AUSTIN PEAY STATE UNIVERSITY

FINANCIAL REPORT

For The Year Ended June 30, 2014

Office of the President

September 8, 2014

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

Dear Chancellor Morgan:

We are providing this letter in connection with the transmittal of the financial statements for Austin Peay State University. The financial statements for fiscal year 2014 consist of: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; and Notes to the Statements (the "Financial Statements"). We believe that the Financial Statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Institution in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the Financial Statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

We represent to you that to the best of our knowledge and belief as of the date of this transmittal:

1. The Financial Statements are fairly presented in conformity with accounting principles generally accepted in the United States of America.

2. There are no material transactions that have not been properly recorded in the accounting records underlying the Financial Statements.

3. The financial statements of component units of the Institution have been accurately and appropriately incorporated into the Institution's Financial Statements.

4. The Notes are internally consistent with and conform to the Financial Statements as presented.

Alisa White

Alisa White

Mitch Robinson

cc. Vice Chancellor for Business and Finance

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Austin Peay State University

Financial Report

For Year ended June 30, 2014

TABLE OF CONTENTS

Management's Discussion and Analysis 1

Unaudited Statement of Net Position 11

Unaudited Statement of Revenues, Expenses, and Changes in Net Position........................... 12

Unaudited Statement of Cash Flows 13

Notes to the Financial Statements.. 14

Supplementary Information... 30

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014, with comparative information presented for the fiscal year ended June 30, 2013. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

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

Overview of the Financial Statements

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

The University's financial report includes the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

The Statement of Net Position

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

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

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

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

Statement of Net Position (in thousands of dollars)

	2014	2013
Assets		
Current assets	$ 28,785	$ 26,491
Capital assets, net	208,622	187,935
Other assets	42,599	47,777
Total Assets	**$ 280,006**	**$ 262,203**
Deferred Outflows of Resources		
Deferred loss on debt refunding	$ 192	$ -
Total Deferred Outflows	**$ 192**	**$ -**
Liabilities		
Current liabilities	$ 18,125	$ 14,435
Noncurrent liabilities	105,966	91,339
Total Liabilities	**$ 124,091**	**$ 105,774**
Deferred Inflows of Resources		
Deferred gain on debt refunding	$ -	$ 466
Total Deferred Outflows	**$ -**	**$ 466**
Net Position		
Net investment in capital assets	$ 107,897	$ 101,822
Restricted - nonexpendable	8,942	7,727
Restricted - expendable	3,989	4,657
Unrestricted	35,279	41,757
Total Net Position	**$ 156,107**	**$ 155,963**

- Current assets increased due to increases in accounts receivable. Student's third-party billing increased approximately $900 thousand primarily from federal agencies. Grant and contract receivables increased approximately $277 thousand from various sponsors and Unexpended Plant funds receivables increased $800 thousand as a result of receivables due for projects in progress.

- Capital assets, net increased because of new acquisitions of property and the construction of several campus projects. The university purchased additional property located in the campus master plan in the amount of $410 thousand to be used for future expansion of student facilities and other growth. The university completed various construction projects in the amount of $41,913 thousand. The New Student Housing added $33,496 thousand, and the Maynard Mathematics and Computer Science building added $7,732 thousand.

  While Construction in Progress had significant increases with new and continued projects, such as the new Football Stadium which added $12,180 thousand and the Library Mechanical replacement added another $1,047 thousand. The reduction of the completed projects resulted in a net $15,947 thousand reduction in projects in progress.

- Other assets decreased due to the completion of renovation and construction projects. Noncurrent cash in Unexpended Plant funds decreased $6,532 thousand as project costs were expended.
- Current liabilities increased primarily because of an increase in accounts payable in Unexpended Plant funds. The increase in accounts payable is $2,454 thousand. Significant construction costs were recognized close to the end of the fiscal year causing accounts payable for the stadium project to exceed $3 million. Other notable increases included $402 thousand in the current portion of compensated absences, and $478 thousand in the current portion of long-term debt.

- Noncurrent liabilities increased due to a $14,790 thousand increase in long-term debt due to the construction and completion of several capital projects.

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

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

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

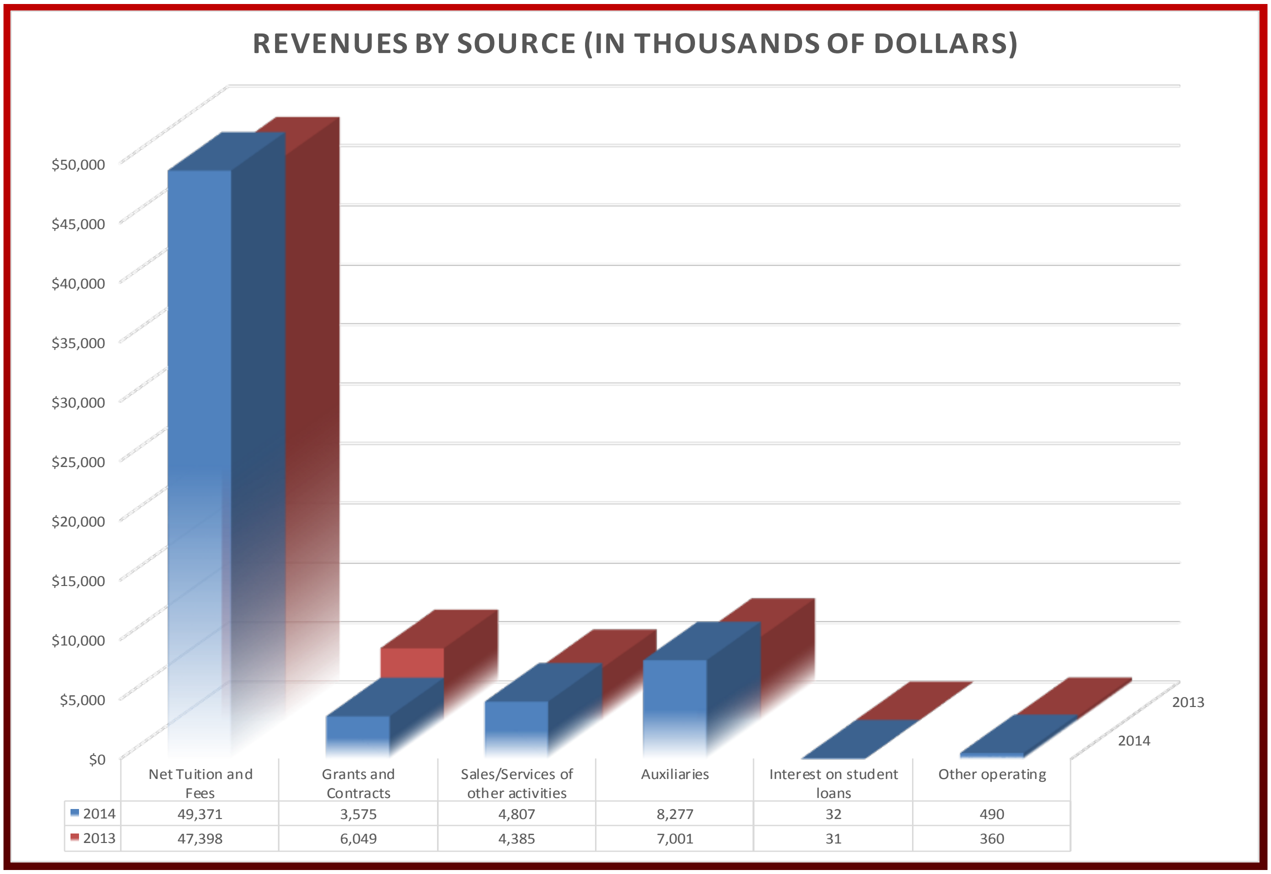
A summary of the University's revenues, expenses, and changes in net position for the year ended June 30, 2014, and June 30, 2013, follows.

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

	2014	2013
Operating revenues	$ 66,552	$ 65,224
Operating expenses	138,553	131,567
Operating loss	**$ (72,001)**	**$ (66,343)**
Nonoperating revenues and expenses	**$ 69,749**	**$ 66,184**
Loss before other revenues, expenses, gains, or losses	**$ (2,252)**	**$ (159)**
Other revenues, expenses, gains, or losses:	**$ 2,396**	**$ 1,980**
Increase (decrease) in net position	**$ 144**	**$ 1,821**
Net position at beginning of year	$ 155,963	$ 153,141
Prior period adjustment		1,001
Net position at end of year	**$ 156,107**	**$ 155,963**

Operating Revenues

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



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

Comparison of FY 2014 to FY 2013

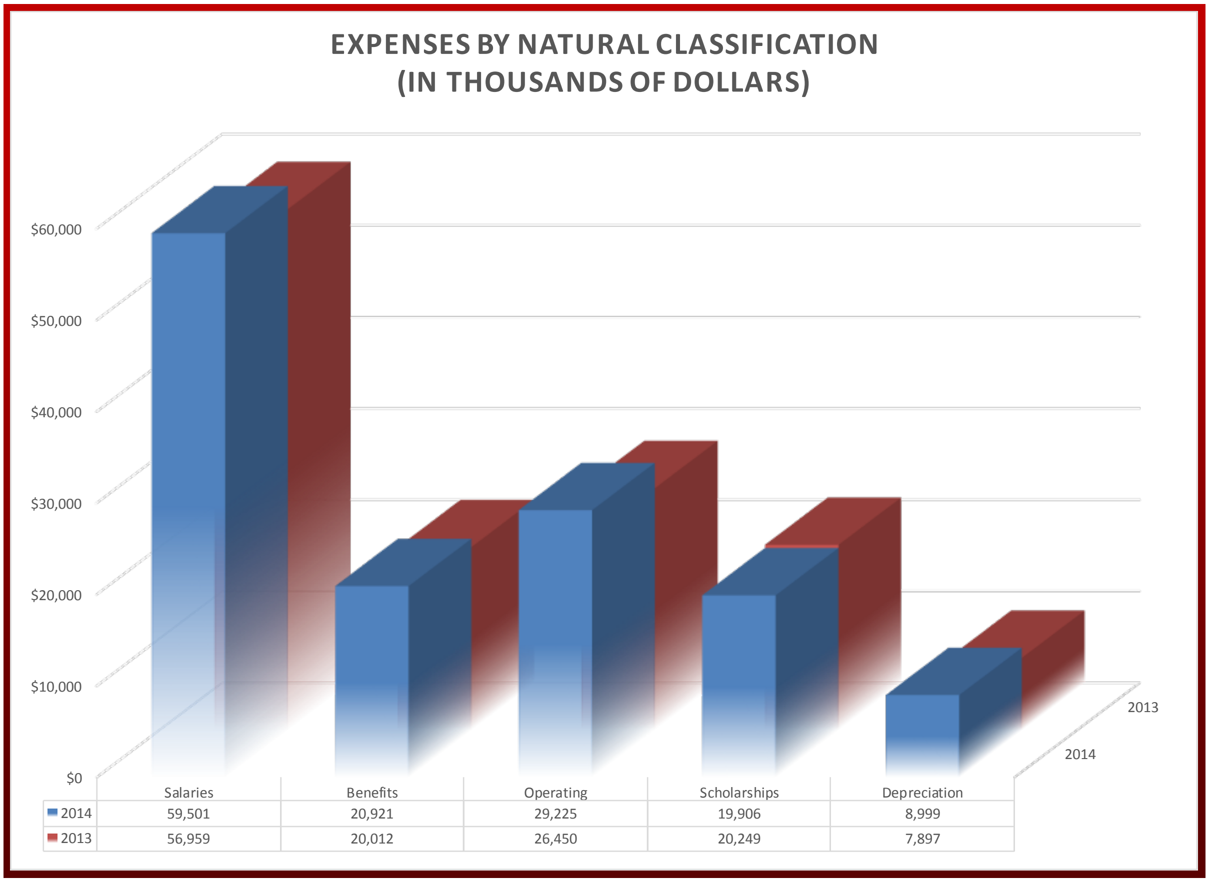
- Net tuition and fees increased $1,974 thousand due to an overall average fee increase of three percent. However, grants and contract revenues realized a decrease in the amount of $2,474 thousand.

- Grants and Contracts the 2013 construction project for new residence halls, Eriksson and Governors Terrace North and South halls, included a $1,523 thousand Federal Emergency Management Agency (FEMA) grant to include safe shelters in each of the buildings of the construction project. Since Austin Peay does not have a significant number of grants, an overall decrease in grants and contracts such as the Title IV, Social Work grant also has a significant impact.

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

Operating Expenses

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



Comparison of FY 2014 to FY 2013

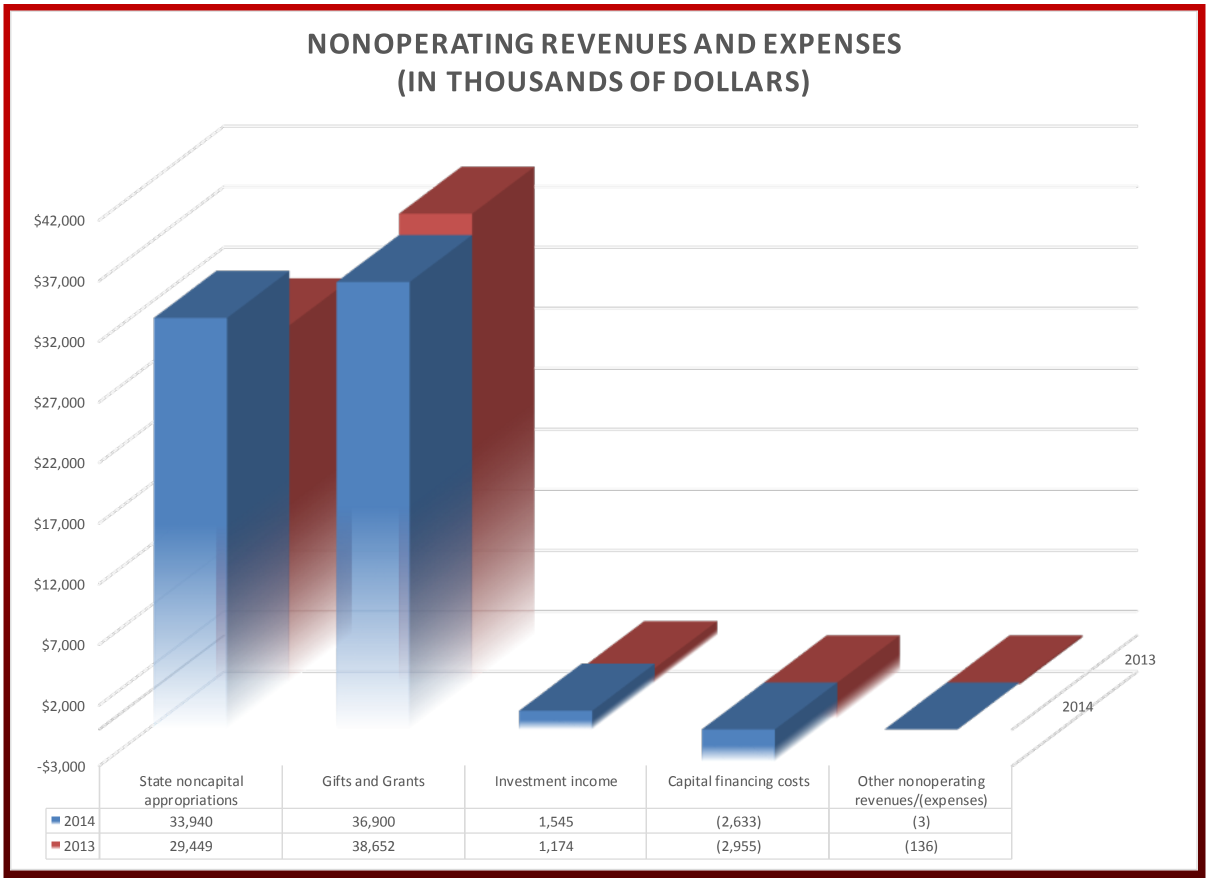
- Salaries and Benefits expense increases mainly occurred due to a state 1.5% across the board salary increases, the university also provided an equity adjustment. The institution continues to increase faculty lines as possible to continue to improve the faculty to student ratio. Benefits expenses increased primarily as a result of salary increase; however, part of the increase was due to an increase in insurance rates.

- Operating expenses includes many accounts such as printing and duplicating, communications and shipping, maintenance and repairs, professional and administrative services, and supplies increased a total of $2,767 thousand. This increase is made up of many accounts being used by all the institutional units and departments and generally increased overall. The more significant increases occurred in utilities and supplies, which increased from 2013 to 2014 by $686 thousand, and $802 thousand, respectively. The utility increase is mostly due to the increased buildings, and a harsher winter than in the past. Supplies are controlled by each department and will vary from year-to-year.

- ➢ Depreciation expenses increase is due to newly constructed and purchased buildings, and equipment placed in the buildings.

Nonoperating Revenues and Expenses

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



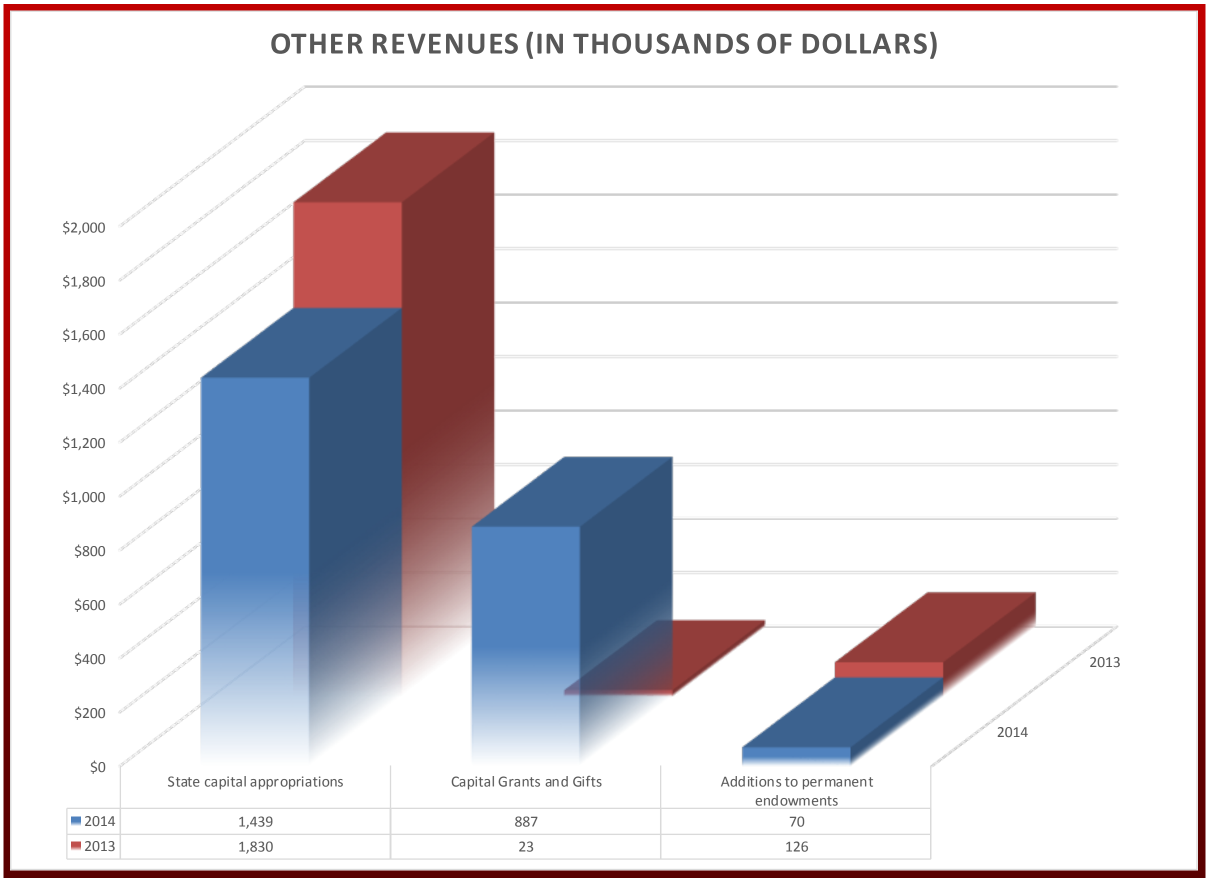
Comparison of FY 2014 to FY 2013

- ➢ State noncapital appropriations increased because of the outcomes achieved by Austin Peay under the new funding formula. The new formula awards institutions that improve retention, progression, and graduation rates. The Tennessee Higher Education Commission (THEC) recommends funding each year based on calculations that measures outcomes.

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

Other Revenues

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



Comparison of FY 2014 to FY 2013

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

- Capital Grants and Gifts were received in the amount of $800 thousand to aid in the construction of the new Football stadium. An additional $86 thousand was received as a capital gift to provide partial funding for lighting on the Baseball field.

Capital Assets and Debt Administration

Capital Assets

Austin Peay State University had $208,622 thousand invested in capital assets, net of accumulated depreciation of $101,759 thousand at June 30, 2014; and $187,935 thousand invested in capital assets, net of accumulated depreciation of $93,730 thousand at June 30, 2013. Depreciation charges totaled $8,999 thousand and $7,897thousand for the years ended June 30, 2014, and June 30, 2013, respectively.

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

	2014	2013
Land	$ 9,730	$ 9,424
Land improvements and infrastructure	24,301	24,401
Buildings	152,822	115,939
Equipment	6,178	6,183
Library holdings	986	1,180
Intangible assets	255	511
Projects in progress	14,350	30,297
Total	**$ 208,622**	**$ 187,935**

Significant additions to capital assets occurred in fiscal year 2014. These additions were from the completion of construction of new residence halls, Eriksson Hall, Governors Terrace North and Governors Terrace South. The new residence halls will add approximately 400 new beds for male and female residents. The total amount added to capital assets related to the new residence halls is $33.5 million. The university also completed construction on its new Math and Computer Science building, Maynard Mathematics and Computer Science. The new Math and Computer Science building added $7.7 million to capital assets. Additionally, the university started construction on a new Football stadium that is scheduled to open with Austin Peay's first home game, September 13, 2014. The June 30, 2014 amount of construction in progress for the new stadium was $12.2 million.

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

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

Debt

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

Schedule of Outstanding Debt (in thousands of dollars)

	2014	2013
TSSBA Bonds	$ 90,807	$ 60,839
TSSBA Commercial Paper	10,110	24,809
Total Debt	**$ 100,917**	**$ 85,648**

The TSSBA issued bonds with interest rates ranging from 0.35% to 5% due serially until November 2043 on behalf of Austin Peay State University. The University is responsible for the debt service of these bonds. The current portion of the $90.8 million outstanding at June 30, 2014, is $ 2.1 million.

The TSSBA issued commercial paper on behalf of Austin Peay State University. The University is responsible for the debt service of these obligations. The outstanding amount at June 30, 2014, is $10.1 million.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2014, were as follows:

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

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

Economic Factors That Will Affect the Future

For the fiscal year 2015, the Tennessee Board of Regents authorized an in state undergraduate fee increase of 5.6% and an in state graduate fee increase of 5.3%. The undergraduate and graduate out of state fees were not increased from the prior year. The state of Tennessee legislator's approved the Governor's budget, which included an outcome based increase to Austin Peay's funding in the amount of $1.041 million of new state funding The capital markets remain unstable, which will affect the university's investment income.

BASIC FINANCIAL STATEMENTS

AUSTIN PEAY STATE UNIVERSITY
Unaudited Statement of Net Position
June 30, 2014

	University	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 18)	$ 20,274,568.59	$ 422,447.19
Short-term investments (Note 18)		$ 12,000.00
Accounts, notes, and grants receivable (net) (Note 4)	6,835,025.81	38,691.97
Due from primary government	104,900.00	
Due from component unit	1,042,038.55	
Pledges receivable (net) (Note 18)		63,196.45
Inventories (at lower of cost or market)	311,726.74	
Prepaid expenses	83,830.98	
Accrued interest receivable	132,730.49	26,741.14
Total current assets	28,784,821.16	563,076.75
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 18)	32,084,525.08	6,039,285.26
Investments (Notes 3 and 18)	9,471,201.32	19,503,317.37
Accounts, notes, and grants receivable (net) (Note 4)	1,043,892.84	167,818.64
Pledges receivable (net) (Note 18)		8,220,225.40
Capital assets (net) (Notes 5 and 18)	208,621,905.18	1,544,897.49
Total noncurrent assets	251,221,524.42	35,475,544.16
Total assets	**$ 280,006,345.58**	**$ 36,038,620.91**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on debt refunding	192,273.49	
Total deferred outflows of resources	**$ 192,273.49**	
LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	5,844,937.76	3,136.86
Accrued liabilities	2,832,084.37	
Due to primary government		1,042,038.55
Student deposits	179,970.00	
Unearned revenue	4,524,114.01	
Compensated absences (Note 7)	832,489.43	
Accrued interest payable	666,711.29	
Long-term liabilities, current portion (Note 7)	2,127,451.01	
Deposits held in custody for others	1,117,587.92	
Total current liabilities	18,125,345.79	1,045,175.41
Noncurrent liabilities:		
Net OPEB obligation (Note 11)	4,708,007.55	
Compensated absences (Note 7)	1,877,639.73	
Long-term liabilities (Note 7)	98,789,394.98	
Due to grantors (Note 7)	591,504.82	
Total noncurrent liabilities	105,966,547.08	
Total liabilities	**$ 124,091,892.87**	**$ 1,045,175.41**
NET POSITION		
Net investment in capital assets	107,897,332.68	1,544,897.49
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	8,826,058.34	16,495,697.48
Research		60,207.60
Instructional department uses	4,565.81	74,455.24
Other	111,327.97	290,689.19
Expendable:		
Scholarships and fellowships	1,289,970.10	10,799,005.70
Research	642,690.63	43,294.21
Instructional department uses	339,511.46	1,898,690.20
Loans	73,091.03	
Other	1,643,441.12	2,975,572.58
Unrestricted	35,278,737.06	810,935.81
Total net position	**$ 156,106,726.20**	**$ 34,993,445.50**

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

AUSTIN PEAY STATE UNIVERSITY
Unaudited Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2014

	University	Component Unit
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $24,030,722.81)	$ 49,371,224.05	
Gifts and contributions		$ 2,209,043.39
Endowment income (per spending plan)		304,213.65
Governmental grants and contracts	3,476,090.43	
Non-governmental grants and contracts	98,862.33	
Sales and services of other activities	4,806,955.69	
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $2,886,879.79 all residential life revenues are used as security for revenue bonds, see Note 9)	6,131,874.26	
Bookstore (all bookstore revenues are used as security for revenue bonds, see Note 9)	464,518.89	
Food service (all food service revenues are used as security for revenue bonds, see Note 9)	691,008.93	
Wellness facility (net of scholarship allowances of $377,867.15 all welness facility revenues are used as security for revenue bonds, see Note 9)	792,773.84	
Other auxiliaries	196,993.71	
Interest earned on loans to students	31,771.49	
Other operating revenues	489,975.52	221,941.05
Total operating revenues	$ 66,552,049.14	$ 2,735,198.09
EXPENSES		
Operating Expenses (Note 16)		
Salaries and wages	$ 59,501,470.91	
Benefits	20,920,865.81	
Utilities, supplies, and other services	29,225,155.85	$ 219,791.06
Scholarships and fellowships	19,906,106.67	1,007,831.30
Depreciation expense	8,999,142.36	874.41
Payments to or on behalf of Austin Peay State University (Note 18)		2,089,241.99
Total operating expenses	$ 138,552,741.60	$ 3,317,738.76
Operating loss	$ (72,000,692.46)	$ (582,540.67)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	$ 33,940,258.00	
Gifts, including $1,202,490.88 from component unit	628,900.09	
Grants and contracts	36,270,914.09	
Investment income (net of investment expense of $19,734.85 for the university and $72,611.02 for the component unit)	1,545,132.25	$ 2,415,635.45
Interest on capital asset-related debt	(2,482,193.40)	
Bond issuance costs	(151,040.70)	
University/College support		61,203.29
Other non-operating revenues	(3,337.64)	
Net nonoperating revenues	$ 69,748,632.69	$ 2,476,838.74
Income before other revenues, expenses, gains, or losses	$ (2,252,059.77)	$ 1,894,298.07
Capital appropriations	1,438,912.33	
Capital grants and gifts, including $886,751.11 from component unit(s)	886,751.11	
Additions to permanent endowments	70,139.00	$ 865,450.72
Total other revenues	$ 2,395,802.44	$ 865,450.72
Increase (decrease) in net assets	$ 143,742.67	$ 2,759,748.79
NET POSITION		
Net position - beginning of year	$ 155,962,983.53	$ 24,863,938.40
Prior period adjustment (Note 18)	$ -	$ 7,369,758.31
Net position - end of year	**$ 156,106,726.20**	**$ 34,993,445.50**

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$	48,798,187.51
Grants and contracts		3,038,941.77
Sales and services of other educational activities		4,831,366.92
Payments to suppliers and vendors		(27,606,732.98)
Payments to employees		(59,491,787.05)
Payments for benefits		(20,529,470.99)
Payments for scholarships and fellow ships		(19,906,106.67)
Interest earned on loans to students		15,916.42
Auxiliary enterprise charges:		
Residence halls		6,108,040.03
Bookstore		679,012.30
Food services		688,217.35
Wellness facility		792,773.84
Other auxiliaries		196,993.71
Net cash used by operating activities	$	(62,384,647.84)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	$	33,777,900.00
Gifts and grants received for other than capital or endow ment purposes, including $1,632,742.20 from APSU - Foundation to the institution		36,799,488.86
Private gifts for endow ment purposes		70,139.00
Federal student loan receipts		53,757,498.95
Federal student loan disbursements		(53,856,483.00)
Changes in deposits held for others		(1,025,738.06)
Other non-capital financing receipts (payments)		22,221.14
Net cash provided by non-capital financing activities	$	69,545,026.89
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	$	50,281,992.50
Capital - state appropriation		1,438,912.33
Capitalgrants and gifts received, including $86,751.11 from Austin Peay State University Foundation		86,751.11
Purchase of capital assets and construction		(27,544,044.43)
Principal paid on capital debt and lease		(35,013,232.08)
Interest paid on capital debt and lease		(2,965,186.62)
Bond issue costs paid on new debt issue		(151,040.70)
Net cash used by capital and related financing activities	$	(13,865,847.89)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$	1,476,845.38
Income on investments		365,157.48
Purchase of investments		(1,902,843.26)
Net cash provided by investing activities	$	(60,840.40)
Net decrease in cash and cash equivalents		(6,766,309.24)
Cash and cash equivalents - beginning of year		59,125,402.91
Cash and cash equivalents - end of year (Note 2)	$	52,359,093.67
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	$	(72,000,692.46)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense		8,999,142.36
Gifts in-kind		6,337.68
Other adjustments		(1,404,873.90)
Change in assets and liabilities:		
Receivables, net		(1,017,909.73)
Inventories		(14,528.89)
Prepaid/deferred items		108,513.89
Other assets		(15,855.07)
Accounts payable		2,469,071.15
Accrued liabilities		214,511.61
Unearned revenues		233,554.74
Deposits		(800.00)
Compensated absences		129,604.75
Due to grantors		(90,723.97)
Net cash used by operating activities	$	(62,384,647.84)
Non-cash transactions		
Unrealized gains on investments	$	928,333.08
Loss on disposal of capital assets	$	121,480.29

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

NOTES TO THE FINANCIAL STATEMENTS

Austin Peay State University

Standard Notes to the Financial Statements
June 30, 2014

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 18 for more detailed information about the component unit and how to obtain the report.

BASIS OF PRESENTATION

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

BASIS OF ACCOUNTING

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

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

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

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

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 Position. 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, works of art, historical treasures/collections, and intangible assets, are reported in the Statement of Net Position at historical cost or at fair value at date of donation, less accumulated depreciation. 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. The capitalization threshold for art, historical treasures/collections, and similar assets is set at $5,000.

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

NET POSITION
The university's net position is classified as follows:

NET INVESTMENT IN CAPITAL ASSETS: This represents the university's total investment in capital assets, net of 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 net investment in capital assets.

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

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

UNRESTRICTED NET POSITION: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, 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 position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university, and the amount that is paid by the student and/or third parties making payments on the 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, 2014, cash consists of $1,823,097.43 in bank accounts, $14,384 of petty cash on hand, $49,183,744.16 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $1,337,868.08 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.

The Local Government Investment Pool (LGIP) is administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report.* That report is available on the state's website at http://www.tn.gov/treasury or by calling (615) 741-2956.

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, 2014, the university had the following investments and maturities

		Investment Maturities (In Years)				
Investment Type	**Fair Value**	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**	**No Maturity Date**
US Treasury	$ 214,457.89	$ 5,174.20	$ 144,833.41	$ 64,450.28		
US Agencies	182,342.32	47,546.80	33,580.39	871.94	$ 100,343.19	
Corporate Stocks	2,104,872.10					$ 2,104,872.10
Corporate Bonds	425,014.74	34,445.55	370,239.51	20,329.68		
Mutual Bond Funds	1,739,256.84			1,739,256.84		
Mutual Equity Funds	4,168,171.13					4,168,171.13
Certificates of Deposit	595,187.42	565,185.13	30,002.29			
Money Market	41,898.88	41,898.88				
Total	**$ 9,471,201.32**	**$ 694,250.56**	**$ 578,655.60**	**$ 1,824,908.74**	**$ 100,343.19**	**$ 6,273,043.23**

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies 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, 2014, the university's investments were rated as follows:

		Credit Quality Rating									
Investment Type	Fair Value	AAA	AA	A	BBB	BB	B	CCC	CC	C	Unrated
Local Government Investment Pool (LGIP)	$50,521,612.24										$50,521,612.24
US Agencies	182,342.32		$ 78,809.09								103,533.23
Corporate Bonds	425,014.74	$ 52,580.75	80,293.75	$183,977.51	$ 80,803.44	$ 1,016.06					26,343.23
Mutual Bond Funds	1,739,256.84	$ 203,840.90	53,743.04	127,139.68	232,364.71	$ 28,871.66	$ 49,568.82	$ 38,089.72	$ 6,609.18	$ 869.63	998,159.50
Total	**$52,868,226.14**	**$256,421.65**	**$212,845.88**	**$311,117.19**	**$313,168.15**	**$29,887.72**	**$49,568.82**	**$38,089.72**	**$6,609.18**	**$869.63**	**$51,649,648.20**

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The university does not have a deposit policy for custodial credit risk. At June 30, 2014, the university had $2,968,585.93 of uninsured and unregistered investments for which the securities are held by the counterparty and $5,907,427.97 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	$	30,002.29
Regions Investment Account		
US Treasury	$	214,457.89
US Agencies		182,342.32
Corporate Stocks		2,104,872.10
Corporate Bonds		425,014.74
Money Market Account		41,898.88
Total Regions Investment Account	$	2,968,585.93
The Commonfund		
Mutual Bond Funds	$	1,739,256.84
Mutual Equity Funds		4,168,171.13
Total Commonfund	$	5,907,427.97
Total	**$**	**8,906,016.19**

The Certificate of Deposit and Regions Investment Account are each the investment of a single endowment fund. Investments for the remaining endowment funds are composed of two mutual funds managed by the Commonfund. 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, 2014, there were a total of 14,512.25 units in the Multi-Strategy Equity Fund, each unit had a fair value of $287.22, and a total of 115,460.72 units in the Multi-Strategy Bond Fund, each unit had a fair value of $15.06.

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:				
Multi-Strategy Equity Fund				
June 30, 2014	$ 4,168,171.13	$ 1,928,277.49	$ 2,239,893.64	287.22
July 1, 2013	$ 3,296,092.03	$ 1,110,000.00	2,186,092.03	233.60
			$ 53,801.61	
Multi-Strategy Bond Fund				
June 30, 2014	$ 1,739,256.84	$ 1,518,027.38	$ 221,229.46	15.06
July 1, 2013	$ 1,303,896.90	$ 1,748,000.00	(444,103.10)	14.67
			$ 665,332.56	
Total net gains (losses)			**$ 719,134.17**	

The average annual earnings per unit were $3.707 per unit for the Multi-Strategy Equity Fund and $5.762 per unit for the Multi-Strategy Bond Fund for the year ended June 30, 2014.

4. Accounts, Notes, and Grants Receivable

Accounts receivable included the following:

	June 30, 2014	
Student accounts receivable	$	6,336,051.01
Grants receivable		1,232,038.22
Notes receivable		12,542.34
Other receivables		838,517.83
Subtotal	**$**	**8,419,149.40**
Less allowance for doubtful accounts		(1,584,123.59)
Total	**$**	**6,835,025.81**

Federal Perkins Loan Program funds include the following:

	June 30, 2014	
Perkins loans receivable	$	1,376,576.59
Less allowance for doubtful accounts		(332,683.75)
Total	**$**	**1,043,892.84**

5. Capital Assets

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

	Beg Balance	Additions	Transfers	Reductions	End Balance
Land	$ 9,423,613.37	$ 306,093.29			$ 9,729,706.66
Land improve & Infrastructure	35,104,473.32	940,859.20	$ 643,752.43	62,689.92	36,626,395.03
Buildings	185,196,115.19	13,430,057.40	28,892,482.59	$ 36,467.62	227,482,187.56
Equipment	15,559,468.93	1,394,214.98		564,143.07	16,389,540.84
Library holdings	3,695,392.31	146,536.60		428,418.68	3,413,510.23
Intangible assets	2,389,851.44				2,389,851.44
Projects in progress	30,296,838.87	13,589,325.53	(29,536,235.02)		14,349,929.38
Total	**$281,665,753.43**	**$29,807,087.00**	**$ -**	**$1,091,719.29**	**$310,381,121.14**
Less accumulated depreciation/amortization:					
Land improve & infrastructure	$ 10,706,983.06	$ 1,645,257.40		$ 27,268.21	$ 12,324,972.25
Buildings	69,256,873.87	5,439,899.19		36,467.62	74,660,305.44
Equipment	9,372,601.20	1,305,072.33		465,866.38	10,211,807.15
Library holdings	2,514,691.60	341,351.04		428,418.68	2,427,623.96
Intangible assets	1,879,162.87	255,344.29			2,134,507.16
Total	**$ 93,730,312.60**	**$ 8,986,924.25**		**$ 958,020.89**	**$101,759,215.96**
Capital assets, net	**$ 187,935,440.83**	**$ 20,820,162.75**	**$ -**	**$ 133,698.40**	**$ 208,621,905.18**

6. Accounts Payable

Accounts payable included the following:

	June 30, 2014
Vendors payable	$5,827,115.37
Unapplied student payments	17,822.39
Other payables	-
Total	**$ 5,844,937.76**

7. **Long-term Liabilities**

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

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

TSSBA Debt - Bonds Payable

Bonds, with interest rates ranging from 0.35% to 5%, were issued by the Tennessee State School Bond Authority. The bonds are due serially until November 2043 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations, see Note 9 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the Statement of Net Position is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. The reserve amount was $320,071.37 at June 30, 2014. Unexpended debt proceeds were $0.00 at June 30, 2014.

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

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

TSSBA Debt – Revolving Credit Facility

The Tennessee State School Bond Authority issues loans from the revolving credit facility 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 revolving credit facility debt is redeemed. The amount outstanding for projects at the university was $10,109,745.45 at June 30, 2014.

More detailed information regarding the bonds and the revolving credit facility can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report is available on the state's website at 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 its 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, 2014, net appreciation of $162,414.15 is available to be spent, of which $162,414.15 is included in restricted net position expendable for scholarships and fellowships.

9. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $84,280,494.96 in revenue bonds issued from June 2005 to August 2013. Proceeds from the bonds provided financing for Dorm Renovation, University Center with equipment, Recreation Center, Hand Village, Emerald Hills Apartments No. 4, Fort Campbell Classroom Building, Marion Street Apartments, Housing Sprinkler System Upgrade, Castle Heights, and New Student Housing. The bonds are payable through November 2043. Annual principal and interest payments on the bonds are expected to require 4.77 percent of available revenues. The total principal and interest remaining to be paid on the bonds is $144,786,082.95. Principal and interest paid for the current year and total available revenues were $5,587,549.04 and $123,300,499.61, respectively.

10. 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, 2014, 2013, and 2012 were $3,835,654.40, $3,397,023.53, and $3,143,730.87, 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, 2014, was $2,864,415.92 and for the year ended June 30, 2013, was $2,716,710.48. Contributions met the requirements for each year.

11. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program 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 16. 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, 2014, were $9,794,275.36, which consisted of $7,954,200.54 from the university and $1,840,074.82 from the employees.

Annual OPEB Cost and Net OPEB Obligation

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

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
06/30/14	State Employee Group Plan	$ 1,147,644.55	82.5%	$ 4,708,007.55
06/30/13	State Employee Group Plan	$ 1,314,912.90	69.1%	$ 4,507,708.28
06/30/12	State Employee Group Plan	$ 1,303,771.47	73.2%	$ 4,101,714.58

Funded Status and Funding Progress – The funded status of the plan as of July 1, 2013, was as follows:

Actuarial valuation date	July 1, 2013
Actuarial accrued liability (AAL)	$ 8,615,000.00
Actuarial value of plan assets	0.00
Unfunded actuarial accrued liability (UAAL)	$ 8,615,000.00
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	$ 50,022,447.08
UAAL as percentage of covered payroll	17.22%

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

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

In the July 1, 2013, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5 percent initially, decreased to 7.0 percent in fiscal year 2015 and then reduced by decrements to an ultimate rate of 4.19 percent in fiscal year 2044. 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. Payroll is assumed to grow at a rate of 3.0 percent.

12. Chairs of Excellence

The university had $12,521,595.33 on deposit at June 30, 2014, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in these financial statements.

13. 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 (including flood and earthquake) cyber, aircraft, fine arts, 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, 2013, and June 30, 2012, 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, 2014, was not available.

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

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

14. 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 $16,739,710.18 at June 30, 2014.

OPERATING LEASES - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $24,200 for the year ended June 30, 2014. All operating leases are cancelable at the lessee's option.

CONSTRUCTION IN PROGRESS - At June 30, 2014, outstanding commitments under construction contracts totaled $10,327,007.77 for Underground Electrical Update, Mechanical Systems Update, Governors Stadium Renovation, Fine Arts Improvements, Animal Science Center, ADA Adaptations, and Student Housing of which $2,359,054.14 will be funded by future state capital outlay appropriations.

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

15. 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 $136,764 from these funds during the fiscal year ended June 30, 2014.

16. Natural Classifications with Functional Classifications

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarship	Depreciation	Total
Instruction	$ 34,012,923.20	$ 10,699,467.53	$ 6,652,027.93			$ 51,364,418.66
Research	863,797.86	366,145.23	581,988.65			1,811,931.74
Public Service	714,148.63	251,325.72	274,594.25			1,240,068.60
Academic Support	5,667,779.18	2,115,973.89	567,960.42			8,351,713.49
Student Services	7,672,583.48	3,256,022.80	5,806,186.34			16,734,792.62
Institutional Support	6,396,695.47	2,584,667.75	4,354,915.83			13,336,279.05
Maintenance & Operations	2,746,321.85	1,247,006.19	6,384,587.25			10,377,915.29
Scholarships & Fellowships				$19,906,106.67		19,906,106.67
Auxiliary	1,427,221.24	400,256.70	4,602,895.18			6,430,373.12
Depreciation					$8,999,142.36	8,999,142.36
Total Expenses	**$ 59,501,470.91**	**$ 20,920,865.81**	**$ 29,225,155.85**	**$ 19,906,106.67**	**$ 8,999,142.36**	**$ 138,552,741.60**

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $3,159,660.83 were reallocated from academic support to the other functional areas.

17. On-Behalf Payments

During the year ended June 30, 2014, the State of Tennessee made payments of $57,458 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in the 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.

18. Component Unit

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, 2014, the Foundation made distributions of $2,089,241.99 to or on behalf of the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Donna Johansen, Accounting Services, P.O. 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 MEASUREMENT – The foundation reports certain assets and liabilities at fair value. Fair value has been determined using quoted prices in active markets for identical assets and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair value measurements for assets and liabilities at June 30, 2014:

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

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, 2014, 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, 2014	
	Cost	Market Value
Certificates of Deposit	$ 100,432.53	$ 100,432.53
Corporate Stock	4,994,352.63	6,291,834.54
Mutual Bond Funds	2,930,058.35	3,225,959.60
Mutual Equity Funds	4,978,332.10	8,355,927.69
Money Market Funds	216,717.63	216,717.63
Life Insurance		90,341.87
Mixed Asset Mutual Funds	1,136,809.19	1,234,103.51
Total	**$ 14,356,702.43**	**$ 19,515,317.37**

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

	June 30, 2014
Current pledges	$ 63,196.45
Pledges due in one to five years	1,429,896.49
Pledges due after five years	12,530,762.00
Subtotal	**$ 14,023,854.94**
Less discounts to net present value	(5,740,433.09)
Total pledges receivable, net	**$ 8,283,421.85**

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

		June 30, 2014
Land	$	1,536,140.62
Equipment		22,627.08
Total	**$**	**1,558,767.70**
Less accumulated depreciation/amortization:		
Equipment		13,870.21
Total	**$**	**13,870.21**
Capital assets, net	**$**	**1,544,897.49**

ENDOWMENTS – The Austin Peay State University's Foundation's endowment consists of 176 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net position associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

INTERPRETATION OF RELEVANT LAW – The Board of Trustees of the Austin Peay State University Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as a necessary tool to guide the investment policy and recordkeeping of the APSU Foundation. As a result of this interpretation, the Austin Peay State University Foundation classifies as permanently restricted net position (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 position is classified as temporarily restricted net position 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, 2014				
	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$ 16,921,049.51	$ 5,359,072.44	$ (12,969.00)	$ 22,267,152.95
Board-designated endowment funds				
Total funds	**$ 16,921,049.51**	**$ 5,359,072.44**	**$ (12,969.00)**	**$ 22,267,152.95**

Changes in Endowment Net Assets As of June 30, 2014				
	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets, beginning of year	$ 11,222,951.35	$ 3,460,167.42	$ (5,654.89)	$ 14,677,463.88
Prior period adjustment	5,050,679.53			5,050,679.53
Investment return:				
Investment income		229,266.07		229,266.07
Net appreciation (realized and unrealized)		2,196,321.86	(7,314.11)	2,189,007.75
Total investment return		**$ 2,425,587.93**	**$ (7,314.11)**	**$ 2,418,273.82**
Contributions	679,690.35	110,300.00		789,990.35
Appropriation of endowment assets for expenditure		(304,213.65)		(304,213.65)
Other changes:				
Transfers	(218,032.09)	(332,769.26)		(550,801.35)
Difference in Pledges	185,760.37			185,760.37
Endowment net assets, end of year	**$ 16,921,049.51**	**$ 5,359,072.44**	**$ (12,969.00)**	**$ 22,267,152.95**

FUNDS WITH DEFICIENCIES – From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the foundation is required to retain in a fund of perpetual duration. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net position. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and/or continued appropriation for fees and previously approved budgeted expenditures. At June 30, 2014, deficiencies of this nature totaled $12,969.00.

RETURN OBJECTIVES AND RISK PARAMETERS – The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the historical dollar value of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). 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 historical dollar value of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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

PRIOR PERIOD ADJUSTMENT – A prior period adjustment of $7,369,758.31 was made to recognize unrecorded pledges.

SUPPLEMENTARY INFORMATION

AUSTIN PEAY STATE UNIVERSITY - FOUNDATION
Supplementary Information
Unaudited Statement of Cash Flows - Component Unit
for the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	2,006,067.75
Payments to suppliers and vendors		938,712.33
Payments for scholarships and fellowships		(1,007,831.30)
Payments to Austin Peay State University		(1,719,493.31)
Other receipts		221,941.05
Net cash provided by operating activities	$	439,396.52
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	$	638,237.32
Net cash provided by non-capital financing activities	$	638,237.32
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	$	189,106.61
Purchase of capital assets and construction		(6,264.08)
Net cash provided by capital and related financing activities	$	182,842.53
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$	4,479,711.24
Income on investments		319,215.05
Purchase of investments		(6,474,177.68)
Other investing receipts		808,087.10
Net cash used by investing activities	$	(867,164.29)
Net increase in cash and cash equivalents		393,312.08
Cash and cash equivalents - beginning of year		6,068,420.37
Cash and cash equivalents - end of year (Note 19)	$	6,461,732.45

RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	$	(582,540.67)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense		874.41
Endowment income per spending plan		(304,213.65)
Other adjustments		299,325.18
Change in assets and liabilities:		
Receivables, net		(17,062.77)
Accounts payable		1,043,014.02
Net cash provided by operating activities	$	439,396.52

Non-cash transactions		
Unrealized gains on investments	$	2,055,678.80
Loss on disposal of capital assets	$	(45,168.46)

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, 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%
July 1, 2013	State Plan	$ -	$ 8,615,000	$ 8,615,000	0%	$50,022,447	17.22%

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.