Financial Report 2019-20

Austin Peay State University

Office of the President

January 12, 2021

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 2020 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,

Dannelle Whiteside
Interim President

Austin Peay State University

Department of Finance and Administration

January 12, 2021

Dannelle Whiteside
Interim President
Austin Peay State University
601 College Street
Clarksville, TN 37040

Dear Ms. Whiteside:

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, 2020. 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

Austin Peay State University • P.O. Box 4635 • Clarksville, TN 37044 • p: 931-221-7883 • f: 931-221-6650

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
Dr. Dannelle Whiteside, Interim 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, 2020, 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 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, 2020; 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, 2020, 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 56; 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 57; the schedule of Austin Peay State University's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 58; the schedule of Austin Peay State University's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 59; the schedule of Austin Peay State University's proportionate share of the collective net OPEB liability – Closed State Employee Group OPEB Plan on page 60; the schedule of Austin Peay State University's contributions – Closed State Employee Group OPEB Plan on page 61; and the schedule of Austin Peay State University's proportionate share of the collective total OPEB liability on page 62 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 63 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 December 8, 2020, 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.

Katherine J. Stickel

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 8, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUSTIN PEAY STATE UNIVERSITY
Management's Discussion and Analysis

This section of Austin Peay State University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2020, with comparative information presented for the fiscal year ended June 30, 2019. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the financial statements, and the notes. 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 has been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is sub-divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category is unrestricted net position. Unrestricted net position is available to the university for any lawful purpose of the university.

The following table summarizes the university's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2020, and June 30, 2019.

Summary of Net Position
(in thousands of dollars)

	2020	2019
Assets:		
Current assets	$ 44,411	$ 35,207
Capital assets, net	233,536	232,456
Other assets	35,674	47,135
Total Assets	313,621	314,798
Deferred Outflows of Resources		
Deferred amount on debt refunding	874	976
Deferred outflows related to OPEB	2,603	2,593
Deferred outflows related to pensions	6,699	8,958
Total Deferred Outflows of Resources	10,176	12,527
Liabilities:		
Current liabilities	21,239	21,875
Noncurrent liabilities	108,577	118,897
Total Liabilities	129,816	140,772
Deferred Inflows of Resources		
Deferred inflows-split interest agreements	3,436	3,744
Deferred amount on debt refunding	115	125
Deferred inflows related to OPEB	4,699	853

Deferred inflows related to pensions	2,176	595
Total Deferred Inflows of Resources	10,426	5,317
Net Position:		
Net investment in capital assets	149,015	143,161
Restricted – nonexpendable	5,782	5,765
Restricted – expendable	10,332	9,436
Unrestricted	18,426	22,874
Total Net Position	$183,555	$181,236

- Current assets increased from June 30, 2019, to June 30, 2020, as a result of an increase in accounts receivable for CARES Act grants that had not been received by June 30, 2020. CARES Act grants were not applicable to fiscal year 2019.
- Deferred outflows related to pensions decreased primarily for three reasons. First, the current year didn't have any new deferred outflows but had amortization of approximately $1 million of previously established deferred outflows pertaining to changes in assumptions. Secondly, there was amortization of approximately $800 thousand of previously established deferred outflows pertaining to differences between actual and expected experience. Finally, there was amortization of almost $500 thousand of previously established deferred outflows but only approximately $11 thousand of newly established deferred outflows related to changes in proportionate share.
- Other assets decreased during the fiscal year primarily due to a decrease in cash needed for capital projects because a number of capital projects were completed in late 2019 or early 2020. Available resources were reserved for capital project, capital maintenance, and property acquisition needs.
- Deferred inflows related to pensions increased primarily due to total amortization of previously established deferred outflows exceeding amortization of previously established deferred inflows related to differences between actual and projected investment earnings.
- Deferred inflows related to OPEB increased primarily because of newly established deferred inflows pertaining to the university's decreased proportionate share as well as newly established deferred inflows related to changes in actuarial assumptions. Noncurrent liabilities decreased as a result of the annual debt service payments and a decrease in the net pension and OPEB liabilities.

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

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

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

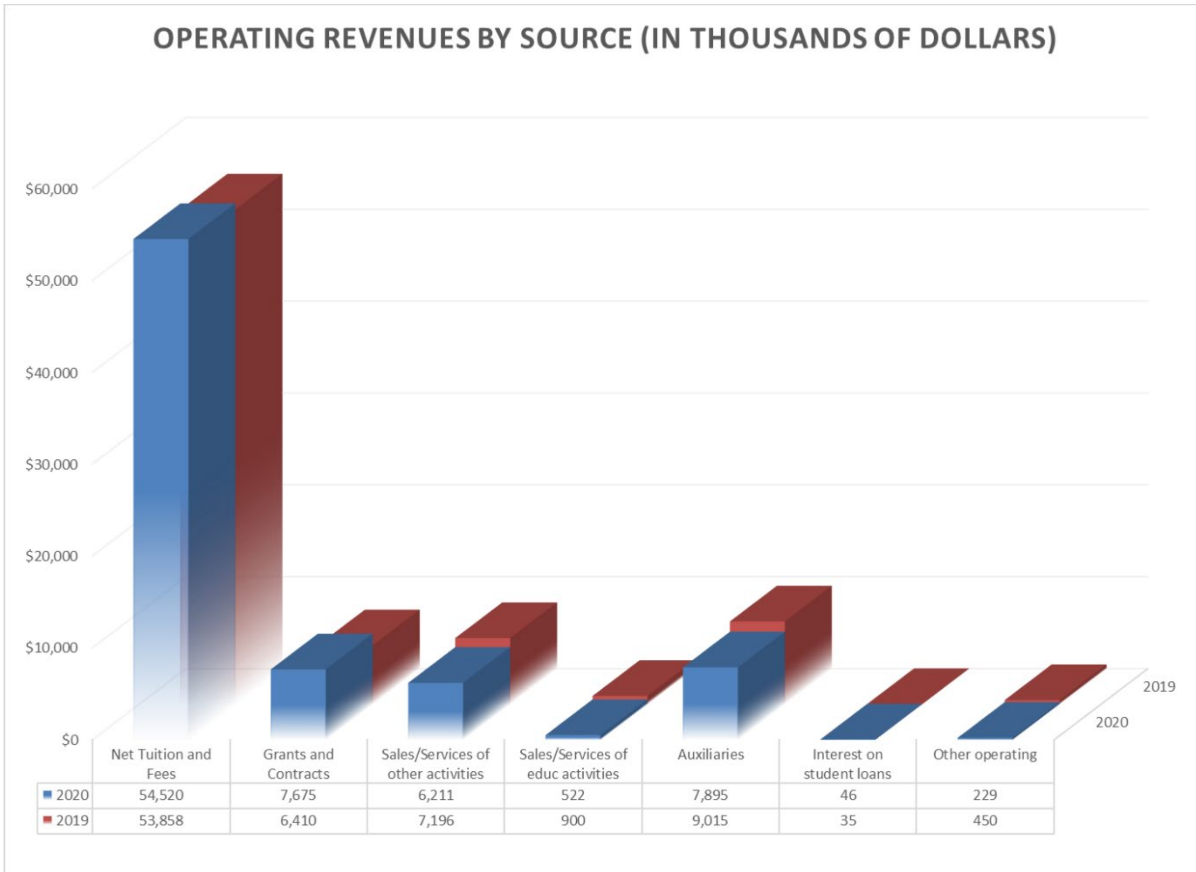
A summary of the university's revenues, expenses, and changes in net position for the years ended June 30, 2020, and June 30, 2019, follows.

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

	2020	2019
Operating revenues	$ 77,098	$ 77,864
Operating expenses	180,365	168,014
Operating loss	(103,267)	(90,150)
Nonoperating revenues and expenses	101,929	92,571
Income (loss) before other revenues, expenses, gains, or losses	(1,338)	2,421
Other revenues, expenses, gains, or losses	3,657	5,708
Increase in net position	2,319	8,129
Net position at beginning of year	181,236	173,107
Net position at end of year	$183,555	$181,236

Operating Revenues

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

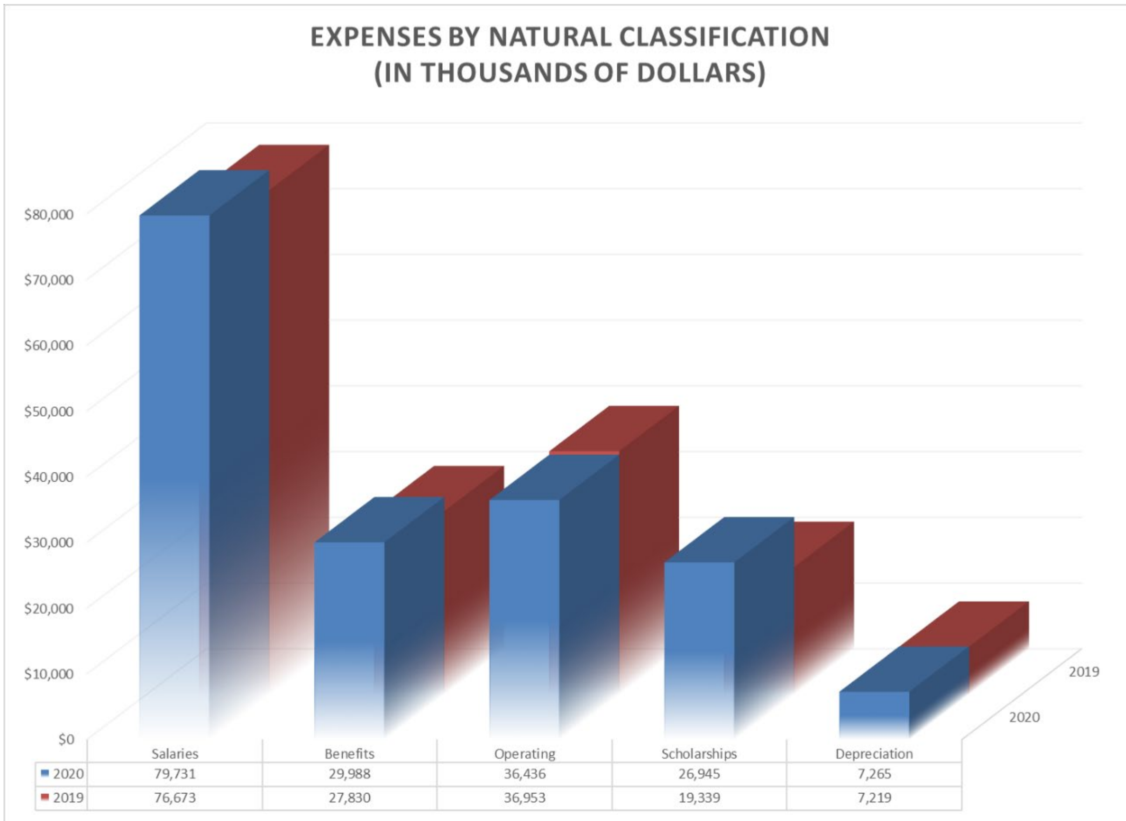


The university had the following significant changes in operating revenues between fiscal years:

- Tuition increased as a result of a slight increase in total enrollment and a slight tuition increase as well as the addition of several new fees during the 2019–2020 academic year.
- Grants and contracts increased as a result of external grant funding in both existing grants as well as new grants in 2020. These include a grant for a flight simulator for the university's helicopter program and a grant for campus security, as well as a grant that 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 2019, the football program secured a significant game guarantee. However, no game guarantee was secured and received during fiscal year 2020.

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:

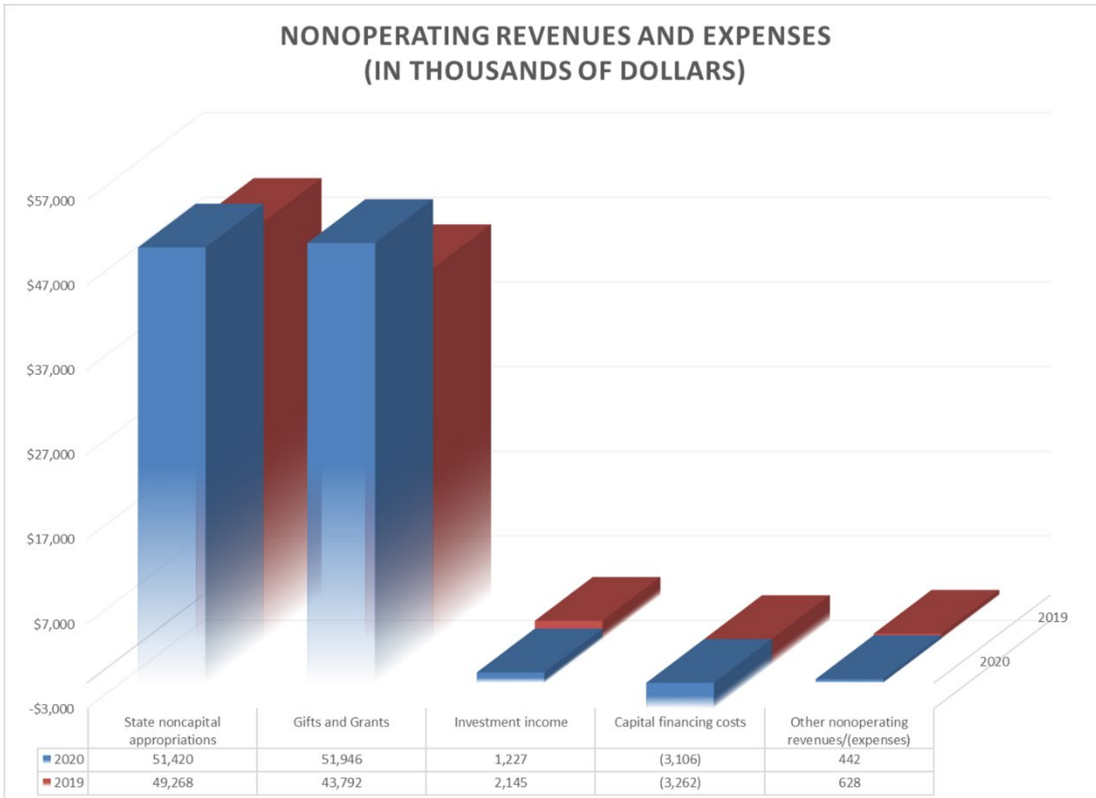


The university had the following significant changes in operating expenses between fiscal years:

- Salaries and benefits expense in the 2020 fiscal year included a significant increase in pension expense. In addition, the university continued to increase both salaries and benefits in accordance with its approved compensation plan.
- Scholarship expense in fiscal year 2020 increased due to CARES Act and COVID-19 relief funding for students.

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:

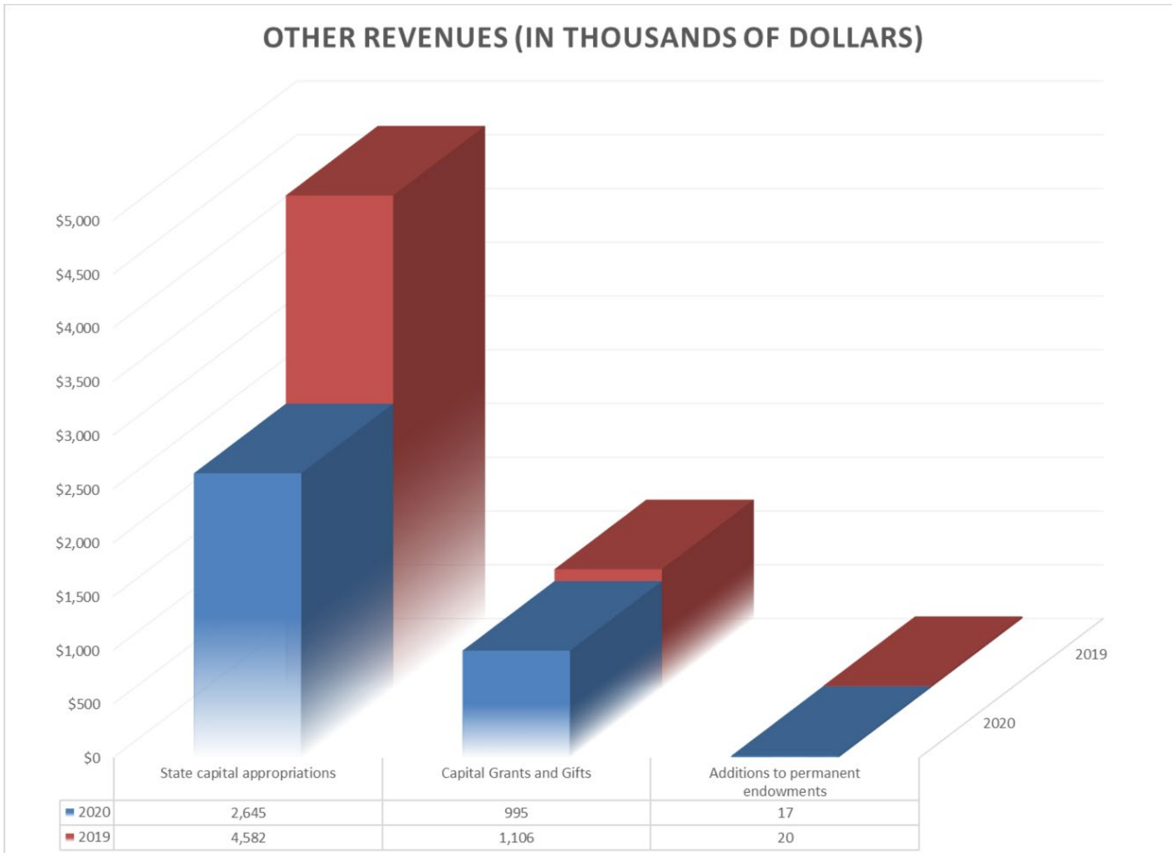


The university had the following significant changes in nonoperating revenues and expenses between fiscal years:

- 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 State University and Community College System peer institutions.
- Gifts and grants increased as a result of CARES Act and other COVID-19 related funding.
- Investment income decreased as a result of declining interest rates and market conditions attributed in part to Federal Reserve actions and the COVID-19 pandemic.

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 decreased as a result of the completion of several state-funded capital projects that were ongoing in fiscal year 2019.
- Capital gifts and grants decreased as a result of the completion of projects funded by capital gifts that were ongoing in fiscal year 2019.

Capital Assets and Debt Administration

Capital Assets

Austin Peay State University had $233.5 million invested in capital assets, net of accumulated depreciation of $137.7 million at June 30, 2020; and $232.5 million invested in capital assets, net of accumulated depreciation of $130.6 million at June 30, 2019. Depreciation charges totaled $7.3 million and $7.2 million for the years ended June 30, 2020, and June 30, 2019, respectively.

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

	2020	2019
Land	$ 17,419	$ 17,334
Land improvements and infrastructure	17,757	19,165
Buildings	183,647	184,640
Equipment	3,258	3,612
Library holdings	767	823
Projects in progress	10,688	6,882
Total	$233,536	$232,456

Capital assets, net of accumulated depreciation, increased in fiscal year 2020 due primarily to new capital projects that were initiated in fiscal year 2020. Major projects currently in progress at the university include the following: university bookstore renovations, improvements to HVAC systems in several buildings, improvements to the central chiller and boiler systems, and upgrades to the baseball facility.

At June 30, 2020, outstanding commitments under construction contracts totaled $2,347,296 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $2,180,918 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 $85.3 and $90.2 million in debt outstanding at June 30, 2020, and June 30, 2019, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands of dollars)

	2020	**2019**
TSSBA Bonds	$84,453	$87,625
TSSBA Revolving Credit Facility	882	2,576
Total Debt	**$85,335**	**$90,201**

The Tennessee State School Bond Authority (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 $84,453,155 outstanding at June 30, 2020, is $2,773,171.

The Revolving Credit Facility was issued by the TSSBA on behalf of the university. The university is responsible for the debt service of these obligations. The outstanding amount at June 30, 2020, is $881,398.

The ratings on debt issued by the TSSBA at June 30, 2020, were as follows:

Fitch	AAA
Moody’s Investor Service	Aaa
Standard & Poor’s	AAA

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

In March 2020, the global novel coronavirus (COVID-19) health crisis transformed operations at the university within a matter of days. The campus quickly developed a COVID-19 response task force to ensure the safety of students, faculty, and staff. All spring semester 2020 and summer 2020 classes were converted to an online delivery format. Residential students were encouraged to return home, where possible. Some residence halls remained open and staffed for students that needed a safe place to stay with internet access for their online courses.

As a result of the COVID-19 pandemic, there have been mandates from federal, state, and local authorities resulting in an economic decline. This pandemic also created a financial strain on the university for fiscal year 2020 which will continue into future periods. Conversion of courses into an online or hybrid format will impact housing and dining revenues and is expected to impact enrollment.

While the university’s top priority remains the health and well-being of our campus and extended communities, the following financial strategies have been enacted to safeguard the university’s financial viability during this period of fiscal uncertainty:

- reduction of planned expenditures related to capital projects, renovations, and equipment purchases;
- reduction of travel expenses to only those deemed necessary;
- hiring pause for non-critical positions; and
- planned reduction of non-mandatory operating expenses.

As the COVID-19 situation continues to evolve with new information and data, the university will remain flexible and be ready to quickly implement necessary changes as suggested or mandated by federal, state, and local authorities.

The university’s Board of Trustees adopted a budget for the academic year 2021 that included a zero-percent increase in tuition and mandatory fees.

Austin Peay State University’s retention rate has improved through the addition of resources focusing on student success and retention. This will have a positive impact on net tuition revenue in future years. Conversely, the university has experienced a declining enrollment in freshman students over the past two years. This decline in incoming freshmen will have a future impact on net tuition revenue. University management is evaluating options to reach a broader population base for future incoming freshman classes.

Basic Financial Statements

AUSTIN PEAY STATE UNIVERSITY
Statement of Net Position
June 30, 2020

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2 and 19)	$ 32,571,912.73	$ 789,311.64
Accounts, notes, and grants receivable (net) (Note 5)	9,378,419.48	-
Due from State of Tennessee	1,523,910.14	-
Due from APSU Foundation	108,182.98	-
Pledges receivable (net) (Note 19)	-	583,509.11
Inventories	376,381.67	-
Prepaid expenses	271,904.00	-
Accrued interest receivable	180,570.07	101.69
Total current assets	44,411,281.07	1,372,922.44
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 19)	19,659,017.92	5,764,351.67
Investments (Notes 3, 4, and 19)	11,129,691.57	29,512,014.56
Investment in Tennessee Retiree Group Trust	522,552.25	-
Accounts, notes, and grants receivable (net) (Note 5)	507,339.69	41,697.43
Pledges receivable (net) (Note 19)	-	7,070,984.11
Capital assets (net) (Notes 6 and 19)	233,536,115.93	2,348,113.41
Net pension asset (Note 11)	419,282.00	-
Beneficial interest in split-interest agreement	3,435,577.11	-
Total noncurrent assets	269,209,576.47	44,737,161.18
Total assets	313,620,857.54	46,110,083.62
Deferred outflows of resources		
Deferred amount on debt refunding	873,397.38	-
Deferred outflows related to pensions (Note 11)	6,699,371.40	-
Deferred outflows related to OPEB (Note 12)	2,603,085.00	-
Total deferred outflows of resources	10,175,853.78	-
Liabilities		
Current liabilities:		
Accounts payable (Note 7)	3,224,991.11	1,496.38
Accrued liabilities	6,264,962.56	-
Due to State of Tennessee	1,905,328.23	-
Due to APSU	-	108,182.98
Student deposits	113,263.94	-
Unearned revenue	5,452,781.62	-
Compensated absences (Note 8)	608,193.85	-
Accrued interest payable	573,743.15	-
Long-term liabilities, current portion (Note 8)	2,773,171.06	-
Deposits held in custody for others	322,629.83	-
Total current liabilities	21,239,065.35	109,679.36
Noncurrent liabilities:		
Net pension liability (Note 11)	14,362,206.00	-
Net OPEB liability (Note 12)	7,699,943.00	-
Compensated absences (Note 8)	3,598,993.83	-
Long-term liabilities (Note 8)	82,561,382.73	-
Due to grantors (Note 8)	354,599.58	-
Total noncurrent liabilities	108,577,125.14	-
Total liabilities	129,816,190.49	109,679.36
Deferred inflows of resources		
Deferred amount on debt refunding	115,286.30	-
Deferred inflows related to pensions (Note 11)	2,175,912.00	-
Deferred inflows related to OPEB (Note 12)	4,698,890.00	-
Deferred inflows related to split-interest agreements	3,435,577.11	-
Total deferred inflows of resources	10,425,665.41	-
Net position		
Investment in capital assets	-	2,348,113.41
Net investment in capital assets	149,014,770.33	-
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	5,667,594.91	22,511,595.02
Research	-	86,164.97
Instructional department uses	4,604.53	124,828.57
Other	110,025.00	1,710,580.48
Expendable:		
Scholarships and fellowships	5,502,469.77	12,177,966.18
Research	1,211,283.30	62,814.39
Instructional department uses	362,119.61	1,477,110.17
Loans	66,370.81	-
Capital projects	714,871.20	-
Pension	419,282.00	-
Other	2,055,556.12	4,800,306.07
Unrestricted	18,425,907.84	700,925.00
Total net position	$ 183,554,855.42	$ 46,000,404.26

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, 2020

	University	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (Note 13)	$ 54,519,705.43	$ -
Gifts and contributions	-	5,132,654.16
Endowment income (per spending plan)	-	789,135.41
Governmental grants and contracts	7,589,620.66	-
Nongovernmental grants and contracts	85,589.04	-
Sales and services of educational activities	522,196.45	-
Sales and services of other activities	6,211,529.74	-
Auxiliary enterprises:		
Residential life (Note 13)	4,678,479.64	-
Bookstore	317,008.98	-
Food service	534,005.31	-
Wellness facility (Note 13)	882,495.96	-
Other auxiliaries	1,483,140.34	-
Interest earned on loans to students	45,872.25	-
Other operating revenues	228,970.59	226,789.64
Total operating revenues	77,098,614.39	6,148,579.21
Expenses		
Operating expenses (Notes 17 and 19):		
Salaries and wages	79,730,739.72	875,188.87
Benefits	29,988,679.75	279,435.85
Utilities, supplies, and other services	36,435,972.82	1,443,107.72
Scholarships and fellowships	26,944,694.68	1,606,400.82
Depreciation expense	7,264,771.20	47,466.38
Payments to or on behalf of Austin Peay State University	-	2,417,022.58
Total operating expenses	180,364,858.17	6,668,622.22
Operating loss	(103,266,243.78)	(520,043.01)
Nonoperating revenues (expenses)		
State appropriations	51,419,625.00	-
Gifts, including $1,427,249.93 from component unit	1,722,103.21	-
Grants and contracts	50,223,606.91	-
Investment income (expense) (net of investment expense of $19,516.21 for the institution and component unit of $60,591.76)	1,226,728.96	(341,223.14)
Interest on capital asset-related debt	(3,105,690.32)	-
University support (Note 19)		2,101,169.60
Other nonoperating revenues	442,378.04	-
Total nonoperating revenues (expenses)	101,928,751.80	1,759,946.46
Income (loss) before other revenues, expenses, gains, or losses	(1,337,491.98)	1,239,903.45
Capital appropriations	2,644,813.46	-
Capital grants and gifts, including $989,772.65 from the component unit	994,772.65	40,995.00
Additions to permanent endowments	17,246.00	876,617.89
Total other revenues	3,656,832.11	917,612.89
Increase in net position	2,319,340.13	2,157,516.34
Net position - beginning of year	181,235,515.29	43,842,887.92
Net position - end of year	$ 183,554,855.42	$ 46,000,404.26

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, 2020

Cash flows from operating activities		
Tuition and fees	$	54,497,218.00
Grants and contracts		4,985,904.85
Sales and services of educational activities		522,196.45
Sales and services of other activities		6,295,120.43
Payments to suppliers and vendors		(37,672,264.99)
Payments to employees		(80,022,457.22)
Payments for benefits		(27,681,891.17)
Payments for scholarships and fellowships		(26,944,694.68)
Collection of loans from students		223,378.91
Interest earned on loans to students		47,506.16
Funds received for deposits held for others		176,100.60
Funds disbursed for deposits held for others		(179,428.70)
Auxiliary enterprise charges:		
Residence halls		4,684,644.64
Bookstore		404,583.82
Food services		534,005.31
Wellness facility		882,495.96
Other auxiliaries		1,483,140.34
Net cash used for operating activities		(97,764,441.29)
Cash flows from noncapital financing activities		
State appropriations		51,478,500.00
Gifts and grants received for other than capital or endowment purposes, including $1,427,249.93 from APSU University Foundation		51,770,593.10
Private gifts for endowment purposes		17,246.00
Federal student loan receipts		43,106,727.00
Federal student loan disbursements		(43,106,727.00)
Other noncapital financing receipts		432,291.86
Net cash provided by noncapital financing activities		103,698,630.96
Cash flows from capital and related financing activities		
Capital grants and gifts received, including $972,199.44 from APSU Foundation		972,199.44
Proceeds from sale of capital assets		25,074.00
Purchases of capital assets and construction		(4,764,454.64)
Principal paid on capital debt		(4,774,053.85)
Interest paid on capital debt		(3,128,792.47)
Net cash used for capital and related financing activities		(11,670,027.52)
Cash flows from investing activities		
Proceeds from sales and maturities of investments		485,321.73
Income on investments		1,282,426.01
Purchase of investments		(377,500.77)
Other investing payments		(276,961.76)
Net cash provided by investing activities		1,113,285.21
Net decrease in cash and cash equivalents		(4,622,552.64)
Cash and cash equivalents - beginning of year		56,853,483.29
Cash and cash equivalents - end of year	$	52,230,930.65

AUSTIN PEAY STATE UNIVERSITY
Statement of Cash Flows (continued)
For the Year Ended June 30, 2020

Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$	(103,266,243.78)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Noncash operating expenses		7,325,296.20
Gifts in-kind		89,221.54
Change in assets, liabilities, and deferrals:		
Receivables, net		(3,668,377.17)
Due from State of Tennessee		151,372.84
Inventories		(28,906.56)
Prepaid items		(161,286.97)
Other assets		1,633.91
Net pension asset		(40,343.00)
Deferred outflows of resources		2,249,246.76
Accounts payable		(119,237.63)
Accrued liabilities		430,480.68
Due to State of Tennessee		(150,336.31)
Unearned revenues		130,762.16
Deposits		(56,906.06)
Compensated absences		847,214.29
Net pension liability		(2,053,640.00)
Net OPEB liability		(4,904,024.00)
Deferred inflows of resources		5,427,252.00
Due to grantors		(187,671.00)
Loans to students		223,378.91
Other		(3,328.10)
Net cash used for operating activities	$	(97,764,441.29)

Noncash investing, capital, or financing transactions		
Gifts in-kind - capital	$	22,573.21
Unrealized gains on investments	$	83,976.92
Gain on disposal of capital assets	$	10,086.18
Change in value of split-interest agreement	$	(308,959.88)
Capital appropriations	$	2,644,813.46
Purchase of capital assets and construction	$	(2,644,813.46)

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 had limited oversight responsibilities during the transition period and has 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 Tennessee's *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 and the foundation'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.

Other Postemployment Benefits

For purposes of measuring the net other postemployment benefits liability (OPEB), as well as deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Closed Employee Group OPEB Plan and additions to/deductions from the plan's fiduciary net position has been determined on the same basis as they are reported by the State of Tennessee Postemployment Benefits Trust. For this purpose, benefits are recognized when due and payable in accordance with the benefit terms of the Closed Employee Group OPEB Plan. Investments are reported at fair value.

Net Position

The university's net position is classified as follows:

<u>Net investment in capital assets</u> – 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.

<u>Nonexpendable restricted net position</u> – 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, 2020, cash and cash equivalents consisted of $6,572,360.40 in bank accounts, $14,000.00 of petty cash on hand, $247,114.00 in money market funds, $44,682,585.05 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $714,871.20 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, 2020, 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	$ 2,234,122.91		$ 1,024,630.14	$ 1,209,492.77	-	-
Total debt investments	$ 2,234,122.91	$ -	$ 1,024,630.14	$ 1,209,492.77	$ -	$ -

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.

The 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 within 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, 2020, the university's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Balance	A	Unrated
LGIP (amortized cost)	$ 45,397,456.25	$ -	$ 45,397,456.25
Mutual Bond Funds	2,234,122.91	1,209,492.77	-
Total	$ 47,631,579.16	$1,209,492.77	$ 45,397,456.25

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, 2020, the university had $9,518,912.49 of uninsured and unregistered investments for which the securities were held by the counterparty and $1,209,492.77 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.

Concentration of Credit Risk

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

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

Investments	Fair Value June 30, 2020
Certificates of Deposit	$ 32,291.59
Charles Schwab Investment Account	9,518,912.49
The Commonfund	1,209,492.77
Total	$10,760,696.85

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, 2020, there were a total of 77,233.21 units in the Multi-Strategy Bond Fund, each having a fair value of $15.66.

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

FY 2020	Pooled Assets			
Multi-Strategy Bond Fund	Fair Value	Cost	Net Gains (Losses)	Fair Value Per Unit
End of year	$1,209,492.77	$1,015,433.77	$ 194,059.00	$15.66
Beginning of year	$1,152,199.04	$1,018,487.93	133,711.11	14.87
Change in unit value			$ 60,347.89	$ 0.79

The average annual earnings per unit, exclusive of net gains/(losses), were $0.1743 for the year ended June 30, 2020.

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, 2020:

	June 30, 2020	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	$ 2,234,122.91	$ 1,024,630.14	$ -	$ -	$1,209,492.77
Total debt securities	2,234,122.91	1,024,630.14	-	-	1,209,492.77

Equity securities:					
Mutual equity funds	8,494,282.35	8,494,282.35	-	-	-
Total equity securities	8,494,282.35	8,494,282.35	-	-	-
Other assets:					
Beneficial interest in split-interest agreement	3,435,577.11	3,435,577.11	-	-	-
Total other assets	3,435,577.11	3,435,577.11	-	-	-
Total assets at fair value	$14,163,982.37	$ 12,954,489.60	$ -	$ -	$ 1,209,492.77

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	$1,209,492.77	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, 2020, included the following:

Student accounts receivable	$ 5,426,871.32
Grants receivable	5,154,905.51
Notes receivable	12,542.34
Other receivables	383,028.87
Subtotal	10,977,348.04

Less allowance for doubtful accounts	1,598,928.56
Total receivables	$ 9,378,419.48

Federal Perkins Loan Program funds at June 30, 2020, included the following:

Perkins loans receivable	$ 766,545.17
Less allowance for doubtful accounts	(259,205.48)
Total	$ 507,339.69

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 17,334,437.97	$ 84,662.18	$ -	$ -	$ 17,419,100.15
Land improvements and infrastructure	40,200,867.38	-	414,839.35	-	40,615,706.73
Buildings	278,130,380.83	103,898.07	3,113,951.50	-	281,348,230.40
Equipment	16,333,728.67	708,184.57	-	146,803.00	16,895,110.24
Library holdings	1,818,004.50	127,120.64	-	105,222.99	1,839,902.15
Intangible assets	2,389,851.44	-	-	-	2,389,851.44
Projects in progress	6,881,963.69	7,335,661.61	(3,528,790.85)	-	10,688,834.45
Total	363,089,234.48	8,359,527.07	-	252,025.99	371,196,735.56
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	21,036,143.84	1,822,983.70	-	-	22,859,127.54
Buildings	93,490,933.90	4,209,957.96	-	-	97,700,891.86
Equipment	12,721,421.17	1,047,839.35	-	131,815.18	13,637,445.34
Library holdings	994,536.25	183,990.19	-	105,222.99	1,073,303.45
Intangible assets	2,389,851.44	-	-	-	2,389,851.44
Total	130,632,886.60	7,264,771.20	-	237,038.17	137,660,619.63
Capital assets, net	$ 232,456,347.88	$ 1,094,755.87	$ -	$ 14,987.82	$ 233,536,115.93

Note 7. Accounts Payable

Accounts payable at June 30, 2020, consisted of $3,224,991.11 of vendors payable.

Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$80,157,202.06	$ -	$2,666,889.20	$77,490,312.86	$2,773,171.06
Unamortized bond premium/discount	7,467,532.68	-	504,690.19	6,962,842.49	-
Revolving credit facility	2,576,398.44	-	1,695,000.00	881,398.44	-
Subtotal	90,201,133.18	-	4,866,579.39	85,334,553.79	2,773,171.06
Other liabilities:					
Compensated absences	3,359,973.39	2,865,587.39	2,018,373.10	4,207,187.68	608,193.85
Due to grantor	542,270.58	-	187,671.00	354,599.58	-
Subtotal	3,902,243.97	2,865,587.39	2,206,044.10	4,561,787.26	608,193.85
Total long-term liabilities	$94,103,377.15	$ 2,865,587.39	$7,072,623.49	$89,896,341.05	$3,381,364.91

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.

Debt service requirements to maturity for the university's portion of TSSBA bonds at June 30, 2020, are as follows:

Year Ending June 30	Principal	Interest	Total
2021	$ 2,773,171.06	$ 3,396,858.94	$ 6,170,030.00
2022	2,884,835.46	3,291,243.21	6,176,078.67
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	3,220,080.83	2,908,049.65	6,128,130.48
2026–2030	17,278,527.39	12,280,260.36	29,558,787.75
2031–2035	17,630,559.19	8,215,566.15	25,846,125.34
2036–2040	15,219,062.02	4,681,237.73	19,900,299.75
2041–2045	11,943,552.30	1,179,565.72	13,123,118.02
2046	510,000.00	10,072.50	520,072.50
Total	$77,490,312.86	$42,168,821.45	$119,659,134.31

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 $881,398.44 at June 30, 2020.

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- 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, 2020, net appreciation of $41,723.42 is available to be spent, of which $40,704.76 is included in restricted net position expendable for scholarships and fellowships, $52.30 is included in restricted net position expendable for instructional departmental uses, and $966.36 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 $77,490,312.86 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 $119,659,134.31. Principal and interest paid for the current year and total available revenues were $5,672,964.15 and $157,838,474.85, 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 noncontributory, 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, 2020, to the Closed State and Higher Education Employee Pension Plan were $4,421,984.18, which is 19.66% 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 Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2020, the university reported a liability of $14,362,206 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2019, measurement date, the university's proportion was 1.017035%. The proportion measured as of June 30, 2018, was 1.016202%.

Pension expense – For the year ended June 30, 2020, the university recognized a pension expense of $6,248,823.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2020, 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	$ 675,212.00	$ 227,054.00
Net difference between projected and actual earnings on pension plan investments	-	1,889,072.00

Changes in assumptions	1,033,127.00	-
Changes in proportion of net pension liability	332,706.00	-
APSU's contributions subsequent to the measurement date of June 30, 2019	4,421,984.18	-
Total	$ 6,463,029.18	$ 2,116,126.00

Deferred outflows of resources, resulting from the university's employer contributions of $4,421,984.18 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2021. 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	
2021	$ 1,579,467
2022	$ (1,155,916)
2023	$ (437,389)
2024	$ (61,243)

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, 2019, 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 six years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2019, 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	$34,659,598	$14,362,206	($2,149,891)

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, 2020, the university reported a payable of $338,314.09 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2020.

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 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 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, 2020, to the State and Higher Education Employee Retirement Plan were $213,929.22, which is 1.73% 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, 2020, the university reported an asset of $419,282 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019, 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, 2019, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2019, measurement date, the university's proportion was 1.010865%. At the June 30, 2018, measurement date, the university's proportion was 0.982392%.

Pension expense – For the year ended June 30, 2020, the university recognized a pension expense of $133,161.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2020, 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	$ 9,348.00	$ 13,600.00
Net difference between projected and actual earnings on pension plan investments	-	17,318.00
Changes in assumptions	11,590.00	-
Changes in proportion of net pension asset	1,475.00	28,868.00
APSU's contributions subsequent to the measurement date of June 30, 2019	213,929.22	-
Total	$ 236,342.22	$ 59,786.00

Deferred outflows of resources, resulting from the university's employer contributions of $213,929.22 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2021. 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	
2021	$ (8,387)
2022	$ (10,564)
2023	$ (6,022)
2024	$ (3,531)
2025	$ (1,489)
Thereafter	$ (7,380)

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, 2019, 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, 2019, 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 (liability)	$(68,686)	$419,282	$786,366

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, 2020, the university reported a payable of $18,102.19 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2020.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2020, for all state government defined benefit pension plans was $6,381,984.

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 $3,444,944.36 for the year ended June 30, 2020, and $3,290,590.14 for the year ended June 30, 2019. 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, 2020, the university reported a payable of $276,948.09 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2020.

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. Employees 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, 2020, contributions totaling $1,924,897.44 were made by employees participating in the 401(k) plan, and the university recognized pension expense of $497,353.58 for employer contributions. 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.

At June 30, 2020, the university reported a payable of $71,394.34 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2020.

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. The State of Tennessee Postemployment Benefits Trust (OPEB Trust) was established to accumulate resources to pay for the retiree benefits of EGOP participants. The OPEB Trust prepares a stand-alone financial report that can be found at https://www.tn.gov/finance/rd-doa/opeb22121.html.

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 and retired 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%.

Contributions – Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*, establishes the required contributions to the plan by member employees through the premiums established to approximate claims cost for the year. Pre-age 65 retired members of the EGOP pay a premium based on a blended rate that considers the cost of active and retired employees as well as their individual years of service. Therefore, retirees pay either 20%, 30%, 40%, or 100% of the appropriate premium rate. These payments are deposited into the OPEB Trust. Employers contribute to the OPEB Trust based on an actuarily determined contribution (ADC) rate calculated in a manner to meet the funding goals of the state.

The total ADC rate for plan employers for the year ended June 30, 2020, was $145.4 million. The university's share of the ADC was $1,389,363. During the fiscal year, the university contributed $1,389,363 to the OPEB Trust. The Tennessee General Assembly has the authority to change the contribution requirements of the employees participating in the EGOP.

Net OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Proportionate share – The university's proportionate share of the collective net OPEB liability related to the EGOP was $7.7 million. At the June 30, 2019, measurement date, the university's proportion of the collective net OPEB liability was 0.808664%. The proportion existing at the prior measurement date was 0.909877%. This resulted in a change in proportion of -0.101213% between the current and prior measurement dates. The university's proportion of the collective net 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, 2019, and a measurement date of June 30, 2019.

OPEB expense – For the year ended June 30, 2020, the university recognized OPEB expense of $321,786.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2020, 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	$ -	$ 490,280
Changes in assumptions	420,834	1,839,263
Net difference between actual and projected investment earnings	5,654	-
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	787,234	2,369,347
Contributions subsequent to the measurement date	1,389,363	-
Total	$ 2,603,085	$ 4,698,890

Deferred outflows of resources, resulting from the university's employer contributions of $1,389,363 subsequent to the measurement date, will be recognized as a decrease in the net OPEB liability in the year ending June 30, 2021. 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	
2021	$(574,252)
2022	$(574,252)
2023	$(574,252)
2024	$(574,250)
2025	$(575,663)
Thereafter	$(612,499)

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

Actuarial assumptions – The collective total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.2%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	6.03% for 2020, decreasing annually to an ultimate rate of 4.5% for 2029 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, 2019, 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.

Long-term expected rate of return – The long-term expected rate of return of 6% on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. TCA 8-27-802 establishes the responsibility of the trustees to adopt written investment policies authorizing how assets in the OPEB Trust may be invested and reinvested by the State Treasurer. The treasurer may invest trust assets in any security or investment in which the Tennessee Consolidated Retirement System (TCRS) is permitted to invest, provided that investments by the OPEB Trust shall be governed by the investment policies and guidelines adopted by the trustees. Any changes to the investment policy will be the responsibility of the established trustees. The OPEB Trust investment policy target asset allocation and allocation range for each major asset class is summarized in the following table:

	Allocation Range		
Asset Class	Minimum	Maximum	Total Allocation
Equities	25%	80%	53%
Fixed income and short-term securities	20%	50%	25%
Real estate	0%	20%	10%
Private equity and strategic lending	0%	20%	7%
Cash and cash equivalents	0%	25%	5%
			100%

The best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2019, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
U.S. equity	4.75%
Developed market international equity	5.63%
Emerging market international equity	5.95%
Private equity and strategic lending	4.60%
U.S. fixed income	0.63%
Real estate	4.28%

Discount rate – The discount rate used to measure the total OPEB liability was 6%. This represents an increase of 2.38% over the 3.62% used at the prior measurement date. The projection of cash flows used to determine the single discount rate assumed that employer contributions will be made at rates equal to the ADC rates pursuant to an actuarial valuation in accordance with the state's funding goals. Inactive plan members are assumed to contribute their share of the premium rate for the coverage option in which they are enrolled. Based on those assumptions, the OPEB Trust fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The change in discount rate used is due to the transition of the EGOP from a pay-as-you-go arrangement to a prefunding arrangement through a qualified trust.

Changes in assumptions – The discount rate was changed from 3.62% as of the beginning of the measurement period to 6% as of June 30, 2019. This change in assumption decreased the total OPEB liability. Other minor changes in assumptions were made; however, the impact on the net OPEB liability was considered to be insignificant.

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the discount rate – The following presents the university's proportionate share of the collective net OPEB liability of the EGOP, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (5%) or 1 percentage point higher (7%) than the current rate (expressed in thousands):

	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
University's proportionate share of the collective net OPEB liability	$8,374,805	$7,699,943	$7,072,962

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rate – The following presents the university's proportionate share of the collective net OPEB liability of the EGOP, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (5.03% decreasing to 3.5%) or 1 percentage point higher (7.03% decreasing to 5.5%) than the current rate (expressed in thousands):

	1% Decrease (5.03% decreasing to 3.5%)	Healthcare Cost Trend Rates (6.03% decreasing to 4.5%)	1% Increase (7.03% decreasing to 5.5%)
University's proportionate share of the collective net OPEB liability	$6,813,187	$7,699,943	$8,729,282

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the State of Tennessee's *Comprehensive Annual Financial Report* found at www.tn.gov/finance/rd-doa/fa-accfin-cafr.html.

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.

<u>Benefits provided</u> – 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 $60,525 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

<u>Proportionate share</u> – 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 $1,586,016. At the June 30, 2019, measurement date, the proportion of the collective total OPEB liability associated with the university was 0.906058%. This represents a change of -0.073893% from the prior proportion of 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. The

collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2019, and measurement date of June 30, 2019.

Actuarial assumptions – The total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.2%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
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) for Group I employees. 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 3.51%. 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 as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in assumptions – The discount rate was changed from 3.62% as of the beginning of the measurement period to 3.51% as of June 30, 2019. This change in assumption increased 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 (2.51%) or 1 percentage point higher (4.51%) than the current rate. The university does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (2.51%)	Current Discount Rate (3.51%)	1% Increase (4.51%)
Primary government's proportionate share of the collective total OPEB liability	$1,799,745	$1,586,016	$1,408,041

OPEB expense – For the year ended June 30, 2020, the primary government recognized OPEB expense of $49,878 for employees of the university participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2020, was $371,664, which consisted of OPEB expense of $321,786 for the EGOP and $49,878 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	$ 86,043,037.28	$ 31,355,469.83	$ 167,862.02	$ 54,519,705.43
Residential life	8,237,752.60	3,546,417.29	12,855.67	4,678,479.64
Wellness facility	1,391,155.92	507,542.47	1,117.79	882,495.66
Total	$ 95,671,945.80	$ 35,409,429.59	$ 181,835.48	$ 60,080,680.73

Note 14. Chairs of Excellence

The university had $16,145,684.74 on deposit at June 30, 2020, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

Note 15. 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, 2020, is presented in Tennessee's *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, 2020, the RMF held $231 million in cash designated for payment of claims.

At June 30, 2020, the scheduled coverage for the university was $658,591,070 for buildings and $85,656,847 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 16. Commitments and Contingencies

Sick Leave

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was $22,473,824.14 at June 30, 2020.

Operating Leases

The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $24,480 and expenses for personal property were $247,145 for the year ended June 30, 2020. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2020, outstanding commitments under construction contracts totaled $2,347,296.46 for Music Mass Comm HVAC Replacement, Browning Hall Mechanical Updates, Central Chiller Plant Repairs, Roof Replacements, Farm Residence, and University Bookstore, of which $2,180,918.08 will be funded by future state capital outlay appropriations.

Litigation

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

Note 17. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2020, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$41,940,981.50	$ 14,961,602.54	$ 8,410,844.05	$ -	$ -	$ 65,313,428.09
Research	1,341,171.57	497,217.52	887,509.15	-	-	2,725,898.24
Public service	2,954,425.57	1,252,849.48	368,872.01	-	-	4,576,147.06
Academic support	7,543,621.68	3,073,344.97	1,725,416.99	-	-	12,342,383.64
Student services	10,863,024.21	4,106,660.08	8,420,226.27	-	-	23,389,910.56
Institutional support	8,433,103.87	3,199,092.77	2,447,660.49	-	-	14,079,857.13
Maintenance and operation	4,890,412.22	2,316,033.89	7,957,328.20	-	-	15,163,774.31
Scholarships and fellowships	-	-	-	26,944,694.68	-	26,944,694.68
Auxiliary	1,763,999.10	581,878.50	6,218,115.66	-	-	8,563,993.26
Depreciation	-	-	-	-	7,264,771.20	7,264,771.20
Total	$79,730,739.72	$ 29,988,679.75	$36,435,972.82	$ 26,944,694.68	$ 7,264,771.20	$180,364,858.17

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $2,808,002.54 were reallocated from academic support to the other functional areas.

Note 18. On-behalf Payments

During the year ended June 30, 2020, the State of Tennessee made payments of $60,525 on behalf of the university for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee OPEB Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. This plan is reported in Tennessee's *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 66-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, 2020, the foundation made distributions of $2,417,022.58 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, 2020.

	June 30, 2020	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	$ 179,498.62	$ 179,498.62	$ -	$ -	$ -
Certificates of deposit	88,444.54	-	88,444.54	-	-
Exchange traded funds	1,414,387.89	1,414,387.89	-	-	-
Marketable equity securities	148,825.00	148,825.00	-	-	-
Marketable bond securities	178,909.08	178,909.08	-	-	-
Mutual funds	27,596,260.00	27,596,260.00	-	-	-
Life insurance	85,188.05	-	85,188.05	-	-
Total assets	$29,691,513.18	$ 29,517,880.59	$ 173,632.59	$ -	$ -

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, 2020, were as follows:

	Cost	Fair Value
Certificates of deposit	$ 88,444.54	$ 88,444.54
Corporate stock	188,701.75	148,825.00
Corporate bonds	183,000.00	178,909.08
Mutual bond funds	5,954,169.89	6,198,574.63
Mutual equity funds	20,986,133.15	21,253,012.15
Exchange traded funds	1,210,206.18	1,414,387.89
Life insurance	-	85,188.05
Mixed asset mutual funds	151,851.59	144,673.22
Total investments	$28,762,507.10	$29,512,014.56

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, 2020, are summarized below:

Current pledges	$ 583,509.11
Pledges due in one to five years	442,581.00
Pledges due after five years	8,318,761.31
Subtotal	9,344,851.42
Less discount to net present value	(1,690,358.20)
Total pledges receivable, net	$ 7,654,493.22

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	$ 789,311.64
Pledges receivable	810.00
Total	$ 790,121.64

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 12 quarters ending June 30. For fiscal year 2021, the fee is estimated to be $132,320.75.

Capital Assets

Capital assets at June 30, 2020, were as follows:

Land	$2,202,174.36
Equipment	277,324.40
Total	$2,479,498.76
Less accumulated depreciation/amortization:	
Equipment	131,385.35
Total	131,385.35
Capital assets, net	$2,348,113.41

Endowments

The Austin Peay State University Foundation's endowments consist of 276 individual funds established for a variety of purposes. Its endowment includes both 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 Austin Peay State University 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 time restricted until the foundation's board appropriates such amounts for expenditures. Most of those net assets are also 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 (1) the original value of initial and subsequent gift amounts donated to the fund and (2) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable 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 donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Endowment Net Asset Composition by Type of Fund
As of June 30, 2020

	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	$ -	$24,433,169.04	$24,433,169.04
Accumulated investment gains	-	6,630,428.16	6,630,428.16
Total funds	$ -	$31,063,597.20	$31,063,597.20

Changes in Endowment Net Assets
As of June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$28,933,823.81	$28,933,823.81
Investment return, net	-	417,317.45	417,317.45
Contributions	-	876,547.01	876,547.01
Appropriation of endowment assets for expenditure	-	(789,135.41)	(789,135.41)
Endowment net assets, end of year	$ -	$31,063,597.20	$31,063,597.20

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 14 donor-restricted endowment funds, which together have an original gift value of $537,845.91, a current value of $419,389.75, and a deficiency of $118,456.16 as of June 30, 2020. 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 or for a donor-specified period. 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 12 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 currently chooses not to spend from underwater endowment funds.

Natural Classifications With Functional Classifications

The foundation's operating expenses by functional classification for the year ended June 30, 2020, are as follows:

	Natural Classification						
Functional Classification	Salaries	Benefits	Other Operating	Scholarship	Depreciation	Payments Made to or on Behalf of University	Total
Program services							
Academic	$ -	$ -	$1,443,107.72	$ -	$ -	$ -	$1,443,107.72
Scholarships	-	-	-	1,606,400.82	-	-	1,606,400.82
Capital	-	-	-	-	47,466.38	-	47,466.38
Support activities	875,188.87	279,435.85	-	-	-	2,417,022.58	3,571,647.30
Total expenses	$ 875,188.87	$ 279,435.85	$1,443,107.72	$ 1,606,400.82	$ 47,466.38	$ 2,417,022.58	$6,668,622.22

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 2020, the university paid certain payroll costs amounting to $2,101,169.60 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
2020	1.017035%	$14,362,206	$22,931,218	62.63%	91.67%
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
2020	1.010865%	$419,282	$9,474,144	4.43%	122.36%
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 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
2020	$4,421,984	$4,421,984	$ -	$22,492,290	19.66%
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%

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%; and decreased salary growth graded ranges from an average of 4.25% to an average of 4%.

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
2020	$213,929	$213,929	$ -	$ 12,364,968	1.73%
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%; and decreased salary growth graded ranges from an average of 4.25% to an average of 4%.

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 Net OPEB Liability
Closed State Employee Group OPEB Plan

	University's Proportion of the Collective Total/Net OPEB Liability	University's Proportionate Share of the Collective Total/Net OPEB Liability	University's Covered-employee Payroll	University's Proportionate Share of the Collective Total/Net OPEB Liability as a Percentage of Its Covered-employee Payroll
2020	0.808664%	$ 7,699,943	$ 43,958,494	17.52%
2019	0.909877%	12,603,967	45,681,109	27.59%
2018	0.829092%	11,130,891	45,521,829	24.45%

1) 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.

2) 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 State University's Contributions
Closed State Employee Group OPEB Plan

	Actuarially Determined Contributions	Contributions in Relation to Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered-employee Payroll	Contributions as a Percentage of Covered-employee Payroll
2020	$1,389,363	$1,389,363	$ -	$43,958,494	3.16%
2019	1,292,124	1,115,408	176,716	45,681,109	2.44%

1) 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.

2) Actuarially determined contribution rates are determined based on valuations as of June 30 two years prior to the fiscal year-end in which the contributions are reported.

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

	University's Proportion of the Collective Total OPEB Liability	University's Proportionate Share of the Collective Total OPEB Liability	Primary Government's Proportionate Share of the Collective Total OPEB Liability	Total OPEB Liability Associated With the University	University's Covered-employee Payroll	University's Proportionate Share of the Collective Total OPEB Liability as a Percentage of Its Covered-employee Payroll
2020	0.0%	$ -	$1,586,016	$1,586,016	$ 50,750,527	0.0%
2019	0.0%	-	1,693,979	1,693,979	51,616,916	0.0%
2018	0.0%	-	1,625,789	1,625,789	52,030,211	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, 2020

Cash flows from operating activities	
Gifts and contributions	$ 4,197,002.46
Payments to suppliers and vendors	(470,896.89)
Payments for scholarships and fellowships	(1,606,400.82)
Payments to Austin Peay State University	(2,399,449.37)
Other receipts	226,789.64
Net cash used for operating activities	(52,954.98)
Cash flows from noncapital financing activities	
Private gifts for endowment purposes	1,090,489.68
Net cash provided by noncapital financing activities	1,090,489.68
Cash flows from capital and related financing activities	
Proceeds from sale of capital assets	127,220.55
Purchases of capital assets and construction	(336,875.10)
Other capital and related financing payments	(160,279.45)
Net cash used for capital and related financing activities	(369,934.00)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	5,786,362.19
Income on investments	1,180,167.90
Purchases of investments	(7,672,106.34)
Other investing receipts	118,478.84
Net cash used for investing activities	(587,097.41)
Net increase in cash and cash equivalents	80,503.29
Cash and cash equivalents - beginning of year	6,473,160.02
Cash and cash equivalents - end of year	$ 6,553,663.31
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (520,043.01)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Noncash operating expenses	2,148,635.98
Endowment income per spending plan	(789,135.41)
Change in assets, liabilities, and deferrals:	
Receivables	(958,663.84)
Prepaid items	675.00
Accounts payable	65,576.30
Net cash used for operating activities	$ (52,954.98)
Noncash investing, capital, or financing transactions	
Gifts in-kind - capital	$ 40,995.00
Unrealized losses on investments	$ (351,208.10)

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

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. Dannelle Whiteside, Interim 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, 2020, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated December 8, 2020. 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.[1]

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.

Cordell Hull Building | 425 Fifth Avenue North | Nashville, Tennessee 37243

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.[3,4]

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.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 8, 2020

Austin Peay State University