76	$ 2,285,181.43	$ 1,904,300.57	$ 1,331,816.67	$ 96,057,796.83

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

Exhibit C

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
REVENUES AND OTHER ADDITIONS								
Current fund revenues	$ 41,545,561.27	$ 47,667.40	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	4,595,642.60	-	-	-	-	-	-	-
State appropriations	-	726,380.00	-	-	484,312.63	-	-	-
Federal grants and contracts	-	5,476,128.24	15,720.00	-	-	-	-	-
State grants and contracts	-	834,094.56	-	-	-	-	-	-
Private gifts, grants, and contracts	-	474,315.37	-	44,567.86	40,000.00	-	-	-
Investment income	-	38,732.59	1,766.13	40,823.68	3,408.30	47,475.82	96,111.00	-
Net increase in the fair value of investments	-	-	-	189,770.98	-	-	-	-
Interest on loans receivable	-	-	37,514.33	-	-	-	-	-
Endowment income	-	248,758.78	-	-	-	-	-	-
Tennessee State School Bond Authority debt proceeds	-	-	-	-	211,102.87	-	-	-
Student debt service fees	-	-	-	-	-	-	1,117,442.39	-
Equipment use charges	-	-	-	-	-	404,274.36	-	-
Expended for plant facilities (including	-							
$1,517,485.44 charged to current fund expenditures)	-	-	-	-	-	-	-	2,448,358.22
Retirement of indebtedness	-	-	-	-	-	-	-	405,966.82
Other (Note 9)	-	76,256.68	17,505.60	-	-	-	-	39,430.51
Total revenues and other additions	46,141,203.87	7,922,333.62	72,506.06	275,162.52	738,823.80	451,750.18	1,213,553.39	2,893,755.55
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	41,077,058.08	7,721,117.06	-	-	-	-	-	-
Auxiliary enterprise expenditures	3,781,251.72	2,359.45	-	-	-	-	-	-
Indirect costs recovered	-	101,281.20	-	-	-	-	-	-
Refunded to grantors	-	17,299.92	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	52,801.29	-	-	-	-	-
Administrative and collection costs	-	-	49,769.34	-	-	-	-	-
Provision for doubtful accounts	-	-	53,131.49	-	-	-	-	-
Expended for plant facilities (including noncapitalized expenditures of $811,439.60)	-	-	-	-	1,239,944.54	502,367.84	-	-
Retirement of indebtedness	-	-	-	-	-	-	405,966.82	-
Interest on indebtedness	-	-	-	-	-	-	318,448.31	-
Disposal of plant assets	-	-	-	-	-	-	-	983,307.75
Library holding revaluation			-	-	-	-	-	200,730.65
Increase in indebtedness	-	-	-	-	-	-	-	211,102.87
Other	-	6.04	180.48	105.82	-	-	385.24	4,654.00
Total expenditures and other deductions	44,858,309.80	7,842,063.67	155,882.60	105.82	1,239,944.54	502,367.84	724,800.37	1,399,795.27

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)								
Mandatory:								
Principal and interest	(525,718.68)	-	-	-	-	-	525,718.68	-
Loan fund matching grant	(5,240.00)	-	5,240.00	-	-	-	-	-
Nonmandatory								
Endowment and similar funds	-	(17,204.82)	-	17,204.82	-	-	-	-
Unexpended plant funds	(137,000.00)	-	-	(152,110.29)	1,129,110.29	-	(840,000.00)	-
Renewals and replacements	(183,486.57)	-	-	-	-	183,486.57	-	-
Total transfers	(851,445.25)	(17,204.82)	5,240.00	(134,905.47)	1,129,110.29	183,486.57	(314,281.32)	-
Net increase (decrease) for the year	431,448.82	63,065.13	(78,136.54)	140,151.23	627,989.55	132,868.91	174,471.70	1,493,960.28
Fund balance at beginning of year	2,538,547.04	1,301,152.61	1,715,031.16	2,804,343.03	1,457,963.79	1,722,840.21	792,926.95	81,738,915.63
Cumulative effect of change in accounting principle	-	-	-	78,280.57	-	-	-	(1,206,736.87)
Fund balance at beginning of year as restated	2,538,547.04	1,301,152.61	1,715,031.16	2,882,623.60	1,457,963.79	1,722,840.21	792,926.95	80,532,178.76
Fund balance at end of year	$ 2,969,995.86	$ 1,364,217.74	$ 1,636,894.62	$ 3,022,774.83	$ 2,085,953.34	$ 1,855,709.12	$ 967,398.65	$ 82,026,139.04

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

Exhibit D

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1999

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 16,848,524.32	$ 38,065.60	$ 16,886,589.92
State appropriations	27,443,600.00	744,900.00	28,188,500.00
Federal grants and contracts	153,885.15	6,197,055.71	6,350,940.86
State grants and contracts	1,436.65	767,854.87	769,291.52
Local grants and contracts	-	117,690.66	117,690.66
Private gifts, grants, and contracts	19,001.78	791,535.36	810,537.14
Sales and services of educational activities	684,991.62	-	684,991.62
Sales and services of auxiliary enterprises	4,768,943.02	308.99	4,769,252.01
Endowment income	-	183,868.64	183,868.64
Other sources	711,409.84	-	711,409.84
Total current revenues	50,631,792.38	8,841,279.83	59,473,072.21
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	22,152,791.85	303,737.53	22,456,529.38
Research	527,136.44	1,174,692.88	1,701,829.32
Public service	753,067.30	970,986.62	1,724,053.92
Academic support	3,916,738.48	209,113.02	4,125,851.50
Student services	7,043,207.82	763,482.75	7,806,690.57
Institutional support	4,675,240.18	52,763.72	4,728,003.90
Operation and maintenance of plant	4,100,474.79	40,278.48	4,140,753.27
Scholarships and fellowships	883,589.91	5,325,915.84	6,209,505.75
Total educational and general expenditures	44,052,246.77	8,840,970.84	52,893,217.61
Mandatory transfers:			
Loan fund matching grant	5,087.00	-	5,087.00
Principal and interest	130,000.00	-	130,000.00
Nonmandatory transfers:			
Unexpended plant	135,800.00	-	135,800.00
Renewals and replacements	50,000.00	-	50,000.00
From auxiliary enterprises	(50,000.00)	-	(50,000.00)
Principal and interest	986,241.81	-	986,241.81
Total educational and general expenditures and transfers	45,309,375.58	8,840,970.84	54,150,346.42
Auxiliary enterprises:			
Expenditures	3,900,357.29	308.99	3,900,666.28
Mandatory transfer:			
Principal and interest	551,037.06	-	551,037.06
Nonmandatory transfers:			
Renewals and replacements	136,575.01	-	136,575.01
To educational and general	50,000.00	-	50,000.00
Total auxiliary enterprises	4,637,969.36	308.99	4,638,278.35
Total expenditures and transfers	49,947,344.94	8,841,279.83	58,788,624.77
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	18,573.60	18,573.60
Refunds to grantors	-	(14,710.90)	(14,710.90)
Indirect costs recovered	-	(123,815.41)	(123,815.41)
Transfers to endowment and similar funds	-	(15,320.93)	(15,320.93)
Other deductions	-	(19,834.73)	(19,834.73)
Net increase (decrease) in fund balance	$ 684,447.44	$ (155,108.37)	$ 529,339.07

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

Exhibit E

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1998

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 12,758,047.90	$ 37,800.87	$ 12,795,848.77
State appropriations	25,558,800.00	726,380.00	26,285,180.00
Federal grants and contracts	144,149.93	5,397,141.38	5,541,291.31
State grants and contracts	14,967.20	790,756.66	805,723.86
Private gifts, grants, and contracts	2,914.62	576,600.89	579,515.51
Sales and services of educational activities	2,407,578.26	-	2,407,578.26
Sales and services of auxiliary enterprises	4,595,642.60	2,359.45	4,598,002.05
Endowment income	-	192,437.26	192,437.26
Other sources	659,103.36	-	659,103.36
Total current revenues	46,141,203.87	7,723,476.51	53,864,680.38
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	20,737,149.76	343,038.36	21,080,188.12
Research	545,320.61	955,498.93	1,500,819.54
Public service	608,423.21	1,015,673.76	1,624,096.97
Academic support	3,586,543.78	76,353.69	3,662,897.47
Student services	6,723,225.33	497,737.20	7,220,962.53
Institutional support	4,303,816.45	53,882.71	4,357,699.16
Operation and maintenance of plant	3,669,730.99	2,425.96	3,672,156.95
Scholarships and fellowships	902,847.95	4,776,506.45	5,679,354.40
Total educational and general expenditures	41,077,058.08	7,721,117.06	48,798,175.14
Mandatory transfers:			
Loan fund matching grant	5,240.00	-	5,240.00
Nonmandatory transfers:			
Unexpended plant	137,000.00	-	137,000.00
Renewals and replacements	50,000.00	-	50,000.00
From auxiliary enterprises	(150,000.00)	-	(150,000.00)
Total educational and general expenditures and transfers	41,119,298.08	7,721,117.06	48,840,415.14
Auxiliary enterprises:			
Expenditures	3,781,251.72	2,359.45	3,783,611.17
Mandatory transfer:			
Principal and interest	525,718.68	-	525,718.68
Nonmandatory transfers:			
Renewals and replacements	133,486.57	-	133,486.57
To educational and general	150,000.00	-	150,000.00
Total auxiliary enterprises	4,590,456.97	2,359.45	4,592,816.42
Total expenditures and transfers	45,709,755.05	7,723,476.51	53,433,231.56
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	198,857.11	198,857.11
Refunds to grantors	-	(17,299.92)	(17,299.92)
Indirect costs recovered	-	(101,281.20)	(101,281.20)
Transfers to other funds	-	(17,204.82)	(17,204.82)
Other deductions	-	(6.04)	(6.04)
Net increase (decrease) in fund balance	$ 431,448.82	$ 63,065.13	$ 494,513.95

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

Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements
June 30, 1999, and June 30, 1998

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The university is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements of the university have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The university uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements of the university have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest and equipment renewal and replacement; and (3) nonmandatory transfers, for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the university maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the university retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include housing, bookstore, food service, post office, and telephone service resale operations. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Term endowment funds are similar to endowment funds, except that after a stated period of time or a particular event, all or part of the principal may be expended. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties; and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the university acts solely as an agent; consequently, transactions of these funds do not affect the university's operating statements.

LGIP Deposit – Capital Projects

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

Inventories

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

Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. The university has adopted a policy of capitalizing all interest costs funded by Tennessee State School Bond Authority indebtedness. All other interest costs are expensed. Library books are valued at $48 per volume, and other library holdings are valued at various standardized values which approximate current costs. Livestock is valued at estimated market value. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the university charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

Austin Peay State University Foundation

The university is the sole beneficiary of the Austin Peay State University Foundation. This private, nonprofit foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are handled by the university, and the assets and liabilities of the foundation are included in the agency funds on the university's balance sheet.

NOTE 2. DEPOSITS

The bank balances of certain deposits including accrued interest as of the balance sheet dates were entirely insured or collateralized with securities held by the university's agent in the university's name. The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits.

The university's remaining deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The university also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 3. INVESTMENTS

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. The Austin Peay State University Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 2 to determine the adequacy of collateral security pledged.

The university's/foundation's investments are categorized below to indicate the level of risk assumed by the university/foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university/foundation or its agent in the university's/foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's/counterparties' trust department or agent in the university's/ foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the university's/foundation's name.

June 30, 1999	Reported Amount	Fair Value
Investments not susceptible to credit risk categorization:		
Mutual funds	$ 4,992,230.37	$ 4,992,230.37
Certificates of deposit classified as investments	1,112,052.51	1,112,052.51
Total investments on the balance sheet	$ 6,104,282.88	$ 6,104,282.88

June 30, 1998	Reported Amount	Fair Value
Category 1:		
Corporate stocks	$ 10,829.00	$ 10,829.00
Investments not susceptible to credit risk categorization:		
Mutual funds	$4,689,913.39	$4,689,913.39
Certificates of deposit classified as investments	1,112,648.60	1,112,648.60
Total investments on the balance sheet	$5,813,390.99	$5,813,390.99

Investments of endowment and similar funds are composed of the following:

	Carrying Value	
	June 30, 1999	June 30, 1998
Mutual funds	$2,220,667.54	$2,086,647.64
	$2,220,667.54	$2,086,647.64

Assets of endowment funds are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit market value at the beginning of the calendar quarter within which the transaction takes place. Of the total units, each having a market value of $3,069.77, all units (723.399) were owned by endowment funds at June 30, 1999.

The following tabulation summarizes changes in relationships between cost and market values of the pooled assets:

	Pooled Assets		Net Gains	Market Value
	Market	Cost	(Losses)	Per Unit
End of year	$2,220,667.54	$1,800,000.00	$420,667.54	$3,069.77
Beginning of year	$2,086,647.64	$1,800,000.00	286,647.64	2,884.50
Unrealized net gains			134,019.90	185.27
Realized net gains			-	-
Total net gains			$134,019.90	$ 185.27

The average annual earnings per unit, exclusive of net gains, were $581.52 for the year.

NOTE 4. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1999, amounted to $116,340.62 for unexpended plant and $4,230.87 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1998, amounted to $250,649.67 for unexpended plant and $125,677.55 for renewals and replacements.

NOTE 5. NOTES PAYABLE, BONDS PAYABLE, AND TSSBA INDEBTEDNESS

The Tennessee Board of Regents, on behalf of Austin Peay State University, signed promissory notes in fiscal year 1994 in the amount of $420,977 for the purchase of the Two Rivers Apartments. The note, payable monthly, bears an annually adjusted interest rate that will be not less than 3.5% or greater than 7.5% and is due serially to August 1, 2005. The balance owed by the university was $248,097.34 at June 30, 1999, and $282,995.78 at June 30, 1998.

Bond issues, with interest rates ranging from 4% to 6.75% for Tennessee State School Bond Authority bonds are due serially to May 2015 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority reported on the balance sheet is shown net of assets held by the authority in the debt service reserve. The reserve amount was $481,012.70 at June 30, 1999, and $698,484.61 at June 30, 1998.

The university's debt service requirements to maturity for all bonds payable at June 30, 1999, are as follows:

Year Ending June 30	Principal	Interest	Total
2000	$ 449,414.17	$ 250,564.79	$ 699,978.96
2001	468,547.44	230,718.84	699,266.28
2002	374,741.33	207,497.09	582,238.42
2003	399,602.13	182,839.34	582,441.47
2004	418,333.21	161,892.64	580,225.85
2005-20	2,280,328.91	747,667.98	3,027,996.89
	$4,390,967.19	$1,781,180.68	$6,172,147.87

During the year, there was a change in the amount of TSSBA indebtness due to a bond refunding initiated by the TSSBA.

The Tennessee State School Bond Authority also authorized the issuance of commercial paper to finance the costs of various capital projects. The amount issued for projects at the university was $2,704,196.77 at June 30, 1999, and $235,198.64 at June 30, 1998.

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

NOTE 6. PENSION PLANS

A. Defined Benefit Plans

1. Tennessee Consolidated Retirement System

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

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

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 5.43% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 1999, 1998, and 1997, were $730,834.56, $456,369.75, and $934,961.80. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans for the year ended June 30, 1999, was $1,331,405.40 and for the year ended June 30, 1998, was $1,253,925.62. Contributions met the requirements for each year.

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 8. CHAIRS OF EXCELLENCE

The university had $7,648,348.07 on deposit at June 30, 1999, and $6,697,976.02 on deposit at June 30, 1998, with the State Treasurer for the university's Chairs of

Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 9. OTHER ADDITIONS

Other additions on the Statement of Changes in Fund Balances for the year ended June 30, 1999, include $77,145.55 in restricted funds for cost reimbursements which exceeded current year expenditures in restricted activities; $17,509.00 in loan funds for federal reimbursement of loan cancellations; $59,080.52 in unexpended plant for insurance reimbursements for tornado damage repairs; $79,271.00 in investment in plant for equipment trade-ins; and another $39,450.51 in investment in plant for decrease in liability under terms of food service contract.

Other deductions on the Statement of Changes in Fund Balances for the year ended June 30, 1999, include $18,245.41 in restricted funds for excess Chair of Excellence funds returned to the grantor.

Other additions on the Statement of Changes in Fund Balances for the year ended June 30, 1998, include $76,256.68 in restricted funds for cost reimbursements which exceeded current year expenditures in restricted activities; $15,906.00 in loan funds for federal reimbursement of loan cancellations; and $39,450.51 in investment in plant for decrease in liability under terms of food service contract.

NOTE 10. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of $5 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1999, the scheduled coverage for the university was $138,439,900 for buildings and $32,182,686 for contents. At June 30, 1998, the scheduled coverage was $101,340,400 for buildings and $26,320,166 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award 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. Since the university participates in the Claims Award 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 Claims Award Fund.

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

NOTE 11. COMMITMENTS AND CONTINGENCIES

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $9,379,888.24 at June 30, 1999, and $9,050,562.31 at June 30, 1998.

Operating Leases - The university has entered into an operating lease for a building. The lease will probably continue to be required. Expenditures under operating leases for real property were $16,935.48 for the year ended June 30, 1999, and $1,935.48 for the year ended June 30, 1998.

Construction in Progress - At June 30, 1999, outstanding commitments under construction contracts totaled $25,097,169.46 for Science Building, Infrastructure Improvements, University Center Additions, Emerald Hills Renovation, Reroofing Several Buildings, and Tornado Damage Repair Projects, of which $25,055,816.08 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 12. PLEDGES

At June 30, 1999, unrecorded pledges totaled $43,153.00 and were restricted to donor specified uses. The amount pledged for 1999-2000 is $26,042.14; 2000-2001 is $2,499.14; 2001-2002 is $2,499.14; and for years beyond 2001-2002 is $12,112.58. It is not practicable to estimate the net realizable value of such pledges; therefore, they are not reflected in the accompanying financial statements.

NOTE 13. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the Gracey trusts. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $68,361.82 from these funds during the year ended June 30, 1999, and $67,795.91 during the year ended June 30, 1998.

NOTE 14. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 1998, the university implemented GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires reporting at fair value certain investments with a remaining maturity of more than one year at the time of purchase. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning fund balance. It was not practical to restate prior periods since all information necessary to conform to this accounting change was not available and the amounts were immaterial.

During the year ended June 30, 1998, the threshold for capitalizing equipment increased from $500 to $1,000. As a result of the change, equipment decreased by $1,206,736.87.

Tennessee Board of Regents
Austin Peay State University
Required Supplementary Information
Year 2000 Disclosures

The Year 2000 Issue (Y2K) arises because most computer software programs allocate two digits to the data field for year on the assumption that the first digits will be 19. Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc., absent reprogramming. Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software, and could impact the ability to enter data into computer programs and the ability of such programs to correctly process data.

The university has established a Y2K Coordinator to facilitate Y2K remediation efforts. The university has assessed the impact of Y2K on its computer systems and other electronic equipment as of June 30, 1999. Computer systems are defined as both (1) programmed application systems that provide fiscal and administrative services and (2) supporting hardware and software computer systems infrastructure upon which the application systems reside and are processed. Other electronic equipment includes systems and devices other than traditional computer information systems that may utilize embedded chips in their operations.

The university has determined that certain computer systems are critical and certain are supportive. Critical computer systems are those for which there are manual alternatives, but the university would unlikely be able to fully or efficiently perform the functions manually because of the volume of manual activity that would be required. Supportive computer systems are those for which there are manual alternatives and the university expects to be able to perform such functions manually, if necessary.

The university has identified three critical computer application systems: the Financial Records System (FRS), the Human Resource System (HRS), and the Student Information System (SIS). All three have completed the validation/testing stage. This stage is defined as validating and testing the changes that were made during the remediation stage.

The university's mid-level computer system provides the supporting computer systems infrastructure upon which the application systems reside and are processed. The mid-level system represents multiple hardware and software components to include a central processor, workstations, and a network operating system. The university determined that these components are currently in the validation/testing stage.

The university identified other electronic equipment items as critical to conducting operations. The university determined that these systems are currently in the validation/testing stage.

The completion of all stages identified as necessary to address the Y2K issue is not a guarantee that systems and equipment will be year 2000 compliant.

Tennessee Board of Regents
Austin Peay State University
Required Supplementary Information
Year 2000 Disclosures (Cont.)

The university's Y2K initiatives did not result in the commitment of significant financial resources as of the end of the university's reporting period. The university is not aware of any circumstances or costs to achieve Y2K compliance that will have a negative impact on the operations or financial status of the university.