2009-2010

Financial Report

Austin Peay State University

AUSTIN PEAY STATE UNIVERSITY

FINANCIAL REPORT

For The Year Ended June 30, 2010

Austin Peay State University
Office of the President

November 1, 2010

Mr. John Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

Dear Chancellor Morgan:

Presented herewith is the annual Financial Report for Austin Peay State University for the fiscal year ended June 30, 2010.

Sincerely,

Tim Hall

Timothy L. Hall
President

www.apsu.edu

P.O. Box 4576 • Clarksville, TN 37044 • P: (931) 221-7566 • F: (931) 221-7297

Austin Peay
State University

Finance and Administration

November 1, 2010

Timothy L. Hall, President
Austin Peay State University
Clarksville, Tennessee 37044

Dear President Hall:

Presented herewith is the annual Financial Report for Austin Peay State University for the fiscal year ended June 30, 2010. This report has been prepared in conformity with generally accepted accounting principles as prescribed be the Governmental Accounting Standards Board.

An audit of the University records for the fiscal year ended June 30, 2009 has not yet been completed. An audit of the University records for the fiscal year ended June 30, 2010, has not yet been scheduled.

Sincerely,

Mitch Robinson

Mitch Robinson
Vice President for Finance and Administration

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Austin Peay State University

Financial Report

For Year ended June 30, 2010

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Management's Discussion and Analysis

This section of Austin Peay State University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2010, with comparative information presented for the fiscal year ended June 30, 2009. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on Austin Peay State University as a whole and present a long-term view of the university's finances.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the university at the end of the fiscal year and includes all assets and liabilities of the university. The difference between total assets and total liabilities – net assets – is an indicator of the current financial condition of the university. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the university's equity in property, plant, and equipment owned by the university. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

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

	2010	2009
Assets		
Current assets	$ 26,221	$ 22,910
Capital assets, net	135,941	120,042
Other assets	41,392	38,292
Total Assets	**$ 203,554**	**$ 181,244**
Liabilities		
Current liabilities	$ 12,062	$ 12,950
Noncurrent liabilities	48,689	43,570
Total Liabilities	**$ 60,751**	**$ 56,520**
Net Assets		
Invested in capital assets, net of debt	$ 91,040	$ 79,395
Restricted - nonexpendable	5,695	5,063
Restricted - expendable	6,379	5,794
Unrestricted	39,689	34,472
Total Net Assets	**$ 142,803**	**$ 124,724**

Comparison of FY 2010 to FY 2009

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

- The increase in current assets is due to an increase in cash, which is a result of significant increases in the current and accrued liabilities.

- The increase in capital assets between fiscal years is primarily a result in "green" infrastructure upgrades. These upgrades are expected to result in significant utility saving for the university. Additional detailed information about the university's capital assets is presented in the Capital Asset and Debt Administration section of this report.

- The increase in other assets includes an increase in noncurrent cash due to transfers from unrestricted net assets to plant fund assets.

- Noncurrent liabilities increased between fiscal years due to the issuance of bonds and/or commercial paper by the Tennessee State School Bond Authority (TSSBA) on behalf of the university for various capital projects. Predominantly, the increase was realized in commercial paper obligations used for short-term financing as new student residential housing is being constructed. More detailed information about the university's debt is presented in the Capital Asset and Debt Administration section of this report. Additionally, a significant increase in the Net Other Post Employment Benefits (OPEB) obligation was recognized. More detailed information about the university's Other Post employment Benefits is presented in Note 12 to the financial statements.

- The increase in net capital assets between fiscal years was a result of additions to the university's capitalized assets mentioned hereinabove. Further detailed information about the university's capitalized assets is presented in the Capital Asset and Debt Administration section of this report.

- Restricted – nonexpendable net assets consist of various investments related to endowments. The increase in this fund was due to the changes in market value of the investments.

- Restricted – expendable net assets increased due to the current upward market values of investments for scholarships, as well as an increase in the debt service balance.

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

	2010	2009
Assets		
Current assets	$ 533	$ 442
Capital assets, net	725	747
Other assets	13,903	11,758
Total Assets	**$ 15,161**	**$ 12,947**
Liabilities:		
Current liabilities	$ 13	$ 56
Total Liabilities	**$ 13**	**$ 56**
Net Assets		
Invested in capital assets, net of related debt	$ 725	$ 747
Restricted - nonexpendable	8,932	6,970
Restricted - expendable	4,699	4,626
Unrestricted	792	548
Total Net Assets	**$ 15,148**	**$ 12,891**

Comparison of FY 2010 to FY 2009

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

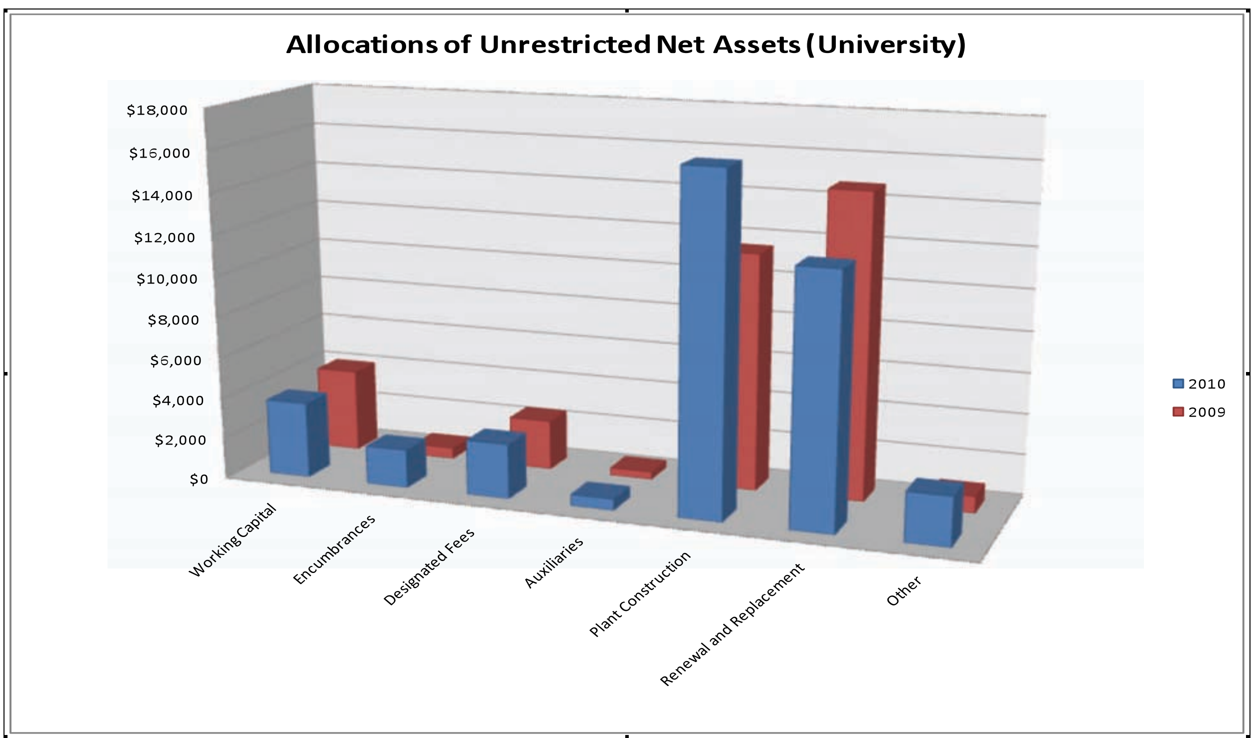
- The component realized significant decreases in current account receivables and pledges. At June 30, 2009, the university had a due-to liability to the component unit because of June 30 deposits and transfers that resulted in the liability. During the 2010 fiscal year, the component unit began affecting its own deposits, resulting in the elimination of these receivables. Fewer current pledges are the reason those receivables decreased. This decrease along with an increase in late gifts resulted in a significant increase in cash, which is the primary reason for the increase in current assets from 2010 to 2009.

- The increase in other assets was due to an increase in the market value of investments held as endowments, and other invested funds because of the rebounding market.

- Current liabilities decreased because of a dramatic decrease in payables due to vendors at June 30.

- Net assets, both nonexpendable and expendable, consist primarily of investments held for student scholarships. Because of the market situation in the previous year, market value gains have been recognized. Additionally, a decision was made to fund scholarships through alternative sources and retaining all income in order to allow underwater endowments to recover. Additional detailed information regarding the foundation's investments is presented in Note 19 to the financial statements.

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



Comparison of FY 2010 to FY 2009

- Encumbrances increased close to year-end due to significant purchases of equipment for “smart” classrooms, and computer labs. These purchases are typically done late in the year to allow installation during the summer months while students are not on campus.

- Plant construction increased significantly due to several significant projects on campus. The construction of a new academic building that will provide classroom, laboratory, and faculty offices for the new chemical engineering program was completed in August 2010. Additionally, the university has been constructing replacement residential housing facilities that will be available for the fall 2011 semester.

- The decrease in renewal and replacement included a transfer to unrestricted net assets and in anticipation of additional classroom needs of the university.

- Between the 2010 and 2009, fiscal year’s additional funds were accumulated in undesignated fund balance in order to provide a required two percent reserve, which caused an increase in Other funds.

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

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

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

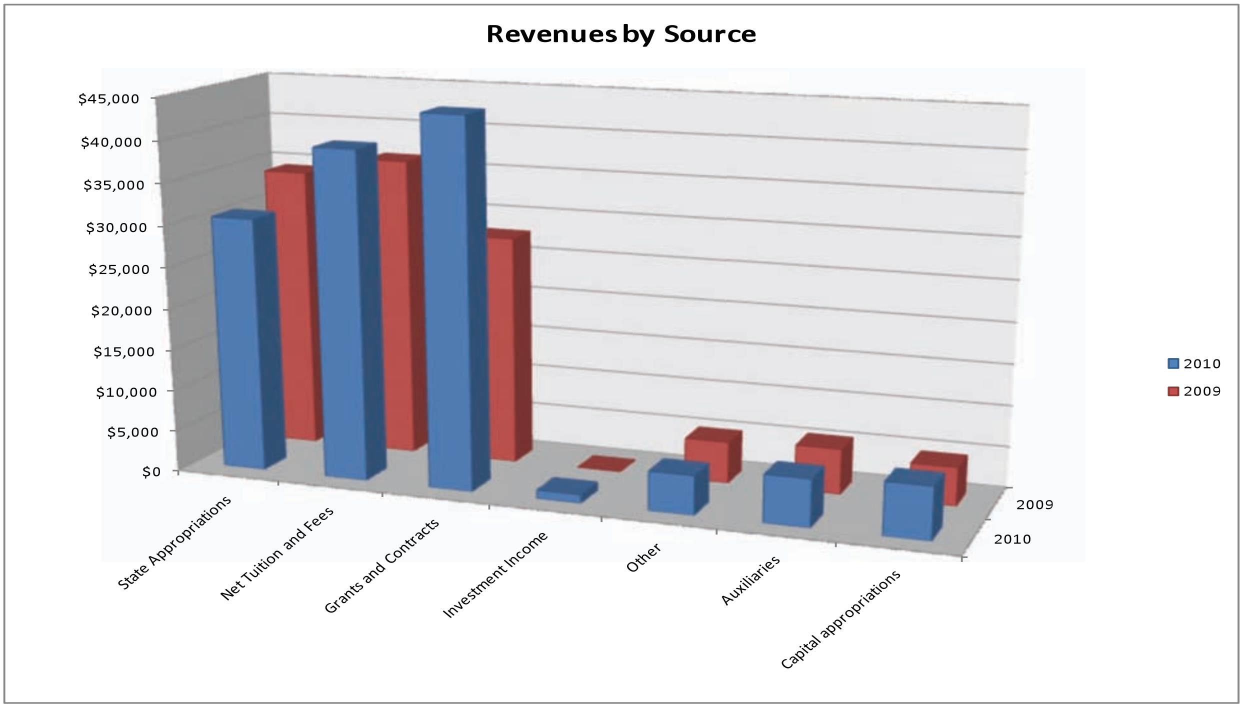
	2010	2009
Operating revenues:		
Net tuition and fees	$ 39,632	$ 36,302
Grants and contracts	5,935	4,764
Auxiliaries	5,719	5,492
Other	3,199	3,568
Total operating revenues	**$ 54,485**	**$ 50,126**
Operating expenses	$ 112,330	$ 108,255
Operating loss	**$ (57,845)**	**$ (58,129)**
Nonoperating revenues and expenses:		
State appropriations	$ 30,729	$ 34,201
Gifts	972	1,041
Grants and contracts	38,244	22,994
Investment income	1,014	35
Other revenues and expenses	(1,347)	(1,322)
Total nonoperating revenues and expenses	**$ 69,612**	**$ 56,949**
Income (loss) before other revenues, expenses, gains, or losses	**$ 11,767**	**$ (1,180)**
Other revenues, expenses, gains, or losses:		
Capital appropriations	$ 6,291	$ 4,639
Capital grants and gifts	21	24
Additions to permanent endowments	-	-
Other	-	-
Total revenues, expenses, gains, or losses	**$ 6,312**	**$ 4,663**
Increase (decrease) in net assets	**$ 18,079**	**$ 3,483**
Net assets at beginning of year	$ 124,724	$ 121,241
Prior period adjustment	-	-
Net assets at end of year	**$ 142,803**	**$ 124,724**

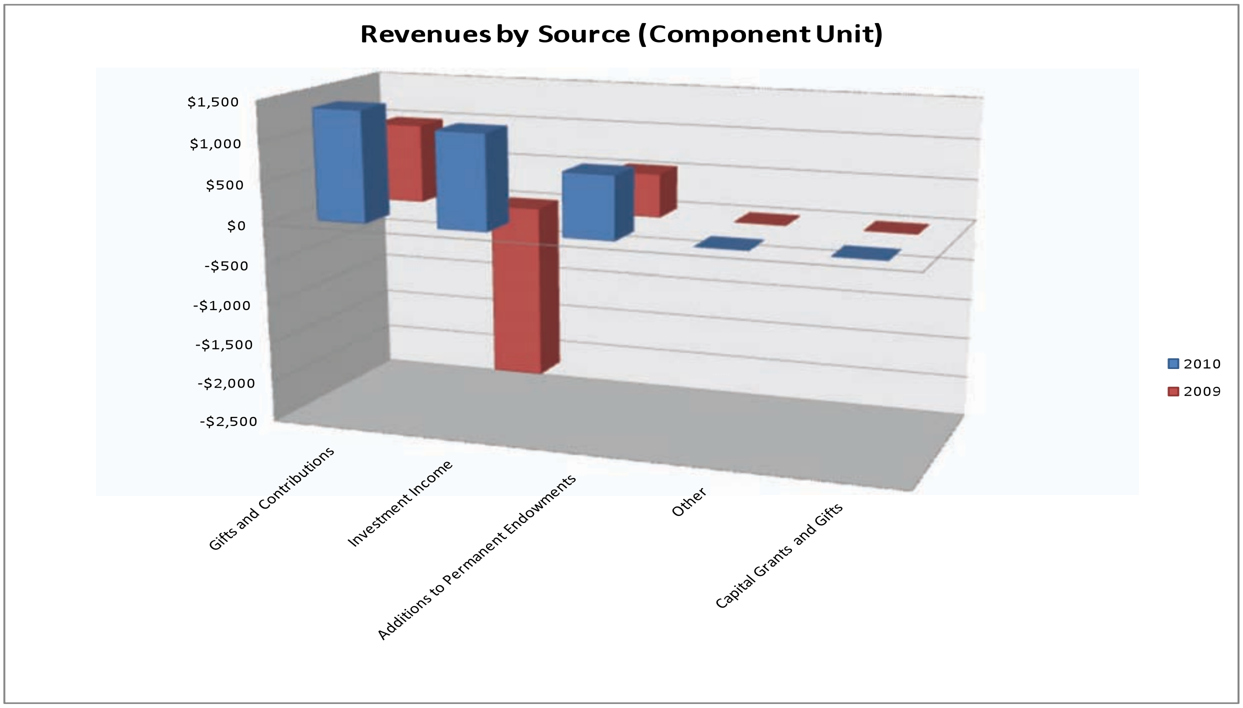
Component Unit
Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	2010	2009
Operating revenues:		
Gifts and Contributions	$ 1,375	$ 978
Other		
Total operating revenues	**$ 1,375**	**$ 978**
Operating expenses	$ 1,070	$ 963
Operating loss	**$ 305**	**$ 15**
Nonoperating revenues and expenses:		
Investment income	$ 1,179	$ (2,163)
Other revenues and expenses		6
Total nonoperating revenues and expenses	**$ 1,179**	**$ (2,157)**
Income (loss) before other revenues, expenses, gains, or losses	**$ 1,484**	**$ (2,142)**
Other revenues, expenses, gains, or losses:		
Capital grants and gifts	$ -	$ -
Additions to permanent endowments	773	533
Other	-	-
Total revenues, expenses, gains, or losses	**$ 773**	**$ 533**
Increase (decrease) in net assets	**$ 2,257**	**$ (1,609)**
Net assets at beginning of year	$ 12,891	$ 14,500
Prior period adjustment	-	-
Net assets at end of year	**$ 15,148**	**$ 12,891**

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the university's operating activities for the years ended June 30, 2010, and June 30, 2009 (amounts are presented in thousands of dollars).





Comparison of FY 2010 to FY 2009

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

- As part of the State's budget cutting measures for the 2010 fiscal year, the university's state operating appropriation amount was reduced ten percent, $3,472,000.

- In order to help with the continued reductions in state funding, Tennessee participated in the American Recovery and Reinvestment Act of 2009 (ARRA) in order to provide bridge funds for additional reductions in state operating funding to the university from the State Fiscal Stimulus Funds (SFSF). These funds are recognized as non-operating grant revenues in the amount of $7,343,000, which along with increases in student grant funding of Pell, and SEOG, from increased student enrollment, caused the increase from 2009 to 2010 in the grant revenues. The university continues to expand, and search for grant opportunities, which resulted in an increase in operating grant revenues as well.

- Net tuition and fee revenue increased from 2009 to 2010 as a result of across-the-board fee increases and removal of the fee cap, which had previously capped all full-time fees at effectively 12 hours for undergraduate, and 10 hours for graduate students. Additionally, an increase of 6.7 percent in full-time student enrollment contributed to the increase.

- Auxiliary unit revenues increased from 2009 to 2010 because of aggressive student success measures that allow students to purchase more books and supplies in the university bookstore. This provides easy and quick access for students to be better prepared for first days of class.

- Other non-operating revenues realized an increase, and other operating realized a decrease due to a better separation of revenues that are from operating activities than those that are not operating.

- Investment income increased from fiscal year 2009 to fiscal year 2010 because endowment investments experienced a recovery in the severe market value losses that occurred during the 2009 fiscal year.

- The increase in capital appropriations from 2009 to 2010 was due to the appropriation of funds for new and renovated facilities. More detailed information about the university's capitalized assets is presented in the Capital Asset and Debt Administration section of this report.

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

- The increase in gifts continues to be the result of an increased focus in soliciting gifts, which resulted in significant gifts of both stock and land over the prior fiscal year. This increase affected the temporarily restricted gifts of the foundation.

- Similar to the university, the component unit experienced an increase in Investment income due to the increase in market values of the endowment investments from the recovery in the severe market value losses that occurred during the 2009 fiscal year.

- The increase in additions to permanent endowments from 2009 to 2010 was due to an increase in bequests to the foundation.

Expenses

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

Natural Classification

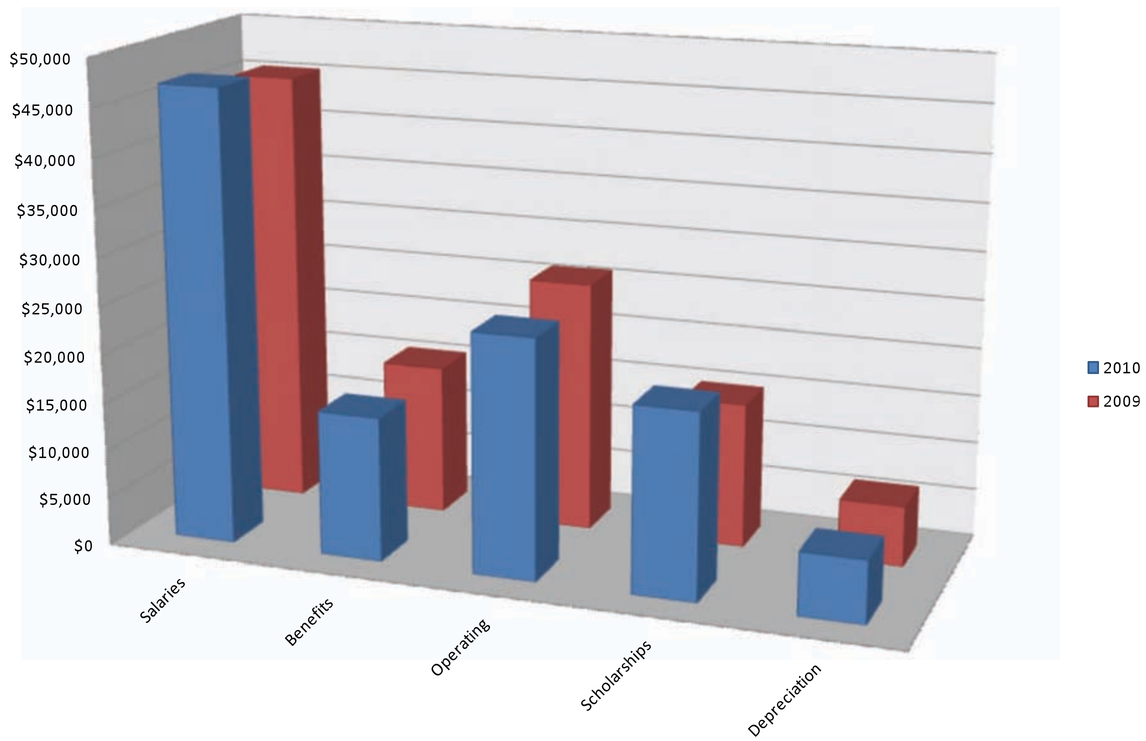
Austin Peay State University
Natural Classification
(in thousands)

	2010	2009
Salaries	$ 46,966	$ 45,327
Benefits	15,010	15,604
Operating	24,736	26,051
Scholarships	19,141	15,060
Depreciation	6,477	6,213
TOTAL	**$ 112,330**	**$ 108,255**

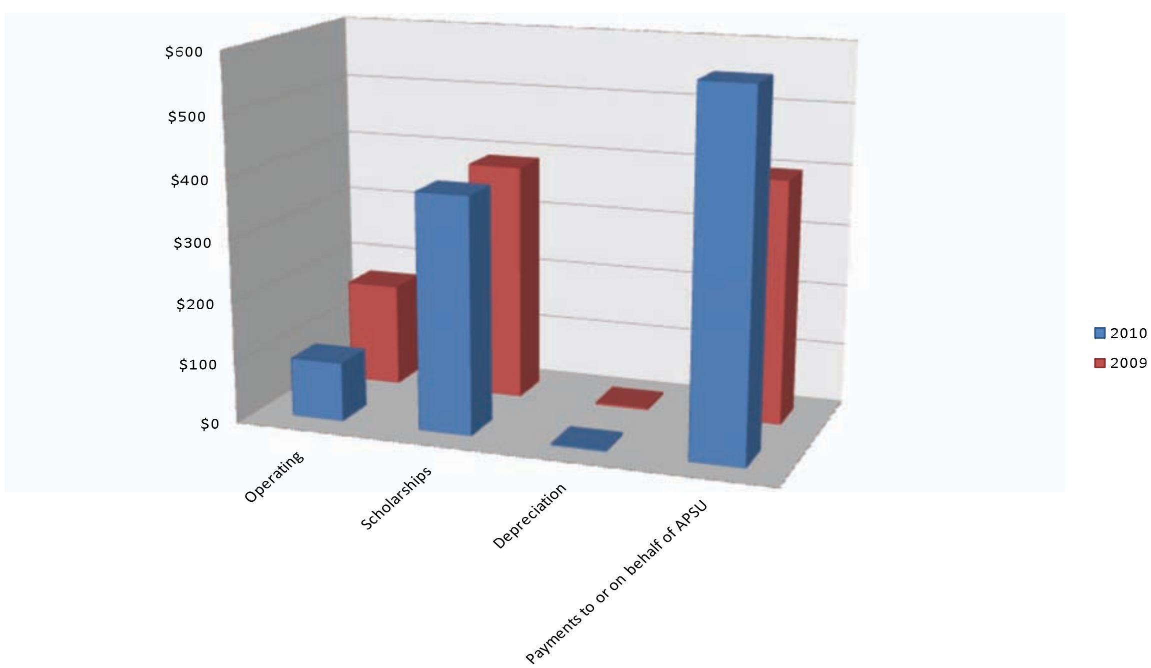
Component Unit
Natural Classification
(in thousands)

	2010	2009
Operating	$ 97	$ 170
Scholarships	387	389
Depreciation	3	4
Payments to or on behalf of Austin Peay State University	583	399
TOTAL	**$ 1,070**	**$ 962**

Expenses by Natural Classification (University)



Expenses by Natural Classification (Component Unit)



Comparison of FY 2010 to FY 2009

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

- The increase in salary expenses from 2009 to 2010 was predominantly due to new faculty positions because of the increase in student enrollment. During both 2009 and 2010, the university did not provide pay increases other than certain classification changes or approved education and certification based increases. No bonuses other than state approved longevity were awarded to employees.

- Benefits decreased due to a benefit holiday in which insurance premiums were not paid for a period of two months.

- The decrease in operating expenses is primarily due to a significant decrease in utility expenses, partly from enhancements the university is making to become more green, and energy efficient (see capital section for additional discussions regarding campus enhancements). Additionally, significant decreases in food and meal purchases, building maintenance and legal costs attribute to the decrease.

- Scholarship expenses increased predominantly in consequence of the university's student success and retention initiatives, and an increase in available student aid from federal sources such as the Federal Pell Grant and SEOG.

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

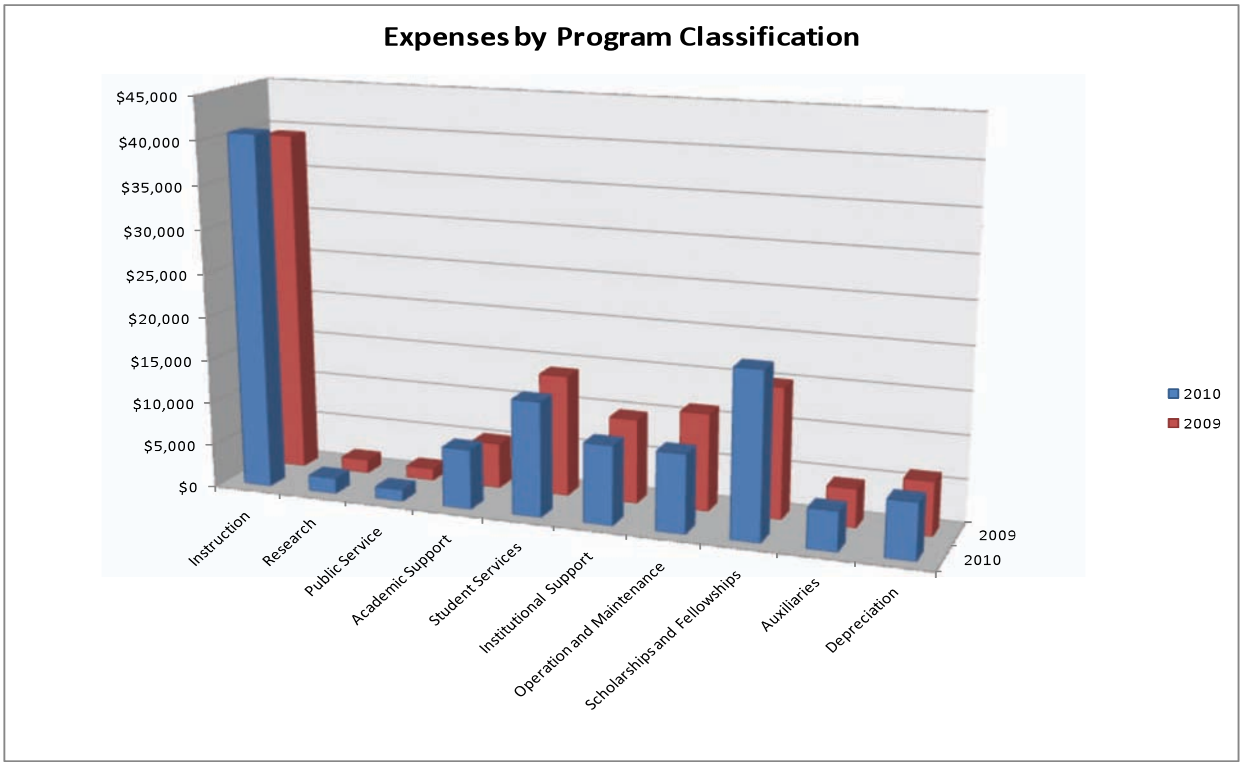
- Operating expenses for the component unit increase and decrease each year based on the amount of requests received from university departments to purchase items to support university functions.

- Payments to or on behalf of the university increased from 2009 to 2010 predominantly because of additional gifts to the component unit that are in turn gifted to the university to assist operating budgets principally in athletics.

Program Classification

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

	2010	2009
Instruction	$ 40,715	$ 39,351
Research	1,784	1,561
Public Service	1,348	1,361
Academic Support	6,905	5,250
Student Services	13,223	13,997
Institutional Support	9,132	9,757
Operation and Maintenance	9,053	11,256
Scholarships and Fellowships	19,141	15,060
Auxiliaries	4,552	4,449
Depreciation	6,477	6,213
TOTAL	**$ 112,330**	**$ 108,255**



Comparison of FY 2010 to FY 2009

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

- In accordance with the university, administration's values and beliefs additional funds related to student success and retention were spent in the Instructional area. The increase also resulted from faculty promotions, additional faculty lines to accommodate student success and growth.

- The decrease in student services is a result of minor decreases in all areas of expense with significant decreases in meals and travel.

- The decrease in institutional support and operation and maintenance between the fiscal years is due to deliberate budget cuts in response to a significant decrease in state funding.

- Scholarship expenses increased predominantly because of increases in the federal and state funding such as Pell, SEOG, and Lottery funds as well as student enrollment growth. Additional scholarships were approved by university administration to assist the athletic area.

The Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the university's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Austin Peay State University
Statement of Cash Flows
(in thousands of dollars)

	2010	2009
Cash provided (used) by:		
Operating activities	$ (48,163)	$ (51,032)
Noncapital financing activities	67,311	62,475
Capital and related financing activities	(13,687)	(8,607)
Investing activities	456	1,100
Net increase (decrease) in cash	**$ 5,917**	**$ 3,936**
Cash, beginning of year	**48,392**	**44,456**
Cash, end of year	**$ 54,309**	**$ 48,392**

Comparison of FY 2010 to FY 2009

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

- The reduction of cash used by operating activities is because of significant increases in both accounts payables, and accrued liabilities. The increase in accounts payables is mainly for obligations to suppliers and vendors and unapplied financial aid to students. The accrued liabilities increased predominantly because of the university's net Other Post-Employment Benefit obligation.
- Cash provided by non-capital financing increased essentially because of the ARRA funding in non-operating grants.
- Cash used by the capital and related financing activities increased due to TSSBA-funded projects increasing significantly in addition to the major locally funded projects of the Hemlock Semiconductor Building, and new residential life housing. More detailed information about the university's capital assets is presented in the Capital Asset and Debt Administration section of this report.
- The decrease in cash provided in investing activities represents fewer sales of investments for funding scholarships, as aforementioned scholarships were funded using ARRA proceeds and no liquidations of investments were necessary; thus, only investment strategy sales were made. Due to a weak market during the first part of the 2010 fiscal year, significantly less income on investments were also realized.
- The university's liquidity improved by $5.9 million during the year chiefly due to increased short-term liabilities, increases in student tuition and fees from student growth and enrollment, and good Auxiliary strategies.

Capital Assets and Debt Administration

Capital Assets

The university had $135,940,852 invested in capital assets, net of accumulated depreciation of $76,790,777 at June 30, 2010; and $120,041,581 invested in capital assets, net of accumulated depreciation of $71,301,036 at June 30, 2009. Depreciation charges totaled $6,476,865 and $6,213,429 for the years ended June 30, 2010, and June 30, 2009, respectively. Details of these assets are shown below.

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

	2010	2009
Land	$ 6,999	$ 6,604
Land improvements and infrastructure	13,731	6,798
Buildings	90,223	92,939
Equipment	5,048	4,907
Library holdings	2,489	2,798
Software	1,277	1,532
Projects in progress	16,174	4,464
Total	**$ 135,941**	**$ 120,042**

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

Land and buildings increased because of commercial and residential property purchases presented to the university from private citizens, and the completion of certain capital projects. The university in complying with the approved campus master plan aggressively seeks to purchase all available property. The purchase of these properties was funded with available funds set aside in the Plant Funds of the university.

During the fiscal year 2010, the university used resources mainly from ARRA to fund a major upgrade in order to become more energy efficient. This includes new steam lines, boilers, and chillers to provide steam and cooled water to the campus buildings. Currently an electrical upgrade is underway. Building improvements such as fire alarm and sprinkler projects are ongoing with the Marks Building. Other projects during the year included renovations to Archwood, completion of unfinished space in the Morgan University Center to accommodate staff offices, and meeting facilities. The university has paved a significant number of streets and parking areas. A replacement was made to the Baseball field lighting. Replacements of HVAC units in residential life buildings were also a major project during 2010, and will continue into fiscal year 2011.

Significant projects started or continuing during the 2010 fiscal year include a residential housing project started during the 2009 fiscal year that is scheduled to be completed prior to fall 2011. Additionally, a new educational facility, Hemlock Semiconductor Building, was completed in August 2010 to be used for the university's chemical engineering program. The new facility will educate and train students to be eligible for employment with a major worldwide silicone producer locating in area. The facility will provide classroom and specific laboratory, and faculty spaces.

The university will continue purchasing commercial and private property located within the campus master plan. The university is also anticipating several paving projects across the campus. Planned capital expenditures in the next fiscal year also include the completion of the residential housing fire sprinkler project, which will be funded with TSSBA bonds and/or commercial paper. Additionally, the new residential housing project, also funded with TSSBA bonds, is planned to be completed and available for students in the fall of 2011.

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

	2010	2009
Land	$ 714	$ 738
Equipment	11	9
Total	**$ 725**	**$ 747**

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

Land balances decreased between fiscal years because the foundation continues to sell parcels of a land gift. As the parcels are sold, the proceeds are added to an endowment, and invested for income to provide scholarships.

Additional detailed information about the university's capital assets is presented in Notes 5 and 19 to the financial statements.)

Debt

The university had $44,900,650 and $40,646,861 in debt outstanding at June 30, 2010, and June 30, 2009, respectively. The component unit had no debt outstanding at June 30, 2010 or June 30 2009. The table below summarizes these amounts by type of debt instrument.

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

	2010	2009
TSSBA Bonds	$ 38,086	$ 39,724
TSSBA Commercial Paper	6,815	923
Total Debt	**$ 44,901**	**$ 40,647**

The reduction of bonds is due entirely to the amortization of semi-annual payments. The increase in commercial paper obligations is due to the construction of new residential life housing. The new housing facility will replace the older less efficient Cross, Killebrew, and Rawlins Halls. The new housing is planned to be operational for the fall 2011 semester. Upon completion, it is anticipated the commercial paper will be converted to TSSBA bonds.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2010, were as follows:

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

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

Economic Factors That Will Affect the Future

The state's financial condition continues to be a concern among public colleges and universities. On January 27, Governor Bredesen signed into law his higher education initiative called the *Complete College Tennessee Act of 2010.* The new law establishes increased educational attainment as the state's primary need. The Act holds higher education accountable for increasing educational attainment in the state and mandates certain fiscal, academic, and research policies in support of that goal. Funding reform will also direct resources away from an enrollment driven model to one that is outcomes-based and rewards institutions for efficiencies and productivity.

The *Complete College Tennessee Act of 2010* includes a provision for an outcomes-based funding formula model also known as performance funding. THEC, in conjunction with UT, TBR and state government representatives, will develop the model to be used for the 2011-12 budget cycle. The Formula Review Committee (FRC) will recommend changes to the calculations and design of the formula model that reflect the new Master Plan. The funding formula should provide incentives to institutions that reinforce the policy objectives of the Master Plan. Performance Funding is designed to stimulate instructional improvement and student learning as institutions carry out their respective missions. Performance Funding is an incentive for meritorious institutional performance and provides a means of assessing the progress of public funded higher education. The Performance Funding Advisory Committee will evaluate the current Performance Funding standards and recommend new standards for the 2010-15 cycle. The 2010-15 cycle will represent the seventh cycle since the performance-funding program was initiated in 1979. The Advisory Committee is composed of institutional and governing board staff. The 2010-15 Master Plan was approved by THEC on July 29, 2010.

In order to assist the continued funding declines to public colleges and universities, during the 2009 fiscal year, the State of Tennessee applied for and was approved State Federal Stimulus Funds (SFSF), which is a part of the federal government's American Recovery and Reinvestment Act (ARRA) of 2009. Accordingly, the state of Tennessee Recovery Act Management (TRAM) office was created and is the official administrator of these funds for the state. The Tennessee Board of Regents was identified as a primary recipient of these funds with the university being a sub-recipient. The university received $7,342,979 of these funds. The university opted to spend these funds primarily to update older energy inefficient infrastructure with "greener" more energy efficient infrastructure. A total of $5,403,498 was expended on performance contracting and other capital related items. Other ARRA funds were used to provide positions as a source of scholarship funds while the markets were experiencing difficult times, and investment income was decreasing.

During the June 2009 meeting of the Tennessee Board of Regents, the Regents approved the removal of the student maintenance fee cap to be effective fall semester 2009. The cap had previously been set at 12 hours for undergraduate students, and 10 hours for graduate students. Removing the cap allows for students to be assessed the approved hourly fee for all hours; however, hours above the previous caps were discounted 95 percent and 85 percent for academic years beginning fall 2009 and 2010, respectively.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the university's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Tim Hurst, Assistant Vice President for Finance, APSU Box 4635, Clarksville, TN 37044.

BASIC FINANCIAL STATEMENTS

AUSTIN PEAY STATE UNIVERSITY
Unaudited Statement of Net Assets
June 30, 2010

	University	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 19)	$ 20,274,264.57	$ 510,821.18
Short-term investments (Notes 3)	29,111.83	
Accounts, notes, and grants receivable (net) (Note 4)	5,095,459.90	913.46
Due from primary government	345,877.61	
Pledges receivable (net) (Note 19)		545.17
Inventories (at lower of cost or market)	270,696.92	
Prepaid expenses and deferred charges	130,075.85	
Accrued interest receivable	75,367.42	21,634.30
Total current assets	26,220,854.10	533,914.11
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 19)	34,034,401.99	3,061,015.90
Investments (Notes 3 and 19)	6,080,754.65	10,447,094.62
Accounts, notes, and grants receivable (net) (Note 4)	1,276,793.30	
Pledges receivable (net) (Note 19)		394,593.50
Capital assets (net) (Notes 5 and 19)	135,940,852.34	725,188.90
Total noncurrent assets	177,332,802.28	14,627,892.92
Total assets	$ 203,553,656.38	$ 15,161,807.03
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	2,339,863.27	13,353.69
Accrued liabilities	2,314,591.65	
Student deposits	265,530.00	
Deferred revenue	3,266,734.82	
Compensated absences (Note 7)	585,789.03	
Accrued interest payable	301,842.06	
Long-term liabilities, current portion (Note 7)	1,753,064.48	
Deposits held in custody for others	1,234,273.03	
Total current liabilities	12,061,688.34	13,353.69
Noncurrent liabilities:		
Net OPEB obligation (Note 12)	3,130,773.86	
Compensated absences (Note 7)	1,581,634.33	
Long-term liabilities (Note 7)	43,147,585.81	
Due to grantors (Note 7)	829,136.60	
Total noncurrent liabilities	48,689,130.60	
Total liabilities	$ 60,750,818.94	$ 13,353.69
NET ASSETS		
Invested in capital assets, net of related debt	91,040,202.05	725,188.90
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	5,578,941.40	8,504,978.84
Research		58,581.97
Instructional department uses	4,565.81	60,954.61
Other	111,327.97	307,006.35
Expendable:		
Scholarships and fellowships	1,677,269.60	2,239,785.54
Research	726,749.20	5,379.25
Instructional department uses	285,904.41	488,991.40
Loans	91,620.93	
Debt service	2,123,531.04	
Other	1,473,995.64	1,965,257.62
Unrestricted (Note 9)	39,688,729.39	792,328.86
Total net assets	$ 142,802,837.44	$ 15,148,453.34

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

AUSTIN PEAY STATE UNIVERSITY
Unaudited Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2010

	University	Component Unit
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $18,667,598.71)	$ 39,632,141.19	
Gifts and contributions		$ 1,375,243.70
Governmental grants and contracts	5,933,464.35	
Non-governmental grants and contracts	1,800.00	
Sales and services of educational departments	2,911,575.14	
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $1,973,842.04 all residential life revenues are used as security for revenue bonds, see Note10)	4,319,266.14	
Bookstore (all bookstore revenues are used as security for revenue bonds, see Note 10)	442,683.49	
Food service (all food service revenues are used as security for revenue bonds, see Note 10)	351,030.06	
Wellness facility (net of scholarship allowances of $209,484.96 all welness facility revenues are used as security for revenue bonds, see Note 10)	451,919.20	
Other auxiliaries (all other auxiliaries revenues are used as security for revenue bonds, see Note 10)	153,797.90	
Interest earned on loans to students	26,113.21	
Other operating revenues	260,747.85	
Total operating revenues	$ 54,484,538.53	$ 1,375,243.70
EXPENSES		
Operating Expenses		
Salaries and wages	$ 46,965,778.80	
Benefits	15,009,889.62	
Utilities, supplies, and other services	24,736,306.51	$ 97,439.34
Scholarships and fellowships	19,141,256.38	387,115.32
Depreciation expense	6,476,865.02	2,711.40
Payments to or on behalf of Austin Peay State University		582,741.45
Total operating expenses	$ 112,330,096.33	$ 1,070,007.51
Operating loss	$ (57,845,557.80)	$ 305,236.19
NONOPERATING REVENUES (EXPENSES)		
State appropriations	$ 30,728,938.50	
Gifts, including $582,741.45 from component unit	972,425.24	
Grants and contracts	38,243,608.94	
Investment income (net of investment expense of $29,894.70 for the university and $39,279.11 for the component unit)	1,014,246.38	$ 1,178,666.69
Interest on capital asset-related debt	(1,862,068.20)	
Other non-operating revenues	515,336.49	
Net nonoperating revenues	$ 69,612,487.35	$ 1,178,666.69
Income before other revenues, expenses gains, or losses	$ 11,766,929.55	$ 1,483,902.88
Capital appropriations	$ 6,290,603.27	
Capital grants and gifts	21,613.21	
Additions to permanent endowments		$ 773,156.90
Total other revenues	$ 6,312,216.48	$ 773,156.90
Increase (decrease) in net assets	$ 18,079,146.03	$ 2,257,059.78
NET ASSETS		
Net Assets - beginning of year	$ 124,723,691.41	$ 12,891,393.56
Net Assets - end of year	$ 142,802,837.44	$ 15,148,453.34

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

AUSTIN PEAY STATE UNIVERSITY
Unaudited Statement of Cash Flows
for the Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	40,824,571.29
Grants and contracts		5,539,468.12
Sales and services of educational activities		2,967,197.04
Payments to suppliers and vendors		(23,352,122.18)
Payments to employees		(47,012,163.04)
Payments for benefits		(13,789,238.51)
Payments for scholarships and fellowships		(19,141,256.38)
Interest earned on loans to students		44,848.09
Auxiliary enterprise charges:		
Residence halls		4,460,302.65
Bookstore		360,640.04
Food services		344,839.60
Wellness facility		444,540.18
Other auxiliaries		145,847.59
Net cash used by operating activities	$	(48,162,525.51)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	$	30,678,400.00
Gifts and grants received for other than capital or endowment purposes, including $140,884.37 from APSU - Foundation to the institution		36,125,563.38
Federal student loan receipts		54,897,390.73
Federal student loan disbursements		(53,723,241.95)
Changes in deposits held for others		(1,182,175.56)
Other non-capital financing receipts		515,336.49
Net cash provided by non-capital financing activities	$	67,311,273.09
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	$	5,969,275.49
Capital - state appropriation		6,290,603.27
Purchase of capital assets and construction		(22,354,523.14)
Principal paid on capital debt and lease		(1,715,485.71)
Interest paid on capital debt and lease		(1,877,360.33)
Net cash used by capital and related financing activities	$	(13,687,490.42)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$	1,399,840.97
Income on investments		455,994.29
Purchase of investments		(1,400,455.87)
Net cash provided by investing activities	$	455,379.39
Net increase in cash and cash equivalents		5,916,636.55
Cash and cash equivalents - beginning of year		48,392,030.01
Cash and cash equivalents - end of year (Note 2)	$	54,308,666.56

AUSTIN PEAY STATE UNIVERSITY
Unaudited Statement of Cash Flows
for the Year Ended June 30, 2010

RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating loss	$	(57,845,557.80)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense		6,476,865.02
Gifts in-kind		269,615.32
On-behalf payments		52,415.50
Change in assets and liabilities:		
Receivables, net		45,303.91
Inventories		(8,152.33)
Prepaid/deferred items		(13,345.76)
Other assets		18,734.88
Accounts payable		655,944.70
Accrued liabilities		996,144.48
Deferred revenues		958,406.07
Deposits		178,485.00
Compensated absences		130,354.17
Loans to students and employees		(77,738.67)
Net cash used by operating activities	$	(48,162,525.51)

Non-cash transactions

Unrealized gains on investments	$	528,764.06
Loss on disposal of capital assets	$	(140,586.61)

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

AUSTIN PEAY STATE UNIVERSITY

Standard Notes to the Financial Statements
June 30, 2010

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 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. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 19 for more detailed information about the component unit and how to obtain the report.

BASIS OF PRESENTATION
The university's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

BASIS OF ACCOUNTING
For financial statement purposes, the university is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The university has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The university has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

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

All other activity is nonoperating in nature. This activity includes: 1) state appropriations for operations, 2) investment income, 3) bond issuance costs, 4) interest on capital asset-related debt, and 5) gifts and non-exchange transactions.

When both restricted and unrestricted resources are available for use, generally it is the university's policy to use the restricted resources first.

CASH EQUIVALENTS
This classification includes instruments that are readily convertible to known amounts of cash and have original maturities of three months or less.

INVENTORIES
Inventories are valued at the lower of cost or market.

COMPENSATED ABSENCES
The university's employees accrue annual leave at varying rates, depending upon length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the Statement of Net Assets.

CAPITAL ASSETS
Capital assets, which include property, plant, equipment, library holdings, and intangible assets, are reported in the Statement of Net Assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' useful lives 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 of the assets, which range from 5 to 40 years.

NET ASSETS
The university's net assets are classified as follows:

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT*:* This represents the university's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

RESTRICTED NET ASSETS – EXPENDABLE: Restricted expendable net assets include resources in which the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

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

SCHOLARSHIP DISCOUNTS AND ALLOWANCES
Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discount and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university, and the amount that is paid by the student and/or third parties making payments on the students' 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.

2. **Cash**

This classification includes demand deposits and petty cash on hand. At June 30, 2010, cash consists of $3,315,694.78 in bank accounts, $14,514.00 of petty cash on hand, $49,019,236.42 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $1,959,221.36 in the LGIP Deposits – Capital Projects account.

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

3. **Investments**

All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

As of June 30, 2010, the university had the following investments and maturities.

		Investment Maturities (In Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
US Treasury	$ 104,239.76	$ 5,019.35	$ 58,217.50	$ 29,336.66	$ 11,666.25	
US Agencies	243,329.70		$ 73,617.38	41,195.06	128,517.26	
Corporate Stocks	1,393,459.95					$ 1,393,459.95
Corporate Bonds	185,228.34	6,187.44	53,726.45	101,882.58	23,431.87	
Mutual Bond Funds	1,848,750.91				1,848,750.91	
Mutual Equity Funds	1,670,811.63				1,670,811.63	
Certificates of Deposit	589,850.55	29,111.83	560,738.72			
Money Market	74,195.64	74,195.64				
Total	**$ 6,109,866.48**	**$ 114,514.26**	**$ 746,300.05**	**$ 172,414.30**	**$ 3,683,177.92**	**$ 1,393,459.95**

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 which are 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 using Standard and Poor's, Moody's, and/or Fitch's and are presented below using the Standard and Poor's rating scale.

TBR 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 rating services that have rated the issuer. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel or 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. As of June 30, 2010, the university's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating					
		AAA	AA	A	BBB	BB	Unrated
Local Government Investment Pool (LGIP)	$ 50,978,457.78						$ 50,978,457.78
US Agencies	243,329.70	$ 73,617.38					169,712.32
Corporate Bonds	185,228.34		$ 17,855.00	$106,678.89	$ 60,694.45		
Mutual Bond Funds	1,848,750.91	998,325.50	55,462.53	203,362.60	129,412.56	$147,900.07	314,287.65
Total	**$53,255,766.73**	**$1,071,942.88**	**$73,317.53**	**$310,041.49**	**$190,107.01**	**$147,900.07**	**$51,462,457.75**

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The university does not have a deposit policy for custodial credit risk. At June 30, 2010, the university had $2,000,453.39 of uninsured and unregistered investments for which the securities are held by the counterparty and $3,519,562.54 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. TBR policy restricts investments in banker's acceptances, commercial paper, and money market mutual funds. The policy limits banker's acceptances to not exceed twenty percent of total investments on the date of acquisition and limits the combined amount of banker's acceptances and commercial paper to not exceed thirty-five percent of total investments at the date of acquisition. The amount invested in any one bank shall not exceed five percent of total investments on the date of acquisition. Additionally, no more than five percent 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 two percent of the issuing corporation's total outstanding commercial paper. TBR policy limits investments in money market mutual funds to not exceed ten percent of total investments on the date of acquisition.

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

	Carrying Value
Certificates of Deposit	$ 29,111.83
Regions Investment Account	2,000,453.39
The Common Fund	3,519,562.54
Total	**$ 5,549,127.76**

The Certificates of Deposit and the Regions Investment Account are each the investment of a single endowment fund. The investments for the remaining endowment funds are composed of two mutual funds managed by the Common Fund. Assets of endowment funds are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit fair value at the beginning of the calendar quarter within which the transaction takes place. At June 30, 2010, there were a total of 10,475.308 units in the Multi-Strategy Equity Fund, each having a market value of $159.50, and a total of 133,967.457 units in the Multi-Strategy Bond Fund, each having a market value of $13.80.

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

	Pooled Assets			
	Market	Cost	Net Gains (Losses)	Fair Value per Unit
Common Fund:				
Multi-Strategy Equity Fund				
June 30, 2010	$ 1,670,811.63	$ 1,080,000.00	$ 590,811.63	159.50
July 1, 2009	$ 1,488,204.18	$ 1,080,000.00	408,204.18	141.50
			$ 182,607.45	
Multi-Strategy Bond Fund				
June 30, 2010	$ 1,848,750.91	$ 1,703,000.00	$ 145,750.91	13.80
July 1, 2009	$ 1,680,989.19	$ 1,703,000.00	(22,010.81)	12.51
			$ 167,761.72	
Total net gains (losses)			**$ 350,369.17**	

There were no purchases or disposals during the year. The income was distributed to the University. For the year ended June 30, 2010, the average annual gain per unit, exclusive of net gains, were $17.432 per unit for the Multi-Strategy Equity Fund and $2.615 per unit for the Multi-Strategy Bond Fund.

4. **Accounts, Notes, and Grants Receivable**

Accounts receivable included the following:

	June 30, 2010
Student accounts receivable	$ 5,090,384.58
Grants receivable	876,089.40
Notes receivable	12,542.34
State appropriation receivable	116,823.00
Other receivables	421,106.07
Subtotal	**$ 6,516,945.39**
Less allowance for doubtful account	(1,421,485.49)
Total	**$ 5,095,459.90**

Federal Perkins Loan Program funds include the following:

	June 30, 2010
Perkins loans receivable	$ 1,540,654.13
Less allowance for doubtful accounts	(263,860.83)
Total	**$ 1,276,793.30**

5. **Capital Assets**

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beg Balance	Additions	Transfers	Reductions	End Balance
Land	$ 6,603,868.52	$ 395,462.89			$ 6,999,331.41
Land improve & Infrastructure	12,449,869.08	7,794,594.13			20,244,463.21
Buildings	147,425,055.66	920,651.30			148,345,706.96
Equipment	11,850,325.79	1,389,641.67		$ 599,781.19	12,640,186.27
Library holdings	6,160,179.22	284,658.47		506,316.68	5,938,521.01
Software	2,389,851.44				2,389,851.44
Projects in progress	4,463,467.53	11,710,101.29			16,173,568.82
Total	**$ 191,342,617.24**	**$22,495,109.75**	**$ -**	**$ 1,106,097.87**	**$ 212,731,629.12**
Less accumulated depreciation/amortization:					
Land improve & infrastructure	$ 5,651,570.90	$ 861,443.37			$ 6,513,014.27
Buildings	54,486,093.75	3,636,976.46			58,123,070.21
Equipment	6,943,224.56	1,129,248.73		$ 480,807.79	7,591,665.50
Library holdings	3,362,361.31	593,852.17		506,316.68	3,449,896.80
Software	857,785.71	255,344.29			1,113,130.00
Total	**$ 71,301,036.23**	**$ 6,476,865.02**		**$ 987,124.47**	**$ 76,790,776.78**
Capital assets, net	**$ 120,041,581.01**	**$ 16,018,244.73**	**$ -**	**$ 118,973.40**	**$ 135,940,852.34**

6. Accounts Payable

Accounts payable included the following:

	June 30, 2010
Vendors payable	$ 2,330,584.92
Unapplied student payments	
Other payables	9,278.35
Total	**$ 2,339,863.27**

7. **Long-term Liabilities**

Long term liability activity for the year ended June 30, 2010, was as follows:

	Beg Balance	Additions	Reductions	End Balance	Curr Portion
Payables:					
TSSBA debt:					
Bonds	$ 39,723,723.45		$ 1,637,785.04	$ 38,085,938.41	$ 1,753,064.48
Commercial Paper	923,137.06	5,925,756.69	34,181.87	6,814,711.88	
Subtotal	**$ 40,646,860.51**	**$ 5,925,756.69**	**$ 1,671,966.91**	**$ 44,900,650.29**	**$ 1,753,064.48**
Other Liabilities					
Compensated Absence	$ 2,037,069.19	$ 2,053,639.87	$ 1,923,285.70	$ 2,167,423.36	$ 585,789.03
Due to grantor	906,875.27		77,738.67	829,136.60	
Net OPEB obligation	2,189,702.42	941,071.44		3,130,773.86	
Subtotal	**$ 5,133,646.88**	**$ 2,994,711.31**	**$ 2,001,024.37**	**$ 6,127,333.82**	**$ 585,789.03**
Total long-term liabilities	**$ 45,780,507.39**	**$ 8,920,468.00**	**$ 3,672,991.28**	**$ 51,027,984.11**	**$ 2,338,853.51**

TSSBA Debt - Bonds Payable

Bonds, with interest rates ranging from 2% to 5%, were issued by the Tennessee State School Bond Authority. The bonds are due serially until May 2036 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations, see Note 10 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the Statement of Net Assets is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. The reserve amount was $864,351.71 at June 30, 2010. Unexpended debt proceeds were $0.00 at June 30, 2010.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2010, are as follows:

For the Year(s) Ending June 30	Principal	Interest	Total
2011	$ 1,753,064.48	$ 1,760,929.11	$ 3,513,993.59
2012	1,830,180.02	1,700,694.85	3,530,874.87
2013	1,699,259.28	1,630,666.11	3,329,925.39
2014	1,236,668.24	1,551,902.44	2,788,570.68
2015	1,264,331.31	1,481,759.28	2,746,090.59
2016 – 2020	6,277,541.34	6,565,214.36	12,842,755.70
2021 – 2025	7,731,721.50	4,979,422.19	12,711,143.69
2026 – 2030	9,138,687.98	2,979,271.37	12,117,959.35
2031 – 2035	6,679,484.26	828,322.53	7,507,806.79
2035– 2040	475,000.00	20,187.50	495,187.50
Total	**$ 38,085,938.41**	**$ 23,498,369.74**	**$ 61,584,308.15**

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance costs of various capital projects during the construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount outstanding for projects at the university was $6,814,711.88 at June 30, 2010.

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

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

8. **Endowments**

If a donor has not provided specific instructions to Austin Peay State 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 that is 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, 2010, net appreciation of $18,571.45 is available to be spent, of which $18,571.45 is included in restricted net assets expendable for scholarships and fellowships.

9. **Unrestricted Net Assets**

Unrestricted net assets include funds that have been designated for specific purposes. These purposes include the following:

	FY 2010
Working capital	$ 3,707,568.79
Encumbrances	1,869,141.09
Designated fees	2,680,275.29
Auxiliaries	543,597.14
Plant construction	16,323,440.04
Renewal and replacement of equipment	12,173,731.75
Undesignated balance	2,390,975.29
Total	**$ 39,688,729.39**

10. **Pledged Revenues**

The university has pledged certain revenues and fees, including state appropriations, to repay $38,085,938.41 in revenue bonds issued from April 2002 to April 2009. Proceeds from the bonds provided financing for Meacham Apartments, University Center with equipment, Recreation Center, Hand Village, Emerald Hills Apartments No. 4, and Fort Campbell Classroom Building, renovation of four residence halls, and upgrade of the housing fire safety system. The bonds are payable through May 2036. Annual principal and interest payments on the bonds are expected to require 3.2 percent of available revenues. The total principal and interest remaining to be paid on the bonds is $61,584,308.15. Principal and interest paid for the current year and total available revenues were $3,531,553.17 and $100,034,295.40, respectively.

11. **Pension Plans**

Defined Benefit Plan

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

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

FUNDING POLICY - Plan members are noncontributory. The university is required to contribute at an actuarially determined rate. The current rate is 13.02**%** of annual covered payroll. The contribution requirements of the university are established and may be amended by the TCRS Board of Trustees. The university's contributions to TCRS for the years ending June 30, 2010, 2009, and 2008 were $2,321,141.50, $2,283,631.14, and $1,725,542.64 respectively, equal to the required contributions for each year.

Defined Contribution Plans

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

FUNDING POLICY – Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans for the year ended June 30, 2010, was $2,308,673.84 and for the year ended June 30, 2009, was $2,208,528.66. Contributions met the requirements for each year.

12. **Other Postemployment Benefits**

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees – the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-101. Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. The POS and HMO options will no longer be available to members after January 1, 2011. 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 18. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

FUNDING POLICY - The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. In accordance with TCA 8-27-205(b), retirees not eligible for Medicare pay a percentage of the total state premium under the State Employee Group Plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the State Employee Group Plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the State Employee Group Plan. Retirees with 20 years but less than 30 years of service pay 30% of the total premium under the State Employee Group Plan. Retirees 55 and older with less than 20 years but more than 10 years of service pay 40% of the total premium under the State Employee Group Plan. Contributions for the State Employee Group Plan for the year ended June 30, 2010, were $6,147,477.85, which consisted of $5,061,993.92 from the university and $1,085,483.93 from the employees.

Annual OPEB Cost and Net OPEB Obligation

Annual Required Contribution (ARC)	$ 1,559,000.00
Interest on the net OPEB obligation	98,536.61
Adjustment to the ARC	(93,333.72)
Annual OPEB cost	1,564,202.89
Amount of contribution	(623,131.45)
Increase/decrease in net OPEB obligation	**$ 941,071.44**
Net OPEB Obligation – beginning of year	$ 2,189,702.42
Net OPEB Obligation – end of year	**$ 3,130,773.86**

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
06/30/08	State Employee Group Plan	$ 1,727,000.00	33.8%	$ 1,142,868.16
06/30/09	State Employee Group Plan	$ 1,747,373.53	40.1%	$ 2,189,702.42
06/30/10	State Employee Group Plan	$ 1,564,202.89	39.8%	$ 3,130,773.86

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2010, was as follows:

Actuarial valuation date	July 1, 2009
Actuarial accrued liability (AAL)	$ 14,121,000.00
Actuarial value of plan assets	$ -
Unfunded actuarial accrued liability (UAAL)	$ 14,121,000.00
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	$ 39,864,731.13
UAAL as percentage of covered payroll	35.4%

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, 2009, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6% initially, increased to 10% in the second year and then reduced by decrements to an ultimate rate of 5% in fiscal year 2021. All rates include a 3% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

13. **Chairs of Excellence**

The university had $8,920,472.95 on deposit at June 30, 2010, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in these financial statements.

14. **Insurance-Related Activities**

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years. The Risk Management Fund is also responsible for claims for damages to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $5 million.

The university participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2010, and June 30, 2009, are presented in the Tennessee Comprehensive Annual Financial Report. The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html. Since the university participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Tennessee Code Annotated, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in Tennessee Code Annotated, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. The amount of cash and cash equivalents designated for payment of claims held by the Risk Management Fund at June 30, 2010, was not available. At June 30, 2009, the Risk Management Fund held $127 million in cash and cash equivalents designated for payment of claims.

At June 30, 2010, the scheduled coverage for the university was $411,438,400 for buildings and $59,900,500 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 costs 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.

15. Commitments and Contingencies

SICK LEAVE - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $12,582,886.49 at June 30, 2010.

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 was $14,400 for the year ended June 30, 2010. All operating leases are cancelable at the lessee's option.

CONSTRUCTION IN PROGRESS – At June 30, 2010, outstanding commitments under construction contracts totaled $23,276,473.60 for Fort Campbell Classroom Building, Astronomy Observatory, Archwood Exterior Renovation, Morgan University Center, and Chemical Engineering Technology Building of which $1,526,077.84 will be funded by future state capital outlay appropriations.

LITIGATION – No pending legal matter involving the university is expected to have a material effect on the accompanying financial statements.

16. Funds Held in Trust by Others

The university is 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 $94,582.91 from these funds during the fiscal year ended June 30, 2010.

17. Natural Classifications with Functional Classifications

The university's operating expenses by functional classification for the year ended June 30, 2010, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarship	Depreciation	Total
Instruction	$ 26,731,578.24	$ 7,551,238.25	$ 6,432,199.04			$ 40,715,015.53
Research	948,338.96	273,615.33	562,247.34			1,784,201.63
Public Service	811,402.15	259,463.98	276,701.84			1,347,567.97
Academic Support	4,408,379.67	1,566,167.18	930,357.35			6,904,904.20
Student Services	5,743,742.02	2,186,049.83	5,293,249.74			13,223,041.59
Institutional Support	4,925,297.38	1,850,776.72	2,356,382.19			9,132,456.29
M&O	2,226,177.71	998,527.24	5,827,919.62			9,052,624.57
Scholarships & Fellowships			100.00	$ 19,141,256.38		19,141,356.38
Auxiliary	1,170,862.67	324,051.09	3,057,149.39			4,552,063.15
Depreciation					$ 6,476,865.02	6,476,865.02
Total Expenses	**$ 46,965,778.80**	**$ 15,009,889.62**	**$ 24,736,306.51**	**$ 19,141,256.38**	**$ 6,476,865.02**	**$ 112,330,096.33**

18. **On-Behalf Payments**

During the year ended June 30, 2010, the State of Tennessee made payments of $52,415.50 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

19. **Component Unit(s)**

Austin Peay State University Foundation is a legally separate, tax-exempt organization supporting Austin Peay State University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The 130-member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2010, the Foundation made distributions of $ 582,741.45 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Donna Johansen, Accounting Services, PO Box 4635, Clarksville, TN 37044.

The Foundation is a nonprofit organization that reports under FASB standards, including FASB Statement No. 117, Financial Reporting for Not-for-Profit Organizations. 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 report for these differences.

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, 2010:

	Total Fair Value at June 30, 2010	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Unobservable Inputs: Level 3
Assets:				
Money Market Funds	$ 663,799.06	$ 663,799.06		
Certificates of deposit	100,417.06	100,417.06		
Marketable debt securities	2,162,405.30	2,162,405.30		
Marketable equity securities	6,257,139.77	6,257,139.77		
Mutual Funds	357,802.91	357,802.91		
Other	817,500.22	817,500.22		
Life Insurance	88,030.30	88,030.30		
Pledges Receivable	395,138.67			$ 395,138.67
Total Assets	**$ 10,842,233.29**	**$ 10,447,094.62**	**$ -**	**$ 395,138.67**

The following table reconciles beginning and ending balance of all assets/liabilities valued using Level 3 inputs:

	Beginning Balance	Total Gains/Losses, Realized & Unrealized	Purchases, Issuances, and Settlements	Transfers In/Out of Level 3	Ending Balance
Assets:					
Pledges Receivable	$ 509,304.68	$ (40,468.11)	$ (73,697.90)		$ 395,138.67
Total Assets	**$ 509,304.68**	**$ (40,468.11)**	**$ (73,697.90)**	**$ -**	**$ 395,138.67**

All gains and losses, both realized and unrealized, have been reported on the Statement of Revenues, Expenses, and Changes in Net Assets as investment income. Of this total, $2,807,261.55 are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2010.

CASH AND CASH EQUIVALENTS – Cash and cash equivalents consists of demand deposit accounts, certificates of deposit, money market funds, and LGIP deposits in the State of Tennessee Local Government Investment Pool. Uninsured bank balances at June 30, 2010, totaled $0.00.

INVESTMENTS – Investments are recorded on the date of contribution and are stated at market value. Unrealized gains and losses are determined by the difference between market values at the beginning and end of the year. Investment securities held at year-end were as follows:

	June 30, 2010	
	Cost	Market Value
Money market funds	$ 663,748.01	$ 663,799.06
Certificates of deposit	100,417.06	100,417.06
Marketable debt securities	1,954,506.07	2,162,405.30
Marketable equity securities	5,285,480.05	6,257,139.77
Mutual funds	383,713.13	357,802.91
Other	1,415,407.06	817,500.22
Life Insurance		88,030.30
Total	**$ 9,803,271.38**	**$ 10,447,094.62**

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

	June 30, 2010
Current pledges	$ 600.00
Pledges due in one to five years	255,006.78
Pledges due after five years	180,000.00
Subtotal	**$ 435,606.78**
Less discounts to net present value	(40,468.11)
Total pledges receivable, net	**$ 395,138.67**

CAPITAL ASSETS - Capital assets at year-end were as follows:

		June 30, 2010
Land	$	713,687.50
Equipment		16,363.00
Total	**$**	**730,050.50**
Less accumulated depreciation/amortization:		
Equipment		4,861.60
Total	**$**	**4,861.60**
Capital assets, net	**$**	**725,188.90**

ENDOWMENTS - The Austin Peay State University Foundation's endowment consists of approximately 132 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 GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

INTERPRETATION OF RELEVANT LAW
The Board of Trustees of the Austin Peay State University Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as a necessary tool to guide the investment policy and record keeping of the APSU Foundation. The APSU Foundation will strive to adhere to the guidelines set out by the Act with notable exceptions:

A. The APSU Foundation does not plan to release or modify the restrictions set for endowments, especially if the donor or a donor's relative is alive.

B. The APSU Foundation will not invade the corpus of an endowment.

The Austin Peay State University Foundation classifies as permanently restricted net assets; (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the foundation and the endowment fund
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the foundation
7. The investment policies of the foundation

Composition of Endowment by Net Asset Class				
As of June 30, 2010				
	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$ 8,963,709.27			$ 8,963,709.27
Board-designated endowment funds				
Total funds	**$ 8,963,709.27**	**$ -**	**$ -**	**$ 8,963,709.27**

Changes in Endowment Net Assets				
As of June 30, 2010				
	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets , beginning of year	$ 7,010,048.71			$ 7,010,048.71
Investment return:				
Investment income	149,663.02			149,663.02
Net depreciation (realized and unrealized)	575,515.08			575,515.08
Total investment return	**$ 725,178.10**	**$ -**	**$ -**	**$ 725,178.10**
Contributions	773,156.90			773,156.90
Appropriation of endowment assets for expenditure				
Other changes:				
Transfers	455,325.56			455,325.56
Land sale				
Endowment net assets, end of year	**$ 8,963,709.27**			**$ 8,963,709.27**

RETURN OBJECTIVES AND RISK PARAMETERS

The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) 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 four percent annually. Actual returns in any given year may vary from this amount.

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE

The foundation has a policy of appropriating for distribution each year an amount equal to the product of the investment portfolio's average market value for the trailing twelve quarters ending December 31 multiplied by the spending rate. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of four percent annually. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

SUPPLEMENTARY INFORMATION

AUSTIN PEAY STATE UNIVERSITY - FOUNDATION
Supplementary Information
Unaudited Statement of Cash Flows - Component Unit
for the Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees		
Gifts and contributions	$	952,020.04
Payments to suppliers and vendors		(408,343.04)
Payments for scholarships and fellowships		(387,115.32)
Payments to Austin Peay State University		(140,884.37)
Net cash provided (used) by operating activities	$	15,677.31
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	$	566,004.64
Net cash provided (used) by non-capital financing activities	$	566,004.64
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets and construction		(5,612.00)
Net cash provided (used) by capital and related financing activities	$	(5,612.00)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$	2,732,051.43
Income on investments		204,608.75
Purchase of investments		(3,589,907.41)
Other investing payments		118,192.82
Net cash provided (used) by investing activities	$	(535,054.41)
Net increase (decrease) in cash and cash equivalents		41,015.54
Cash and cash equivalents - beginning of year		3,530,821.54
Cash and cash equivalents - end of year (Note 2)	$	3,571,837.08

RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income/(loss)	$	305,236.19
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense		2,711.40
Gifts in-kind		(388,500.00)
Pledges		83,318.85
Change in assets and liabilities:		
Receivables, net		55,462.64
Accounts payable		(42,551.77)
Net cash provided (used) by operating activities	$	15,677.31

Non-cash transactions		
Gifts in-kind - capital	$	388,500.00
Unrealized gains on investments	$	798,425.66
Gain on disposal of capital assets	$	34,479.76

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

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for Austin Peay State University

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, 2007	State Plan	$ -	$ 15,132,000	$ 15,132,000	0%	$ 41,440,911	36.5%
July 1, 2009	State Plan	$ -	$ 14,121,000	$ 14,121,000	0%	$ 39,864,731	35.4%

Austin Peay State University is one of 46 institutions in the Tennessee Board of Regents system, the sixth largest system of higher education in the nation. The Tennessee Board of Regents is the governing board for the system, which is composed of six universities, 13 two-year colleges and 27 Tennessee technology centers. The TBR system enrolls more than 80 percent of all Tennessee students attending public institutions of higher education.

Austin Peay State University, a Tennessee Board of Regents institution, is an equal opportunity employer committed to the education of a non-racially identifiable student body. AP174/9-10/45