Financial Report 2018-19

Austin Peay State University

Office of the President

February 13, 2020

Chairman Michael O'Malley
Austin Peay State University Board of Trustees
601 College Street
Clarksville, TN 37040

Dear Chairman O'Malley:

We are providing this letter in connection with the transmittal of the audited financial statements for Austin Peay State University. The financial statements for fiscal year 2019 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.

Respectfully submitted,

Alisa White
President

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Department of Finance and Administration

February 13, 2020

Dr. Alisa White
President
Austin Peay State University
601 College Street
Clarksville, TN 37040

Dear Dr. White:

The financial statements on the following pages have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The management of Austin Peay State University is responsible for the integrity and objectivity of these financial statements.

Management believes that the university's highly developed system of internal accounting controls provides reasonable assurance that assets are protected and that transactions and events are properly recorded. Establishing sound fiscal policies and procedures and communicating them clearly, carefully selecting qualified financial staff, and implementing an extensive program of internal audits and management reviews ensure that the system of internal controls is maintained.

The financial statements herein have been audited by the State of Tennessee, Comptroller of the Treasury, Division of State Audit. The auditor's opinion is based on audit procedures described in their letter, which include understanding university systems, procedures, and internal controls and performing tests and other auditing procedures sufficient to provide reasonable assurance that the financial statements are not materially misleading nor do they contain material errors.

The statements contained in this report describe the university's overall financial condition and the financial performance for the year ended June 30, 2019. A separate publication, "Supplemental Information", contains detailed supporting schedules and appendices. The supporting schedules and appendices are designed to enable analysis of important items summarized or consolidated in the financial statements of this report.

Respectfully submitted,

Mitch Robinson

Mitch Robinson
Vice President for Finance and Administration

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Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy Comptroller

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. Alisa White, President

Report on the Financial Statements

We have audited the accompanying financial statements of Austin Peay State University, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the university's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

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expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Austin Peay State University and its discretely presented component unit as of June 30, 2019; and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of Austin Peay State University, an institution of the State University and Community College System of Tennessee, are intended to present the financial position, the changes in financial position, and the cash flows of only Austin Peay State University. They do not purport to, and do not, present fairly the financial position of the State University and Community College System of Tennessee as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14; the schedule of Austin Peay State University's proportionate share of the net pension liability – Closed State and Higher Education Employee Pension Plan within TCRS on page 55; the schedule of Austin Peay State University's proportionate share of the net pension asset – State and Higher Education Employee Retirement Plan within TCRS on page 56; the schedule of Austin Peay State University's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 57; the schedule of Austin Peay State University's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 58; the schedule of Austin Peay State University's proportionate share of the collective total OPEB liability – Closed State Employee Group OPEB Plan on page 59; and the schedule of Austin Peay State University's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the university's basic financial statements. The supplementary schedule of cash flows – component unit on page 61 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary schedule of cash flows – component unit is the responsibility of the university's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of cash flows – component unit is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2019, on our consideration of the university's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit
November 18, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUSTIN PEAY STATE UNIVERSITY
Management's Discussion and Analysis

Introduction

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, 2019, with comparative information presented for the fiscal year ended June 30, 2018. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, 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 19 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 of resources, 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 of resources, and is one indicator of the university's current financial condition.

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

The following table summarizes the university's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2019, and June 30, 2018.

Summary of Net Position
(in thousands of dollars)

	2019	2018
Assets:		
Current assets	$ 35,207	$ 36,711
Capital assets, net	232,456	231,789
Other assets	47,135	41,531
Total Assets	314,798	310,031
Deferred Outflows of Resources		
Deferred loss on debt refunding	976	1,078
Deferred outflows related to OPEB	2,593	737
Other outflows related to pensions	8,958	10,193
Total Deferred Outflows of Resources	12,527	12,008
Liabilities:		
Current liabilities	21,875	20,886
Noncurrent liabilities	118,897	123,016
Total Liabilities	140,772	143,902
Deferred Inflows of Resources		
Deferred inflows related to split-interest agreements	3,744	3,921
Deferred gain on debt refunding	125	134

Deferred inflows related to OPEB	853	428
Deferred inflows related to pensions	595	547
Total Deferred Inflows of Resources	5,317	5,030
Net Position:		
Net investment in capital assets	143,161	138,744
Restricted – nonexpendable	5,765	5,745
Restricted – expendable	9,436	8,525
Unrestricted	22,874	20,093
Total Net Position	$181,236	$173,107

- Current Assets decreased from June 30, 2018, to June 30, 2019, as a result of a property acquisition prepayment that was made at the end of fiscal year 2018. There were no such prepayments at the close of fiscal year 2019.
- Other Assets increased during the fiscal year related to our future capital and maintenance plans. Available resources were reserved for capital project, capital maintenance, and property acquisition needs.
- Current Liabilities increase is primarily related to accrued payments for capital projects ongoing at the end of fiscal year 2019.
- Noncurrent liabilities decreased as a result of the annual debt service payments.

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. Therefore, the "increase in net position" is more indicative of overall financial results for the year.

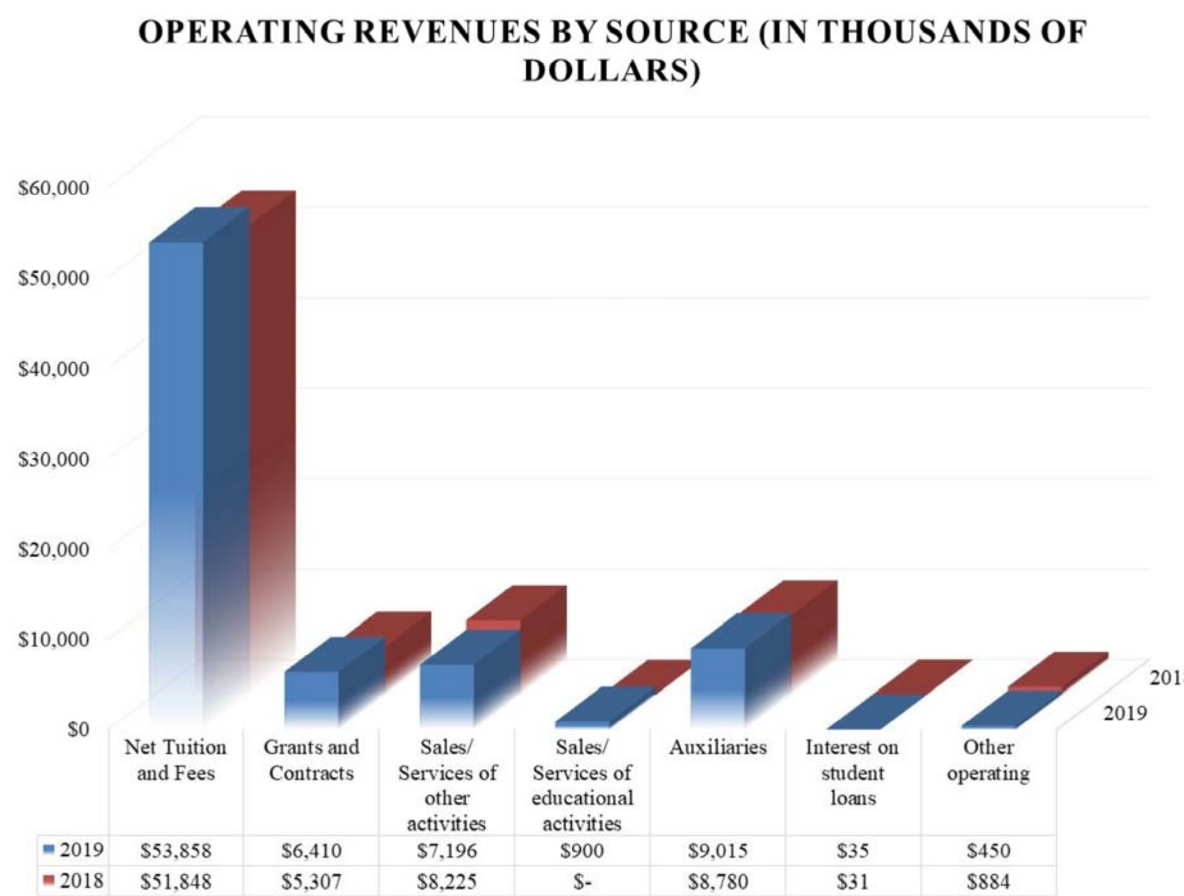
A summary of the university's revenues, expenses, and changes in net position for the year ended June 30, 2019, and June 30, 2018, follows.

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

	2019	2018
Operating revenues	$ 77,864	$ 75,075
Operating expenses	168,014	158,537
Operating loss	(90,150)	(83,462)
Nonoperating revenues and expenses	92,571	87,878
Income before other revenues, expenses, gains, or losses	2,421	4,416
Other revenues, expenses, gains, or losses	5,708	758
Increase in net position	8,129	5,174
Net position at beginning of year	173,107	173,479
Cumulative effect of change in accounting principle	-	(5,546)
Net Position at beginning of year-restated	173,107	167,933
Net position at end of year	$ 181,236	$ 173,107

Operating Revenues

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



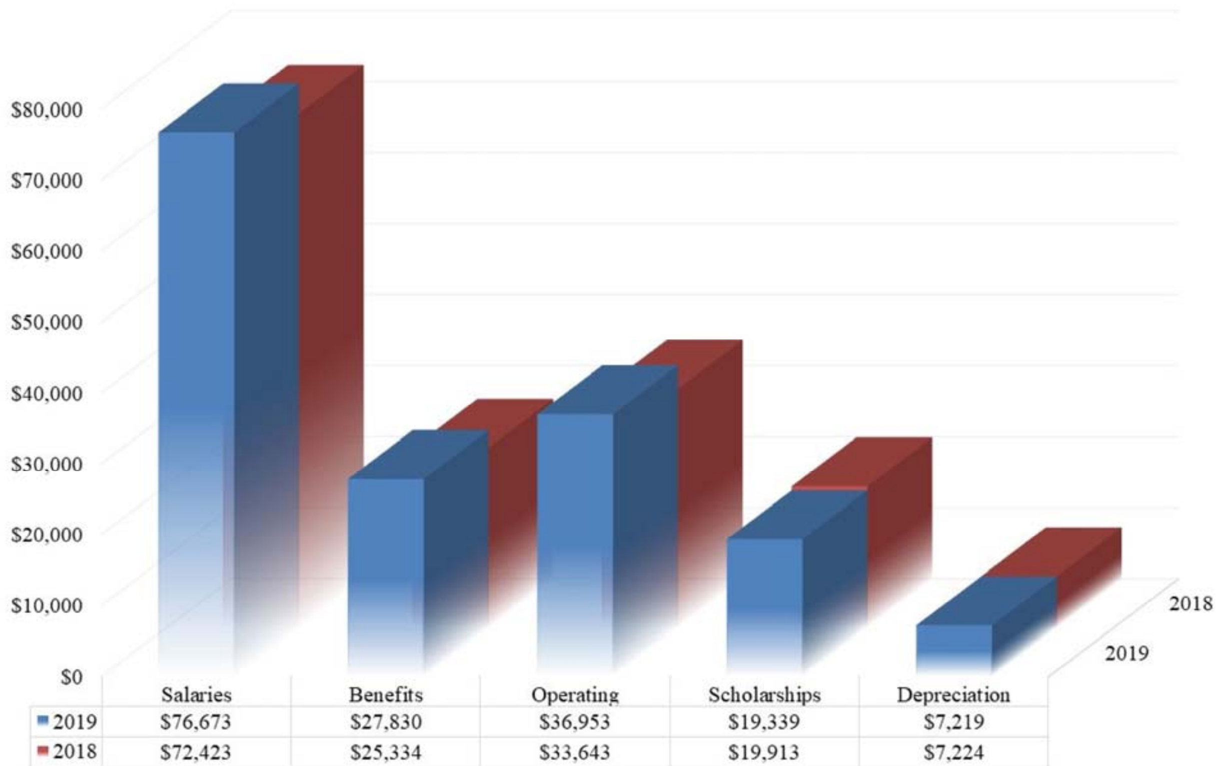
The university had the following significant changes in operating revenues between fiscal years:

- Tuition - the increase in tuition revenue is resultant of an increase in total enrollment as well as a 2.87% and a 3.53% increase in tuition and mandatory fees, respectively, for the 2018-19 academic year.
- Grants and Contracts - the university increased its external grant funding significantly in both existing grants as well as new grants in 2019. These include a grant that assists veterans and their spouses in transitioning to the civilian workforce and another that assists veterans in developing skills to succeed in college in order to increase the rate in which they enroll in and complete college. Another provides college advising services to high school juniors and seniors in order to assist these students with enrollment in postsecondary education.
- Sales/Services of Other Activities decrease is attributable to athletics. During the fiscal year 2018, the football program secured and received two separate game guarantee contracts from FBS division football programs. However, only one such game guarantee contract was secured and received during fiscal year 2019.

Operating Expenses

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

EXPENSES BY NATURAL CLASSIFICATION
(IN THOUSANDS OF DOLLARS)



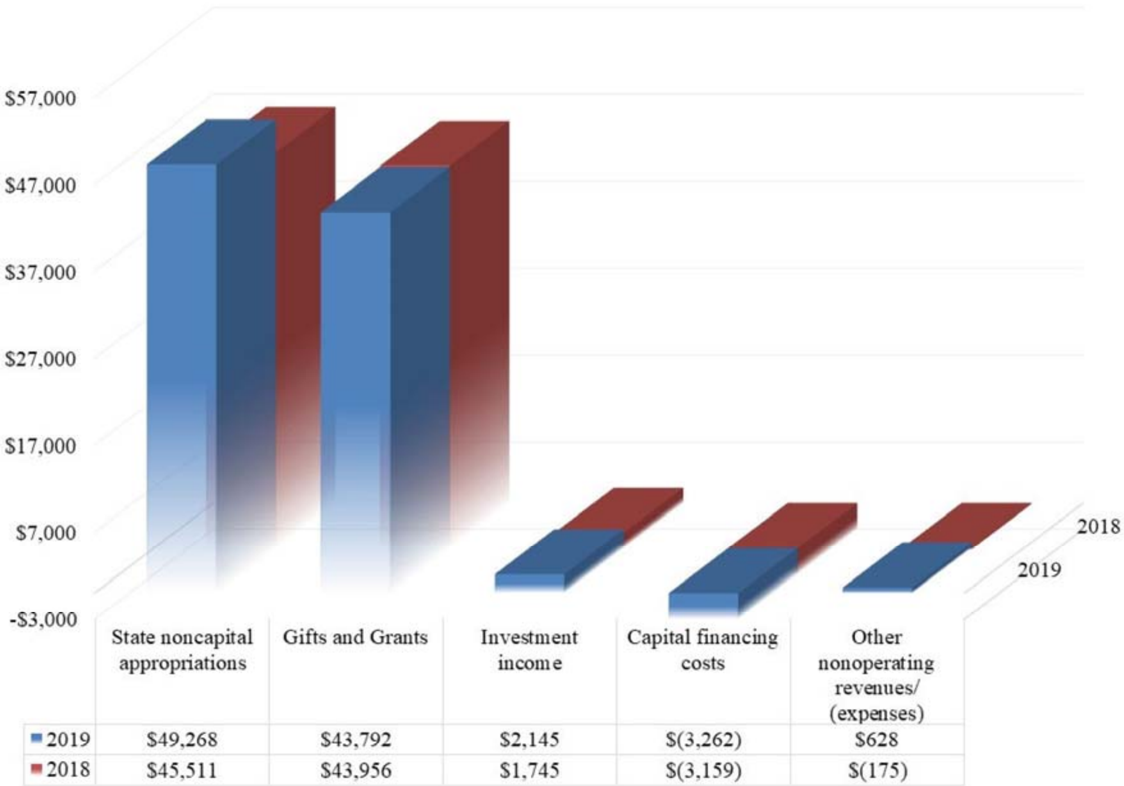
The university had the following significant changes in operating expenses between fiscal years:

- Salaries and Benefits expense in the 2019 fiscal year include a significant increase in OPEB expense due to GASB 75. In addition, the university continued to increase both salaries and benefits in accordance with its approved compensation plan.
- Operating Expenses in FY 19 increased for several reasons. Several maintenance projects took place in FY 19 to include repairs due to water and freeze damage, sinkhole repairs, and upgrades for campus safety and security. Additionally, there were a number of technology related expenditures, for example, new computers for labs, purchases to support Technology Access fee supported projects as well as new software purchases to support campus areas, for example, document imaging, Admissions software, etc.

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:

NONOPERATING REVENUES AND EXPENSES
(IN THOUSANDS OF DOLLARS)

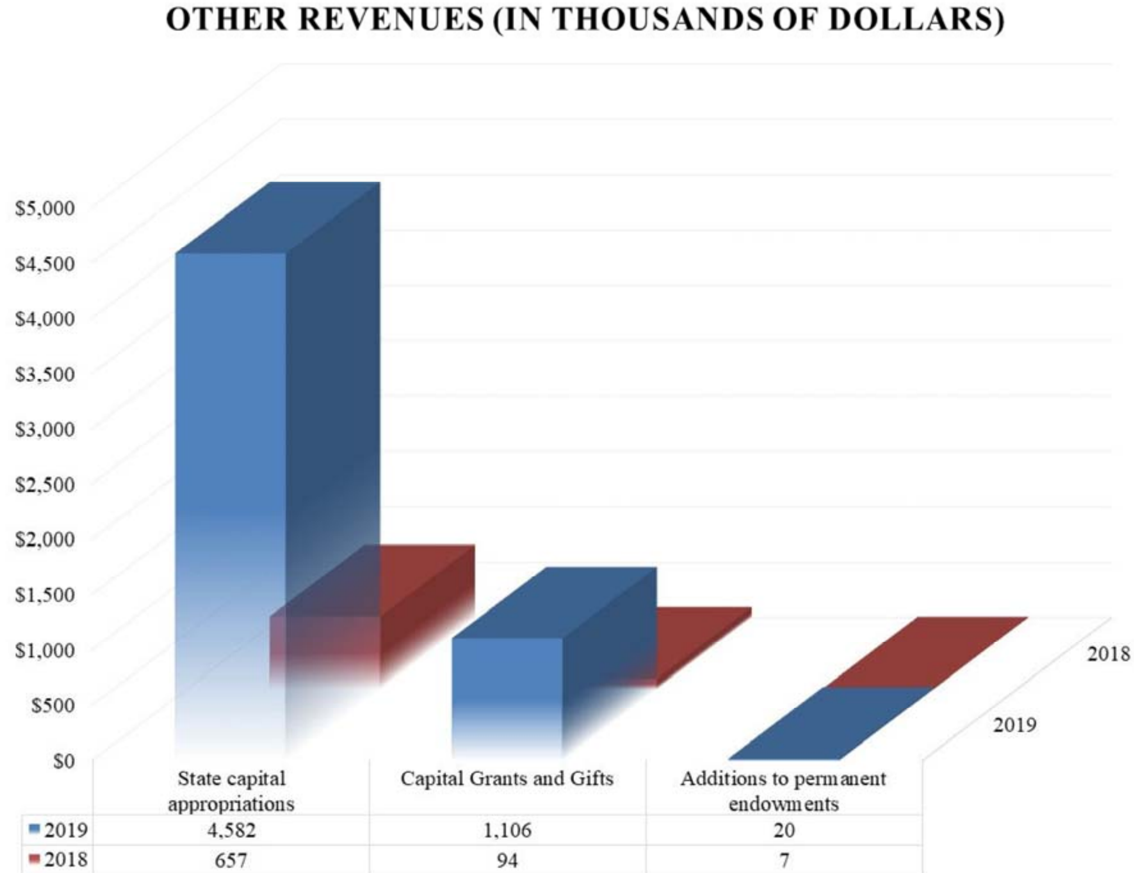


The university had the following significant changes in nonoperating revenues and expenses between fiscal years:

- State noncapital appropriations increased due to an increase in funding for higher education in general. Additionally, the university received an increased allocation from the Tennessee Outcomes Based Funding Formula. The formula rewards institutions for outcomes success as measured against Tennessee Board of Regents (TBR) peer institutions.
- Other nonoperating revenue increased primarily related to insurance proceeds received on freeze and water damages in various campus buildings.

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:



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

- State capital appropriations increased for multiple capital and maintenance projects, including re-roofing on various campus buildings, HVAC replacement in the Browning Administration and Music Mass Communications Buildings, and replacement of a central chiller. See the capital assets section for additional information.
- Capital Gifts and Grants increased as a result of two large gifts for baseball and softball field improvements.

Capital Assets and Debt Administration

Capital Assets

Austin Peay State University had $232.5 million invested in capital assets, net of accumulated depreciation of $130.6 million at June 30, 2019; and $231.8 million invested in capital assets, net of accumulated depreciation of $124.2 million at June 30, 2018. Depreciation charges totaled $7.2 million and $7.2 million for the years ended June 30, 2019, and June 30, 2018, respectively.

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

	2019	2018
Land	$ 17,334	$ 16,359
Land improvements & infrastructure	19,165	20,667
Buildings	184,640	188,151
Equipment	3,612	4,098
Library holdings	823	825
Projects in progress	6,882	1,689
Total	$232,456	$231,789

Capital assets, net of depreciation, increased in fiscal year 2019 due primarily to new capital projects that were initiated in FY 19. Major projects currently in progress at the university include the following: University bookstore renovations and improvements to HVAC systems in several buildings.

At June 30, 2019, outstanding commitments under construction contracts totaled $6,739,049 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $2,817,498 of these costs.

More detailed information about the university's capital assets is presented in Note 6 to the financial statements.

Debt

The university had $90.2 and $94 million in debt outstanding at June 30, 2019, and June 30, 2018, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands of dollars)

	2019	**2018**
TSSBA Bonds	$87,625	$90,540
TSSBA Revolving Credit Facility	2,576	3,448
Total Debt	**$90,201**	**$93,988**

The TSSBA issued bonds with interest rates ranging from 1.599% to 5.0% due serially until 2046 on behalf of Austin Peay State University. The university is responsible for the debt service of these bonds. The current portion of the $87,624,735 outstanding at June 30, 2019, is $2,666,889.

The revolving credit facility was issued by TSSBA on behalf of the University. The University is responsible for the debt service of these obligations. The outstanding amount at June 30, 2019, is $2,576,398.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2019, 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 8 to the financial statements.

Economic Factors That Will Affect the Future

The final state budget as proposed by Governor Lee and subsequently approved by the state legislature included an increase in state funding for APSU under the Tennessee Higher Education Commission’s outcomes-based funding formula, as well as additional enhancement funds for improvements.

Fall 2019 enrollment increased by 1.4% and the university has invested in resources to enhance student success initiatives and improve student retention. Retention and student success initiatives are expected to have a long-term impact on enrollment growth. Likewise, these initiatives are expected funding through both tuition revenue and through the outcomes-based funding model.

At the June 2019 quarterly meeting, the APSU Board of Trustees approved a tuition increase of 2.26% for the 2019-2020 academic year. The capital markets have realized growth but remain unstable, which will impact the university’s investment income.

The university’s transition to its own local governing board continues. The university was approved to opt out of the Tennessee Board of Regents (TBR) procurement and capital project planning and management services. However, the TBR will continue to manage projects approved or in progress at the transition date. Additionally, any project to be funded by the Tennessee State School Bond Authority (TSSBA) will continue to be managed by the Tennessee Board of Regents.

The Tennessee Board of Regents will continue to approve the operating budget for the university, limited to ensuring the university can appropriately cover outstanding indebtedness. The Tennessee Higher Education Commission will continue to administer the outcomes-based funding formula.

BASIC FINANCIAL STATEMENTS

AUSTIN PEAY STATE UNIVERSITY
Statement of Net Position
June 30, 2019

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2 and 19)	$ 26,099,868.62	$ 641,920.85
Investments (Notes 3, 4 and 19)	-	12,000.00
Accounts, notes, and grants receivable (net) (Note 5)	6,637,728.07	745.00
Due from State of Tennessee	1,794,682.98	-
Due from Austin Peay State University Foundation	22,287.50	-
Pledges receivable (net) (Note 19)	-	326,545.02
Inventories	347,475.11	-
Prepaid expenses	110,617.03	675.00
Accrued interest receivable	194,323.55	223.67
Total current assets	35,206,982.86	982,109.54
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 19)	30,753,614.67	5,831,239.17
Investments (Notes 3, 4 and 19)	11,297,994.90	28,144,445.98
Accounts, notes, and grants receivable (net) (Note 5)	730,718.60	-
Pledges receivable (net) (Note 19)	-	6,623,986.60
Capital assets (net) (Notes 6 and 19)	232,456,347.88	2,305,209.69
Net pension asset (Note 11)	378,939.00	-
Beneficial interest in split-interest agreement	3,744,536.99	-
Investment in Tennessee Retiree Group Trust	228,685.60	-
Total noncurrent assets	279,590,837.64	42,904,881.44
Total assets	314,797,820.50	43,886,990.98
Deferred outflows of resources		
Deferred amount on debt refunding (Note 8)	975,530.11	-
Deferred outflows related to OPEB (Note 12)	2,593,515.00	-
Deferred outflows related to pensions (Note 11)	8,958,188.16	-
Total deferred outflows of resources	12,527,233.27	-
Liabilities		
Current liabilities:		
Accounts payable (Note 7)	3,346,205.82	21,815.56
Accrued liabilities	5,834,481.88	-
Due to State of Tennessee	2,055,664.54	-
Due to APSU	-	22,287.50
Student deposits	170,170.00	-
Unearned revenue	5,322,019.46	-
Compensated absences (Note 8)	443,815.99	-
Total OPEB liability (Note 12)	1,115,408.00	-
Accrued interest payable	596,845.30	-
Long-term liabilities, current portion (Note 8)	2,666,889.20	-
Deposits held in custody for others	323,980.85	-
Total current liabilities	21,875,481.04	44,103.06
Noncurrent liabilities:		
Total OPEB liability (Note 12)	11,488,559.00	-
Net pension liability (Note 11)	16,415,846.00	-
Compensated absences (Note 8)	2,916,157.40	-
Long-term liabilities (Note 8)	87,534,243.98	-
Due to grantors (Note 8)	542,270.58	-
Total noncurrent liabilities	118,897,076.96	-
Total liabilities	140,772,558.00	44,103.06
Deferred inflows of resources		
Deferred amount on debt refunding (Note 8)	124,893.49	-
Deferred inflows related to OPEB (Note 12)	852,873.00	-
Deferred inflows related to pensions (Note 11)	594,677.00	-
Deferred inflows related to split-interest agreements	3,744,536.99	-
Total deferred inflows of resources	5,316,980.48	-
Net position		
Net investment in capital assets	143,160,948.43	2,305,209.69
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	5,650,348.91	21,355,767.17
Research	-	60,207.60
Instructional department uses	4,604.53	74,828.57
Other	110,025.00	444,620.30
Expendable:		
Scholarships and fellowships	6,013,041.50	12,367,117.00
Research	877,111.40	64,326.84
Instructional department uses	425,060.72	1,390,764.14
Loans	92,021.14	-
Pension	607,624.60	-
Other	1,421,060.40	5,163,162.26
Unrestricted	22,873,668.66	616,884.35
Total net position	$ 181,235,515.29	$ 43,842,887.92

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

AUSTIN PEAY STATE UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2019

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (Note 13)	$ 53,858,284.22	$ -
Gifts and contributions	-	5,090,037.46
Endowment income (per spending plan)	-	745,132.75
Governmental grants and contracts	6,255,004.69	-
Nongovernmental grants and contracts	154,501.59	-
Sales and services of educational activities	900,725.48	-
Sales and services of other activities	7,195,666.86	-
Auxiliary enterprises:		
Residential life (Note 13)	6,576,799.06	-
Bookstore	475,135.75	-
Food service	666,788.48	-
Wellness facility (Note 13)	967,682.28	-
Other auxiliaries	328,525.18	-
Interest earned on loans to students	35,371.71	-
Other operating revenues	449,569.04	324,092.90
Total operating revenues	77,864,054.34	6,159,263.11
Expenses		
Operating expenses (Notes 17 and 19):		
Salaries and wages	76,672,848.29	812,297.83
Benefits	27,829,803.98	255,523.44
Utilities, supplies, and other services	36,953,447.23	2,258,040.26
Scholarships and fellowships	19,338,883.82	1,477,235.74
Depreciation expense	7,218,910.44	43,928.08
Payments to or on behalf of Austin Peay State University (Note 19)	-	1,663,468.25
Total operating expenses	168,013,893.76	6,510,493.60
Operating loss	(90,149,839.42)	(351,230.49)
Nonoperating revenues (expenses)		
State appropriations	49,268,496.54	-
Gifts, including $557,995.81 from component unit	893,162.36	-
Grants and contracts	42,898,386.66	-
Investment income (net of investment expense of $20,886.66 for the institution and $60,054.84 for the component unit)	2,144,930.22	728,275.04
Interest on capital asset-related debt	(3,262,350.32)	-
University support (Note 19)	-	1,974,924.99
Other nonoperating revenues	628,153.88	-
Total nonoperating revenues (expenses)	92,570,779.34	2,703,200.03
Income before other revenues, expenses, gains, or losses	2,420,939.92	2,351,969.54
Capital appropriations	4,581,932.65	-
Capital grants and gifts, including $35,865.48 from the component unit	1,105,472.44	188,300.00
Additions to permanent endowments	20,286.00	1,125,469.72
Total other revenues	5,707,691.09	1,313,769.72
Increase in net position	8,128,631.01	3,665,739.26
Net position - beginning of year	173,106,884.28	40,177,148.66
Net position - end of year	$ 181,235,515.29	$ 43,842,887.92

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

AUSTIN PEAY STATE UNIVERSITY
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities	
Tuition and fees	$ 54,216,739.76
Grants and contracts	6,305,289.20
Sales and services of educational activities	900,725.48
Sales and services of other activities	7,070,655.67
Payments to suppliers and vendors	(35,424,255.38)
Payments to employees	(76,365,415.28)
Payments for benefits	(26,796,612.00)
Payments for scholarships and fellowships	(19,338,883.82)
Collection of loans from students	117,807.15
Interest earned on loans to students	37,312.44
Funds received for deposits held for others	3,833,680.95
Funds disbursed for deposits held for others	(4,229,566.32)
Auxiliary enterprise charges:	
Residence halls	6,550,410.27
Bookstore	456,078.22
Food services	666,788.48
Wellness facility	967,682.28
Other auxiliaries	328,525.18
Net cash used for operating activities	(80,703,037.72)
Cash flows from noncapital financing activities	
State appropriations	47,741,700.00
Gifts and grants received for other than capital or endowment purposes, including $557,995.81 from Austin Peay State University Foundation	44,150,245.20
Private gifts for endowment purposes	20,286.00
Federal student loan receipts	48,202,866.00
Federal student loan disbursements	(48,202,866.00)
Other noncapital financing receipts	617,346.22
Net cash provided by noncapital financing activities	92,529,577.42
Cash flows from capital and related financing activities	
Capital grants and gifts received, including $1,069,606.96 from Austin Peay State University Foundation	1,069,606.96
Proceeds from sale of capital assets	55,097.11
Purchases of capital assets and construction	(3,730,021.09)
Principal paid on capital debt	(3,722,778.52)
Interest paid on capital debt	(3,282,769.45)
Net cash used for capital and related financing activities	(9,610,864.99)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	6,167,034.60
Income on investments	1,787,768.47
Purchase of investments	(6,133,652.03)
Net cash provided by investing activities	1,821,151.04
Net increase in cash and cash equivalents	4,036,825.75
Cash and cash equivalents - beginning of year	52,816,657.54
Cash and cash equivalents - end of year	$ 56,853,483.29

AUSTIN PEAY STATE UNIVERSITY
Statement of Cash Flows (continued)
For the Year Ended June 30, 2019

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (90,149,839.42)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Noncash operating expenses	8,813,506.98
Gifts in-kind	
Change in assets, liabilities, and deferrals:	
Receivables, net	(18,206.89)
Due from State of Tennessee	(628,101.79)
Due from Austin Peay State University Foundation	(46.25)
Inventories	26,766.04
Prepaid items	1,004,781.36
Other assets	1,940.73
Net pension asset	(187,153.00)
Deferred outflows of resources	(837,770.31)
Accounts payable	1,320,134.73
Accrued liabilities	(48,748.38)
Due to State of Tennessee	(974,406.78)
Unearned revenues	379,713.18
Deposits	(17,500.00)
Compensated absences	263,752.34
Net pension liability	(1,319,577.04)
Total OPEB liability	1,473,076.00
Deferred inflows of resources	472,719.00
Loans to students	117,807.15
Other	(395,885.37)
Net cash used for operating activities	$ (80,703,037.72)

Noncash investing, capital, or financing transactions	
Gifts in-kind - capital	$ 35,865.38
Unrealized gains on investments	$ 181,754.63
Gain on disposal of capital assets	$ 10,807.66
Change in value of split-interest agreement	$ (176,381.69)
Proceeds from capital debt	$ 28,770.36
Capital appropriations	$ 4,581,932.65
Purchase of capital assets and construction	$ (4,610,703.01)

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The university is a part of the State University and Community College System of Tennessee (the system). The Focus on College and University Success Act of 2016 removed the six universities from the governance of the Tennessee Board of Regents, but they remain part of the system. The universities have their own local governing boards that provide governance, approve policies, set tuition and fee rates, and hire presidents. The system has limited oversight responsibilities during the transition period and continuing oversight responsibilities in the areas of budget approval and institutional debt. 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*. That report is available at https://www.tn.gov/finance/rd-doa/fa-accfin-cafr.html.

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

The Austin Peay State University Foundation is considered a component unit of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. See Note 19 for more detailed information about the component unit.

Basis of Presentation

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

Basis of Accounting

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

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

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* such as state appropriations and investment income.

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

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 on length of service or classification. Some employees also earn compensatory time.

The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net position. There is no liability for unpaid accumulated sick leave since the university's policy is to pay this only if the employee 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 acquisition value at date of donation, less accumulated depreciation/amortization. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of $100,000 is used for buildings, and $50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is $5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at $50,000. The capitalization threshold for intangible assets is set at $100,000. 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, which range from 5 to 60 years.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Net Position

The university's net position is classified as follows:

Net investment in capital assets – This represents the university's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows/inflows of resources 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.

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

Expendable restricted net position – Expendable restricted net position includes resources that the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position – Unrestricted net position represents resources derived from student tuition and fees; state appropriations; sales and services of educational departments; sales and services of other activities; and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university and may be used at the university's discretion to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, as well as certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the university's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the university has recorded a scholarship discount and allowance.

Note 2. Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2019, cash and cash equivalents consisted of $1,951,020.52 in bank accounts, $14,484.00 of petty cash on hand, $245,456.24 in money market funds, $54,225,518.39 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $417,004.14 in LGIP deposits for capital projects.

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

LGIP deposits for capital projects – Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the system 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 system releases any remaining funds.

Note 3. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended, and GASB Statement 72, *Fair Value Measurement and Application,* as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted.

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.

At June 30, 2019, the university had the following debt 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
Mutual bond funds	$ 2,247,887.28	$ -	$ 1,095,688.24	$ 1,152,199.04	$ -	$ -
Total debt investments	$ 2,247,887.28	$ -	$ 1,095,688.24	$ 1,152,199.04	$ -	$ -

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 the policy of its governing board. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. Securities are rated by Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

University policy restricts investments in bankers' acceptances and commercial paper. The policy requires that prime bankers' acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the ratings services that have rated the issuer. Prime bankers' acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods that are under contract of sale or are expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

The policy requires that prime commercial paper be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guarantee by a nonbank. 3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

At June 30, 2019, the university's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Balance	A	Unrated
LGIP (amortized cost)	$ 54,642,522.53	$ -	$ 54,642,522.53
Mutual Bond Funds	2,247,887.28	1,152,199.04	1,095,688.24
Total	$ 56,890,409.81	$ 1,152,199.04	$ 55,738,210.77

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, 2019, the university had $9,750,642.26 of uninsured and unregistered investments for which the securities were held by the counterparty and $1,152,199.04 of uninsured and unregistered investments for which the securities were held by the counterparty's trust department or agent but not in the university's name.

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

Investments	Fair Value June 30, 2019
Certificates of Deposit	$ 31,632.16
Charles Schwab Investment Account	9,750,642.26
The Commonfund	1,152,199.04
Total	$ 10,934,473.46

Assets of endowments are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of the calendar quarter within which the transaction takes place. At June 30, 2019, there were a total of 77,465.508 units in the Multi-Strategy Bond Fund, each having a fair value of $14.87.

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

FY 2019 Multi-Strategy Bond Fund	Pooled Assets Fair Value	Cost	Net Gains (Losses)	Fair Value Per Unit
End of year	$1,152,199.04	$1,018,487.93	$ 133,711.11	$ 14.87
Beginning of year	$1,620,063.27	$1,476,094.37	143,968.90	14.43
Change in unit value			(10,257.79)	$ 0.44

The average annual earnings per unit, exclusive of net gains/(losses), were $0.6324 for the year ended June 30, 2019.

Note 4. Fair Value Measurement

The university categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The university has the following recurring fair value measurements as of June 30, 2019:

	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets by Fair Value Level					
Debt securities:					
Mutual bond funds	$ 2,247,887.28	$ 1,095,688.24	$ -	$ -	$ 1,152,199.04
Total debt securities	2,247,887.28	1,095,688.24	-	-	1,152,199.04
Equity securities:					
Mutual equity funds	8,654,954.02	8,654,954.02	-	-	-
Total equity securities	8,654,954.02	8,654,954.02	-	-	-
Other assets:					
Beneficial interest in split-interest agreement	3,744,566.99	3,744,566.99	-	-	-
Total other assets	3,744,566.99	3,744,566.99	-	-	-
Total assets at fair value	$14,647,408.29	$ 13,495,209.25	$ -	$ -	$1,152,199.04

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets classified in Level 2 of the fair value hierarchy are valued using quoted prices for similar assets in active markets, and inputs that are observable for the asset, either directly, or substantially the full term of the financial instrument.

The valuation method for assets measured at the net asset value per share (or its equivalent) is presented in the following table.

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Assets Measured at the NAV				
The Commonfund multi-strategy bond fund	$ 1,152,199.04	N/A	Monthly	5 business days exclusive of transaction date

The assets of the Multi-Strategy Bond Fund are allocated among strategies in proportions that Commonfund Asset Management Company considers beneficial for a fully diversified fixed income portion of an educational endowment. There are currently no redemption restrictions on the Multi-Strategy Bond Funds, although they could be put in place in extraordinary circumstances, such as any period during which the New York Stock Exchange is closed other than customary weekend or holiday closings, or during which trading thereon is restricted or there exists any emergency affecting the practicability of disposal of portfolio securities of the fund or the practicability of determining net asset value. It is not probable that the university will sell an investment for an amount different from the NAV per share.

Note 5. Receivables

Receivables at June 30, 2019, included the following:

Student accounts receivable	$ 5,006,467.47
Grants receivable	1,269,078.19
Notes receivable	12,542.34
Other receivables	1,681,542.47
Subtotal	7,969,630.47
Less allowance for doubtful accounts	(1,331,902.40)
Total receivables	$ 6,637,728.07

Federal Perkins Loan Program funds at June 30, 2019, included the following:

Perkins loans receivable	$ 989,924.08
Less allowance for doubtful accounts	(259,205.48)
Total	$ 730,718.60

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 16,358,901.16	$ 975,536.81	$ -	$ -	$ 17,334,437.97
Land improvements and infrastructure	39,901,228.50	-	299,638.88	-	40,200,867.38
Buildings	277,566,373.34	407,689.49	156,318.00	-	278,130,380.83
Equipment	16,323,618.85	707,782.06	-	697,672.24	16,333,728.67
Library holdings	1,723,403.01	180,394.45	-	85,792.96	1,818,004.50
Intangible assets	2,389,851.44	-	-	-	2,389,851.44
Projects in progress	1,678,875.86	5,659,044.71	(455,956.88)	-	6,881,963.69
Total	355,942,252.16	7,930,447.52	-	783,465.20	363,089,234.48
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	19,233,902.11	1,802,241.73	-	-	21,036,143.84
Buildings	89,405,240.75	4,085,693.15	-	-	93,490,933.90
Equipment	12,225,628.86	1,149,175.10	-	653,382.79	12,721,421.17
Library holdings	898,528.75	181,800.46	-	85,792.96	994,536.25
Intangible assets	2,389,851.44	-	-	-	2,389,851.44
Total	124,153,151.91	7,218,910.44	-	739,175.75	130,632,886.60
Capital assets, net	$ 231,789,100.25	$ 711,537.08	$ -	$ 44,289.45	$ 232,456,347.88

Note 7. Accounts Payable

Accounts payable at June 30, 2019 consisted of $3,346,205.82 of vendors payable.

Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 82,567,815.89	$ -	$ 2,410,613.83	$ 80,157,202.06	$2,666,889.20
Unamortized bond premium/discount	7,972,222.90	-	504,690.22	7,467,532.68	-
Revolving credit facility	3,447,628.08	28,770.36	900,000.00	2,576,398.44	-
Subtotal	93,987,666.87	28,770.36	3,815,304.05	90,201,133.18	2,666,889.20

Other liabilities:					
Compensated absences	3,096,221.05	2,602,850.14	2,339,097.80	3,359,973.39	443,815.99
Due to grantor	542,270.58	-	-	542,270.58	-
Subtotal	3,638,491.63	2,602,850.14	2,339,097.80	3,902,243.97	443,815.99
Total long-term liabilities	$ 97,626,158.50	$2,631,620.50	$ 6,154,401.85	$ 94,103,377.15	$3,110,705.19

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 1.599% to 5.0%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2046 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 TSSBA included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $0.00 at June 30, 2019.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2019, are as follows:

Year Ending June 30	Principal	Interest	Total
2020	$ 2,666,889.20	$ 3,503,843.16	$ 6,170,732.36
2021	2,773,171.06	3,396,858.94	6,170,030.00
2022	2,884,835.46	3,291,243.20	6,176,078.66
2023	2,944,400.11	3,165,563.65	6,109,963.76
2024	3,086,124.50	3,040,403.54	6,126,528.04
2025 – 2029	16,851,536.27	13,045,502.20	29,897,038.47
2030 – 2034	18,311,779.84	9,019,840.52	27,331,620.36
2035 – 2039	14,938,059.95	5,369,007.75	20,307,067.70
2040 – 2044	14,700,405.67	1,800,506.65	16,500,912.32
2045 – 2046	1,000,000.00	39,895.00	1,039,895.00
Total	$ 80,157,202.06	$ 45,672,664.61	$ 125,829,866.67

TSSBA Debt – Revolving Credit Facility

The Tennessee State School Bond Authority (TSSBA) receives loans from the revolving credit facility to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and repays the revolving credit facility debt. The total outstanding loans from the revolving credit facility for the university were $2,576,398.44 at June 30, 2019.

More detailed information regarding the bonds and revolving credit facility can be found in the notes to the financial statements in the financial report for the TSSBA. That report is available on the state's website at https://www.comptroller.tn.gov/boards/tennessee-state-school-bond-authority/investor-information/tssba-financial-reports.html.

Note 9. Endowments

If a donor has not provided specific instructions to the university, state law permits the university to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the university is required to consider 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 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, 2019, net appreciation of $191,934.19 is available to be spent, of which $185,734.19 is included in restricted net position expendable for scholarships and fellowships, $200 is included in restricted net position expendable for instructional department uses, and $6,000 is included in restricted net position expendable for other.

Note 10. Pledged Revenues

The university has pledged certain revenues and fees, including state appropriations, to repay $80,157,202.06 in revenue bonds issued from August 2012 to September 2017 (see Note 8 for further detail). Proceeds from the bonds provided financing for Dorm Renovations, University Center with equipment, Recreation Center, Hand Village, Emerald Hills Apartments No. 4, Fort Campbell Classroom Building, Marion Street Apartments, Castle Heights Student Apartments, New Student Apartments, Stadium Renovation Projects, and Trahern Fine Arts Building. The bonds are payable through 2046. Annual principal and interest payments on the bonds are expected to require 3.9% of available revenues. The total principal and interest remaining to be paid on the bonds is $125,829,866.67. Principal and interest paid for the current year and total available revenues were $5,672,964.15 and $157,329,349.45, respectively.

Note 11. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of member's highest compensation for 5 consecutive years (up to Social Security integration level)	x	1.50%	x	Years of Service Credit	x	105%
Plus:						
Average of member's highest compensation for 5 consecutive years (over the Social Security integration level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with 5 years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service are required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The university's employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2019, to the Closed State and Higher Education Employee Pension Plan were $4,409,673.23, which is 19.23% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2019, the university reported a liability of $16,415,846.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university's proportion of the net pension liability was based on a projection of the university's contributions during the year ended June 30, 2018, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2018, measurement date, the university's proportion was 1.016202%. The proportion measured as of June 30, 2017, was 0.991027%.

Pension expense – For the year ended June 30, 2019, the university recognized a pension expense of $4,233,771.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2019, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,482,944.00	$ 76,315.00
Net difference between projected and actual earnings on pension plan investments	-	471,843.00

Changes in assumptions	2,064,561.00	-
Changes in proportion of net pension liability	818,361.00	-
APSU's contributions subsequent to the measurement date of June 30, 2018	4,409,673.23	-
Total	$ 8,775,539.23	$ 548,158.00

Deferred outflows of resources, resulting from the university's employer contributions of $4,409,673.23 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2020	$ 3,429,063
2021	$ 1,712,436
2022	$ (1,020,829)
2023	$ (302,962)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected 6 years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents the university's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the university's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
University's proportionate share of the net pension liability	$36,078,851	$16,415,846	($132,462)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2019, the university reported a payable of $332,397.41 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2019.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated,* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and years of service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula multiplying the member's highest 5 consecutive years' average compensation by 1% multiplied by the member's years of service credit. A reduced early retirement is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which a member's age and years of service credit total 80. Service-related disability benefits are provided regardless of length of service. Five years of service are required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. University employees contribute 5% of their salary to the State and Higher Education Employee Retirement Plan. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the university for the year ended June 30, 2019, to the State and Higher Education Employee Retirement Plan were $157,409.93, which is 1.66% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2019, the university reported an asset of $378,939 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The university's proportion of the net pension asset was based on a projection of the university's contributions during the year ended June 30, 2018, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2018, measurement date, the university's proportion was 0.982392%. At the June 30, 2017, measurement date, the university's proportion was 0.924782%.

Pension expense – For the year ended June 30, 2019, the university recognized a pension expense of $109,132.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2019, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,597.00	$ 6,353.00
Net difference between projected and actual earnings on pension plan investments	-	18,297.00
Changes in assumptions	12,872.00	-
Changes in proportion of net pension asset	1,770.00	21,869.00

APSU's contributions subsequent to the measurement date of June 30, 2018	157,409.93	-
Total	$ 182,648.93	$ 46,519.00

Deferred outflows of resources, resulting from the university's employer contributions of $157,409.93 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2020	$(4,910)
2021	$(5,307)
2022	$(7,422)
2023	$(3,008)
2024	$ (587)
Thereafter	$ (46)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension asset as of the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with generational mortality improvement.

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents the university's proportionate share of the net pension asset calculated using the discount rate of 7.25%, as well as what the university's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
University's proportionate share of the net pension asset	\$62,855	\$378,939	\$615,458

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2019, the university reported a payable of \$13,501.87 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2019.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2019, for all state government defined benefit pension plans was \$4,342,903.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The university contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 25, Part 2, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, 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. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the university will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and was \$3,290,590.14 for the year ended June 30, 2019, and \$3,213,763.85 for the year ended June 30, 2018. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity, nor does it have a fiduciary responsibility for the funds held by the investment vendors.

Payable to the plan – At June 30, 2019, the university reported a payable of $60,790.34 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2019.

Deferred Compensation Plans

Employees are offered three deferred compensation plans. The university, through the State of Tennessee, provides two plans, one established pursuant to the *Internal Revenue Code* (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the university and was established in accordance with IRC, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k), Section 403(b), and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 401(k), 403(b), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 403(b) and the 457 plans is voluntary for employees. The university provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Chapter 259 of the Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan if they elect to be in the TCRS pension plan and contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in all plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for all three plans.

During the year ended June 30, 2019, contributions totaling $1,839,860.34 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $447,040.91 for employer contributions. During the year ended June 30, 2018, contributions totaling $1,623,589.80 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $439,138.63 for employer contributions.

At June 30, 2019, the university reported a payable of $7,132.62 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2019.

Note 12. Other Postemployment Benefits

Closed State Employee Group OPEB Plan

General Information About the OPEB Plan

Plan description – Employees of the university who were hired prior to July 1, 2015, and choose coverage, are provided with pre-65 retiree health insurance benefits through the Closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan include the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System.

Benefits provided – The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65, are enrolled in this plan. All members have the option of choosing between the premier preferred provider organization (PPO) plan, the standard PPO plan, or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits as active employees, at a blended premium rate that considers the cost of active employees. This creates an implicit subsidy for the retirees. The retirees' cost is then directly subsidized by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80%; 20 but less than 30 years, 70%; and less than 20 years, 60%. During the current measurement period, this plan was funded on a pay-as-you-go basis and there were no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75. However, during the current fiscal year, the plan transitioned to a prefunding arrangement where assets will be accumulating in a qualifying trust.

Contributions – Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*, establishes the required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired members of the EGOP pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates. While the plan operated on a pay-as-you-go basis, employers made the minimum required payments for retiree costs. However, once the plan transitioned to the prefunding arrangement through the qualifying trust, employers began making contributions to the trust based on an actuarily determined contribution rate (ADC). Employer contributions by the university for the year ended June 30, 2019, to the EGOP were $1,115,408, which is 2.54% of covered-employee payroll.

Total OPEB Liability

Proportionate share – The university's proportionate share of the collective total OPEB liability related to the EGOP was $12.6 million. At the June 30, 2018, measurement date, the university's proportion of the collective total OPEB liability was 0.909877%. The proportion existing at the prior measurement date was 0.829092%. This resulted in a change in proportion of 0.080785% between the current and prior measurement dates. The university's proportion of the collective total OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2018, and a measurement date of June 30, 2018.

Actuarial assumptions – The collective total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation
Healthcare cost trend rates	6.75% for 2019, decreasing annually to an ultimate rate of 3.91% for 2050 and later years
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation, a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2018, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.62%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in assumptions – The discount rate was changed from 3.56% as of the beginning of the measurement period to 3.62% as of June 30, 2018. This change in assumption decreased the total OPEB liability. Additionally, the near-term healthcare cost trend rates were changed from 5.4%, 5.3%, and 5.2% for plan years 2019, 2020, and 2021, respectively, to 6.75%, 6.25%, and 5.75%, respectively. Furthermore, the assumed initial per capita costs and premium amounts were revised to reflect rates adopted for the 2019 plan year. These two changes in assumptions increased the total OPEB liability.

Significant changes subsequent to the measurement date – During fiscal year 2019, the EGOP transitioned from a pay-as-you-go funding arrangement to a prefunded arrangement where assets would be deposited and accumulated in a qualifying trust, and benefits would be paid directly from the trust assets. In the first year of this arrangement, participating employers made estimated total contributions to the trust of $297.2 million. The trust had an estimated net position of $213.3 million at June 30, 2019. These plan assets will significantly reduce the net OPEB liability recorded by employers for the year ended June 30, 2020.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the university's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.62%) or 1 percentage point higher (4.62%) than the current rate (expressed in thousands):

	1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
University's proportionate share of the collective total OPEB liability	$13,446,896	$12,603,967	$11,810,704

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the healthcare cost trend rate – The following presents the university's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (5.75% decreasing to 2.91%) or 1 percentage point higher (7.75% decreasing to 4.91%) than the current rate (expressed in thousands):

	1% Decrease (5.75% decreasing to 2.91%)	Healthcare Cost Trend Rates (6.75% decreasing to 3.91%)	1% Increase (7.75% decreasing to 4.91%)
University's proportionate share of the collective total OPEB liability	$11,383,264	$12,603,967	$14,031,250

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB expense – For the year ended June 30, 2019, the university recognized OPEB expense of $1,113,531.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2019, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 450,531
Changes in assumptions	555,143	402,342
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	922,964	-
Contributions subsequent to the measurement date	1,115,408	-
Total	$ 2,593,515	$ 852,873

Deferred outflows of resources, resulting from the university's employer contributions of $1,115,408 subsequent to the measurement date, will be recognized as a decrease in total OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	
2020	$ 84,057
2021	$ 84,057
2022	$ 84,057
2023	$ 84,057
2024	$ 84,057
Thereafter	$ 204,949

In the table above, positive amounts will increase OPEB expense, while negative amounts will decrease OPEB expense.

Closed Tennessee OPEB Plan

General Information About the OPEB Plan

Plan description – Employees of the university who were hired prior to July 1, 2015, and choose coverage, are provided with post-65 retiree health insurance benefits through the Closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The State of Tennessee (primary government), as well as the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the other institutions that make up the State University and Community College System, also participate in this plan. This plan also serves eligible post-65 retirees of employers who participate in the state-administered Teacher Group Insurance and Local Government Insurance Plans.

Benefits provided – The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Section 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments, who have reached the age of 65, are Medicare-eligible, and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, 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. The university does not provide any subsidies for retirees in the TNP. The primary government paid $1,519,596.54 for OPEB as the benefits came due during the reporting period. This plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75.

In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, the state insurance committees established by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated,* determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants.

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the TNP OPEB liability associated with the university's employees. The primary government's proportionate share of the total OPEB liability associated with the university was $1,693,979. At the June 30, 2018, measurement date, the proportion of the collective total OPEB liability associated with the university was 0.979951%. The proportion of the collective total OPEB liability associated with the university was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. There has been no change in the university's proportion since the prior measurement date. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2018, and a measurement date of June 30, 2018.

Actuarial assumptions – The total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation
Healthcare cost trend rates	The premium subsidies provided to retirees in the Closed Tennessee OPEB Plan are assumed to remain unchanged for the entire projection; therefore, trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2018, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.62%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in assumptions – The discount rate was changed from 3.56% as of the beginning of the measurement period to 3.62% as of June 30, 2018. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary government's proportionate share of the university's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.62%) or 1 percentage point higher (4.62%) than the current rate. The university does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
Primary government's proportionate share of the collective total OPEB liability	$1,912,472	$1,693,979	$1,510,469

OPEB expense – For the year ended June 30, 2019, the primary government recognized OPEB expense of $82,590 for employees of the university participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2019, was $1,196,121, which consisted of OPEB expense of $1,113,531 for the EGOP and $82,590 paid by the primary government for the TNP.

Note 13. Revenues

A summary of adjustments and allowances by revenue classification is presented as follows:

Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$ 88,082,698.55	$33,389,204.92	$ 835,209.41	$53,858,284.22
Residential life	10,705,937.39	4,077,257.47	51,880.86	6,576,799.06
Wellness facility	1,580,995.57	599,910.35	13,402.94	967,682.28
Total	$100,369,631.51	$38,066,372.74	$ 900,493.21	$61,402,765.56

Note 14. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, medical malpractice liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. 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 (RMF). The state purchases commercial insurance for real property, crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The university participates in the RMF. 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. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2019, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-cafr.html. At June 30, 2019, the RMF held $186 million in cash designated for payment of claims.

At June 30, 2019, the scheduled coverage for the university was $655,520,785 for buildings and $84,954,890 for contents.

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

Note 15. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $21,224,100.70 at June 30, 2019.

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 $6,560.00 and expenses for personal property were $109,594.02 for the year ended June 30, 2019. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2019, outstanding commitments under construction contracts totaled $6,739,049.43 for Fine Arts Improvements, Music Mass Communication HVAC Replacement, Browning Hall Mechanical Updates, Greek Housing Sprinkler System, Central Chiller Plant Repairs, Roof Replacements, Farm Residence, and University Bookstore, of which $2,817,497.87 will be funded by future state capital outlay appropriations.

Litigation

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

Note 16. Chairs of Excellence

The university had $15,391,506.45 on deposit at June 30, 2019, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

Note 17. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2019, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$41,310,951.15	$14,445,679.36	$ 8,638,573.91	$ -	$ -	$ 64,395,204.42
Research	1,147,187.89	406,039.90	730,928.79	-	-	2,284,156.58
Public service	2,221,849.76	781,918.48	613,393.65	-	-	3,617,161.89
Academic support	7,041,149.99	2,660,977.82	1,443,480.22	-	-	11,145,608.03
Student services	10,896,266.79	4,028,368.39	8,518,427.58	-	-	23,443,062.76
Institutional support	7,365,436.33	2,785,372.04	1,807,855.90	-	-	11,958,664.27
Maintenance and operation	5,002,161.75	2,280,274.75	9,158,755.26	-	-	16,441,191.76
Scholarships and fellowships	-	-	-	19,338,883.82	-	19,338,883.82
Auxiliary	1,687,844.63	441,173.24	6,042,031.92	-	-	8,171,049.79
Depreciation	-	-	-	-	7,218,910.44	7,218,910.44
Total	$76,672,848.29	$27,829,803.98	$36,953,447.23	$19,338,883.82	$ 7,218,910.44	$ 168,013,893.76

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 $3,016,270.51 were reallocated from academic support to the other functional areas.

Note 18. On-behalf Payments

During the year ended June 30, 2019, the State of Tennessee made payments of $1,519,596.54 on behalf of the university for retirees participating in the State Employee Group OPEB Plan and the Closed Tennessee OPEB Plan. The State Employee Group OPEB Plan and the Closed Tennessee Plan are postemployment benefit healthcare plans and are discussed further in Note 12. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-cafr.html.

Note 19. Component Unit

The Austin Peay State University Foundation is a legally separate, tax-exempt organization supporting Austin Peay State University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 80-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board standards. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the university's financial statements for these differences.

During the year ended June 30, 2019, the foundation made distributions of $1,663,468.25 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Donna Johansen, Accounting Services, PO Box 4635, Clarksville, TN 37044.

Fair Value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets 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 (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair value measurements for assets at June 30, 2019.

	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets:					
Cash equivalents	$ 61,019.78	$ 61,019.78	$ -	$ -	$ -
Certificates of deposit	100,444.54	-	100,444.54	-	-
Exchanged traded funds	1,185,689.67	1,185,689.67	-	-	-
Marketable equity securities	249,066.00	249,066.00	-	-	-
Marketable bond securities	179,706.89	179,706.89	-	-	-
Mutual funds	26,354,239.37	26,354,239.37	-	-	-
Life insurance	87,299.51	-	87,299.51	-	-
Total assets	$28,217,465.76	$ 28,029,721.71	$187,744.05	$ -	$ -

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts, certificates of deposit, money market funds, and State of Tennessee Local Government Investment Pool.

Investments

Investments are recorded on the date of contribution and are stated at fair value. Unrealized gains and losses are determined by the difference between fair values at the beginning and end of the year.

Investments held at June 30, 2019, were as follows:

	Cost	Fair Value
Certificates of deposit	$ 100,444.54	$ 100,444.54
Corporate stock	247,537.00	249,066.00
Corporate bonds	183,000.00	179,706.89
Mutual bond funds	5,109,921.00	5,208,660.05
Mutual equity funds	20,958,196.11	20,988,183.00
Exchange traded funds	1,053,617.00	1,185,689.67
Life insurance	-	87,299.51
Mixed asset mutual funds	156,646.13	157,396.32
Total investments	$ 27,809,361.78	$ 28,156,445.98

Investment return – The following schedule summarizes the total investment return and its classification on the foundation's statement of revenues, expenses, and changes in net position.

Dividends and interest (net of expenses of $60,054.84)	$ 588,960.89
Net realized and unrealized gains	884,446.90
Total return on investments	1,473,407.79
Endowment income per spending plan	745,132.75
Investment return in excess of amounts designated for current operations	$ 728,275.04

Operating return – The board of trustees designates only a portion of the foundation's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The amount computed under the endowment spending policy of the investment pool is used to support current operations.

Pledges Receivable

Pledges receivable at June 30, 2019, are summarized below:

Current pledges	$ 326,545.02
Pledges due in one to five years	410,789.20
Pledges due after five years	8,040,722.63
Subtotal	8,778,056.85
Less discount to net present value	(1,827,525.23)
Total pledges receivable, net	$ 6,950,531.62

Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of net position date, comprise the following:

Cash and cash equivalents	$ 641,920.85
Pledges receivable	2,000.00
Total	$ 643,920.85

The Foundation funds its operations primarily through an administrative fee charged to endowed restricted funds. Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes. Donor restricted endowment funds are not available for general expenditures.

In order to cover expenses of Foundation operations and provide unrestricted funds for university support, an administrative management fee of 1.0% is assessed annually on the endowment portfolio's average market value for the trailing twelve quarters ending June 30. For fiscal year 2020, the fee is estimated to be $125,182.14.

Capital Assets

Capital assets at June 30, 2019, were as follows:

Land	$ 2,152,799.26
Equipment	236,329.40
Total	2,389,128.66
Less accumulated depreciation/amortization:	
Equipment	83,918.97
Total	83,918.97
Capital assets, net	$ 2,305,209.69

Endowments

The Austin Peay State University Foundation's endowments consist of approximately 240 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds, is classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee, and thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Foundation's Board has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted the Act to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, 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) the general economic conditions; 4) the possible effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the foundation; and 7) the investment policies of the foundation.

Composition of Endowment by Net Position Class
As of June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 21,935,423.64	$ 21,935,423.64
Accumulated investment gains	-	6,998,400.17	6,998,400.17
Total funds	$ -	$ 28,933,823.81	$ 28,933,823.81

Changes in Endowment Net Position
As of June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 27,486,371.25	$ 27,486,371.25
Investment return, net	-	1,025,317.57	1,025,317.57
Contributions	-	1,125,469.72	1,125,469.72
Appropriation of endowment assets for expenditure	-	(745,132.75)	(745,132.75)
Other changes:			
Transfers	-	41,798.02	41,798.02
Endowment net assets, end of year	$ -	$ 28,933,823.81	$ 28,933,823.81

Underwater endowment funds – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in five donor-restricted endowment funds, which together have an original gift value of $283,095.54, a current value of $188,224.32, and a deficiency of $94,871.22 as of June 30, 2019. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the foundation's board.

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. 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 5% 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 June 30 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 3% annually. The foundation does not have a policy for spending from underwater endowment. The governing board appropriated for expenditure $0 from underwater endowment funds during the year.

Natural Classifications With Functional Classifications

The foundation's operating expenses by functional classification for the year ended June 30, 2019, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Program services						
Academic	$ -	$ -	$ 2,258,040.26	$ -	$ -	$ 2,258,040.26
Scholarships	-	-	-	1,477,235.74		1,477,235.74
Capital	-	-	-	-	43,928.08	43,928.08
Support activities	812,297.83	255,523.44	1,663,468.25	-	-	2,731,289.52
Total	$812,297.83	$ 255,523.44	$ 3,921,508.51	$ 1,477,235.74	$ 43,928.08	$ 6,510,493.60

The foundation's financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include Other Operating which are allocated on the basis of whether they are gifts to Austin Peay State University or payments made to vendors.

Support From Austin Peay State University

During fiscal year 2019, the university paid certain payroll costs and administrative overhead costs amounting to $1,974,924.99 for university personnel who also performed services supporting the foundation. These supporting 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.

SUPPLEMENTARY INFORMATION

AUSTIN PEAY STATE UNIVERSITY

Required Supplementary Information
Schedule of Austin Peay State University's Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	1.016202%	$16,415,849	$23,515,634	69.81%	90.26%
2018	0.991027%	17,735,423	23,775,606	74.60%	88.88%
2017	0.947590%	17,289,398	23,130,871	74.75%	87.96%
2016	0.924943%	11,925,125	24,152,304	49.37%	91.26%
2015	0.872721%	6,021,329	23,842,038	25.26%	95.11%

1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

AUSTIN PEAY STATE UNIVERSITY
Required Supplementary Information
Schedule of Austin Peay State University's Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

	Proportion of the Net Pension Asset	Proportionate Share of the Net Pension Asset	Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.982392%	$378,939	$7,146,320	5.30%	132.39%
2018	0.924782%	191,786	4,809,389	3.99%	131.51%
2017	0.773375%	65,153	2,393,213	2.72%	130.56%
2016	0.912527%	25,377	993,707	2.55%	142.55%

1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

AUSTIN PEAY TENNESSEE STATE UNIVERSITY
Required Supplementary Information
Schedule of Austin Peay State University's Contributions
Closed State and Higher Education Employee Pension Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	$4,409,673	$4,409,673	$ -	$22,931,218	19.23%
2018	4,437,401	4,437,401	-	23,515,634	18.87%
2017	3,571,096	3,571,096	-	23,775,606	15.02%
2016	3,476,570	3,476,570	-	23,130,871	15.03%
2015	3,630,093	3,630,093	-	24,152,304	15.03%
2014	3,583,459	3,583,459	-	23,842,038	15.03%
2013	3,397,024	3,397,024	-	22,601,620	15.03%
2012	3,143,731	3,143,731	-	21,084,714	14.91%
2011	2,766,517	2,766,517	-	18,554,775	14.91%
2010	2,321,142	2,321,142	-	17,827,508	13.02%

Notes to Schedule:

Changes of assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions.

To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.

AUSTIN PEAY STATE UNIVERSITY
Required Supplementary Information
Schedule of Austin Peay State University's Contributions
State and Higher Education Employee Retirement Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	$157,410	$157,410	$ -	$9,474,144	1.66%
2018	281,580	281,580	-	$7,146,320	3.94%
2017	184,655	184,655	-	4,809,389	3.84%
2016	82,865	82,865	-	2,393,213	3.46%
2015	38,457	38,457	-	993,707	3.87%

Notes to Schedule:

Changes of assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions.

1) This is a 10-year schedule; however, contributions to this plan began in 2015. Years will be added to this schedule in future years until 10 years of information is available.

2) To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.

AUSTIN PEAY STATE UNIVERSITY
Required Supplementary Information
Schedule of Austin Peay State University's Proportionate Share of the Collective Total OPEB Liability
Closed State Employee Group OPEB Plan

	2019	2018
University's proportion of the collective total OPEB liability	0.909877%	0.829092%
University's proportionate share of the collective total OPEB liability	$12,603,967	$11,130,891
University's covered-employee payroll	$45,681,109	$45,521,829
University's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll	27.59%	24.45%

1) There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement 75 related to this OPEB plan.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

3) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

AUSTIN PEAY STATE UNIVERSITY

Required Supplementary Information

Schedule of Austin Peay Tennessee State University's Proportionate Share of the Collective Total OPEB Liability

Closed Tennessee OPEB Plan

	2019	2018
University's proportion of the collective total OPEB liability	0.0%	0.0%
University's proportionate share of the collective total OPEB liability	$ -	$ -
Primary government's proportionate share of the collective total OPEB liability	$ 1,693,979	$ 1,625,789
Total OPEB liability associated with the university	$ 1,693,979	$ 1,625,789
University's covered-employee payroll	$ 51,616,916	$ 52,030,211
University's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll	0.0%	0.0%

1) There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement 75 related to this OPEB plan.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

3) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

AUSTIN PEAY STATE UNIVERSITY
Supplementary Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2019

Cash flows from operating activities	
Gifts and contributions	$ 6,385,066.97
Payments to suppliers and vendors	(3,515,217.06)
Payments for scholarships and fellowships	(1,477,235.74)
Payments to or on behalf Austin Peay State University	(1,627,602.77)
Other receipts	324,092.90
Net cash provided by operating activities	89,104.30
Cash flows from noncapital financing activities	
Private gifts for endowment purposes	1,354,209.79
Net cash provided by noncapital financing activities	1,354,209.79
Cash flows from capital and related financing activities	
Purchases of capital assets and construction	(37,952.38)
Net cash used for capital and related financing activities	(37,952.38)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	15,318,228.49
Income on investments	11,676,129.87
Purchases of investments	(27,841,076.91)
Other investing payments	(958,258.44)
Net cash used for investing activities	(1,804,976.99)
Net decrease in cash and cash equivalents	(399,615.28)
Cash and cash equivalents - beginning of year	6,872,775.30
Cash and cash equivalents - end of year	$ 6,473,160.02
Reconciliation of operating loss to net cash provided operating activities:	
Operating loss	$ (351,230.49)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Noncash operating expenses	1,974,924.99
Endowment income per spending plan	(745,132.75)
Change in assets, liabilities, and deferrals:	
Receivables	39,785.73
Prepaid items	4,325.00
Accounts payable	(418,642.73)
Other	(414,925.45)
Net cash provided by operating activities	$ 89,104.30
Noncash investing, capital, or financing transactions	
Gifts in-kind - capital	$ 188,300.00
Unrealized gains on investments	$ 204,931.71
Transfer of capital assets to institution	$ 35,865.48

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. Alisa White, President

We have audited the financial statements of Austin Peay State University, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated November 18, 2019. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the university's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control. Accordingly, we do not express an opinion on the effectiveness of the university's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, as described below, that we consider to be significant deficiencies.

- Austin Peay State University did not provide adequate internal controls in four areas.
- Management should improve procedures for review of journal entries.
- The foundation incorrectly recorded pledge payments.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the university's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Austin Peay State University's Responses to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit
November 18, 2019

Findings and Recommendations

1. <u>Austin Peay State University did not provide adequate internal controls in four areas</u>

Austin Peay State University did not design and monitor effective internal controls in four areas. We found internal control deficiencies that were in violation of university policies or industry-accepted best practices.

Ineffective implementation and operation of internal controls increases the likelihood of errors, data loss, and unauthorized access to university information. Pursuant to Standard 4.40 of the U.S. Government Accountability Office's *Government Auditing Standards*, we omitted details from this finding because they are confidential under the provisions of Section 10-7-504(i), *Tennessee Code Annotated*. We provided the university with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that these conditions are corrected by the prompt development and effective implementation of internal controls in these areas. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action when deficiencies occur.

Management's Comment

We concur with the findings and recommendations. Management has provided responses to the Tennessee Comptroller of the Treasury.

2. <u>Management should improve procedures for review of journal entries</u>

Condition

Journal entries for both the university and the foundation may be initiated by various fiscal personnel who submit to the reviewer the signed and dated proposed paper journal entry as well as documentation supporting the entry. After approving the journal entry, the reviewer then signs and dates the paper copy. The reviewer then provides the approved journal entry to a third employee who records the entry in the accounting system and signs and dates the paper copy of the journal entry.

The university does not have a documented comparison of journal entries recorded in the accounting system to the approved paper journal entries. Since approval of the journal entry occurs prior to entry in the accounting system, and there is no documented comparison of the recorded entry to the approved entry, there is an increased risk that journal entries recorded do not match the approved journal entries. In addition, there is also a risk that the individuals responsible for recording journal entries in the accounting system may record unauthorized journal entries without detection.

Criteria

A sound system of internal control requires segregation of duties regarding entering, approving, and posting within Banner; and ensuring the data is entered correctly.

Cause

Management stated that they believed the review and approval of journal entries prior to entry in the general ledger as well as compensating controls, such as review of budgetary ledgers by department heads and accounting staff, performance of reconciliations, and review of error reports were adequate. Management also explained that the initiator of the journal entry will often later review current banner balances after the journal entry is recorded. Management also stated that mistakes of this nature have rarely occurred and are corrected when discovered.

Effect

Not having formal procedures to compare journal entries posted to the accounting system to the approved journal entries increases the risk that errors may be undetected, or not detected and corrected in a timely manner.

Recommendation

Management should institute formal procedures to compare journal entries recorded in the accounting system to approved journal entries. This may include using electronic workflow capabilities in the accounting system or documenting the review through a manual process.

Management's Comment

We do not concur with the finding and recommendation. We do agree there is a risk for journal entry error to occur; however, we consider this risk minimal. Our current mitigating controls do not present a risk of material misstatement of our financial statements, nor have they resulted in a material misstatement in the past. Mitigating controls are in place to detect and correct material data entry errors and include reconciliation of account balances that may have a material impact on the financial statements. These reconciliations have been provided to the auditors with no exceptions noted. The recommended comparison of journal entries recorded in the accounting system to previously approved journal entries will not increase the likelihood that material errors may be detected and corrected in a timely manner because of implemented mitigating controls.

Auditor's Comment

We agree with management's assessment that the internal control weakness in question is not a material weakness. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We disagree that an internal control audit finding must represent a material weakness. As stated in the letter beginning on page 62 of this report, we consider this finding to be a significant deficiency, which is a deficiency in internal control that is less severe than a material weakness yet important enough to merit the attention of those charged with governance.

Although we did not identify any misstatements or inappropriate management override attributable to the lack of formal procedures to compare recorded journal entries to approved journal entries, journal entries are a method that may be used by management to inappropriately override internal control over financial reporting. For this reason, generally accepted auditing standards, AU-C 240.32(a)(i), state that the auditors as a part of an audit are required to

> obtain an understanding of the entity's financial reporting process and controls over journal entries and other adjustments, and the suitability of design and implementation of such controls;

Furthermore, AU-C 265.A5 also states ". . . significant deficiencies and material weaknesses may exist even though the auditor has not identified misstatements during the audit."

3. <u>The foundation incorrectly recorded pledge payments</u>

<u>Condition</u>

The Austin Peay State University Foundation received a payment of $100,000 from a donor toward an existing pledge. Staff incorrectly recorded the payment as gift and contributions revenue, instead of a reduction of the donor's pledge balance. This overstated current-year gifts and contributions revenues by $100,000. Since the inception of the pledge, staff recorded other payments toward the pledge as gifts and contributions revenues rather than a reduction of the outstanding pledge. These errors resulted in gross pledges before discounting to net present value being overstated by $1,011,740.69. The financial statements and notes were corrected for these errors.

<u>Cause</u>

Because staff did not record this pledge in the foundation's pledges system, the outstanding pledge balance was not readily apparent when University Advancement staff recorded the receipt of the funds.

<u>Criteria</u>

Management is responsible for the preparation and fair presentation of the university's and foundation's financial statements and accompanying notes in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement.

Section 9-18-102, *Tennessee Code Annotated*, states:

> (a) Each agency of state government and institution of higher education shall establish and maintain internal controls, which shall provide reasonable assurance that:
>
> (1) Obligations and costs are in compliance with applicable law;

(2) Funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and

(3) Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

Effect

Recording pledge payments as gifts causes the financial statements to be misstated by overstating current-year revenue, pledges receivable, and net position.

Recommendation

University Advancement staff should record and track all pledges receivable in the foundation's pledges system.

Management's Comment

We concur with the finding and recommendation. Effective immediately, University Advancement staff will record and track all pledges and receivables in the Foundation's pledges system.