AUDIT REPORT

Tennessee Board of Regents

Austin Peay State University

For the Year Ended
June 30, 2013

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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December 10, 2013

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Timothy L. Hall, 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, 2013. 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 the internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Findings and Recommendations section of this report. The university's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

13/059

Audit Report
Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 2013

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State of Tennessee

Audit Highlights

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, 2013

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

The institution needs to improve its system of internal control for the preparation of the financial statements*
In the current audit, we again found that controls were not adequate to ensure that the financial statements were accurate and information was properly classified (page 45).

The university did not properly report gifts pledged to its foundation
The university understated the pledges receivable of its foundation in the university's financial statements by $7,369,758 (page 46).

The university did not provide adequate information technology controls over the Banner computer system
Management of the university's Office for Information Technology did not design and monitor adequate internal controls over information technology related to its Banner computer system (page 48).

* This finding is repeated from the prior audit.

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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. Timothy L. Hall, 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, 2013, 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, 2013, 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 Matters

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, 2013, and the changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the university implemented Governmental Accounting Standards Board Statement 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2013. 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 13 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 November 14, 2013, 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
November 14, 2013

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, 2013, with comparative information presented for the fiscal year ended June 30, 2012. 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 inflows, 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, 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, and net position at June 30, 2013, and June 30, 2012.

Summary of Net Position (in thousands of dollars)

	2013	2012
Assets:		
Current assets	$ 26,321	$ 26,575
Capital assets, net	187,905	163,386
Other assets	47,947	50,411
Total Assets	262,173	240,372
Liabilities:		
Current liabilities	14,435	14,116
Noncurrent liabilities	91,339	72,124
Total Liabilities	105,774	86,240
Deferred Inflows of Resources:		
Deferred gain on debt refunding	466	-
Total Deferred Inflows of Resources	466	-
Net Position:		
Net investment in capital assets	101,792	96,008
Restricted – nonexpendable	7,727	6,818
Restricted – expendable	4,657	4,737
Unrestricted	41,757	46,569
Total Net Position	$155,933	$154,132

- Capital assets increased due to major projects in progress. The university continued expansion of new residential student housing with the August 2013 opening of a new 400-bed residence hall. Additionally, a new Mathematics and Information Technology building will be completed in the fall of 2013.

- Other assets decreased due to a decrease in cash with the completion of planned projects and a write-off of accounts receivable that were returned uncollectable from collection agencies.

- Noncurrent liabilities increased approximately $19 million because of new debt issued for projects such as the new residential housing.

- Net investments in capital assets increased due to numerous projects related to infrastructure improvements. Completed projects include new parking lots and underground and electrical upgrades.

- The unrestricted net position decreased as a result of the completion of capital projects funded by the university and a decrease in student enrollment during the 2013 academic year.

- On August 1, 2012, the Tennessee State School Bond Authority issued $10.9 million in revenue bonds with an average interest rate of 4.21 percent to advance refund $11.5 million of outstanding 2004 Series bonds with an average interest rate of 4.42 percent. The net proceeds were deposited with an escrow agent to provide for all future debt service payments on the 2004 Series bonds. As a result, the 2004 Series bonds are considered to be defeased and the liability for those bonds has been removed from the university's long-term liabilities.

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, 2013, and June 30, 2012, follows.

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

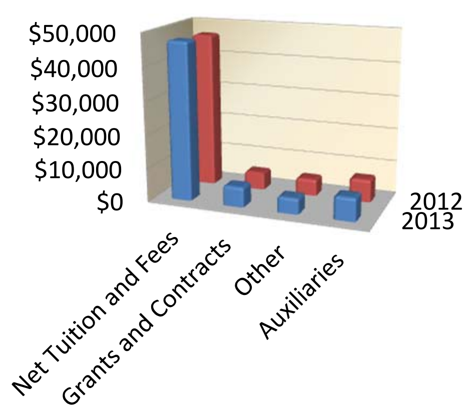
	2013	2012
Operating revenues	$ 65,224	$ 63,790
Operating expenses	131,658	132,332
Operating loss	(66,434)	(68,542)
Nonoperating revenues and expenses	66,256	64,584
Loss before other revenues, expenses, gains, or losses	(178)	(3,958)
Other revenues, expenses, gains, or losses	1,979	1,160
Increase (decrease) in net position	1,801	(2,798)
Net position at beginning of year	154,132	158,167
Prior period adjustment	-	(1,237)
Net position at end of year	$155,933	$154,132

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	Other	Auxiliaries
2013	47,398	6,049	4,776	7,001
2012	46,635	5,271	5,038	6,846

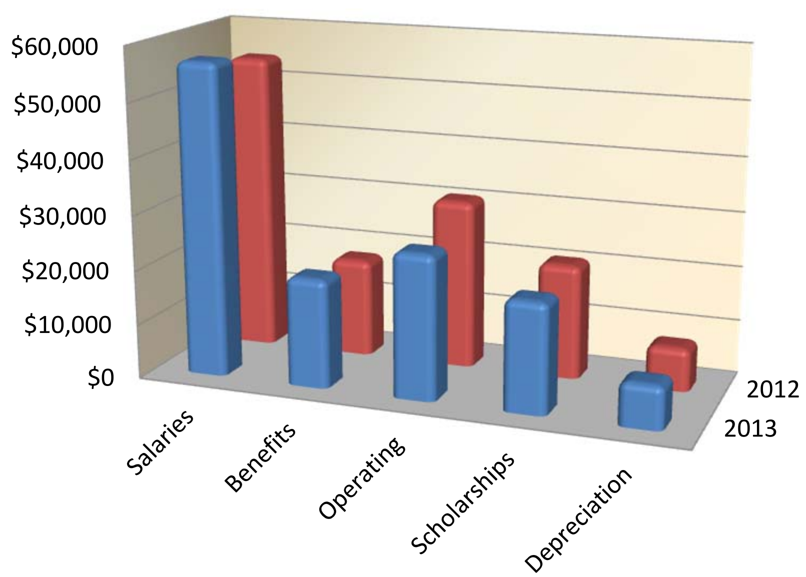
Comparison of FY 2013 to FY 2012

- Operating revenues, which includes net tuition and fees, certain grants and contracts, auxiliaries, and sales and services of other activities, increased because of increased funding in federal and state contracts as well as an increase in net tuition and fees as a result of a fee increase for 2013 of 4.1%.

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:

Expenses by Natural Classification
(in thousands of dollars)



	Salaries	Benefits	Operating	Scholarships	Depreciation
2013	56,959	20,012	26,495	20,241	7,951
2012	54,452	18,034	30,885	21,017	7,944

Comparison of FY 2013 to FY 2012

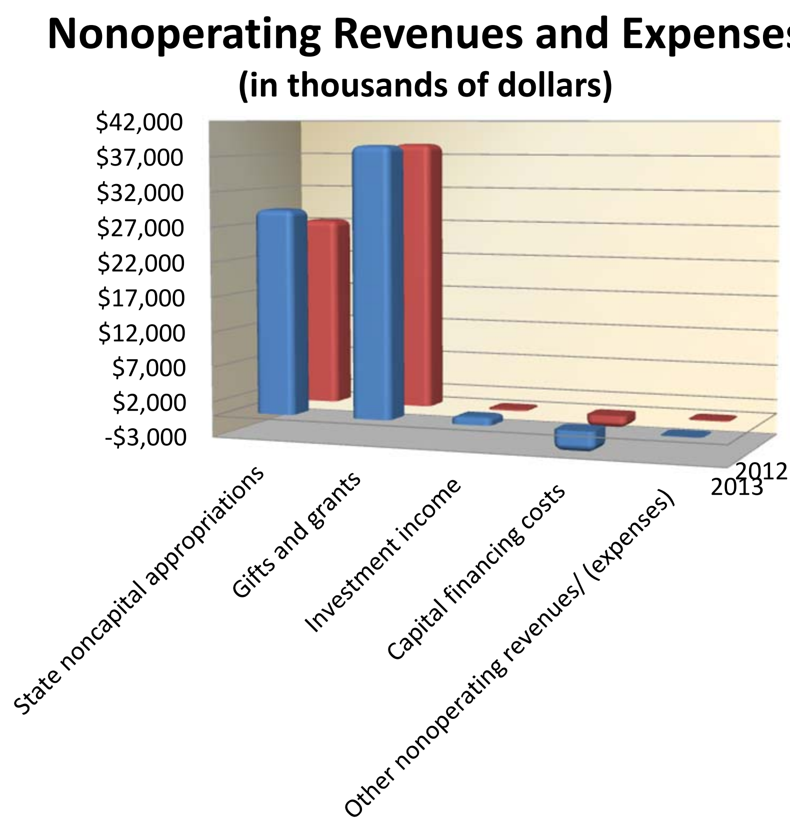
- Salaries increased between the 2013 and 2012 fiscal years due to a system-wide across-the-board increase of 2.5%. Additionally, the university was allowed to fund equity salary increases to the lowest paid faculty and staff.

- Benefits increased as a result of salary increases, and a reclassification of expenses previously reported as scholarship expenses to benefits for Graduate Assistants that receive stipends and scholarships.

- Other maintenance projects completed in the prior year caused a decrease in the current-year operating classification.

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)
2013	29,449	38,652	1,174	(2,955)	(64)
2012	27,213	38,629	298	(1,739)	183

Comparison of FY 2013 to FY 2012

- State appropriations increased due to the new funding formula in Tennessee that funds performance as measured by student retention and graduation, where Austin Peay realized significant increases.

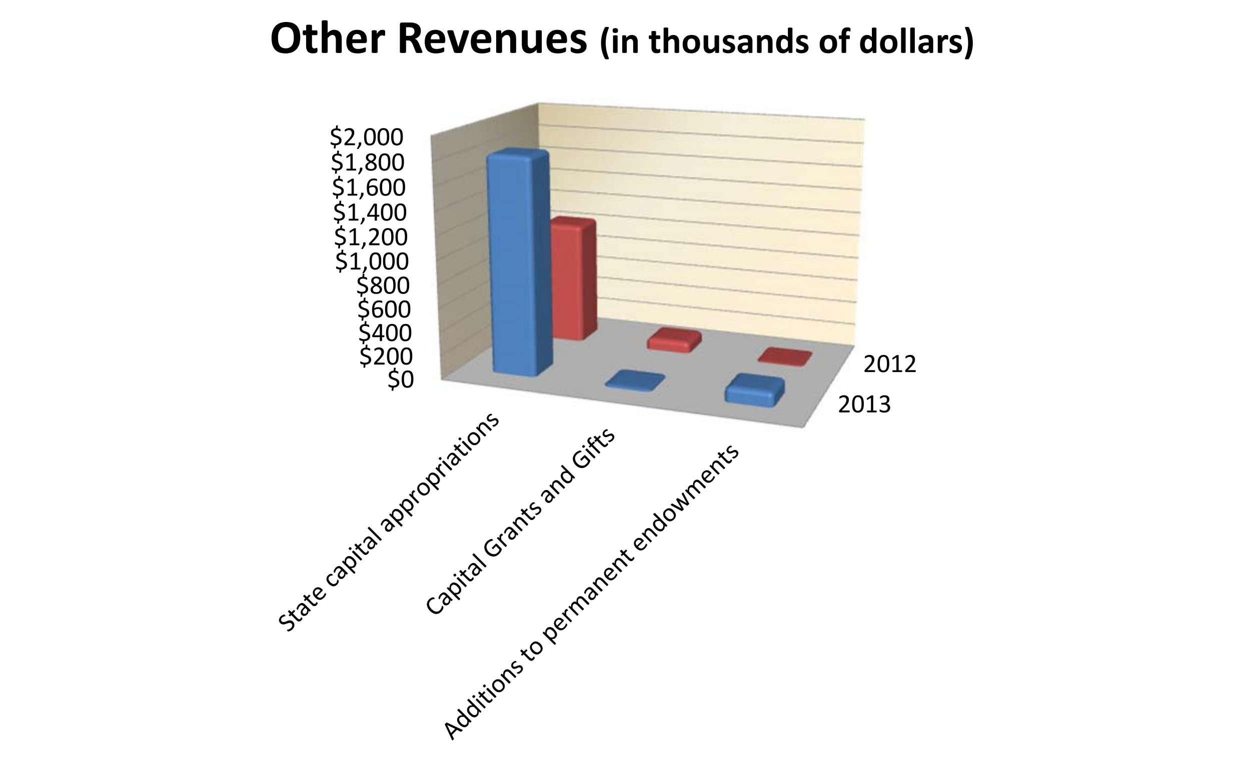
- Investment income increased due to market recoveries and increased amount of endowment funds invested.

- Financing costs increased due principally to the increased amount of financing for capital projects such as the new student residential housing.

- Other nonoperating revenues/expenses decreased due to several equipment disposals including disposal of a telephone switch that cost over $1 million.

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:



	State capital appropriations	Capital Grants and Gifts	Additions to permanent endowments
2013	1,830	23	126
2012	1,047	100	13

Comparison of FY 2013 to FY 2012

- University Advancement continues to create and foster outside endowment giving. This amount naturally fluctuates but, as expected, increases during better economic years.

Capital Assets and Debt Administration

Capital Assets

Austin Peay State University had $187.9 million invested in capital assets, net of accumulated depreciation of $93.7 million at June 30, 2013; and $163.4 million invested in capital assets, net of accumulated depreciation of $87.5 million at June 30, 2012. Depreciation charges totaled $8.0 million and $7.9 million for the years ended June 30, 2013, and June 30, 2012, respectively.

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

	2013	2012
Land	$ 9,424	$ 9,241
Land improvements and infrastructure	24,397	21,262
Buildings	116,028	116,526
Equipment	6,187	6,940
Library holdings	1,181	1,378
Intangible assets	511	767
Projects in progress	30,177	7,272
Total	$187,905	$163,386

Significant additions to capital assets occurred in fiscal year 2013. These additions were from land improvements and infrastructure and projects in progress. Infrastructure improvements increased $3.1 million due to new parking lots and underground electrical upgrades. Projects in progress increased $22.9 million as a result of the new residential housing project and the Maynard Mathematics and Information Technology building.

At June 30, 2013, outstanding commitments under construction contracts totaled $14.2 million for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $291 thousand 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 $60.8 million and $35.6 million in Tennessee State School Bond Authority (TSSBA) bonds and $24.8 million and $31.7 million in TSSBA commercial paper outstanding at June 30, 2013, and June 30, 2012, respectively.

The TSSBA issued bonds with interest rates ranging from 0.18% to 5.00% due serially until May 2042 on behalf of Austin Peay State University. The university is responsible for the debt service of these bonds. The current portion of the $60.8 million outstanding at June 30, 2013, is $1.6 million.

The TSSBA issued commercial paper on behalf of Austin Peay State University. The university is responsible for the debt service of these obligations. The outstanding amount at June 30, 2013, is $24.8 million.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2013, 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 2014, the Tennessee Board of Regents authorized an individual campus fee increase of 3.0% that is expected to generate approximately $1.4 million in new funding, net of related scholarships, with no increase in enrollment. The State of Tennessee legislature approved the Governor's budget, which included an increase of new state funding allocated to higher education. Austin Peay's share of the new funding net of hold-harmless phase-in will be $1.4 million of new funds. 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, 2013

	University	Component Unit
ASSETS		
Current assets:		
Cash (Notes 2 and 18)	$ 19,439,154.81	$ 135,463.22
Short-term investments (Notes 3 and 18)	564,841.51	-
Accounts, notes, and grants receivable (net) (Note 4)	5,716,846.92	19,477.00
Due from primary government	-	927.88
Pledges receivable (net) (Note 18)	-	22,684.22
Inventories	297,197.85	-
Prepaid expenses	192,344.87	-
Accrued interest receivable	110,772.76	22,083.84
Total current assets	26,321,158.72	200,636.16
Noncurrent assets:		
Cash (Notes 2 and 18)	39,686,248.10	5,932,957.15
Investments (Notes 3 and 18)	7,306,489.82	15,839,303.33
Accounts, notes, and grants receivable (net) (Note 4)	953,788.28	173,700.26
Pledges receivable (net) (Note 18)	-	8,316,106.50
Capital assets (net) (Notes 5 and 18)	187,905,469.33	1,773,154.70
Total noncurrent assets	235,851,995.53	32,035,221.94
Total assets	262,173,154.25	32,235,858.10
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	3,391,070.19	2,161.39
Accrued liabilities	2,817,872.03	-
Due to component unit	927.88	-
Student deposits	180,770.00	-
Unearned revenue	4,290,559.27	-
Compensated absences (Note 7)	430,486.11	-
Accrued interest payable	491,606.93	-
Long-term liabilities, current portion (Note 7)	1,648,951.74	-
Deposits held in custody for others	1,182,964.78	-
Total current liabilities	14,435,208.93	2,161.39
Noncurrent liabilities:		
Net OPEB obligation (Note 11)	4,507,708.28	-
Compensated absences (Note 7)	2,150,038.30	-
Long-term liabilities (Note 7)	83,999,133.83	-
Due to grantors (Note 7)	682,228.79	-
Total noncurrent liabilities	91,339,109.20	-
Total liabilities	105,774,318.13	2,161.39
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on debt refunding	465,824.09	-
Total deferred inflows of resources	465,824.09	-
NET POSITION		
Net investment in capital assets	101,791,559.67	1,773,154.70
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	7,611,084.40	15,394,468.11
Research	-	60,207.60
Instructional department uses	4,565.81	73,513.93
Other	111,327.97	288,838.74
Expendable:		
Scholarships and fellowships (Notes 8 and 18)	1,478,175.96	9,905,903.06
Research	722,295.43	28,315.53
Instructional department uses	320,249.63	800,025.34
Loans	37,459.94	-
Other	2,098,996.54	3,379,534.97
Unrestricted	41,757,296.68	529,734.73
Total net position	$ 155,933,012.03	$ 32,233,696.71

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

Tennesee Board of Regents
AUSTIN PEAY STATE UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2013

	University	Component Unit
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $23,698,810.90)	$ 47,397,620.59	$ -
Gifts and contributions	-	4,517,332.34
Endowment income per spending plan	-	266,711.32
Governmental grants and contracts	6,011,420.28	-
Nongovernmental grants and contracts	37,517.00	-
Sales and services of other activities	4,385,465.48	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $2,585,406.42; all residential life revenues are used as security for revenue bonds; see Note 7)	5,170,805.07	-
Bookstore (all bookstore revenues are used as security for revenue bonds; see Note 7)	489,977.97	-
Food service (all food service revenues are used as security for revenue bonds; see Note 7)	613,524.15	-
Wellness facility (net of scholarship allowances of $266,839.94; all wellness facility revenues are used as security for revenue bonds; see Note 7)	543,509.07	-
Other auxiliaries	183,656.81	-
Interest earned on loans to students	30,890.13	-
Other operating revenues	359,565.37	168,076.66
Total operating revenues	65,223,951.92	4,952,120.32
EXPENSES		
Operating expenses (Note 16):		
Salaries and wages	56,959,290.95	-
Benefits	20,011,713.73	-
Utilities, supplies, and other services	26,494,680.07	415,571.04
Scholarships and fellowships	20,241,181.05	739,125.25
Depreciation expense	7,951,264.89	2,711.40
Payments to or on behalf of Austin Peay State University (Note 18)	-	740,603.01
Total operating expenses	131,658,130.69	1,898,010.70
Operating income (loss)	(66,434,178.77)	3,054,109.62
NONOPERATING REVENUES (EXPENSES)		
State appropriations	29,449,221.50	-
Gifts (including $740,603.01 from component unit)	1,272,127.41	-
Grants and contracts	37,379,490.89	-
Investment income (net of investment expense of $20,226.69 for the university and $54,801.08 for the component unit)	1,173,894.06	1,368,857.35
Interest on capital asset-related debt	(2,832,978.25)	-
Bond issuance costs	(121,908.09)	-
Other nonoperating expenses	(63,724.89)	-
Net nonoperating revenues	66,256,122.63	1,368,857.35
Income (loss) before other revenues, expenses, gains, or losses	(178,056.14)	4,422,966.97
Capital appropriations	1,829,674.59	-
Capital grants and gifts	23,482.00	350,000.00
Additions to permanent endowments	126,119.27	5,994,801.88
Total other revenues	1,979,275.86	6,344,801.88
Increase in net position	1,801,219.72	10,767,768.85
NET POSITION		
Net position - beginning of year	154,131,792.31	21,465,927.86
Net position - end of year	$ 155,933,012.03	$ 32,233,696.71

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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 47,952,031.09
Grants and contracts	6,639,334.14
Sales and services of other activities	4,425,168.98
Payments to suppliers and vendors	(25,486,728.51)
Payments to employees	(56,803,744.25)
Payments for benefits	(19,229,317.29)
Payments for scholarships and fellowships	(20,241,181.05)
Interest earned on loans to students	20,314.36
Auxiliary enterprise charges:	
Residence halls	5,229,700.09
Bookstore	426,975.51
Food services	653,223.10
Wellness facility	543,509.07
Other auxiliaries	183,656.81
Net cash used by operating activities	(55,687,057.95)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	29,506,600.00
Gifts and grants received for other than capital or endowment purposes, including $714,551.83 from component unit	37,885,846.38
Private gifts for endowment purposes	126,119.27
Federal student loan receipts	57,459,690.31
Federal student loan disbursements	(56,095,519.00)
Changes in deposits held for others	(1,282,409.94)
Net cash provided by noncapital financing activities	67,600,327.02
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	51,319,341.31
Capital appropriations	1,829,674.59
Purchase of capital assets and construction	(32,574,604.41)
Principal paid on capital debt	(33,049,389.78)
Interest paid on capital debt	(2,240,484.57)
Bond issuance costs paid on new debt	(121,908.09)
Net cash used by capital and related financing activities	(14,837,370.95)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	1,151,962.26
Income on investments	274,225.11
Purchase of investments	(1,033,021.21)
Net cash provided by investing activities	393,166.16
Net decrease in cash	(2,530,935.72)
Cash - beginning of year	61,656,338.63
Cash - end of year	$ 59,125,402.91

Tennessee Board of Regents
AUSTIN PEAY STATE UNIVERSITY
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2013

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (66,434,178.77)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	7,951,264.89
Gifts in-kind	532,188.49
Other adjustments	58,321.58
Change in assets, liabilities, and deferrals:	
Receivables, net	1,053,981.93
Inventories	(6,673.97)
Prepaid expenses	8,283.41
Other assets	(10,575.77)
Accounts payable	141,901.52
Accrued liabilities	604,211.95
Unearned revenue	298,783.39
Deposits	(107,300.00)
Compensated absences	257,516.19
Due to grantors	(34,782.69)
Net cash used by operating activities	$ (55,687,057.85)

Noncash investing, capital, and financing activities	
Gifts in-kind - capital	$ 23,482.00
Unrealized gains on investments	$ 712,213.00
Loss on disposal of capital assets	$ (464,420.96)

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 conformity 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.

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, 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.

These assets, with the exception of land, are depreciated/amortized using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Net 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 related to those capital assets. To the extent debt or deferred inflows of resources 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.

Accounting Change

The university implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* during the year ended June 30, 2013. The effect on the university was the renaming of the residual of all other elements in the statement of financial position as net position, rather than net assets.

Early Implementation of Accounting Pronouncement

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities; it also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. However, the university has elected to implement the provisions of this statement for fiscal year 2013.

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2013, cash consisted of $4,757,549.50 in bank accounts, $14,364.00 of petty cash on hand, $51,218,993.28 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $3,134,496.13 in LGIP deposits for capital projects.

LGIP deposits for capital projects – Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, 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 20, 2013, the university had the following investments and maturities:

Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
			Investment Maturities (in Years)			
U.S. Treasury	$ 183,826.48	$ -	$ 98,286.50	$ 61,672.41	$ 23,867.57	$ -
U.S. agencies	147,373.72	-	33,294.40	15,999.65	98,079.67	-
Corporate stocks	1,895,415.73	-	-	-	-	1,895,415.73
Corporate bonds	343,170.50	32,854.82	133,660.63	76,589.83	24,968.77	75,096.45
Mutual bond funds	1,303,896.90	-	-	-	1,303,896.90	-
Mutual equity funds	3,296,092.03	-	-	-	-	3,296,092.03
Certificates of deposit	594,596.22	594,596.22	-	-	-	-
Money market	106,959.75	106,959.75	-	-	-	-
Total investments	$ 7,871,331.33	$ 734,410.79	$ 265,241.53	$ 154,261.89	$ 1,450,812.91	$5,266,604.21

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; banker's acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. 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 banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the ratings services that have rated the issuer. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods that are under contract of sale or 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, 2013, the university's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
LGIP	$ 54,353,489.41	$ -	$ -	$ -	$ -	$ 54,353,489.41
U.S. agencies	147,373.72	29,171.61	33,294.40	-	-	84,907.71
Corporate bonds	343,170.50	10,732.26	52,039.93	177,789.65	27,512.21	75,096.45
Mutual bond funds	1,303,896.90	-	-	-	-	1,303,896.90
Total	$ 56,147,930.53	$ 39,903.87	$ 85,334.33	$ 177,789.65	$ 27,512.21	$ 55,817,390.47

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The university does not have a policy for custodial credit risk. At June 20, 2013, the university had $2,676,746.18 of uninsured and unregistered investments for which the securities are held by the counterparty and $4,599,988.93 of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the university's name.

Concentration of Credit Risk

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

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

Investments	Fair Value June 30, 2013
Certificates of deposit	$ 29,754.71
Regions Bank Investment Account	2,676,746.18
The Common Fund	4,599,988.93
Total	$ 7,306,489.82

The Certificates of Deposit and the Regions 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 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, 2013, there were a total of 14,110.028 units in the Multi-Strategy Equity Fund, each having a fair value of $233.60, and 88,907.442 units in the Multi-Strategy Bond Fund, each having a fair value of $14.67.

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

FY 2013	Pooled Assets			
	Fair Value	Cost	Net Gains (Losses)	Fair Value Per Unit
Multi-Strategy Equity Fund				
End of year	$3,296,092.03	$1,110,000.00	$2,186,092.03	$ 233.60
Beginning of year	$2,750,443.66	$1,110,000.00	1,640,443.66	194.15
			545,648.37	$ 39.45
Multi-Strategy Bond Fund				
End of year	$1,303,896.90	$1,748,000.00	(444,103.10)	$ 14.67
Beginning of year	$1,308,111.18	$1,748,000.00	(439,888.82)	14.67
			(4,214.28)	$ -
Total net gains			$ 541,434.09	

The average annual earnings (loss) per unit, exclusive of net gains, were $2.954 per unit for the Multi-Strategy Equity Fund and $0.524 per unit for the Multi-Strategy Bond Fund for the year ended June 30, 2013.

Note 4. Receivables

Receivables included the following:

	June 30, 2013
Student accounts receivable	$ 5,094,150.55
Grants receivable	1,110,842.05
Notes receivable	12,542.34
Other receivables	845,219.00
Subtotal	7,062,753.94
Less allowance for doubtful accounts	(1,345,907.02)
Total receivables	$ 5,716,846.92

Federal Perkins Loan Program funds included the following:

	June 30, 2013
Perkins loans receivable	$ 1,290,645.58
Less allowance for doubtful accounts	(336,857.30)
Total	$ 953,788.28

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 9,240,439.89	$ 211,193.48	$ -	$ 28,020.00	$ 9,423,613.37
Land improvements and infrastructure	30,362,486.30	2,472,273.65	2,269,713.37	-	35,104,473.32
Buildings	181,420,238.99	3,542,341.92	316,952.66	-	185,279,533.57
Equipment	16,330,483.28	969,056.20	-	1,740,070.46	15,559,469.02
Library holdings	3,883,107.33	172,245.46	-	359,960.48	3,695,392.31
Intangible assets	2,389,851.44	-	-	-	2,389,851.44
Projects in progress	7,272,355.29	25,568,335.00	(2,586,666.03)	77,071.39	30,176,952.87
Total	250,898,962.52	32,935,445.71	-	2,205,122.33	281,629,285.90
Less accumulated depreciation:					
Land improvements and infrastructure	9,100,561.06	1,606,422.00	-	-	10,706,983.06
Buildings	64,893,807.89	4,356,569.95	-	-	69,250,377.84
Equipment	9,389,952.66	1,363,389.43	-	1,380,740.89	9,372,601.20
Library holdings	2,505,112.86	369,539.22	-	359,960.48	2,514,691.60
Intangible assets	1,623,818.58	255,344.29	-	-	1,879,162.87
Total	87,513,253.05	7,951,264.89	-	1,740,701.37	93,723,816.57
Capital assets, net	$163,385,709.47	$ 24,984,180.82	$ -	$ 464,420.96	$187,905,469.33

Note 6. Accounts Payable

Accounts payable included the following:

	June 30, 2013
Vendors payable	$ 3,381,342.54
Unapplied student payments	9,727.65
Total accounts payables	$ 3,391,070.19

Note 7. Long-term Liabilities

Long-term liabilities activity of the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 34,503,633.13	$ 27,476,908.09	$ 5,395,543.48	$ 56,584,997.74	$ 1,648,951.74
Unamortized bond premium/discount	1,147,297.13	3,485,487.49	378,212.53	4,254,572.09	-
Commercial Paper	31,727,203.78	20,356,945.73	27,275,633.77	24,808,515.74	-
Subtotal	67,378,134.04	51,319,341.31	33,049,389.78	85,648,085.57	1,648,951.74
Other liabilities:					
Compensated absences	2,323,008.22	2,517,570.68	2,260,054.49	2,580,524.41	430,486.11
Due to grantors	717,011.48	-	34,782.69	682,228.79	-
Subtotal	3,040,019.70	2,517,570.68	2,294,837.18	3,262,753.20	430,486.11
Total long-term liabilities	$ 70,418,153.74	$ 53,836,911.99	$ 35,344,226.96	$ 88,910,838.77	$ 2,079,437.85

TSSBA Debt – Bonds

Bonds, with interest rates ranging from .18% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to May 2042 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 $864,351.71 at June 30, 2013. Unexpended debt proceeds were $15,794.96 at June 30, 2013, and were restricted for undergraduate housing.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2013, are as follows:

Year Ending June 30	Principal	Interest	Total
2014	$ 1,648,951.74	$ 2,529,519.93	$ 4,178,471.67
2015	1,664,710.96	2,467,159.45	4,131,870.41
2016	1,602,861.25	2,388,792.37	3,991,653.62
2017	1,681,156.11	2,310,014.81	3,991,170.92
2018	1,719,407.12	2,230,187.95	3,949,595.07
2019 – 2023	9,849,856.62	9,846,043.81	19,695,900.43
2024 – 2028	12,412,949.34	7,332,200.89	19,745,150.23
2029 – 2033	12,881,515.56	4,291,980.34	17,173,495.90
2034 – 2038	7,683,490.00	1,959,933.43	9,643,423.43
2039 – 2042	5,440,099.04	511,984.00	5,952,083.04
Total	$ 56,584,997.74	$ 35,867,816.98	$ 92,452,814.72

TSSBA Debt – Commercial Paper

The Tennessee State School Bond Authority (TSSBA) issues commercial paper 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 redeems the commercial paper. The amount issued for projects at the university was $24,808,515.74 at June 30, 2013.

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

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

Refunding of Debt

On August 1, 2012, the state issued $10,904,169 in revenue bonds with an average interest rate of 4.21% to advance refund $11,458,387.99 of outstanding 2004 Series bonds with an average interest rate of 4.42%. The net proceeds of $11,717,632.25 (after payment of $37,139.42 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the 2004 Series bonds. As a result, the 2004 Series bonds are considered to be defeased, and the liability for those bonds has been removed from the university's long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred gain of $488,006.18 to be amortized over the next 22 years, the university in effect reduced its aggregate debt service payments by $2,114,571.85 over the next 22 years and obtained an economic gain of $2,114,571.85.

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, 2013, net appreciation of $146,608.05 is available to be spent, all of which is included in restricted net position expendable for scholarships and fellowships.

Note 9. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $56,584,997.74 in revenue bonds issued from June 2005 to August 2012 (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, Marion Street Apartments, Castle Heights, the Fort Campbell classroom building, and the housing sprinkler system. The bonds are payable through 2042. Annual principal and interest payments on the bonds are expected to require 3.54% of available revenues. The total principal and interest remaining to be paid on the bonds is $92,452,814.72 Principal and interest paid for the current year and total available revenues were $4,567,695.61 and $114,458,243.60, respectively.

Note 10. Pension Plans

<u>Defined Benefit Plans</u>

Tennessee Consolidated Retirement System

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

Annotated, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

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

Funding Policy – Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 15.03% 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, 2013; June 30, 2012; and June 30, 2011, were $3,397,023.53, $3,143,730.87, and $2,766,516.99, respectively. Contributions met the requirements for each year.

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 $2,716,710.48 for the year ended June 30, 2013, and $2,592,539.89 for the year ended June 30, 2012. Contributions met the requirements for each year.

Note 11. Other Postemployment Benefits

Health care is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated*. Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization plan for health care 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. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, 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)	$ 1,325,000.00
Interest on the net OPEB obligation	164,068.58
Adjustment to the ARC	(174,155.68)
Annual OPEB cost	1,314,912.90
Amount of contribution	(908,919.20)
Increase in net OPEB obligation	405,993.70
Net OPEB obligation – beginning of year	4,101,714.58
Net OPEB obligation – end of year	$ 4,507,708.28

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
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
June 30, 2011	State Employee Group Plan	$1,422,438.94	56.3%	$3,752,596.30

Funded Status and Funding Progress

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

State Employee Group Plan	
Actuarial valuation date	July 1, 2011
Actuarial accrued liability (AAL)	$9,831,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$9,831,000.00
Actuarial value of assets as a percentage of the AAL	0.0%
Covered payroll (active plan members)	$42,481,355.51
UAAL as percentage of covered payroll	23.14%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2011, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual health care cost trend rate of 9.25% initially. The rate decreased to 8.75% in fiscal year 2013 and then reduces by decrements to an ultimate rate of 5% in fiscal year 2021. All rates include a 2.5% inflation assumption, which also represents the projected salary increase. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

Note 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, 2013, 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, 2013, the Risk Management Fund held $108.5 million in cash designated for payment of claims.

At June 30, 2013, the scheduled coverage for the university was $428,278,600 for buildings and $70,579,900 for contents.

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

Note 13. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $16,186,625.58 at June 30, 2013.

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 $32,745.33 for the year ended June 30, 2013. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2013, outstanding commitments under construction contracts totaled $14,188,099.76 for the math and computer science building, new student housing, Meacham Apartment foundation repair, and stadium renovations of which $290,854.29 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 $11,112,458.74 on deposit at June 30, 2013, 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 $106,832 from these funds during the year ended June 30, 2013.

Note 16. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2013, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 32,563,937.69	$ 10,279,348.06	$ 6,492,057.19	$ -	$ -	$ 49,335,342.94
Research	1,013,937.14	355,033.74	549,309.47	-	-	1,918,280.35
Public service	769,971.02	239,813.69	269,545.83	-	-	1,279,330.54
Academic support	5,445,879.93	2,042,893.17	442,611.14	-	-	7,931,384.24
Student services	7,067,160.26	3,034,107.16	6,368,413.16	-	-	16,469,680.58
Institutional support	6,097,944.07	2,455,804.55	2,917,733.15	-	-	11,471,481.77
Maintenance & operation	2,628,331.61	1,193,019.89	5,886,324.12	-	-	9,707,675.62
Scholarships & fellowships	-	-	-	20,241,181.05	-	20,241,181.05
Auxiliary	1,372,129.23	411,693.47	3,568,686.01	-	-	5,352,508.71
Depreciation	-	-	-	-	7,951,264.89	7,951,264.89
Total	$ 56,959,290.95	$ 20,011,713.73	$ 26,494,680.07	$ 20,241,181.05	$ 7,951,264.89	$ 131,658,130.69

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $2,595,672.84 were reallocated from academic support to the other functional areas.

Note 17. On-behalf Payments

During the year ended June 30, 2013, the State of Tennessee made payments of $58,321.50 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit health care plan and is discussed further in Note 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 145-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, 2013, the foundation made distributions of $740,603.01 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Donna Johansen, Business Office, P.O. Box 4635, Clarksville, TN 37044.

Fair-value Measurements

The foundation reports certain assets and liabilities at fair value. Fair value has been determined using quoted prices in active markets for identical assets and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair-value measurements for assets and liabilities at June 30, 2013.

	Total Fair Value at June 30, 2013	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Money market funds	$ 419,461.51	$ 419,461.51	$ -	$ -
Certificates of deposit	100,429.73	-	100,429.73	-
Marketable equity securities	4,844,147.45	4,844,147.45	-	-
Mutual funds	10,384,814.78	10,384,814.78	-	-
Life insurance	90,449.86	-	90,449.86	-
Total assets	$ 15,839,303.33	$ 15,648,423.74	$ 190,879.59	$ -

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, 2013, were as follows:

	Cost	Fair Value
Money market funds	$ 419,435.09	$ 419,461.51
Certificates of deposit	100,429.73	100,429.73
Corporate stock	4,211,684.73	4,844,147.45
Mutual bond funds	3,034,733.28	3,167,847.26
Mutual equity funds	4,229,739.10	6,510,357.32
Mixed asset mutual funds	735,994.15	706,610.20
Life insurance	-	90,449.86
Total investments	$ 12,732,016.08	$ 15,839,303.33

Pledges Receivable

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

	June 30, 2013
Current pledges	$ 25,007.25
Pledges due in one to five years	1,950,353.54
Pledges due after five years	12,538,600.00
Subtotal	14,513,960.79
Less discount to net present value	(6,175,170.07)
Total pledges receivable, net	$ 8,338,790.72

Capital Assets

Capital assets at June 30, 2013, were as follows:

	June 30, 2013
Land	$ 1,769,787.50
Equipment	16,363.00
Total	1,786,150.50
Less accumulated depreciation:	
Equipment	12,995.80
Total	12,995.80
Capital assets, net	$ 1,773,154.70

Endowments

The Austin Peay State University Foundation's endowments consists of 170 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net position associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Board of Trustees of the Austin Peay State University Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as 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, 2013

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$ 15,817,028.38	$ 3,460,167.42	$ (5,654.89)	$ 19,271,540.91
Board-designated endowment funds	-	456,602.50	-	456,602.50
Total funds	$ 15,817,028.38	$ 3,916,769.92	$ (5,654.89)	$ 19,728,143.41

Changes in Endowment Net Position
for the Fiscal Year Ended June 30, 2013

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$ 9,781,229.29	$ 2,396,297.07	$ (29,311.01)	$ 12,148,215.35
Investment return:				
Investment income	-	258,493.24	-	258,493.24
Net appreciation (realized and unrealized)	-	1,084,776.43	23,656.12	1,108,432.55
Total investment return		1,343,269.67	23,656.12	1,366,925.79
Contributions	5,994,801.88	1,170.00	-	5,995,971.88
Appropriations of endowment assets for expenditure	-	(266,711.32)	-	(266,711.32)
Transfers	40,997.21	442,744.50		483,741.71
Endowment net position, end of year	$ 15,817,028.38	$ 3,916,769.92	$ (5,654.89)	$ 19,728,143.41

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, 2013, deficiencies of this nature totaled $5,654.89.

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 as well as board-designated funds. 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 12 quarters ending December 31 multiplied by the spending rate of four percent. 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 three percent annually. This is consistent with the foundation's objective to maintain the historical dollar value of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2011	State Employee Group Plan	$ -	$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%
July 1, 2009	State Employee Group Plan	$ -	$14,121,000	$14,121,000	0%	$39,864,731	35.42%

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

Supplementary Information
AUSTIN PEAY STATE UNIVERSITY FOUNDATION
Supplementary Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	2,205,583.82
Payments to suppliers and vendors		(125,482.79)
Payments for scholarships and fellowships		(739,125.25)
Payments to Austin Peay State University		(714,551.83)
Other receipts (payments)		168,076.66
Net cash provided by operating activities		794,500.61
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes		918,496.49
Net cash provided by noncapital financing activities		918,496.49
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets		288,341.93
Purchase of capital assets and construction		(15,300.00)
Net cash provided by capital and related financing activities		273,041.93
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		3,247,783.04
Income on investments		338,323.59
Purchases of investments		(5,013,717.25)
Other investing receipts (payments)		1,127,912.48
Net cash used by investing activities		(299,698.14)
Net increase in cash		1,686,340.89
Cash - beginning of year		4,382,079.48
Cash - end of year	$	6,068,420.37
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	3,054,109.62
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense		2,711.40
Endowment income per spending plan		(266,711.32)
Pledges and gifts in-kind		(1,961,781.60)
Stock gifts		(39,035.40)
Change in assets, liabilities, and deferrals:		
Accounts receivable		23,783.51
Accounts payable		(18,575.60)
Net cash provided by operating activities	$	794,500.61
Noncash investing, capital, and financing activities		
Gifts in-kind - capital	$	350,000.00
Unrealized gains on investments	$	1,106,167.14
Loss on disposal of capital assets	$	(61,658.07)

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500 JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402

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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. Timothy L. Hall, 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, 2013, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated November 14, 2013. 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 entity's 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified the following deficiencies in internal control that we consider to be material weaknesses:

- The institution needs to improve its system of internal control for the preparation of the financial statements
- The university did not properly report gifts pledged to its foundation
- The university did not provide adequate information technology controls over the Banner computer system

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

Compliance and Other Matters

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

Austin Peay State University's Responses to Findings

The university's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. The university's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

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
November 14, 2013

Findings and Recommendations

<u>1. The institution needs to improve its system of internal control for the preparation of the financial statements</u>

Finding

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

- The unaudited statement of net position incorrectly reported unrestricted net position of $4,159,484 as restricted net position - expendable for debt service. The funds were set aside by management to pay debt service on bonds to be issued during fiscal year 2014. Such designations by management do not meet the definition of restricted net position. *Governmental Accounting Standards Board Codification* (GASB Cod.) 2200.119 defines restricted net position as resources that the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. GASB Cod. 2200.125 defines assignments and commitments as constraints placed on resources by management and states that assignments and commitments should not be reported on the face of the financial statements. The audited statements were corrected.

- The Executive Director of University Advancement misclassified one of 14 foundation endowments tested (7.1%) as a true endowment rather than as a quasi-endowment. The endowment, which was created by the Executive Director for University Advancement on behalf of the foundation's board of trustees, was reported to the Office of Business and Finance as restricted nonexpendable. However, internally created endowments cannot be classified as nonexpendable. The Executive Director stated he was not aware that neither he nor others within the university could create a permanently restricted endowment (i.e., nonexpendable). As a result, restricted nonexpendable net position was overstated and restricted expendable net position was understated by $456,603 on the statement of net position at June 30, 2013. This error also caused similar errors in the university's endowment note disclosures for the foundation. The audited statements and notes were corrected.

- As discussed in finding 2, pledges receivable for the foundation were understated by $7,369,758.

These reporting errors show the need to improve the preparation and review process to minimize the risk of material misstatements in the institution's financial statements and accompanying notes. Management is responsible for the fair presentation of the financial statements and accompanying notes to the financial statements. Not preventing or detecting and correcting material misstatements in the financial statements could adversely affect decisions of the users of the financial statements. In addition, improper classification of endowments results in misleading information concerning whether funds are or are not available for expenditure.

Recommendation

The institution's accounting and supervisory personnel should evaluate and strengthen controls related to the financial statement preparation process to minimize errors in reporting and to ensure proper classification of amounts in the institution's financial statements and notes. Specifically, the Vice President of Business and Finance and the Assistant Vice President for Finance should ensure that thorough reviews are conducted of subordinates' work, including the composition of reported amounts on the financial statements and accompanying notes. Also, the Executive Director for University Advancement and accounting management staff should establish procedures for the correct reporting of gifts pledged to the foundation, as well as correct endowment classification.

Management's Comment

We concur with the finding and recommendation. The institution has implemented a corrective action plan that will correct the problems noted by the auditors. Corrective actions include training in the areas noted as problems for accounting staff, meetings as necessary with the Assistant Vice President of Finance to discuss the implementation and impact of new Governmental Accounting Standards Board pronouncements, review and modification of the year-end task schedule so that draft financial statements are developed with additional time allowed for review prior to being submitted to the Tennessee Board of Regents (TBR). The planned completion of the financial statements will be at least two weeks prior to the TBR submission for the Central Office review.

2. The university did not properly report gifts pledged to its foundation

Finding

Austin Peay State University incorrectly reported the pledges receivable of its foundation in the university's financial statements. The errors were as follows:

- The Office of University Advancement did not include a pledge with a future start date in its listing of outstanding pledges. As a result, a pledge of $330,000 annually for life beginning in 2016 was not reported. *Financial Accounting Standards Board Accounting Standards Codification* (FASB ASC), paragraph 958-310-25-8, states that "an unconditional promise to give shall be recognized when it is received." Pledges receivable and gifts and contributions revenue were understated by $2,486,273, the discounted present value of the gift. The audited statements and notes were corrected.

- The university did not report in its financial statements a gift of $10,000,000 placed in an irrevocable trust in the foundation's name to be paid upon the donor's death. The Office of University Advancement included the gift as a bequest rather than an irrevocable trust on the pledge report provided to the Office of Business and Finance. Bequests are not to be reported on the financial statements; therefore, the gift was not reported. However, FASB ASC 958-605-25-30 states that assets held in trust by others should be recorded by the beneficiary as unconditional promises to give. Pledges receivable and additions to permanent endowments were understated by $5,050,680, the discounted present value of the gift. The audited statements and notes were corrected.

- One of six pledges receivable tested (16.7%) had been paid by the donor prior to June 30, 2013. Because the pledge was paid with a land donation instead of cash, the Office of University Advancement did not reduce the receivable. Therefore, pledges receivable and gifts and contributions were overstated by $167,195. The audited statements and notes were corrected.

Not preventing or detecting and correcting material misstatements could adversely affect decisions made by the users of the financial statements.

Recommendation

The Executive Director of University Advancement should review the pledge report to ensure the inclusion of an accurate and thorough description of all pledges is provided to the Office of Business and Finance. The Assistant Vice President for Finance should inquire about the details of all large gifts pledged and ensure they are fairly presented in accordance with FASB guidance.

Management's Comment

We concur with the finding and recommendation. The University Advancement Office will review the pledge report to ensure all pledges are included and that an accurate and thorough description of all pledges is provided to the Office of Business and Finance.

The Executive Director of Advancement will provide details of all large gifts to the Assistant Vice President of Finance to ensure large gifts are presented in accordance with FASB guidance.

<u>3. The university did not provide adequate information technology controls over the Banner computer system</u>

Finding

Management of the university's Office for Information Technology (OIT) did not design and monitor adequate internal controls over information technology related to its Banner computer system. We observed four conditions that were in violation of university policy and/or industry-accepted best practices. The lack of proper information technology controls across the university's computing environment increases the risk of unauthorized system activity, including fraud or error.

The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the university's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the university with detailed information regarding the four conditions we identified as well as our recommendations for improvement.

Recommendation

The Director of Information Technology should ensure that these four conditions are remedied by the prompt development and implementation of effective information technology controls. In addition, the Director should ensure that risks associated with this finding are adequately identified and assessed in the university's documented risk assessment. The Director should implement effective controls to ensure compliance with applicable requirements, assign staff to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur with the finding and recommendation. The Office of Information Technology is in the process of identifying and implementing a corrective action plan to address the items detected by State Audit.