

AUSTIN PEAY STATE UNIVERSITY

FINANCIAL REPORT

For The Year Ended June 30, 2012





Office of the President

September 4, 2012

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

Dear Chancellor Morgan:

Presented herewith is the annual Financial Report for Austin Peay State University for the fiscal year ended June 30, 2012.

Sincerely,

Timothy L. Hall
President

www.apsu.edu

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



Department of Finance and Administration

September 4, 2012

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, 2012. This report has been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

An audit of the University records for the fiscal year ended June 30, 2011, has not yet been completed. An audit of the University records for the fiscal year ended June 30, 2012, has not yet been scheduled.

Sincerely,

A handwritten signature in blue ink that reads 'Mitch Robinson'.

Mitch Robinson
Vice President for Finance and Administration

www.apsu.edu

P.O. Box 4635 • Clarksville, TN 37044 • P:(931) 221-7883 • F:(931) 221-6650

Austin Peay State University

Financial Report

For Year ended June 30, 2012

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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, 2012, with comparative information presented for the fiscal years ended June 30, 2011. 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)**

	2012	2011
Assets		
Current assets	\$ 27,356	\$ 27,545
Capital assets, net	161,594	156,428
Other assets	50,432	52,793
Total Assets	\$ 239,382	\$ 236,766
 Liabilities		
Current liabilities	\$ 14,117	\$ 13,881
Noncurrent liabilities	72,124	64,707
Total Liabilities	\$ 86,241	\$ 78,588
 Net Assets		
Invested in capital assets, net of debt	\$ 94,216	\$ 95,940
Restricted - nonexpendable	6,818	6,742
Restricted - expendable	4,737	6,682
Unrestricted	47,370	48,814
Total Net Assets	\$ 153,141	\$ 158,178

Comparison of FY 2012 to FY 2011

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

- Capital net assets and the investment in capital assets, net of debt increased due to the continued and planned acquisition of privately owned property surrounding the campus and the completion of the Castle Heights residence hall. Castle Heights is a 416-bed facility and replaces three existing residence halls: Cross, Killebrew and Rawlins. Those three halls will be torn down the first week in August to make room for the second phase of student housing construction
- Investments are included in other assets, which decreased between the fiscal years because of the stalled market recovery over the last fiscal period and as a consequence investment gains suffered (see related comment below in revenue section).
- Because of a prior period adjustment to record bond premiums, the noncurrent liabilities increased. In prior years the bond premium was reflected in bond issuance cost. Additionally, Castle Heights was built through the use of financing. With the completion of the new residence hall, additional debt was secured.
- A decrease in restricted – expendable net assets is because of a presentation change in the debt service reserve. In fiscal year 2012 the debt service was appropriately reclassified as unrestricted net assets.
- During the 2012 fiscal year the university implemented many repair and replacement projects, which has reduced the unrestricted net assets between the two fiscal years. Those projects included the expansion and paving of significant parking lots for residence halls, renovations for ADA restrooms in academic buildings.

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

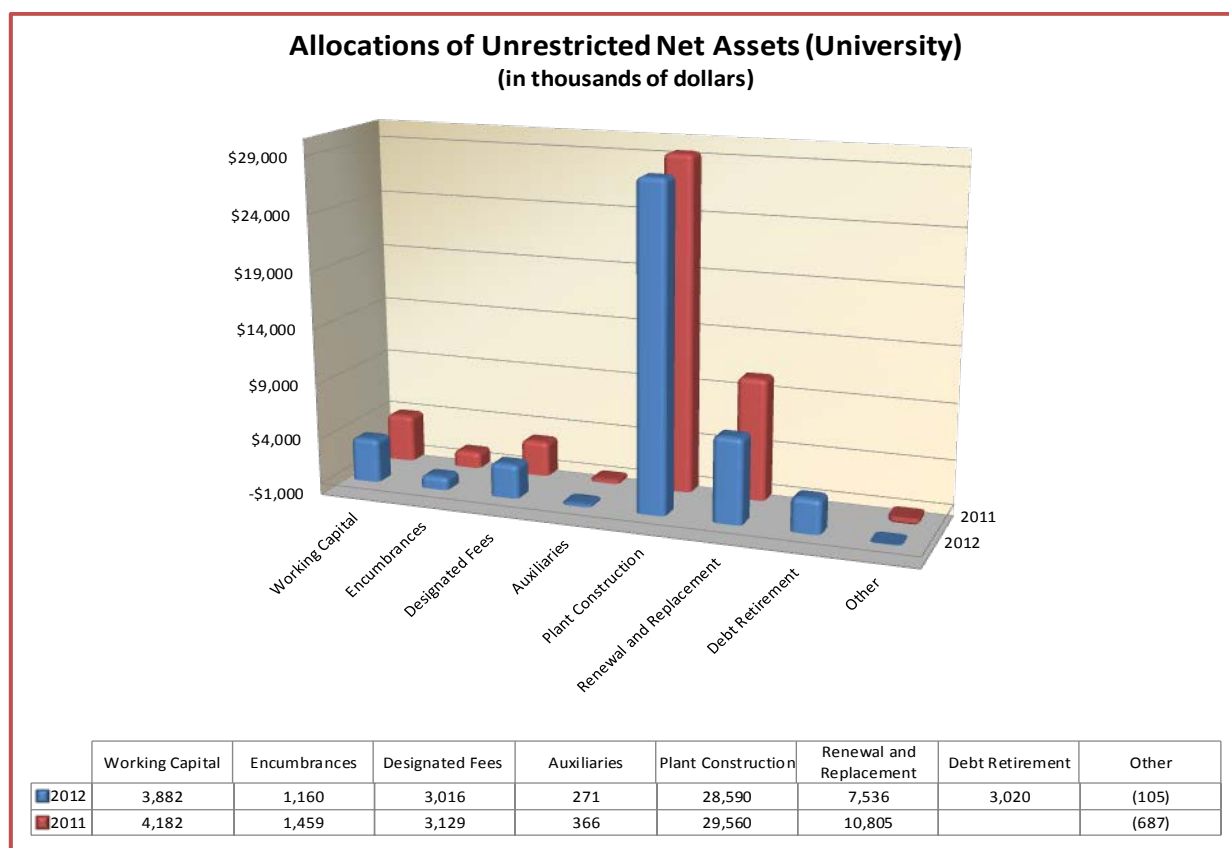
	<u>2012</u>	<u>2011</u>
Assets		
Current assets	\$ 280	\$ 406
Capital assets, net	1,761	879
Other assets	19,446	17,701
Total Assets	<u>\$ 21,487</u>	<u>\$ 18,986</u>
Liabilities:		
Current liabilities	\$ 21	\$ 4
Total Liabilities	<u>\$ 21</u>	<u>\$ 4</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 1,761	\$ 879
Restricted - nonexpendable	9,781	11,913
Restricted - expendable	9,330	5,552
Unrestricted	594	638
Total Net Assets	<u>\$ 21,466</u>	<u>\$ 18,982</u>

Comparison of FY 2012 to FY 2011

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

- Capital assets, net increased from the receipt of three charitable gifts of real property totaling \$883,800 during the 2012 fiscal year. These gifts increased capital assets between the fiscal years.
- Other assets for the component unit increased due to an increase in Pledges Receivable. Pledges with expected payment dates greater than one year increased \$938,600 for the current fiscal year.
- Invested in capital assets, net of related debt increased due to the three charitable gifts of real property discussed above. These gifts increased capital assets between the fiscal years.
- The decrease in restricted – nonexpendable assets and the increase in restricted – expendable assets are both due to the restatement of net asset classifications for donor restricted endowments. These restatements are the result of required Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Financial Accounting Standards Board (FASB) reporting changes. This is the first year of endowment restatement for the component unit and thus a comparison between the fiscal years will show more significant changes

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 2012 to FY 2011

- The reserve for encumbrances consists of many encumbrances from various university departments. While the total reserve for encumbrances decreased, there were no individual significant encumbrances liquidated from the 2011 fiscal year that would cause such a decrease, but rather an overall general decrease in the amount of encumbrances in the 2012 fiscal year.
- Many campus improvement and capital projects have been funded with excess Renewal and Replacement reserves during the fiscal year 2012. Projects such as the relocation of the campus server facility into the new Maynard Mathematics and Computer Science Building, various paving projects, and various other projects in Auxiliary Services.

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the university, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered 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)

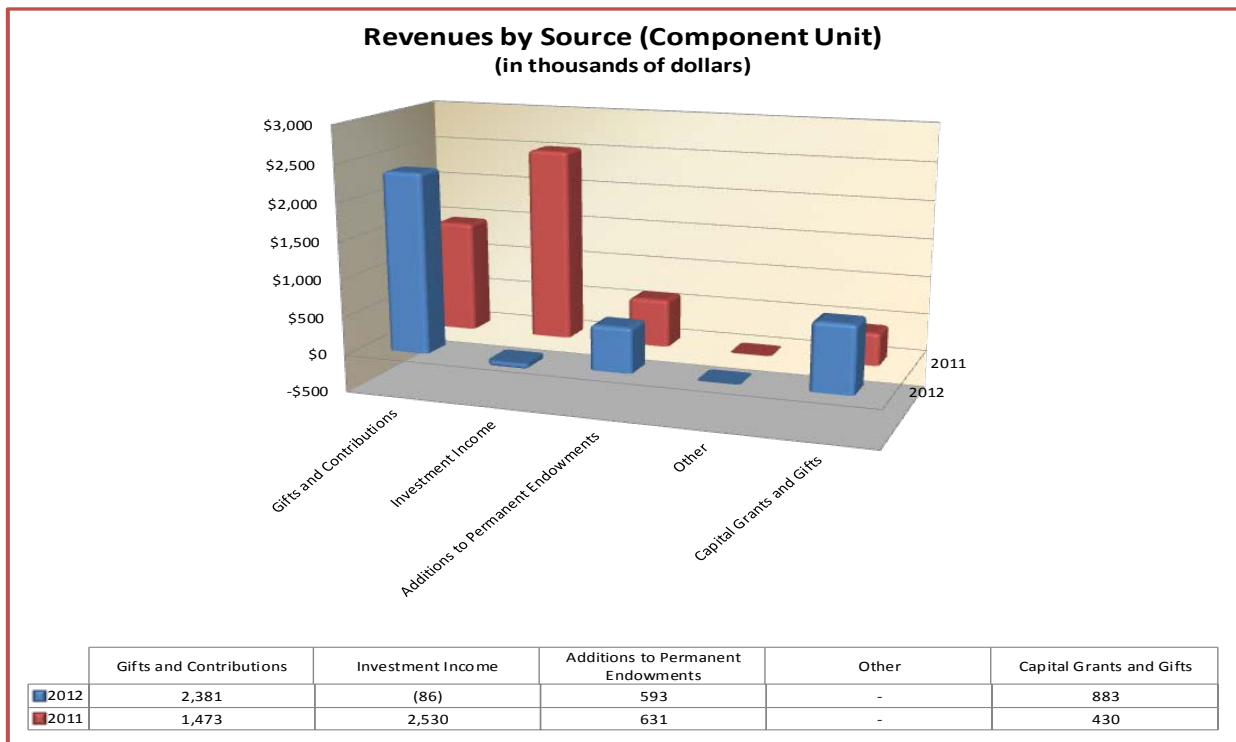
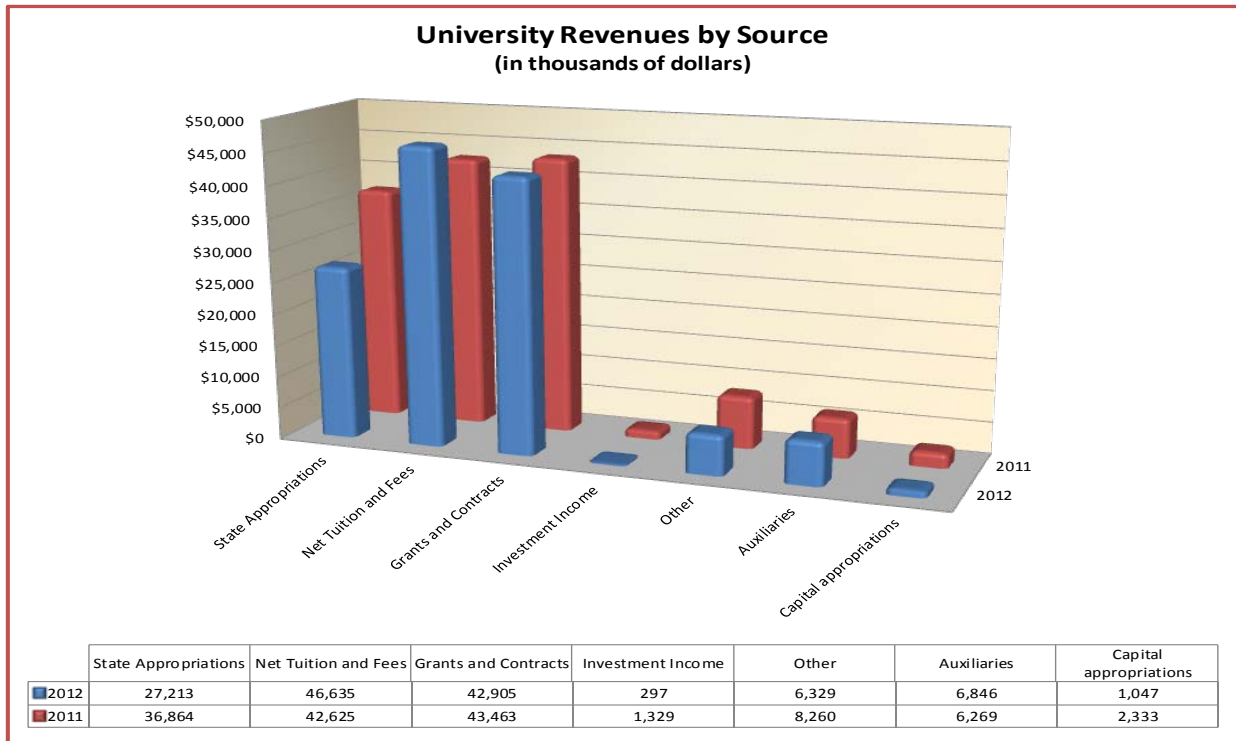
	<u>2012</u>	<u>2011</u>
Operating revenues:		
Net tuition and fees	\$ 46,635	\$ 42,625
Grants and contracts	5,271	6,031
Auxiliaries	6,846	6,269
Other	5,038	4,215
Total operating revenues	<u>\$ 63,790</u>	<u>\$ 59,140</u>
Operating expenses	\$ 133,333	\$ 123,971
Operating loss	<u>\$ (69,543)</u>	<u>\$ (64,831)</u>
Nonoperating revenues and expenses:		
State appropriations	\$ 27,213	\$ 36,864
Gifts	995	1,328
Grants and contracts	37,634	37,432
Investment income	297	1,329
Other revenues and expenses	(1,556)	(1,261)
Total nonoperating revenues and expenses	<u>\$ 64,583</u>	<u>\$ 75,692</u>
Income before other revenues, expenses, gains, or losses	<u>\$ (4,960)</u>	<u>\$ 10,861</u>
Other revenues, expenses, gains, or losses:		
Capital appropriations	\$ 1,047	\$ 2,333
Capital grants and gifts	100	2,166
Additions to permanent endowments	12	16
Total revenues, expenses, gains, or losses	<u>\$ 1,159</u>	<u>\$ 4,515</u>
Increase (decrease) in net assets	<u>\$ (3,801)</u>	<u>\$ 15,376</u>
Net assets at beginning of year	\$ 158,179	\$ 142,803
Prior period adjustment	(1,237)	-
Net assets at end of year	<u>\$ 153,141</u>	<u>\$ 158,179</u>

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

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

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



Comparison of FY 2012 to FY 2011

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

- The university was approved by the Tennessee Board of Regents to increase the in State undergraduate fee charged to students by 8 percent, and 8.2 percent for out of State tuition. Combined with a slight student enrollment growth caused the total tuition and fees to increase between the fiscal years.
- The Office of Grants and Sponsored Research has experienced a significant increase in external funding during the 2012 fiscal year, which has created an increase in grants and contracts. This growth is due, in part, to: 1) a 77.03% increase in the quantity of grant proposals prepared and submitted by the institution (with a 32% increase in those that were funded at the federal, state, local, or private levels), and 2) an improvement in the quality of services provided to the grant development process (including budget development and narrative preparation). The slight decrease in the average award amount is partially due to the increased number of junior faculty members who are becoming engaged in externally funded research and programming.
- In prior years components of other operating revenues such as advertising, parking and tickets, and real property rentals were reclassified to non-operating other. However, this was found out to be incorrect and as of fiscal year 2012 those revenues are correctly presented as part of other operating. This caused an increase in other operating between fiscal years in other operating revenues.
- Operating expenses increased primarily because of increases in salaries and benefits. The university provided a three percent across the board salary increase effective July 1, 2011. Additionally, the university provided two rounds of equity adjustments. Round one was paid in the October 2011 paycheck, and was retroactive to July. An additional round two of equity increase was paid in the April 2012 paycheck, which was made retroactive to January 1, 2012. The university was also allowed to provide employees a one-time bonus that was paid in November.
- The state continues to experience economic stress, which has resulted in a decrease in state appropriations. However, a new funding formula based on outcomes has shown to be more beneficial to the university with an increase to funding.
- Investment income decreased because the market recovery stalled over the last fiscal period and as a consequence investment gains suffered.
- Capital appropriations decreased between the fiscal years as a result of completing capital maintenance and building projects. During the 2012 fiscal year, the university completed phase II of the electrical upgrade maintenance project.
- In the 2011 fiscal year the university received a \$2,000,000 capital gift of equipment and the related installation in the chemical engineering technology building for course education and training. While the university received capital gifts in the 2012 fiscal year, they did not equal the amount received in the previous fiscal year.
- The university recorded two prior period adjustments in fiscal year 2012. The first relates to the removal of depreciation of subscriptions from library holdings as suggested by state audit and amounted to \$782,022.86. The second adjustment in the amount of \$1,236,833.57 relates to the recognition and amortization of bond premiums, which had previously been recognized as part of bond issuance cost. This adjustment was also recommended by state auditors.

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

- Gifts and contributions increased primarily due to a large change in pledges between the two fiscal years of \$990,000, while actual cash gifts increased by \$50,000 over the previous fiscal year.
- Investment income decreased because the market recovery stalled over the last fiscal period and as a consequence investment gains suffered. This slow growth led to an overall loss in the investment income for the component unit in fiscal year 2012 compared to the healthy gains enjoyed in fiscal year 2011 due to greater market recovery.
- Capital gifts to the component unit increased over 100 percent between the fiscal years due to three charitable gifts of real property received in fiscal year 2012. In fiscal year 2011, the component unit received property gifts of \$430,000 while the 2012 fiscal year gifts totaled \$ 883,800. Proceeds from the sale of the property will support scholarships in business, women's golf and geography.

EXPENSES

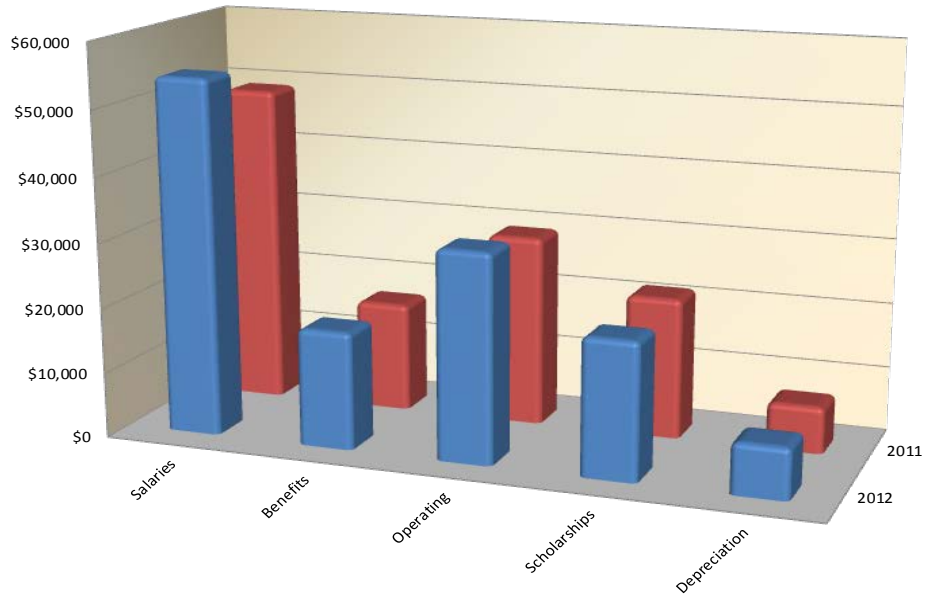
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

Natural Classification

Austin Peay State University		
Natural Classification		
(in thousands)		
	2012	2011
Salaries	\$ 54,452	\$ 49,135
Benefits	18,034	16,808
Operating	32,005	29,220
Scholarships	21,017	21,640
Depreciation	7,825	7,168
TOTAL	\$ 133,333	\$ 123,971

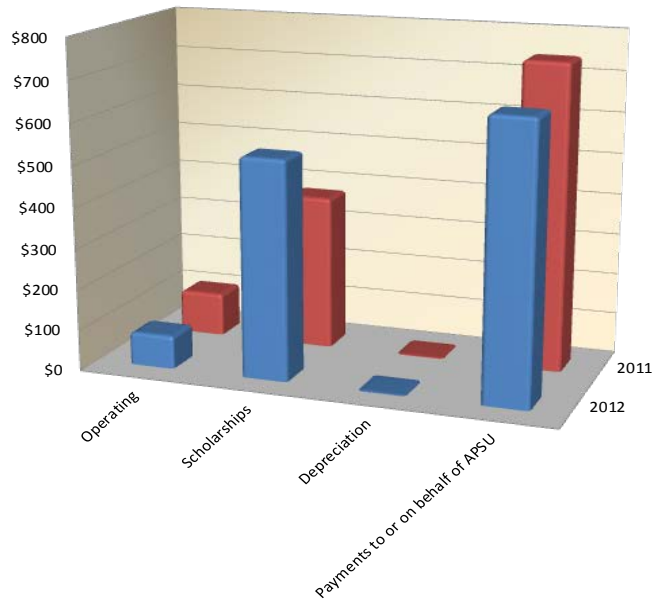
Component Unit		
Natural Classification		
(in thousands)		
	2012	2011
Operating	\$ 82	\$ 106
Scholarships	534	378
Depreciation	3	3
Payments to or on behalf of Austin Peay State University	668	744
TOTAL	\$ 1,287	\$ 1,231

Expenses by Natural Classification (University)
(in thousands of dollars)



	Salaries	Benefits	Operating	Scholarships	Depreciation
■ 2012	54,452	18,034	32,005	21,017	7,825
■ 2011	49,135	16,808	29,220	21,640	7,168

Expenses by Natural Classification (Component Unit)
(in thousands of dollars)



	Operating	Scholarships	Depreciation	Payments to or on behalf of APSU
■ 2012	81	534	3	669
■ 2011	106	378	3	744

Comparison of FY 2012 to FY 2011

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

- As previously discussed, the university's salary and benefits expenses increased because the university provided a three percent across the board salary increase effective July 1, 2011 and two rounds of equity adjustments.
- The university made a change in the treatment of periodicals purchased for the library. This change was made through the current year, which increased the operating expenses over last year. The amount of the adjustment to the current year's operating expenses is \$782,023.

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

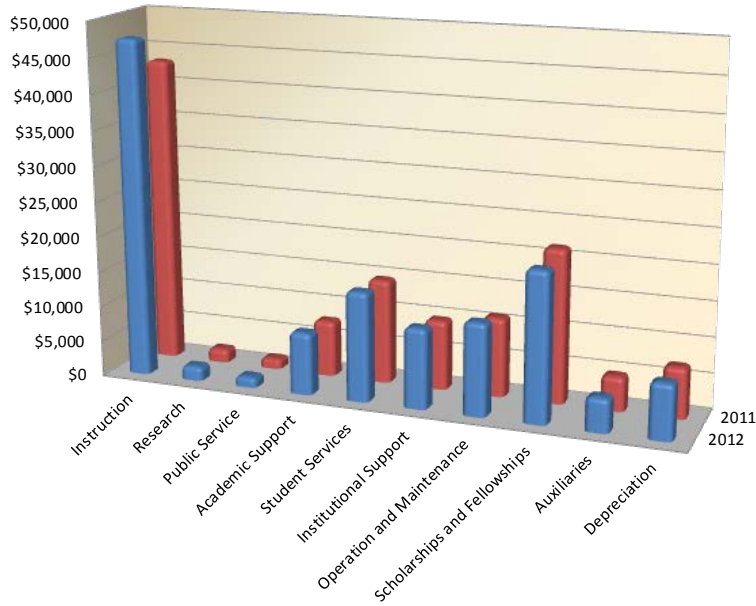
- During fiscal year 2011, the component unit intentionally held back one-time scholarships while deliberately allowing Endowment and scholarship funds to grow and recover from significant market losses in previous years. Beginning in fiscal year 2012, the component unit began awarding scholarships that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

Program Classification

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

	<u>2012</u>	<u>2011</u>
Instruction	\$ 47,587	\$ 43,252
Research	2,009	1,910
Public Service	1,464	1,418
Academic Support	8,810	7,927
Student Services	15,464	14,760
Institutional Support	11,328	9,859
Operation and Maintenance	13,043	11,170
Scholarships and Fellowships	21,017	21,640
Auxiliaries	4,786	4,867
Depreciation	7,825	7,168
TOTAL	<u>\$ 133,333</u>	<u>\$ 123,971</u>

Expenses by Program Classification
(in thousands of dollars)



	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operation and Maintenance	Scholarships and Fellowships	Auxiliaries	Depreciation
■ 2012	\$47,587	2,009	1,464	8,810	15,464	11,328	13,043	21,017	4,786	7,825
■ 2011	43,252	1,910	1,418	7,927	14,760	9,859	11,170	21,640	4,867	7,168

Comparison of FY 2012 to FY 2011

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

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

Capital Assets and Debt Administration

CAPITAL ASSETS

The university had \$161,593,852 invested in capital assets, net of accumulated depreciation of \$87,383,806 at June 30, 2012; and \$156,428,064 invested in capital assets, net of accumulated depreciation of \$83,023,075 at June 30, 2011. Depreciation charges totaled \$7,825,184 and \$7,167,626 for the years ended June 30, 2012, and June 30, 2011, respectively. Details of these assets are shown below.

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

	2012	2011
Land	\$ 9,241	\$ 6,999
Land improvements and infrastructure	20,245	13,731
Buildings	116,301	90,223
Equipment	6,994	5,048
Library holdings	1,378	2,489
Software	767	1,277
Projects in progress	6,668	16,174
Total	\$ 161,594	\$ 135,941

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

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

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

The State Building commission has approved significant capital projects that will begin during the 2013 fiscal year. Approved projects include a new math and computer science building that will house classrooms, faculty offices, computer labs, and the university's computer server room, and the complete renovation of the football stadium. The football stadium will include various athletic offices, locker rooms, training facilities, and skyboxes. The housing phase II project also started during the 2013 fiscal year to be completed by fall 2014. More detailed information about the university's capital assets is presented in Note 5 to the financial statements.

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

	2012	2011
Land	\$ 1,754	\$ 870
Equipment	7	9
Total	\$ 1,761	\$ 879

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

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

DEBT

The university had \$67,378,134 and \$60,488,465 in debt outstanding at June 30, 2012, and June 30, 2011, respectively. The component unit had no debt outstanding at June 30, 2012, or June 30, 2011. The table below summarizes these amounts by type of debt instrument.

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

	<u>2012</u>	<u>2011</u>
TSSBA Bonds	\$ 35,651	\$ 36,334
TSSBA Commercial Paper	31,727	24,154
Total Debt	<u>\$ 67,378</u>	<u>\$ 60,488</u>

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

The Castle Heights residence hall opened to students in the fall 2011 semester, and the university expects the related commercial paper to be converted into bonds.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2012, were as follows:

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

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

Economic Factors That Will Affect the Future

For fiscal year 2013, the Tennessee Board of Regents authorized an individual campus fee increase of 3.7% that is expected to generate approximately \$1.7 million in new funding, net of related scholarships, with a continued projected enrollment increase. State appropriations will continue to be reduced; however, based on Tennessee's new funding formula and the university's outcomes, the university will realize an appropriation increase in the amount of \$1,790,000 for fiscal year 2013. The capital markets remain unstable, which will affect the university's investment income.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

AUSTIN PEAY STATE UNIVERSITY
Unaudited Statement of Net Assets
June 30, 2012

	University	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 20)	\$ 19,364,261.54	\$ 219,111.54
Accounts, notes, and grants receivable (net) (Note 4)	7,284,372.00	39,530.56
Due from primary government	115,700.00	
Pledges receivable (net) (Note 20)		530.24
Inventories (at lower of cost or market)	290,523.88	
Prepaid expenses and deferred charges	200,628.28	
Accrued interest receivable	100,877.72	21,229.23
Total current assets	27,356,363.42	280,401.57
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 20)	42,292,077.09	4,162,967.94
Investments (Notes 3 and 20)	7,089,922.70	13,756,197.84
Accounts, notes, and grants receivable (net) (Note 4)	1,049,571.75	179,212.70
Pledges receivable (net) (Note 20)	-	1,347,318.70
Capital assets (net) (Notes 5 and 20)	161,593,852.16	1,760,566.10
Total noncurrent assets	212,025,423.70	21,206,263.28
Total assets	\$ 239,381,787.12	\$ 21,486,664.85
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	3,246,274.36	20,736.99
Accrued liabilities	2,619,653.78	
Student deposits	288,070.00	
Deferred revenue	3,991,775.88	
Compensated absences (Note 7)	696,491.41	
Accrued interest payable	364,937.34	
Long-term liabilities, current portion (Note 7)	1,699,259.28	
Deposits held in custody for others	1,210,109.34	
Total current liabilities	14,116,571.39	20,736.99
Noncurrent liabilities:		
Net OPEB obligation (Notes 7 and 12)	4,101,714.58	
Compensated absences (Note 7)	1,626,516.81	
Long-term liabilities (Note 7)	65,678,874.76	
Due to grantors (Note 7)	717,011.48	
Total noncurrent liabilities	72,124,117.63	
Total liabilities	\$ 86,240,689.02	\$ 20,736.99
NET ASSETS		
Invested in capital assets, net of related debt	94,215,718.12	1,760,566.10
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	6,702,339.12	9,362,623.27
Research		60,207.60
Instructional department uses	4,565.81	71,741.99
Other	111,327.97	286,656.43
Expendable:		
Scholarships and fellowships	1,577,476.33	4,969,976.08
Research	713,903.43	16,378.36
Instructional department uses	312,676.92	611,405.72
Loans	43,720.56	
Other	2,089,176.20	3,732,329.93
Unrestricted (Note 9)	47,370,193.64	594,042.38
Total net assets	\$ 153,141,098.10	\$ 21,465,927.86

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, 2012

	University	Component Unit
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$23,805,183.77)	\$ 46,634,870.77	
Gifts and contributions		\$ 2,381,117.24
Governmental grants and contracts	5,270,273.07	
Non-governmental grants and contracts	767.00	
Sales and services of other activities	4,103,532.21	
Auxiliary enterprises:		
Residential life (net of scholarship allowances of \$2,361,466.62 all residential life revenues are used as security for revenue bonds, see Note 10)	5,172,703.60	
Bookstore (all bookstore revenues are used as security for revenue bonds, see Note 10)	484,119.66	
Food service (all food service revenues are used as security for revenue bonds, see Note 10)	443,338.99	
Wellness facility (net of scholarship allowances of \$275,921.90 all wellness facility revenues are used as security for revenue bonds, see Note 10)	547,386.98	
Other auxiliaries	198,879.33	
Interest earned on loans to students	243,430.97	
Other operating revenues	690,873.19	200.00
Total operating revenues	\$ 63,790,175.77	\$ 2,381,317.24
EXPENSES		
Operating Expenses		
Salaries and wages	\$ 54,451,805.90	
Benefits	18,033,588.10	
Utilities, supplies, and other services	32,005,514.13	\$ 82,183.55
Scholarships and fellowships	21,017,158.69	533,607.60
Depreciation expense	7,825,184.15	2,711.40
Payments to or on behalf of Austin Peay State University		668,579.42
Total operating expenses	\$ 133,333,250.97	\$ 1,287,081.97
Operating loss	\$ (69,543,075.20)	\$ 1,094,235.27
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 27,213,363.93	
Gifts, including \$668,579.42 from component unit	995,030.90	
Grants and contracts	37,633,912.16	
Investment income (net of investment expense of \$20,100.86 for the university and \$48,035.80 for the component unit)	297,358.59	\$ (86,728.69)
Interest on capital asset-related debt	(1,739,420.58)	
Other non-operating revenues	182,354.75	
Net nonoperating revenues	\$ 64,582,599.75	\$ (86,728.69)
Income before other revenues, expenses, gains, or losses	\$ (4,960,475.45)	\$ 1,007,506.58
Capital appropriations	1,047,150.03	
Capital grants and gifts	100,000.00	\$ 883,800.00
Additions to permanent endowments	12,849.87	\$ 593,069.33
Total other revenues	\$ 1,159,999.90	\$ 1,476,869.33
Increase (decrease) in net assets	\$ (3,800,475.55)	\$ 2,484,375.91
NET ASSETS		
Net Assets - beginning of year	\$ 158,178,407.22	\$ 18,981,551.95
Prior period adjustment (Note 19)	\$ (1,236,833.57)	
Net Assets - end of year	\$ 153,141,098.10	\$ 21,465,927.86

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 46,250,638.07
Grants and contracts	5,273,143.45
Sales and services of other activities	4,106,206.15
Payments to suppliers and vendors	(30,493,522.59)
Payments to employees	(54,434,162.82)
Payments for benefits	(17,223,764.15)
Payments for scholarships and fellowships	(21,017,158.69)
Interest earned on loans to students	228,372.05
Auxiliary enterprise charges:	
Residence halls	5,076,378.58
Bookstore	569,532.55
Food services	460,534.27
Wellness facility	547,386.98
Other auxiliaries	198,879.33
Net cash used by operating activities	<u>\$ (60,457,536.82)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State appropriations	\$ 27,149,675.00
Gifts and grants received for other than capital or endowment purposes, including \$593,916.21 from APSU - Foundation to the institution	38,187,888.45
Private gifts for endowment purposes	12,849.87
Federal student loan receipts	58,229,001.00
Federal student loan disbursements	(58,198,919.00)
Changes in deposits held for others	104,232.88
Other non-capital financing receipts	182,354.75
Net cash provided by non-capital financing activities	<u>\$ 65,667,082.95</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	\$ 7,572,552.16
Capital - state appropriation	1,047,150.03
Purchase of capital assets and construction	(12,890,972.11)
Principal paid on capital debt and lease	(1,919,716.76)
Interest paid on capital debt and lease	(1,666,052.11)
Net cash used by capital and related financing activities	<u>\$ (7,857,038.79)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	\$ 1,244,415.45
Income on investments	328,190.21
Purchase of investments	(1,297,532.87)
Net cash provided by investing activities	<u>\$ 275,072.79</u>

Net increase in cash and cash equivalents	(2,372,419.87)
Cash and cash equivalents - beginning of year	64,028,758.20
Cash and cash equivalents - end of year (Note 2)	<u>\$ 61,656,338.33</u>

AUSTIN PEAY STATE UNIVERSITY
Unaudited Statement of Cash Flows (continued)
for the Year Ended June 30, 2012

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

Operating loss	\$ (69,543,075.20)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	7,825,184.15
Gifts in-kind	439,554.61
On-behalf payments	61,788.93
Change in assets and liabilities:	
Receivables, net	496,745.91
Inventories	3,529.78
Prepaid/deferred items	(39,946.14)
Other assets	(15,058.92)
Accounts payable	(79,876.95)
Accrued liabilities	596,968.05
Deferred revenues	(350,957.95)
Deposits	28,761.20
Compensated absences	161,236.51
Due to grantors	<u>(42,390.80)</u>
Net cash used by operating activities	<u>\$ (60,457,536.82)</u>
 Non-cash transactions	
Unrealized (losses) on investments	\$ (148,134.28)
Loss on disposal of capital assets	\$ (51,374.67)

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

Austin Peay State University

Standard Notes to the Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies

REPORTING ENTITY

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

The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Austin Peay State University.

The Austin Peay State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 20 for more detailed information about the component unit and how to obtain the report.

BASIS OF PRESENTATION

The university's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America 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 and sick leave at varying rates, depending upon length of service or classification. Some employees also earn compensatory time. The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the Statement of Net Assets. There is no liability for unpaid accumulated sick leave since the university's policy is to pay this only if the employee is sick or upon death.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, library holdings, and intangible assets, are reported in the Statement of Net Assets at historical cost or at fair value at date of donation, less accumulated depreciation. 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, 2012, cash consists of \$1,880,933.69 in bank accounts, \$14,314 of petty cash on hand, \$55,919,807.76 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$3,841,283.18 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, 2012, the university had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (In Years)				
		Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
US Treasury	\$ 168,769.97	\$ -	\$ 86,728.42	\$ 54,763.41	\$ 27,278.14	
US Agencies	198,340.24	-	33,972.80	14,857.04	149,510.40	
Corporate Stocks	1,672,040.60					\$ 1,672,040.60
Corporate Bonds	330,166.66		120,968.37	106,499.84	102,698.45	
Mutual Bond Funds	1,308,111.18				1,308,111.18	
Mutual Equity Funds	2,750,443.66				2,750,443.66	
Certificates of Deposit	593,931.03		593,931.03			
Money Market	68,119.36	68,119.36				
Total	\$ 7,089,922.70	\$ 68,119.36	\$ 835,600.62	\$ 176,120.29	\$ 4,338,041.83	\$ 1,672,040.60

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, 2012, the university's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating				
		AAA	AA	A	BBB	Unrated
Local Government Investment Pool (LGIP)	\$ 59,761,090.94					\$ 59,761,090.94
US Agencies	198,340.24		\$ 33,972.80			164,367.44
Corporate Bonds	330,166.66		45,976.67	\$175,363.83	\$ 33,958.51	74,867.65
Mutual Bond Funds	1,308,111.18	\$ 143,892.23	39,243.34	156,973.34	183,135.57	784,866.70
Total	\$61,597,709.02	\$143,892.23	\$119,192.81	\$332,337.17	\$217,094.08	\$60,785,192.73

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

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the university's investment in a single issuer. 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	\$ 29,654.01
Regions Investment Account	2,437,436.83
The Common Fund	4,058,554.84
Total	\$ 6,525,645.68

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

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

	Pooled Assets		Net Gains (Losses)	Fair Value per Unit
	Market	Cost		
Common Fund:				
<i>Multi-Strategy Equity Fund</i>				
June 30, 2012	\$ 2,750,443.66	\$ 1,110,000.00	\$ 1,640,443.66	194.15
July 1, 2011	\$ 2,263,573.82	\$ 1,080,000.00	1,183,573.82	200.66
			\$ 456,869.84	
<i>Multi-Strategy Bond Fund</i>				
June 30, 2012	\$ 1,308,111.18	\$ 1,748,000.00	\$ (439,888.82)	14.67
July 1, 2011	\$ 1,730,625.80	\$ 1,703,000.00	27,625.80	14.23
			\$ (467,514.62)	
Total net gains (losses)			\$ (10,644.78)	

The average annual earnings per unit, exclusive of net gains, were \$32.25 per unit for the Multi-Strategy Equity Fund and \$(5.243) per unit for the Multi-Strategy Bond Fund for the year ended June 30, 2012.

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

Accounts receivable included the following:

	June 30, 2012
Student accounts receivable	\$ 6,586,586.10
Grants receivable	652,083.31
Notes receivable	12,542.34
Other receivables	1,947,040.38
Subtotal	\$ 9,198,252.13
Less allowance for doubtful accounts	(1,913,880.13)
Total	\$ 7,284,372.00

Federal Perkins Loan Program funds include the following:

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

5. **Capital Assets**

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

	Beg Balance	Additions	Transfers	Reductions	End Balance
Land	\$ 8,682,877.09	\$ 557,562.80			\$ 9,240,439.89
Land improve & Infrastructure	27,480,655.94	1,811,683.95			29,292,339.89
Buildings	155,641,286.38	4,008,747.95	\$ 23,628,643.65	\$ 2,105,473.29	181,173,204.69
Equipment	14,763,979.76	2,042,180.31		475,676.88	16,330,483.19
Library holdings	5,914,227.01	120,175.03		2,151,294.71	3,883,107.33
Intangible assets	2,389,851.44				2,389,851.44
Projects in progress	24,578,261.76	5,718,613.60	(23,628,643.65)		6,668,231.71
Total	\$ 239,451,139.38	\$ 14,258,963.64	\$ -	\$ 4,732,444.88	\$ 248,977,658.14
Less accumulated depreciation/amortization:					
Land improve & infrastructure	\$ 7,734,899.78	\$ 1,312,154.05			\$ 9,047,053.83
Buildings	62,023,594.49	4,530,341.95		\$ 1,681,744.14	64,872,192.30
Equipment	8,410,032.65	1,349,897.97		424,302.21	9,335,628.41
Library holdings	3,486,073.97	388,310.74		1,369,271.85	2,505,112.86
Intangible assets	1,368,474.29	255,344.29			1,623,818.58
Total	\$ 83,023,075.18	\$ 7,836,049.00		\$ 3,475,318.20	\$ 87,383,805.98
Capital assets, net	\$ 156,428,064.20	\$ 6,422,914.64	\$ -	\$ 1,257,126.68	\$ 161,593,852.16

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

6. **Accounts Payable**

Accounts payable included the following:

	June 30, 2012
Vendors payable	\$ 3,213,519.39
Unapplied student payments	
Other payables	32,754.97
Total	\$ 3,246,274.36

7. Long-term Liabilities

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

	Beg Balance	Additions	Reductions	End Balance	Curr Portion
Payables:					
TSSBA debt:					
Bonds	\$ 36,333,813.14	\$ 0.01	\$ 1,830,180.02	\$ 34,503,633.13	\$ 1,699,259.28
Unamortized bond premium/discount	0.00	1,236,833.56	89,536.43	1,147,297.13	
Commercial Paper	24,154,651.63	7,572,552.15		31,727,203.78	
Subtotal	\$ 60,488,464.77	\$ 8,809,385.72	\$ 1,919,716.45	\$ 67,378,134.04	\$ 1,699,259.28
Other Liabilities					
Compensated Absences	\$ 2,161,771.71	\$ 2,245,008.89	\$ 2,083,772.38	\$ 2,323,008.22	\$ 696,491.41
Due to grantor	759,402.28		42,390.80	717,011.48	
Net OPEB obligation	3,752,596.30	349,118.28	-	4,101,714.58	
Subtotal	\$ 6,673,770.29	\$ 2,594,127.17	\$ 2,126,163.18	\$ 7,141,734.28	\$ 696,491.41
Total long-term liabilities	\$ 67,162,235.06	\$ 11,403,512.89	\$ 4,045,879.63	\$ 74,519,868.32	\$ 2,395,750.69

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, 2012. Unexpended debt proceeds were \$0.00 at June 30, 2012.

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

For the Year(s) Ending June 30	Principal	Interest	Total
2013	\$ 1,699,259.28	\$ 1,630,666.12	\$ 3,329,925.40
2014	1,236,668.24	1,551,902.42	2,788,570.66
2015	1,264,331.31	1,481,759.29	2,746,090.60
2016	1,172,163.13	1,424,576.08	2,596,739.21
2017	1,226,687.99	1,369,688.28	2,596,376.27
2018 – 2022	6,752,525.97	5,972,680.30	12,725,206.27
2023 -2027	8,501,896.69	4,237,015.71	12,738,912.40
2028 - 2032	9,378,098.72	2,076,495.12	11,454,593.84
2033 -2037	3,272,001.80	291,962.48	3,563,964.28
2038 -2042	-	-	-
Total	\$ 34,503,633.13	\$ 20,036,745.80	\$ 54,540,378.93

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance costs of various capital projects during the construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount outstanding for projects at the university was \$31,727,203.78 at June 30, 2012.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The university contributes amounts to the reserve fund based on the

amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the university when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

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

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, 2012, net appreciation of \$97,998.87 is available to be spent, of which \$97,998.87 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 2012
Working capital	\$ 3,881,673.59
Encumbrances	1,160,287.38
Designated fees	3,015,852.08
Auxiliaries	271,671.50
Plant construction	28,470,754.91
Renewal and replacement of equipment	7,655,491.10
Debt retirement	3,019,795.80
Undesignated balance	(105,332.72)
Total	\$ 47,370,193.64

10. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay \$34,503,633.13 in revenue bonds issued from April 2002 to April 2009. Proceeds from the bonds provided financing for Dorm Renovation, University Center with equipment, Recreation Center, Hand Village, Emerald Hills Apartments No. 4, Housing Infrastructure Upgrade, Marion Street Apartments, Housing Sprinkler System, and Fort Campbell Classroom Building. The bonds are payable through May 2036. Annual principal and interest payments on the bonds are expected to require 2.52 percent of available revenues. The total principal and interest remaining to be paid on the bonds is \$54,540,378.93. Principal and interest paid for the current year and total available revenues were \$3,514,264.16 and \$111,544,807.41, respectively.

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 15.03% 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, 2012, 2011, and 2010 were \$3,143,730.87, \$2,766,516.99, and \$2,321,141.50, 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, 2012, was \$2,292,539.89 and for the year ended June 30, 2011, was \$2,379,199.99. 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) 8-27-201 for the state plan and TCA 8-27-701 for the Medicare Supplement Plan. Prior to reaching the age of 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. The state makes on-behalf payments to the Medicare Supplement Plan for the university's eligible retirees, see Note 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. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25. Contributions for the State Employee Group Plan for the year ended June 30, 2012, were \$8,569,989.77, which consisted of \$6,958,113.61 from the university and \$1,611,876.16 from the employees.

Annual OPEB Cost and Net OPEB Obligation

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

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
06/30/12	State Employee Group Plan	\$ 1,303,771.47	73.2%	\$ 4,101,714.58
06/30/11	State Employee Group Plan	\$ 1,422,438.94	56.3%	\$ 3,752,596.30
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 July 1, 2011, was as follows:

Actuarial valuation date	July 1, 2011
Actuarial accrued liability (AAL)	\$ 9,831,000.00
Actuarial value of plan assets	0.00
Unfunded actuarial accrued liability (UAAL)	\$ 9,831,000.00
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 42,481,355.51
UAAL as percentage of covered payroll	23.14%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether

the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

In the July 1, 2011, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent in fiscal year 2012, decreased to 8.75 percent in fiscal year 2013 and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 2.5 percent 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 \$10,401,235.70 on deposit at June 30, 2012, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in 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, 2011, and June 30, 2010, 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, 2012, was not available. At June 30, 2011, the Risk Management Fund held \$107.6 million in cash and cash equivalents designated for payment of claims.

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

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims, including the 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 \$14,843,964.49 at June 30, 2012.

OPERATING LEASES - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were \$22,914 for the year ended June 30, 2012. All operating leases are cancelable at the lessee's option.

CONSTRUCTION IN PROGRESS - At June 30, 2012, outstanding commitments under construction contracts totaled \$12,514,336.25 for Math and Computer Science Building, Infrastructure Improvements, Upgrade Electrical, University Wide Parking, Farm Building Replacement, Master Plan, Undergraduate Housing, Library Water Heaters, Dunn Center Sprinklers, Baseball Field House, Campus Wide Paving, Clement and Music Mass Communication Water Heaters, Clement Window Replacement, Emerald Hill Fire Safety, ADA Adaptations, New Student Housing, and Clement Foundation Repair of which \$1,542,804.14 will be funded by future state capital outlay appropriations.

LITIGATION - The university is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

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 \$99,903 from these funds during the fiscal year ended June 30, 2012.

17. **Natural Classifications with Functional Classifications**

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

Functional Classification	Natural Classification					Total
	Salaries	Benefits	Other Operating	Scholarship	Depreciation	
Instruction	\$ 31,017,686.09	\$ 9,039,607.08	\$ 7,530,015.54			\$ 47,587,308.71
Research	1,040,706.09	322,391.14	645,704.32			2,008,801.55
Public Service	909,148.17	267,102.27	287,260.68			1,463,511.12
Academic Support	5,251,525.03	1,977,688.17	1,581,241.05			8,810,454.25
Student Services	6,660,138.63	2,627,701.37	6,175,913.30			15,463,753.30
Institutional Support	5,692,484.15	2,295,475.06	3,340,362.54			11,328,321.75
Maintenance & Operations	2,522,601.30	1,159,831.30	9,360,825.92			13,043,258.52
Scholarships & Fellowships				\$ 21,017,158.69		21,017,158.69
Auxiliary	1,357,516.44	343,791.71	3,084,190.78			4,785,498.93
Depreciation					\$ 7,825,184.15	7,825,184.15
Total Expenses	\$ 54,451,805.90	\$ 18,033,588.10	\$ 32,005,514.13	\$ 21,017,158.69	\$ 7,825,184.15	\$ 133,333,250.97

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

18. **Prior Period Adjustment**

In the year ended June 30, 2012, the university began amortizing TSSBA bond premiums and discounts greater than \$100,000 over the life of the bonds. Prior issuances were reviewed for materiality. The university identified six projects with bond premiums exceeding the \$100,000 threshold. Unamortized premiums of \$1,236,833.56 at June 30, 2011, were recorded. As a result, invested in capital assets, net of related debt, was reduced by \$1,236,833.56 at June 30, 2011.

19. **On-Behalf Payments**

During the year ended June 30, 2012, the State of Tennessee made payments of \$61,788.93 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit 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>.

20. **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, 2012, the Foundation made distributions of \$668,579.42 to or on behalf of the University for both restricted and unrestricted purposes. Complete financial

statements for the Foundation can be obtained from Donna Johansen, Business Office, PO Box 4635, Clarksville, TN 37044.

The Foundation is a nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the Foundation's financial information in the University's financial 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, 2012:

	Total Fair Value at June 30, 2012	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Unobservable Inputs: Level 3
Assets:				
Money Market Funds	\$ 601,790.14	\$ 601,790.14		
Certificates of deposit	100,426.93		100,426.93	
Marketable debt securities	2,840,364.53	2,840,364.53		
Marketable equity securities	8,713,396.28	8,713,396.28		
Mutual Funds	915,922.23	915,922.23		
Hedge Funds	470,184.92	470,184.92		
Real Estate	24,204.67	24,204.67		
Life Insurance	89,908.14	89,908.14		
Total Assets	\$ 13,756,197.84	\$ 13,655,770.91	\$ 100,426.93	\$ -

CASH AND CASH EQUIVALENTS – Cash and cash equivalents consists of demand deposit accounts, certificates of deposit, money market funds and State of Tennessee Local Government Investment Pool. The bank balances at June 30, 2012, were entirely insured.

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, 2012	
	Cost	Market Value
Money market funds	\$ 601,752.60	\$ 601,790.14
Certificates of deposit	100,426.93	100,426.93
Marketable debt securities	2,577,279.62	2,840,364.53
Marketable equity securities	6,955,932.41	8,713,396.28
Mutual funds	1,000,727.82	915,922.23
Hedge funds	500,000.00	470,184.92
Real Estate	21,207.32	24,204.67
Life Insurance	-	89,908.14
Total	\$ 11,757,326.70	\$ 13,756,197.84

ALTERNATIVE INVESTMENTS - The foundation has investments in hedge funds and real estate. The estimated fair value of these assets is \$494,389.59 at June 30, 2012.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2012. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

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

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

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

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

ENDOWMENTS - The Austin Peay State University Foundation's endowment consists of 159 individual funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

INTERPRETATION OF RELEVANT LAW – The Board of Trustees of the Austin Peay State University Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as a necessary tool to guide the investment policy and record keeping of the APSU Foundation. As a result of this interpretation, the APSU 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, 2012				
	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	\$ 9,781,229.29	\$ 2,396,297.07	\$ (29,311.01)	\$ 12,148,215.35
Board-designated endowment funds				
Total funds	\$ 9,781,229.29	\$ 2,396,297.07	\$ (29,311.01)	\$ 12,148,215.35

Changes in Endowment Net Assets				
As of June 30, 2012				
	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets, beginning of year	\$ 11,911,956.69			\$ 11,911,956.69
Net asset reclassification based on change in law	(2,804,325.95)	\$ 2,814,714.94	(\$10,388.99)	(0.00)
	\$ 9,107,630.74	\$ 2,814,714.94	\$ (10,388.99)	\$ 11,911,956.69
Investment return:				
Investment income		265,367.07		265,367.07
Net appreciation (realized and unrealized)		(415,286.94)	(18,922.02)	(434,208.96)
Total investment return	\$ -	\$ (149,919.87)	\$ (18,922.02)	\$ (168,841.89)
Contributions	661,229.12			661,229.12
Difference in Pledges	(68,159.79)			(68,159.79)
Appropriation of endowment assets for expenditure		(260,298.73)		(260,298.73)
Other changes:				
Transfers	80,529.22	(8,199.27)		72,329.95
Land sale				
Endowment net assets, end of year	\$ 9,781,229.29	\$ 2,396,297.07	\$ (29,311.01)	\$ 12,148,215.35

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

RETURN OBJECTIVES AND RISK PARAMETERS – The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) 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 seven 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 three 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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Gifts and contributions	\$	1,278,640.10
Payments to suppliers and vendors		(48,002.87)
Payments for scholarships and fellowships		(533,607.60)
Payments to Austin Peay State University		(593,916.21)
Other receipts		200.00
Net cash provided by operating activities	<u>\$</u>	<u>103,313.42</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Private gifts for endowment purposes	<u>\$</u>	<u>650,057.38</u>
Net cash provided by non-capital financing activities	<u>\$</u>	<u>650,057.38</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Net cash provided by capital and related financing activities	<u>\$</u>	<u>-</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	\$	2,902,010.24
Income on investments		345,027.70
Purchase of investments		(4,671,705.40)
Other investing payments		1,122,649.04
Net cash used by investing activities	<u>\$</u>	<u>(302,018.42)</u>
Net increase in cash and cash equivalents		451,352.38
Cash and cash equivalents - beginning of year		3,930,727.10
Cash and cash equivalents - end of year (Note 19)	<u>\$</u>	<u>4,382,079.48</u>

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

Operating income	\$	1,094,235.27
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense		2,711.40
Other adjustments		(1,003,517.43)
Change in assets and liabilities:		
Receivables, net		(7,124.96)
Accounts payable		17,009.14
Net cash provided by operating activities	<u>\$</u>	<u>103,313.42</u>

Non-cash transactions

Gifts in-kind - capital	\$	883,800.00
Unrealized gains on investments	\$	(874,091.55)

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, 2009	State Plan	\$ -	\$ 14,121,000	\$14,121,000	0%	\$39,864,731	35.42%
July 1, 2010	State Plan	\$ -	\$ 12,961,000	\$12,961,000	0%	\$40,813,948	31.76%
July 1, 2011	State Plan	\$ -	\$ 9,831,000	\$ 9,831,000	0%	\$42,481,356	23.14%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed, with the exception of the July 1, 2010 actuarial valuation. The covered payroll date for the July 1, 2010 actuarial valuation is July 1, 2009.