



Financial Report 2020-21

**AP** Austin Peay  
State University





Office of the President

January 20, 2022

Chairman Billy Atkins  
Austin Peay State University Board of Trustees  
601 College Street  
Clarksville, TN 37040

Dear Chairman Atkins:

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 2021 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,

Michael Licari  
President



**Department of Finance and Administration**

January 20, 2022

Dr. Michael Licari  
President  
Austin Peay State University  
601 College Street  
Clarksville, TN 37040

Dear Dr. Licari:

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, 2021. 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,

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

Mitch Robinson  
Vice President for Finance and Administration



JASON E. MUMPOWER  
*Comptroller*

## **Independent Auditor's Report**

The Honorable Bill Lee, Governor  
Members of the General Assembly  
Dr. Michael Licari, 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, 2021, 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, 2021; 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, 2021, 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 – Closed Tennessee OPEB Plan 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 2, 2021, 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, CPA, CGFM, Director  
Division of State Audit  
December 2, 2021

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## **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, 2021, with comparative information presented for the fiscal year ended June 30, 2020. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

The university has one discretely presented component unit, the Austin Peay State University Foundation. More detailed information about the foundation is presented in Note 20 to the financial statements. This discussion and analysis focuses on the university and does not include the foundation.

### **Overview of the Financial Statements**

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

The university's financial report includes the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

### **The Statement of Net Position**

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

From the data presented, readers of the statement are able to determine the assets available to continue the operations of the university. They are also able to determine how much the university owes vendors, lenders, and others. Net position represents the difference between the university's



assets and liabilities, along with the difference between deferred outflows and deferred inflows of resources, and is one indicator of the university's current financial condition.

The statement of net position also indicates the availability of net position for expenditure by the university. Net position is divided into three major categories. The first category, net investment in capital assets, represents the university's total investment in property, plant, and equipment, net of outstanding debt obligations related to these capital assets. To the extent debt or deferred inflows of resources have been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is subdivided 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, 2021, and June 30, 2020.

**Summary of Net Position  
(in thousands of dollars)**

	<u>2021</u>	<u>2020</u>
Assets:		
Current assets	\$ 56,533	\$ 44,411
Capital assets, net	231,587	233,536
Other assets	35,215	35,674
<b>Total Assets</b>	<b>323,335</b>	<b>313,621</b>
Deferred Outflows of Resources		
Deferred loss on debt refunding	1,261	874
Deferred outflows related to OPEB	2,883	2,603
Other outflows related to pensions	6,339	6,699
<b>Total Deferred Outflows of Resources</b>	<b>10,483</b>	<b>10,176</b>
Liabilities:		
Current liabilities	20,310	21,239
Noncurrent liabilities	106,073	108,577
<b>Total Liabilities</b>	<b>126,383</b>	<b>129,816</b>
Deferred Inflows of Resources		
Deferred inflows-split interest agreements	3,697	3,436
Deferred gain on debt refunding	483	115
Deferred inflows related to OPEB	4,479	4,699
Deferred inflows related to pensions	222	2,176
<b>Total Deferred Inflows of Resources</b>	<b>8,881</b>	<b>10,426</b>

Net Position:		
Net investment in capital assets	150,468	149,015
Restricted – nonexpendable	5,782	5,782
Restricted – expendable	13,239	10,332
Unrestricted	29,065	18,426
<u>Total Net Position</u>	<u>\$198,554</u>	<u>\$183,555</u>

- Current assets increased from June 30, 2020, to June 30, 2021, as a result of an increase in accounts receivable for Higher Education Emergency Relief Fund (HEERF) II Act grants that had not been received by June 30, 2021. There was a very small HEERF Act receivable at the end of fiscal year 2020.
- Deferred outflows related to debt refunding increased as a result of a loss incurred on debt refunding that occurred in fiscal year 2021.
- Deferred inflows related to pensions decreased primarily due to the establishment of a new deferred outflow of resources relating to differences between expected and actual investment earnings totaling approximately \$2.9 million at June 30, 2021, exceeding the related remaining unamortized deferred inflows of resources totaling approximately \$1.8 million, resulting in an overall net deferred outflow of resources relating to differences between expected and actual investment earnings instead of a net deferred inflow as reported in the previous year.
- Noncurrent liabilities decreased as a result of the annual debt service payments.

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

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

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

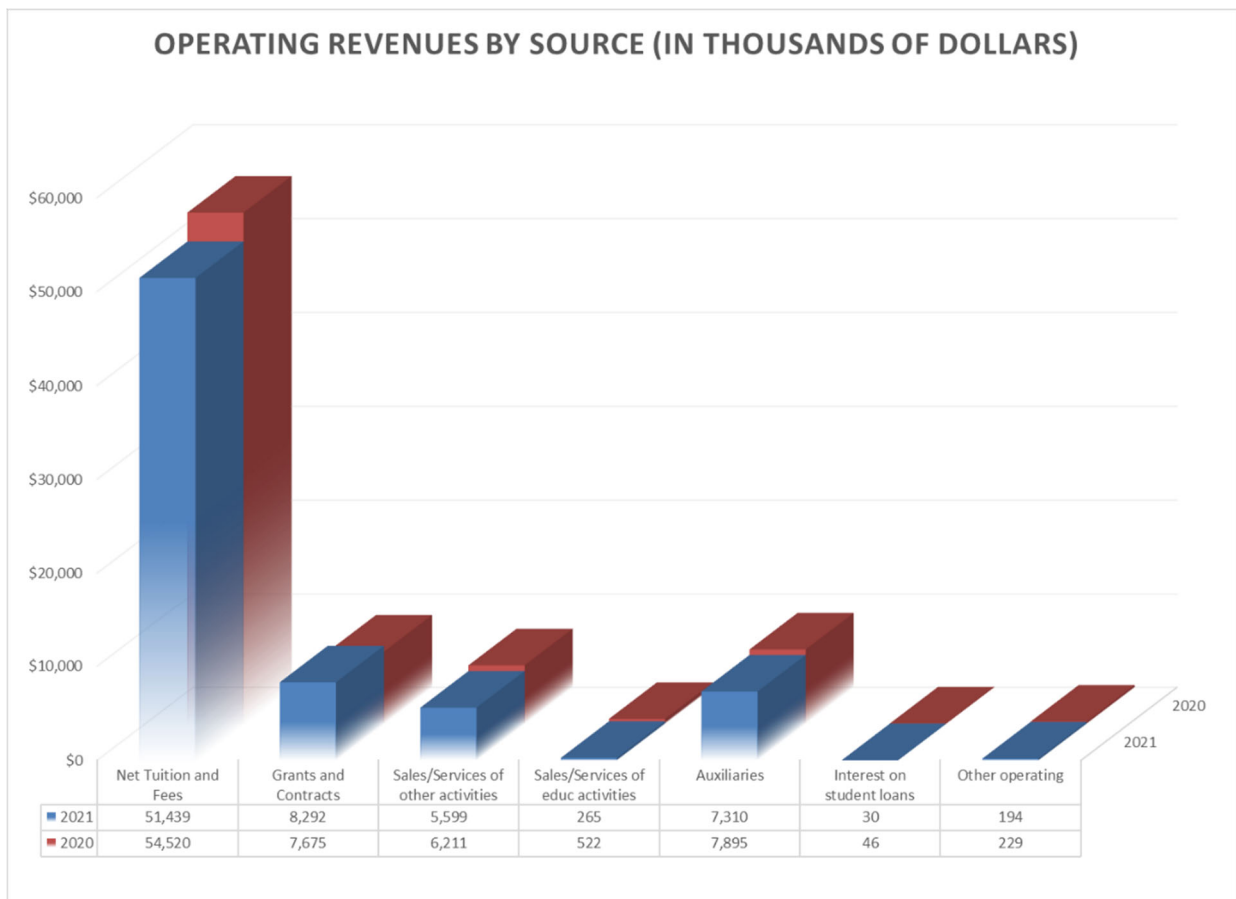
A summary of the university’s revenues, expenses, and changes in net position for the year ended June 30, 2021, and June 30, 2020, follows.

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

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 73,129	\$ 77,098
Operating expenses	172,757	180,365
Operating loss	(99,628)	(103,267)
Nonoperating revenues and expenses	110,939	101,929
Income (loss) before other revenues, expenses, gains, or losses	11,311	(1,338)
Other revenues, expenses, gains, or losses	3,688	3,657
Increase in net position	14,999	2,319
Net position at beginning of year	183,555	181,236
Net position at end of year	\$198,554	\$183,555

Operating Revenues

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

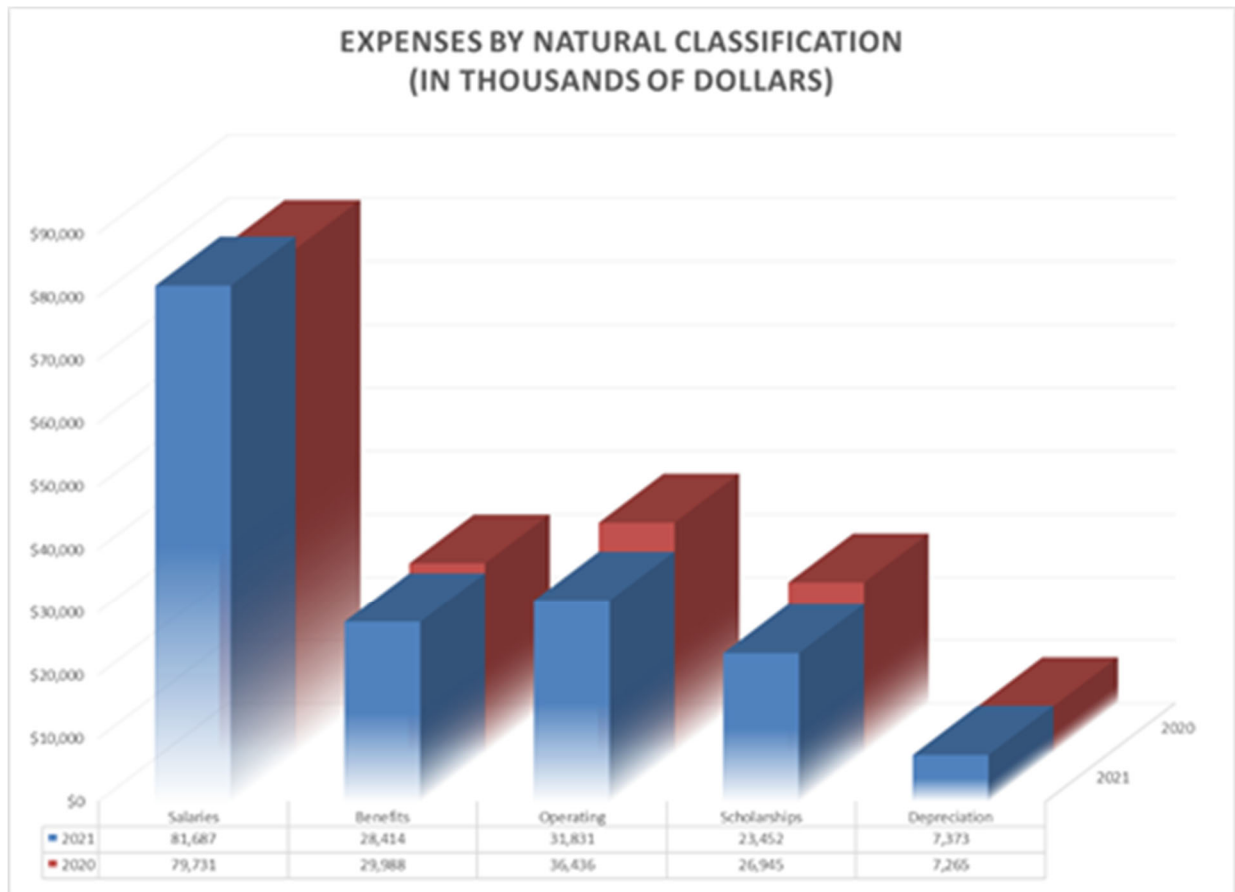


The university had the following significant changes in operating revenues between fiscal years:

- Tuition decreased as a result of a decrease in total enrollment due to the COVID-19 pandemic. However, there was an increase in online fee revenue.
- Grants and contracts increased primarily as a result of external grant funding in both existing grants as well as new grants in 2021. These include research grants as well as grants to support student success.
- Sales/services of educational and other activities' decrease is attributable to decreases and/or postponed services during the COVID-19 pandemic.

### 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:

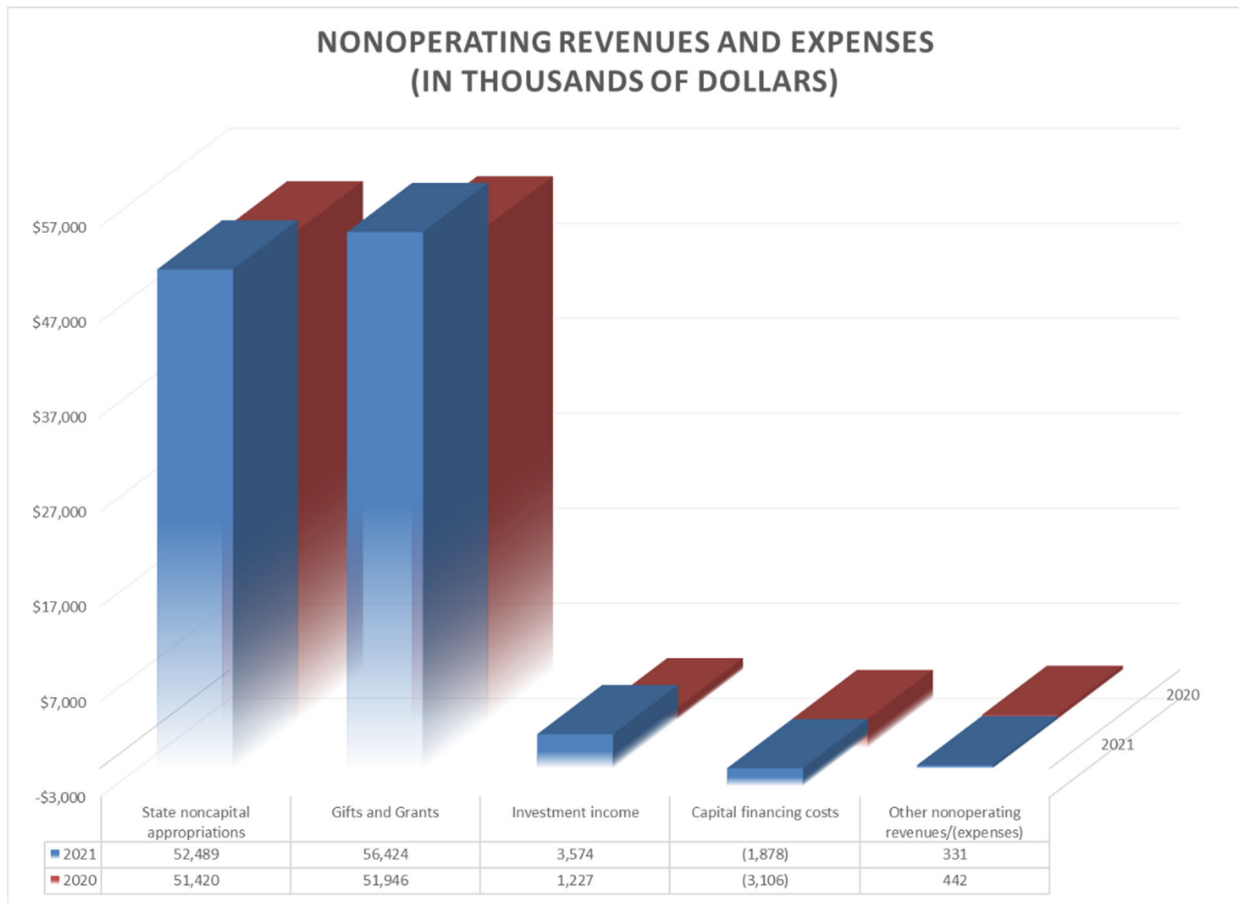
- Salaries and benefits expense in the 2021 fiscal year included a slight increase in salaries while benefits expense decreased primarily due to reductions in both pension

and OPEB expense. In addition, the university continued to increase both salaries and benefits in accordance with its approved compensation plan.

- Scholarship expense in fiscal year 2021 decreased as a result of HEERF II scholarships awarded in fiscal year 2021 being less than CARES Act and COVID relief funding for students awarded in fiscal year 2020.

### 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

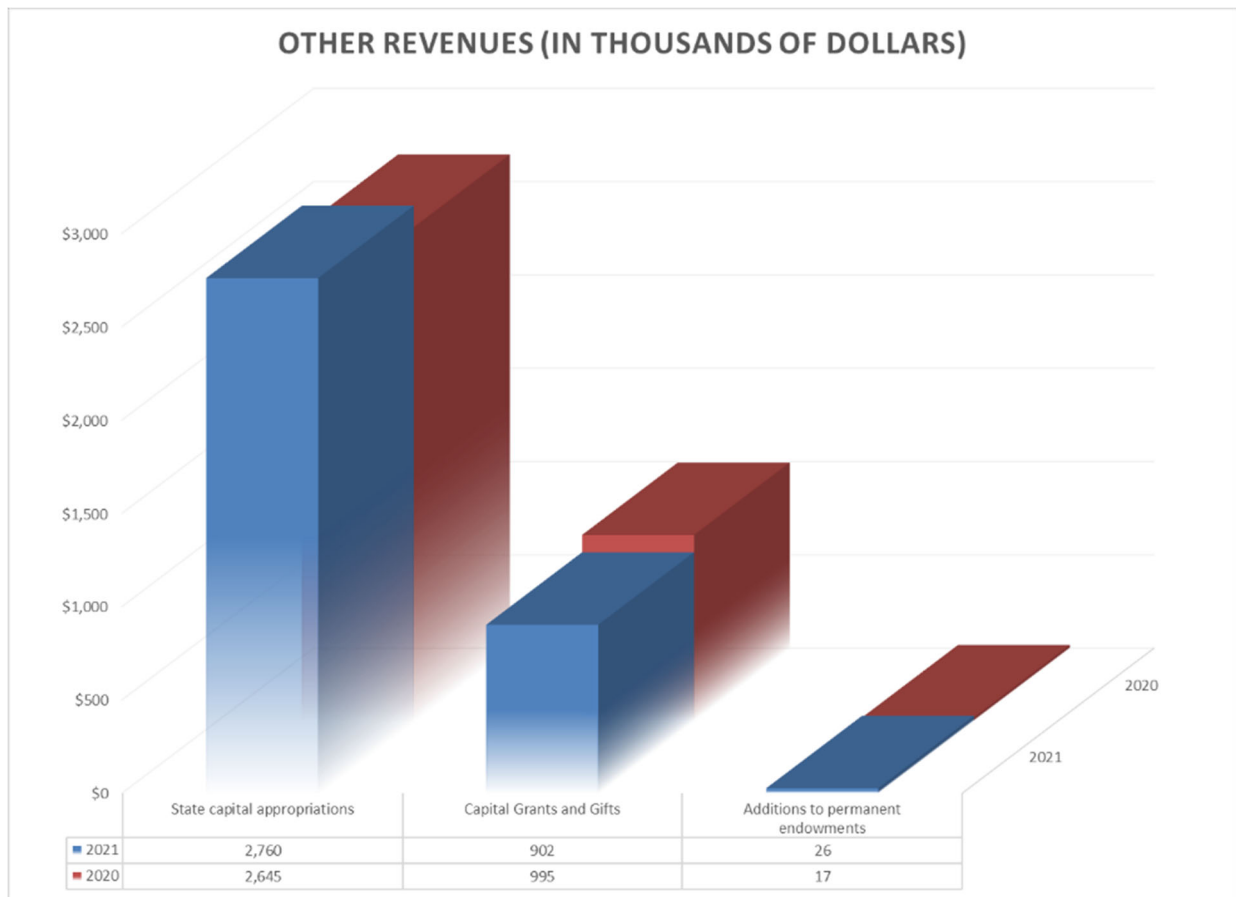


for outcomes success as measured against state university and community college peer institutions.

- Gifts and grants increased as a result of HEERF II related funding.
- Investment income increased as a result of improved market conditions during fiscal year 2021.

### Other Revenues

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



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

- State capital appropriations increased as a result of new and ongoing state-funded capital projects. These include HVAC replacement in two buildings as well as projects in the physical plant that were ongoing in fiscal year 2020.
- Capital gifts and grants decreased as a result of completion of projects funded by capital gifts that were ongoing in fiscal year 2020. However, one new project, the Military Family Resource Center, increased capital gifts.

## Capital Assets and Debt Administration

### Capital Assets

Austin Peay State University had \$231.6 million invested in capital assets, net of accumulated depreciation of \$144.4 million at June 30, 2021; and \$233.5 million invested in capital assets, net of accumulated depreciation of \$137.7 million at June 30, 2020. Depreciation charges totaled \$7.4 million and \$7.3 million for the years ended June 30, 2021, and June 30, 2020, respectively.

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

	<u>2021</u>	<u>2020</u>
Land	\$ 17,812	\$ 17,419
Land improvements and infrastructure	17,705	17,757
Buildings	186,806	183,647
Equipment	3,067	3,258
Library holdings	672	767
Projects in progress	5,525	10,688
<b>Total</b>	<b>\$231,587</b>	<b>\$233,536</b>

Capital assets, net of accumulated depreciation, decreased in fiscal year 2021 due primarily to the excess of depreciation expense over costs of new capital assets. Major projects currently in progress at the university include the following: improvements to HVAC systems in several buildings, improvements to the central chiller and boiler systems, upgrades to the baseball facility, and the new Military Family Resource Center.

At June 30, 2021, outstanding commitments under construction contracts totaled \$6,433,879 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund \$5,612,136 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 \$81.9 million and \$85.3 million in debt outstanding at June 30, 2021, and June 30, 2020, respectively. The table below summarizes these amounts by type of debt instrument.

#### **Schedule of Outstanding Debt (in thousands of dollars)**

	<u>2021</u>	<u>2020</u>
TSSBA Bonds	\$81,365	\$84,453
TSSBA Revolving Credit Facility	586	882
<b>Total Debt</b>	<b>\$81,951</b>	<b>\$85,335</b>

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 0.167% 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 \$81,365,264 outstanding at June 30, 2021, is \$2,884,536.

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, 2021, is \$586,398.

The ratings on debt issued by the TSSBA at June 30, 2021, were as follows:

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

More information about the university's long-term liabilities is presented in Note 8 to the financial statements.

### **Economic Factors That Will Affect the Future**

The global novel coronavirus (COVID-19) continues to impact campus operations and is expected to continue into future periods. Plans were made to return to in-person courses for the fall 2022 academic term; however, enrollment and student housing occupancy will still be impacted. Residential student housing occupancy rates for fall 2022 are expected to be approximately 65%. This lower occupancy rate will also impact the university's annual dining services commission.

The pandemic has impacted retention and the university has experienced a decline in student retention for the fall 2022 academic term.

While the university's top priority continues to be the health and well-being of our campus and extended communities, the following financial strategies continue to remain in place to safeguard the university's financial viability during this period of continued financial uncertainty:

- Reduction of capital renovations and equipment purchases
- Reduction of non-mandatory operating expenses
- Approval process for hiring decisions for most vacant positions
- Elimination of some vacant positions

The university will continue to remain flexible as the COVID-19 situation evolves. The university has reinstated the COVID-19 command team and remains ready to address and 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 2022 that included a 1.6% increase in tuition and mandatory fees.

Enrollment from new, incoming freshmen for the fall 2022 academic period has increased from the previous year. While, the incoming class has not recovered to the level of the 2018 freshman class, the increase does show improvement, which will have a positive impact over future periods. Conversely, the university's retention rate has declined, primarily related to the pandemic, despite the university's allocation of additional resources toward student success initiatives. While the decline in retention rate is concerning, it is believed temporary, and the student success initiatives are expected to improve retention and net tuition revenue over future periods.

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# BASIC FINANCIAL STATEMENTS

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**AUSTIN PEAY STATE UNIVERSITY**  
**Statement of Net Position**  
**June 30, 2021**

	University	Component Unit
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Notes 2 and 20)	\$ 36,503,362.92	\$ 1,474,916.31
Accounts, notes, and grants receivable (net) (Note 5)	16,534,269.22	-
Due from State of Tennessee	2,098,760.27	-
Due from APSU Foundation	508,128.66	-
Pledges receivable (net) (Note 20)	-	1,560,795.00
Inventories	405,218.29	-
Prepaid expenses	302,894.50	-
Accrued interest receivable	180,570.07	367.97
<b>Total current assets</b>	<b>56,533,203.93</b>	<b>3,036,079.28</b>
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 20)	16,065,603.97	8,385,329.85
Investments (Notes 3, 4, and 20)	13,703,042.15	38,930,414.81
Investment in Tennessee Retiree Group Trust	995,093.85	-
Accounts, notes, and grants receivable (net) (Note 5)	373,879.43	123,000.00
Pledges receivable (net) (Note 20)	-	9,538,683.56
Capital assets (net) (Notes 6 and 20)	231,587,260.05	717,726.37
Net pension asset (Note 11)	380,412.00	-
Beneficial interest in split-interest agreement	3,696,947.68	-
<b>Total noncurrent assets</b>	<b>266,802,239.13</b>	<b>57,695,154.59</b>
<b>Total assets</b>	<b>323,335,443.06</b>	<b>60,731,233.87</b>
<b>Deferred outflows of resources</b>		
Deferred amount on debt refunding (Note 8)	1,260,867.23	-
Deferred outflows related to pensions (Note 11)	6,339,290.57	-
Deferred outflows related to OPEB (Note 12)	2,882,752.00	-
<b>Total deferred outflows of resources</b>	<b>10,482,909.80</b>	<b>-</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable (Note 7)	2,302,572.36	6,951.19
Accrued liabilities	6,072,192.03	-
Due to State of Tennessee	1,945,317.14	-
Due to APSU	-	508,128.66
Student deposits	117,406.64	-
Unearned revenue	5,247,748.78	-
Compensated absences (Note 8)	1,016,822.41	-
Accrued interest payable	409,787.20	-
Long-term liabilities, current portion (Note 8)	2,884,835.46	-
Deposits held in custody for others	312,854.58	-
<b>Total current liabilities</b>	<b>20,309,536.60</b>	<b>515,079.85</b>
Noncurrent liabilities:		
Due to grantors (Note 8)	127,573.58	-
Compensated absences (Note 8)	3,318,501.23	-
Long-term liabilities (Note 8)	79,066,827.45	-
Net pension liability (Note 11)	16,647,443.00	-
Net OPEB liability (Note 12)	6,912,963.00	-
<b>Total noncurrent liabilities</b>	<b>106,073,308.26</b>	<b>-</b>
<b>Total liabilities</b>	<b>126,382,844.86</b>	<b>515,079.85</b>
<b>Deferred inflows of resources</b>		
Deferred amount on debt refunding (Note 8)	482,982.89	-
Deferred inflows related to pensions (Note 11)	221,878.00	-
Deferred inflows related to OPEB (Note 12)	4,479,255.00	-
Deferred inflows related to split-interest agreement	3,696,947.68	-
<b>Total deferred inflows of resources</b>	<b>8,881,063.57</b>	<b>-</b>
<b>Net position</b>		
Investment in capital assets	-	717,726.37
Net investment in capital assets	150,468,578.59	-
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	5,667,594.91	22,033,820.78
Research	-	80,449.78
Instructional department uses	4,604.53	124,828.57
Other	110,025.00	3,515,350.55
Expendable:		
Scholarships and fellowships	8,217,497.70	21,056,398.53
Research	1,286,006.20	94,578.66
Instructional department uses	320,946.78	2,605,257.16
Loans	42,517.66	-
Capital projects	373,879.43	3,000,296.94
Pension	380,412.00	-
Other	2,617,640.33	6,021,332.31
Unrestricted	29,064,741.30	966,114.37
<b>Total net position</b>	<b>\$ 198,554,444.43</b>	<b>\$ 60,216,154.02</b>

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, 2021**

	University	Component Unit
<b>Revenues</b>		
Operating revenues:		
Student tuition and fees (Note 13)	\$ 51,438,818.58	\$ -
Gifts and contributions	-	8,645,078.86
Endowment income (per spending plan)	-	858,368.44
Governmental grants and contracts	8,244,309.76	283,237.41
Nongovernmental grants and contracts	47,664.78	89,204.00
Sales and services of educational activities	265,469.71	-
Sales and services of other activities	5,598,784.00	-
Auxiliary enterprises:		
Residential life (Note 13)	4,565,405.33	-
Bookstore	342,018.95	-
Food service	313,674.55	-
Wellness facility (Note 13)	802,952.51	-
Other auxiliaries	1,285,593.62	-
Interest earned on loans to students	29,955.60	-
Other operating revenues	194,415.29	15,698.16
<b>Total operating revenues</b>	<b>73,129,062.68</b>	<b>9,891,586.87</b>
<b>Expenses</b>		
Operating expenses (Notes 17 and 20):		
Salaries and wages	81,687,065.64	894,691.30
Benefits	28,413,863.18	328,339.90
Utilities, supplies, and other services	31,830,754.79	1,630,933.64
Scholarships and fellowships	23,452,251.19	1,297,805.95
Depreciation expense	7,372,864.07	51,934.63
Payments to or on behalf of Austin Peay State University	-	2,475,543.60
<b>Total operating expenses</b>	<b>172,756,798.87</b>	<b>6,679,249.02</b>
<b>Operating income (loss)</b>	<b>(99,627,736.19)</b>	<b>3,212,337.85</b>
<b>Nonoperating revenues (expenses)</b>		
State appropriations	52,488,225.00	-
Gifts, including \$1,576,218.36 from component unit	1,742,813.94	-
Grants and contracts	54,681,675.05	-
Investment income (net of investment expense for the component unit of \$21,330.01)	3,574,221.10	7,750,624.40
Interest on capital asset-related debt	(1,805,829.31)	-
Bond issuance costs	(72,141.78)	-
University support	-	2,148,285.57
Other nonoperating revenues (expenses)	330,507.68	(1,064,469.42)
<b>Total nonoperating revenues (expenses)</b>	<b>110,939,471.68</b>	<b>8,834,440.55</b>
<b>Income before other revenues, expenses, gains, or losses</b>	<b>11,311,735.49</b>	<b>12,046,778.40</b>
Other revenues:		
Capital appropriations	2,760,108.76	-
Capital grants and gifts, including \$899,325.24 from the component unit	901,644.76	81,500.00
Additions to permanent endowments	26,100.00	2,087,471.36
<b>Total other revenues</b>	<b>3,687,853.52</b>	<b>2,168,971.36</b>
<b>Increase in net position</b>	<b>14,999,589.01</b>	<b>14,215,749.76</b>
<b>Net position - beginning of year</b>	<b>183,554,855.42</b>	<b>46,000,404.26</b>
<b>Net position - end of year</b>	<b>\$ 198,554,444.43</b>	<b>\$ 60,216,154.02</b>

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, 2021**

<b>Cash flows from operating activities</b>	
Tuition and fees	\$ 49,497,426.76
Grants and contracts	2,889,582.08
Sales and services of educational activities	265,469.71
Sales and services of other activities	5,685,981.23
Payments to suppliers and vendors	(33,030,465.84)
Payments to employees	(81,839,609.51)
Payments for benefits	(28,819,439.23)
Payments for scholarships and fellowships	(23,452,251.19)
Collection of loans from students	133,460.26
Interest earned on loans to students	29,955.60
Funds received for deposits held for others	72,708.13
Funds disbursed for deposits held for others	(82,654.20)
Auxiliary enterprise charges:	
Residence halls	4,563,272.03
Bookstore	302,117.50
Food services	313,674.55
Wellness facility	802,952.51
Other auxiliaries	1,285,593.62
<b>Net cash used for operating activities</b>	<b>(101,382,225.99)</b>
<b>Cash flows from noncapital financing activities</b>	
State appropriations	52,426,000.00
Gifts and grants received for other than capital or endowment purposes, including \$1,576,218.36 from component unit	55,824,265.09
Private gifts for endowment purposes	26,100.00
Federal student loan receipts	39,187,407.00
Federal student loan disbursements	(39,187,407.00)
Other noncapital financing receipts	329,086.65
<b>Net cash provided by noncapital financing activities</b>	<b>108,605,451.74</b>
<b>Cash flows from capital and related financing activities</b>	
Capital grants and gifts received, including \$899,325.24 from APSU foundation	901,497.79
Proceeds from sale of capital assets	8,387.00
Purchases of capital assets and construction	(2,878,812.04)
Principal paid on capital debt	(3,068,171.56)
Interest paid on capital debt	(2,376,419.62)
<b>Net cash used for capital and related financing activities</b>	<b>(7,413,518.43)</b>
<b>Cash flows from investing activities</b>	
Proceeds from sales and maturities of investments	459,796.03
Income on investments	496,312.57
Purchase of investments	(119,161.92)
Other investing payments	(308,617.76)
<b>Net cash provided by investing activities</b>	<b>528,328.92</b>
Net increase in cash and cash equivalents	338,036.24
Cash and cash equivalents - beginning of year	52,230,930.65
<b>Cash and cash equivalents - end of year</b>	<b>\$ 52,568,966.89</b>

**AUSTIN PEAY STATE UNIVERSITY**  
**Statement of Cash Flows (continued)**  
**For the Year Ended June 30, 2021**

<b>Reconciliation of operating loss to net cash used for operating activities:</b>	
Operating loss	\$ (99,627,736.19)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Noncash operating expenses	7,435,789.07
Change in assets, liabilities, and deferrals:	
Receivables, net	(7,003,695.59)
Due from State of Tennessee	(319,332.45)
Inventories	(28,836.62)
Prepaid items	(30,990.50)
Net pension asset	38,870.00
Deferred outflows of resources	80,413.83
Accounts payable	(922,247.93)
Accrued liabilities	(192,770.53)
Due to State of Tennessee	39,988.91
Unearned revenues	(205,032.84)
Deposits	4,142.70
Compensated absences	128,135.96
Net pension liability	2,285,237.00
Net OPEB liability	(786,980.00)
Deferred inflows of resources	(2,173,669.00)
Due to grantors	(227,026.00)
Loans to students	133,460.26
Other	(9,946.07)
<b>Net cash used for operating activities</b>	<b>\$ (101,382,225.99)</b>

**Noncash investing, capital, or financing transactions**

Gifts in-kind - capital	\$ 146.97
Unrealized gains on investments	\$ 2,700,213.34
Loss on disposal of capital assets	\$ (6,965.97)
Change in value of split-interest agreement	\$ 261,370.57
Capital appropriations	\$ 2,760,108.76
Bond issuance costs paid on new debt issue	\$ (2,760,108.76)

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

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# NOTES TO THE FINANCIAL STATEMENTS

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**AUSTIN PEAY STATE UNIVERSITY**  
**Notes to the Financial Statements**  
**June 30, 2021**

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**Note 1. Summary of Significant Accounting Policies**

**Reporting Entity**

The university is a part of the State University and Community College System of Tennessee (the system). The Focus on College and University Success Act of 2016 removed the six universities from the governance of the Tennessee Board of Regents, but they remain part of the system. The universities have their own local governing boards that provide governance, approve policies, set tuition and fee rates, and hire presidents. The system has 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 *Annual Comprehensive Financial Report*. That report is available at <https://www.tn.gov/finance/rddoa/fa-accfin-ar.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 20 for more detailed information about the component unit.

**Basis of Presentation**

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

**Basis of Accounting**

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

## **Notes to the Financial Statements (Continued)**

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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

## **Notes to the Financial Statements (Continued)**

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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 (OPEB) liability, 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:

Net investment in capital assets – This represents the university's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows/inflows of resources related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

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

## **Notes to the Financial Statements (Continued)**

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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**

This classification includes demand deposits and petty cash on hand. At June 30, 2021, cash consisted of \$4,389,260.30 in bank accounts, \$14,384.00 of petty cash on hand, \$47,744,701.85 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, \$1.70 in LGIP deposits for capital projects, and \$420,619.04 in money market funds.

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 <https://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.

## Notes to the Financial Statements (Continued)

### 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, 2021, the university had the following debt investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)				No Maturity Date
		Less Than 1	1 to 5	6 to 10	More Than 10	
Mutual bond funds	\$ 2,636,082.67	\$ 299,898.68	\$ 1,090,188.17	\$ 1,245,995.82	-	-
Total debt investments	\$ 2,636,082.67	\$ 299,898.68	\$ 1,090,188.17	\$ 1,245,995.82	-	-

#### 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.



## Notes to the Financial Statements (Continued)

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, 2021, the university's investments were rated as follows:

<u>Investment Type</u>	<u>Balance</u>	<u>Credit Quality Rating</u>		
		<u>A</u>	<u>BB</u>	<u>Unrated</u>
LGIP (amortized cost)	\$47,744,703.55	\$ -	\$ -	\$ 47,744,703.55
Mutual Bond Funds	2,636,082.67	1,245,995.82	\$1,090,188.17	299,898.68
<b>Total</b>	<b>\$50,380,786.22</b>	<b>\$ 1,245,995.82</b>	<b>\$1,090,188.17</b>	<b>\$ 48,044,602.23</b>

### 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, 2021, the university had \$12,217,802.56 of uninsured and unregistered investments for which the securities were held by the counterparty and \$1,245,992.82 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.

## Notes to the Financial Statements (Continued)

### 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, 2021:

Assets by Fair Value Level	June 30, 2021	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)
Debt securities:					
Mutual bond funds	\$ 2,636,082.67	\$ 1,390,086.85	\$ -	\$ -	\$1,245,995.82
<b>Total debt securities</b>	<b>2,636,082.67</b>	<b>1,390,086.85</b>	<b>-</b>	<b>-</b>	<b>1,245,995.82</b>
Equity securities:					
Mutual equity funds	10,827,715.71	10,827,715.71	-	-	-
<b>Total equity securities</b>	<b>10,827,715.71</b>	<b>10,827,715.71</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other assets:					
Beneficial Interest in split-interest agreement	3,696,947.68	3,696,947.68	-	-	-
<b>Total other assets</b>	<b>3,696,947.68</b>	<b>3,696,947.68</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets at fair value</b>	<b>\$17,160,746.06</b>	<b>\$ 15,914,750.24</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$1,245,995.82</b>

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.

Assets Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
The Commonfund multi-strategy bond fund	\$ 1,245,995.82	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

## Notes to the Financial Statements (Continued)

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, 2021, included the following:

Student accounts receivable	\$ 7,926,357.82
Grants receivable	10,536,918.24
Notes receivable	12,542.34
Other receivables	383,216.24
<hr/>	
Subtotal	18,859,034.64
Less allowance for doubtful accounts	(2,324,765.42)
<hr/>	
Total receivables	<u>\$16,534,269.22</u>

Federal Perkins Loan Program funds at June 30, 2021, included the following:

Perkins loans receivable	\$ 633,084.91
Less allowance for doubtful accounts	(259,205.48)
<hr/>	
Total	<u>\$ 373,879.43</u>

### Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	\$ 17,419,100.15	\$ 392,926.00	\$ -	\$ -	\$ 17,812,026.15
Land improvements and infrastructure	40,615,706.73	-	1,857,617.58	-	42,473,324.31
Buildings	281,348,230.40	-	7,559,717.86	-	288,907,948.26
Equipment	16,895,110.24	724,270.70	-	243,356.27	17,376,024.67
Library holdings	1,839,902.15	60,103.76	-	352,318.96	1,547,686.95
Intangible assets	2,389,851.44	-	-	-	2,389,851.44
Projects in progress	10,688,834.45	4,253,673.70	(9,417,335.44)	-	5,525,172.71
<hr/>					
Total	371,196,735.56	5,430,974.16	-	595,675.23	376,032,034.49
<hr/>					
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	22,859,127.54	1,908,872.18	-	-	24,767,999.72

## Notes to the Financial Statements (Continued)

Buildings	97,700,891.86	4,400,674.49	-	-	102,101,566.35
Equipment	13,637,445.34	908,548.66	-	236,390.30	14,309,603.70
Library holdings	1,073,303.45	154,768.74	-	352,318.96	875,753.23
Intangible assets	2,389,851.44	-	-	-	2,389,851.44
<b>Total</b>	<b>137,660,619.63</b>	<b>7,372,864.07</b>	<b>-</b>	<b>588,709.26</b>	<b>144,444,774.44</b>
<b>Capital assets, net</b>	<b>\$ 233,536,115.93</b>	<b>\$(1,941,889.91)</b>	<b>\$ -</b>	<b>\$ 6,965.97</b>	<b>\$ 231,587,260.05</b>

### Note 7. Accounts Payable

Accounts payable at June 30, 2021, consisted of \$2,302,572.36 of vendors payable.

### Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2021, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
TSSBA debt:					
Bonds	\$ 77,490,312.86	\$ 48,896,256.00	\$ 48,010,162.77	\$ 78,376,406.09	\$ 2,884,835.46
Unamortized bond premium/discount	6,962,842.49	-	3,973,984.11	2,988,858.38	-
Revolving credit facility	881,398.44	-	295,000.00	586,398.44	-
<b>Subtotal</b>	<b>85,334,553.79</b>	<b>48,896,256.00</b>	<b>52,279,146.88</b>	<b>81,951,662.91</b>	<b>2,884,835.46</b>
Other liabilities:					
Compensated absences	4,207,187.68	2,993,916.88	2,865,780.92	4,335,323.64	1,016,822.41
Due to grantor	354,599.58	-	227,026.00	127,573.58	-
<b>Subtotal</b>	<b>4,561,787.26</b>	<b>2,993,916.88</b>	<b>3,092,806.92</b>	<b>4,462,897.22</b>	<b>1,016,822.41</b>
<b>Total long-term liabilities</b>	<b>\$ 89,896,341.05</b>	<b>\$ 51,890,172.88</b>	<b>\$ 55,371,953.80</b>	<b>\$ 86,414,560.13</b>	<b>\$ 3,901,657.87</b>

### TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.167% 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, 2021, are as follows:

## Notes to the Financial Statements (Continued)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 2,884,835.46	\$ 2,245,986.81	\$ 5,130,822.27
2023	3,596,739.11	1,966,032.08	5,562,771.19
2024	3,706,183.11	1,873,151.95	5,579,335.06
2025	3,791,324.08	1,789,614.62	5,580,938.70
2026	3,749,364.19	1,694,207.78	5,443,571.97
2027–2031	20,013,471.60	6,610,006.20	26,623,477.80
2032–2036	17,613,765.54	4,170,770.64	21,784,536.18
2037–2041	14,806,248.00	2,262,378.28	17,068,626.28
2042–2046	8,214,475.00	440,656.99	8,655,131.99
<b>Total</b>	<b>\$ 78,376,406.09</b>	<b>\$ 23,052,805.35</b>	<b>\$ 101,429,211.44</b>

### 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 \$586,398.44 at June 30, 2021.

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>.

### Refunding of Debt

On February 24, 2021, the state issued \$48,896,256.00 in revenue bonds with interest rates ranging from 0.167% to 2.661% to advance refund \$45,236,991.71 of outstanding 2012A, 2012C, 2013A, and one bond in the 2014B Series bonds with interest rates ranging from 3.0% to 5.0%. The net proceeds of \$48,824,114.22 (after payment of \$72,141.78 in underwriter’s fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the bonds. As a result, the refunded portions of the 2012–2014 Series bonds are considered to be defeased, and the liability for those bonds has been removed from the university’s long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred loss of \$354,252.51 to be amortized over the next 22 years, the university in effect reduced its aggregate debt service payments by \$13,092,617.45 over the next 22 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$10,703,254.50.

## **Notes to the Financial Statements (Continued)**

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### **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, 2021, net appreciation of \$269,087.37 is available to be spent, of which \$264,046.22 is included in restricted net position expendable for scholarships and fellowships, \$280.73 is included in restricted net position expendable for instructional department uses, and \$4,760.42 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 \$78,376,406.09 in revenue bonds issued from August 2012 to February 2021 (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 2.8% of available revenues. The total principal and interest remaining to be paid on the bonds is \$101,429,211.44. Principal and interest paid for the current year and total available revenues were \$4,579,000.37 and \$160,773,030.18, respectively. The amount of principal and interest paid for the current year does not include debt of \$45,236,991.71 defeased through a bond refunding in the current year.

### **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

## Notes to the Financial Statements (Continued)

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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 <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

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:

$$\begin{array}{l} \text{Average of member's highest} \\ \text{compensation for 5 consecutive} \\ \text{years (up to Social Security} \\ \text{integration level)} \end{array} \times 1.50\% \times \begin{array}{l} \text{Years of} \\ \text{Service Credit} \end{array} \times 105\%$$

Plus:

$$\begin{array}{l} \text{Average of member's highest} \\ \text{compensation for 5 consecutive} \\ \text{years (over the Social Security} \\ \text{integration level)} \end{array} \times 1.75\% \times \begin{array}{l} \text{Years of} \\ \text{Service Credit} \end{array} \times 105\%$$

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.



## Notes to the Financial Statements (Continued)

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, 2021, to the Closed State and Higher Education Employee Pension Plan were \$4,395,287.70, which is 20.23% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability – At June 30, 2021, the university reported a liability of \$16,647,443 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2020, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2020, measurement date, the university’s proportion was 1.016135%. The proportion measured as of June 30, 2019, was 1.017035%.

Pension expense – For the year ended June 30, 2021, the university recognized a pension expense of \$5,184,459.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2021, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 480,196.00	\$ 151,235.00
Net difference between projected and actual earnings on pension plan investments	1,034,522.00	-
Changes in proportion of net pension liability APSU’s contributions subsequent to the measurement date of June 30, 2020	92,911.00	8,713.00
	4,395,287.70	-
<b>Total</b>	<b>\$ 6,002,916.70</b>	<b>\$ 159,948.00</b>

Deferred outflows of resources, resulting from the university’s employer contributions of \$4,395,287.70 subsequent to the measurement date, will be recognized as a decrease in net pension

## Notes to the Financial Statements (Continued)

liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	
2022	\$(315,010)
2023	\$ 402,804
2024	\$ 649,349
2025	\$ 710,538

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, 2020, 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 based on customized tables based on actual experience, including a projection of mortality improvement using Scale MP-2019 (static projection to 6 years beyond the valuation date).

The actuarial assumptions used in the June 30, 2020, 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

## Notes to the Financial Statements (Continued)

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:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
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 ( <u>6.25%</u> )	Current Discount Rate ( <u>7.25%</u> )	1% Increase ( <u>8.25%</u> )
University’s proportionate share of the net pension liability (asset)	\$36,898,614	\$16,647,443	\$(431,273)

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 <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

## **Notes to the Financial Statements (Continued)**

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### *Payable to the Pension Plan*

At June 30, 2021, the university reported a payable of \$343,432.84 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2021.

### **State and Higher Education Employee Retirement Plan**

#### *General Information About the Pension Plan*

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

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

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

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. University employees contribute 5% of their salary to the State and Higher Education Employee Retirement Plan. The higher education institutions make employer contributions at the rate set by

## Notes to the Financial Statements (Continued)

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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, 2021, to the State and Higher Education Employee Retirement Plan were \$258,666.87, which is 1.8% 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, 2021, the university reported an asset of \$380,412 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2020, 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, 2020, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2020, measurement date, the university’s proportion was 1.080308%. At the June 30, 2019, measurement date, the university’s proportion was 1.010865%.

Pension expense – For the year ended June 30, 2021, the university recognized a pension expense of \$199,649.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2021, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 26,764.00	\$ 12,019.00
Net difference between projected and actual earnings on pension plan investments	39,147.00	-
Changes in assumptions	10,616.00	-
Changes in proportion of net pension asset	1,180.00	49,911.00
APSU’s contributions subsequent to the measurement date of June 30, 2020	258,666.87	-
<b>Total</b>	<b>\$ 336,373.87</b>	<b>\$ 61,930.00</b>

Deferred outflows of resources, resulting from the university’s employer contributions of \$258,666.87 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

## Notes to the Financial Statements (Continued)

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### Year Ending June 30

2022	\$ 1,062
2023	\$ 5,916
2024	\$ 8,578
2025	\$ 10,760
2026	\$ (3,283)
Thereafter	\$ (7,256)

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, 2020, 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 based on customized tables based on actual experience, including a projection of mortality improvement using Scale MP-2019 (generational projection).

The actuarial assumptions used in the June 30, 2020, 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:

## Notes to the Financial Statements (Continued)

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
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)	\$(366,728)	\$380,412	\$944,498

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 <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

### *Payable to the Pension Plan*

At June 30, 2021, the university reported a payable of \$24,041.33 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2021.

## **Notes to the Financial Statements (Continued)**

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### **Total Defined Benefit Pension Expense**

The total pension expense for the year ended June 30, 2021, for all state government defined benefit pension plans was \$5,384,108.

### **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 \$3,435,408.88 for the year ended June 30, 2021, and \$3,444,944.36 for the year ended June 30, 2020. 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.

Payable to the plan – At June 30, 2021, the university reported a payable of \$280,941.43 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2021.

#### **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



## **Notes to the Financial Statements (Continued)**

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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, 2021, contributions totaling \$2,168,373.41 were made by employees participating in the 401(k) plan, and the university recognized pension expense of \$533,508.53 for employer contributions. 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.

At June 30, 2021, the university reported a payable of \$103,636.68 for the outstanding amount of legally required contributions to the plan required for the year ended June 30, 2021.

### **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/rddoa/opeb22121.html>.

## **Notes to the Financial Statements (Continued)**

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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 actuarially 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, 2021, was \$137.1 million. The university's share of the ADC was \$1,467,034. During the fiscal year, the university contributed \$1,467,034 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 \$6,912,963. At the June 30, 2020, measurement date, the university's proportion of the collective net OPEB liability was 0.825824%. The proportion existing at the prior measurement date was 0.808664%. This resulted in a change in proportion of 0.171591% 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, 2020, and a measurement date of June 30, 2020.

OPEB expense – For the year ended June 30, 2021, the university recognized OPEB expense of \$180,752.

## Notes to the Financial Statements (Continued)

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2021, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 675,815.00
Changes in assumptions	355,665.00	1,822,510.00
Net difference between actual and projected investment earnings	132,243.00	-
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	927,810.00	1,980,930.00
Contributions subsequent to the measurement date	1,467,034.00	-
<b>Total</b>	<b>\$ 2,882,752.00</b>	<b>\$4,479,255.00</b>

Deferred outflows of resources, resulting from the university's employer contributions of \$1,467,034 subsequent to the measurement date, will be recognized as a decrease in net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30</u>		
2022	\$	(596,590)
2023	\$	(596,590)
2024	\$	(596,592)
2025	\$	(598,035)
2026	\$	(599,089)
Thereafter	\$	(76,641)

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, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.1%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%

## Notes to the Financial Statements (Continued)

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Healthcare cost trend rates	9.02% for 2021, decreasing annually to an ultimate rate of 4.50% for 2031 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, 2020, 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 Employees and Healthy Participant Mortality Table projected generationally with MP-2016 from the central year for pre-retirement. For post-retirement the 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 Trust 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. Title 8, Chapter 27, Section 802, *Tennessee Code Annotated*, 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:

## Notes to the Financial Statements (Continued)

<u>Asset Class</u>	<u>Allocation Range</u>		<u>Total Allocation</u>
	<u>Minimum</u>	<u>Maximum</u>	
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, 2020, are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. equity	4.11%
Developed market international equity	5.19%
Emerging market international equity	5.29%
Private equity and strategic lending	4.11%
U.S. fixed income	0.00%
Real estate	3.72%
Cash (government)	(0.69%)

Discount rate – The discount rate used to measure the total OPEB liability was 6%. This is the same rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the ADC rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on these assumptions, the OPEB Fund’s fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in assumptions – The excise tax was removed from the liability calculation, as of the measurement date, due to a change in federal law concerning health benefits provided to employees. Other minor changes include a change in the long-term inflation rate, adjustments to the medical and drug trend rate to reflect more recent experience, and a change in the expected per capita health claims. These changes combined to decrease the total OPEB liability.

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

## Notes to the Financial Statements (Continued)

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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:

	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
University's proportionate share of the collective net OPEB liability	\$7,562,391	\$6,912,963	\$6,307,723

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 (8.02% decreasing to 3.5%) or 1 percentage point higher (10.02% decreasing to 5.5%) than the current rate:

	1% Decrease (8.02% decreasing to 3.5%)	Healthcare Cost Trend Rates (9.02% decreasing to 4.5%)	1% Increase (10.02% decreasing to 5.5%)
University's proportionate share of the collective net OPEB liability	\$6,042,562	\$6,912,963	\$7,920,753

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

## **Notes to the Financial Statements (Continued)**

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Benefits provided – The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Section 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments, who have reached the age of 65, are Medicare-eligible, and also receive a benefit from the Tennessee Consolidated Retirement System, may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25. The university does not provide any subsidies for retirees in the TNP. The primary government paid \$62,925 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. Employers contribute towards employee costs based on their own developed practices.

### *Total OPEB Liability and OPEB Expense*

Proportionate share – The primary government is entirely responsible for the TNP OPEB liability associated with the university's employees. The primary government's proportionate share of the total OPEB liability associated with the university was \$1,902,453. At the June 30, 2020, measurement date, the proportion of the collective total OPEB liability associated with the university was 0.922657%. This represents a change of 0.016598% from the prior proportion of 0.906059%. 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, 2020, and a measurement date of June 30, 2020.

Actuarial assumptions – The total OPEB liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

## Notes to the Financial Statements (Continued)

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Inflation	2.1%
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, 2020, 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 Employees and Healthy Participant Mortality Table projected generationally with MP-2016 from the central year for pre-retirement. For post-retirement the 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 2.21%. 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 Bond Buyer GO 20-Bond Municipal index.

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 (1.21%) or 1 percentage point higher (3.21%) than the current rate. The university does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease	Current	1% Increase
	(1.21%)	Discount Rate (2.21%)	(3.21%)
Primary government’s proportionate share of the collective total OPEB liability	\$2,179,084	\$1,902,453	\$1,673,843

OPEB expense – For the year ended June 30, 2021, the primary government recognized OPEB expense of \$100,361 for employees of the university participating in the TNP.



## Notes to the Financial Statements (Continued)

### Total OPEB Expense

The total OPEB expense for the year ended June 30, 2021, was \$281,113, which consisted of OPEB expense of \$180,752 for the EGOP and \$100,361 paid by the primary government for the TNP.

### Note 13. Revenues

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

<u>Revenue Source</u>	<u>Gross Revenue</u>	<u>Less Scholarship Allowances</u>	<u>Less Uncollectible Debts</u>	<u>Net Revenue</u>
<b>Operating revenues:</b>				
Tuition and fees	\$ 83,335,929.87	\$ 31,997,388.32	\$ (100,277.03)	\$ 51,438,818.58
Residential life	7,384,501.61	2,839,898.96	(20,802.68)	4,565,405.33
Wellness facility	1,301,984.17	499,474.60	(442.94)	802,952.51
<b>Total</b>	<b>\$ 92,022,415.65</b>	<b>\$ 35,336,761.88</b>	<b>\$ (121,522.65)</b>	<b>\$ 56,807,176.42</b>

### Note 14. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, medical malpractice liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is \$300,000 per person and \$1,000,000 per occurrence. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 to \$75,000 of losses based on a tiered deductible system that accounts for averaged losses over a three-year period and the type of loss. 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, named storm, wind/hail, and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$500 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, except there is only \$25 million of coverage in the New Madrid Zone. Settled claims resulting from these risks have not exceeded maximum commercial insurance coverage in any 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

## **Notes to the Financial Statements (Continued)**

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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, 2021, is presented in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at [www.tn.gov/finance/rd-doa/fa-accfin-ar.html](http://www.tn.gov/finance/rd-doa/fa-accfin-ar.html). At June 30, 2021, the RMF held \$234 million in cash designated for payment of claims.

At June 30, 2021, the scheduled coverage for the university was \$602,458,380 for buildings and \$85,718,952 for contents.

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

### **Note 15. Commitments and Contingencies**

#### **Sick Leave**

The university records the cost of sick leave when paid. The dollar amount of unused sick leave was \$21,285,592.51 at June 30, 2021.

#### **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 \$26,880 and expenses for personal property were \$222,570 for the year ended June 30, 2021. All operating leases are cancelable at the lessee's option.

#### **Construction in Progress**

At June 30, 2021, outstanding commitments under construction contracts totaled \$6,433,879.31 for Music Mass Comm HVAC Replacement, Central Chiller Plant Repairs, Roof Replacements, Military Family Resource Center, Memorial Health Electrical Closet, Trahern Fire Curtain Replacement, Kimbrough HVAC replacement, Hayes House Renovations, Marion Street Renovations, Downey Softball and Baseball Improvements, Fire Alarm Upgrades, and Dunn Center HVAC, of which \$5,612,136.10 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.

## Notes to the Financial Statements (Continued)

### Note 16. Chairs of Excellence

The university had \$19,416,287.40 on deposit at June 30, 2021, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

### Note 17. Natural Classification With Functional Classifications

The university's operating expenses for the year ended June 30, 2021, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>					
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 43,711,419.63	\$ 14,592,474.68	\$ 7,221,000.22	\$ -	\$ -	\$ 65,524,894.53
Research	1,436,574.27	451,342.67	769,556.20	-	-	2,657,473.14
Public service	2,904,872.63	1,150,532.12	254,860.05	-	-	4,310,264.80
Academic support	7,803,475.67	2,865,381.50	1,065,987.07	-	-	11,734,844.24
Student services	10,860,288.47	3,934,547.99	7,142,039.35	-	-	21,936,875.81
Institutional support	8,223,205.40	2,828,676.83	3,810,488.83	-	-	14,862,371.06
Maintenance and operation	5,002,547.86	2,070,264.34	6,249,724.75	-	-	13,322,536.95
Scholarships and fellowships	-	-	-	23,452,251.19	-	23,452,251.19
Auxiliary	1,744,681.71	520,643.05	5,317,098.32	-	-	7,582,423.08
Depreciation	-	-	-	-	7,372,864.07	7,372,864.07
<b>Total</b>	<b>\$ 81,687,065.64</b>	<b>\$ 28,413,863.18</b>	<b>\$ 31,830,754.79</b>	<b>\$ 23,452,251.19</b>	<b>\$ 7,372,864.07</b>	<b>\$ 172,756,798.87</b>

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 \$2,735,534.91 were reallocated from academic support to the other functional areas.

### Note 18. On-behalf Payments

During the year ended June 30, 2021, the State of Tennessee made payments of \$62,925 on behalf of the university for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at <http://www.tn.gov/finance/rd-doa/fa-accfin-ar.html>.

## **Notes to the Financial Statements (Continued)**

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### **Note 19. Voluntary Buyout Program**

The university implemented a Voluntary Buyout Plan in fiscal year 2021 as a strategy to assist the university in addressing budgetary constraints due to several years of state appropriation reductions and potential budget reductions in the forthcoming fiscal years. The university had 49 employees participate in the Voluntary Buyout Program with 27 terminating by March 31, 2021, and 22 terminating by May 31, 2021.

The Voluntary Retirement Incentive Plan was announced on October 29, 2020. Participants were required to have a minimum service period of 10 years and were required to be eligible to retire under the requirements of either the TCRS or ORP retirement plan. Participating employees received 40% of their annual salary. This payment was provided one month after the early retirement date of the respective employee. Unless otherwise approved by the President, participating staff received their severance payment on April 30, 2021. Likewise, faculty that participated received their severance pay on June 30, 2021. In addition to the 40% severance pay, employees who had not yet received their longevity payment for the fiscal year also received their respective amounts based on years of service.

As of June 30, 2021, expenses for payout of the Voluntary Buyout Program, accrued annual leave, and compensatory time totaled \$1,331,411.00; \$227,340.40; and \$4,575.36, respectively.

### **Note 20. 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, 2021, the foundation made distributions of \$2,475,543.60 to or on behalf of the university for both restricted and unrestricted purposes. Complete financial

## Notes to the Financial Statements (Continued)

statements for the foundation can be obtained from 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, 2021.

	June 30, 2021	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	\$ 66,718.66	\$ 66,718.66	\$ -	\$ -	\$ -
Certificates of Deposit	88,444.54	-	88,444.54	-	-
Exchange Traded Funds	2,351,138.98	2,351,138.98	-	-	-
Marketable equity securities	100,984.00	100,984.00	-	-	-
Marketable bond securities	351,371.03	351,371.03	-	-	-
Mutual funds	35,954,095.82	35,954,095.82	-	-	-
Life insurance	84,380.44	-	84,380.44	-	-
<b>Total assets</b>	<b>\$38,997,133.47</b>	<b>\$38,824,308.49</b>	<b>\$ 172,824.98</b>	<b>\$ -</b>	<b>\$ -</b>

### 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, 2021, were as follows:

	Cost	Fair Value
Certificates of deposit	\$ 88,444.54	\$ 88,444.54
Corporate stock	101,473.83	100,984.00
Corporate bonds	347,000.00	351,371.03
Mutual bond funds	6,733,737.12	6,887,567.66
Mutual equity funds	21,593,931.34	28,928,525.56
Exchange traded funds	1,844,815.84	2,351,138.98
Life insurance	-	84,380.44
Mixed asset mutual funds	128,622.78	138,002.60
<b>Total investments</b>	<b>\$ 30,838,025.45</b>	<b>\$ 38,930,414.81</b>

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

## **Notes to the Financial Statements (Continued)**

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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.

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

	<u>June 30, 2021</u>
Dividends and interest (net of expenses)	\$ 378,809.90
Net realized and unrealized gains	8,230,182.94
<u>Total return on investments</u>	<u>8,608,992.84</u>
Endowment income per spending plan	858,368.44
<u>Investment return in excess of amounts designated for current operations</u>	<u>\$7,750,624.40</u>

### **Pledges Receivable**

Pledges receivable at June 30, 2021, are summarized below.

Current pledges	\$ 1,560,795.00
Pledges due in one to five years	994,460.00
Pledges due after five years	10,188,233.65
<u>Subtotal</u>	<u>12,743,488.65</u>
Less discount to net present value	(1,644,010.09)
<u>Total pledges receivable, net</u>	<u>\$ 11,099,478.56</u>

### **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:

<u>Cash and cash equivalents</u>	<u>\$1,474,916.31</u>
<u>Total</u>	<u>\$1,474,916.31</u>

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 \$141,927.11.

### **Capital Assets**

Capital assets at June 30, 2021, were as follows:

## Notes to the Financial Statements (Continued)

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Land	\$ 534,846.88
Equipment	284,699.47
Collections	81,500.00
<hr/>	
Total	901,046.35
<hr/>	
Less accumulated depreciation/amortization:	
Equipment	183,319.98
<hr/>	
Total	183,319.98
<hr/>	
Capital assets, net	\$ 717,726.37
<hr/>	

### Endowments

The Austin Peay State University Foundation's endowments consist of 263 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds is classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The 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.

## Notes to the Financial Statements (Continued)

### Endowment Net Asset Composition by Type of Fund As of June 30, 2021

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 25,754,449.68	\$ 25,754,449.68
Accumulated investment gains	-	14,143,661.98	14,143,661.98
<b>Total funds</b>	<b>\$ -</b>	<b>\$ 39,898,111.66</b>	<b>\$ 39,898,111.66</b>

### Changes in Endowment Net Assets As of June 30, 2021

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 31,063,597.20	\$ 31,063,597.20
Investment return, net	-	7,216,856.97	7,216,856.97
Contributions	-	2,087,471.36	2,087,471.36
Appropriation of endowment assets for expenditure	-	(858,368.44)	(858,368.44)
Other changes:	-		
Transfers	-	388,554.57	388,554.57
<b>Endowment net assets, end of year</b>	<b>\$ -</b>	<b>\$ 39,898,111.66</b>	<b>\$ 39,898,111.66</b>

Underwater endowment funds – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in five donor-restricted endowment funds, which together have an original gift value of \$283,345.54, a current value of \$183,630.87, and a deficiency of \$99,714.67 as of June 30, 2021. 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 of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that 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.



## Notes to the Financial Statements (Continued)

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, 2021, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>						<u>Payments Made to or on Behalf of University</u>	<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarship</u>	<u>Depreciation</u>			
Program services								
Academic	\$ -	\$ -	\$ 705,678.67	\$ -	\$ -	\$ -	\$ -	\$ 705,678.67
Scholarships	-	-	-	1,297,805.95	-	-	-	1,297,805.95
Capital	-	-	-	-	51,934.63	-	-	51,934.63
Support activities	894,691.30	328,339.90	925,254.97	-	-	-	-	2,148,286.17
Payments made to or on behalf of the university	-	-	-	-	-	-	2,475,543.60	2,475,543.60
<b>Total expenses</b>	<b>\$894,691.30</b>	<b>\$328,339.90</b>	<b>\$1,630,933.64</b>	<b>\$1,297,805.95</b>	<b>\$51,934.63</b>	<b>\$2,475,543.60</b>	<b>\$6,679,249.02</b>	

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 2021, the university paid certain payroll costs amounting to \$2,148,285.57 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.

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# SUPPLEMENTARY INFORMATION

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**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**

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	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
2021	1.016135%	\$16,647,443	\$22,492,291	74.01%	90.58%
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**

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	Proportionate Share 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
2021	1.080308%	\$380,412	\$12,364,961	3.08%	112.90%
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 TENNESSEE STATE UNIVERSITY**  
**Required Supplementary Information**  
**Schedule of Austin Peay State University's Contributions**  
**Closed State and Higher Education Employee Pension Plan Within TCRS**

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	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2021	\$4,395,288	\$4,395,288	\$ -	\$21,726,582	20.23%
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%

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

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	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2021	\$258,667	\$258,667	\$ -	\$14,369,002	1.80%
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**

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	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	OPEB Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2021	0.825824%	\$6,912,963	\$42,223,130	16.37%	25.20%
2020	0.808664%	7,699,943	43,958,494	17.52%	18.33%
2019	0.909877%	12,603,967	45,681,109	27.59%	N/A
2018	0.829092%	11,130,891	45,521,829	24.45%	N/A

- 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.
- 3) During fiscal year 2019, the plan transitioned from a pay-as-you-go OPEB plan to a prefunding arrangement where assets are accumulated in a qualifying trust and benefits are paid from that trust. The transition resulted in a significant increase to the discount rate from 3.6% to 6%.

**AUSTIN PEAY STATE UNIVERSITY**  
**Required Supplementary Information**  
**Schedule of Austin Peay State University's Contributions**  
**Closed State Employee Group OPEB Plan**

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	Actuarially Determined Contributions	Contributions in Relation to Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2021	\$1,467,034	\$1,467,034	\$ -	\$40,811,329	3.59%
2020	1,389,363	1,389,363	-	42,223,130	3.29%
2019	1,292,124	1,115,408	176,716	43,958,494	2.54%

- 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**

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	University's Proportion of the Collective Total OPEB Liability	Primary Government's Proportionate Share of the Collective Total OPEB Liability	Primary Government's 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 Payroll
2021	0.0%	\$1,902,453	\$1,902,453	\$49,393,785	0.0%
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.
- 4) Change of assumptions: In 2021, the discount rate changed from 3.51% to 2.21%.

**AUSTIN PEAY STATE UNIVERSITY**  
**Supplementary Schedule of Cash Flows - Component Unit**  
**For the Year Ended June 30, 2021**

<b>Cash flows from operating activities</b>	
Gifts and contributions	\$ 6,075,228.30
Grants and contracts	372,441.41
Payments to suppliers and vendors	(300,278.78)
Payments for scholarships and fellowships	(1,297,805.95)
Payments to Austin Peay State University	(2,475,543.60)
Other receipts	15,698.16
<b>Net cash provided by operating activities</b>	<b>2,389,739.54</b>
<b>Cash flows from noncapital financing activities</b>	
Private gifts for endowment purposes	765,190.72
<b>Net cash provided by noncapital financing activities</b>	<b>765,190.72</b>
<b>Cash flows from capital and related financing activities</b>	
Proceeds from sale of capital assets	972,225.14
Purchases of capital assets and construction	(500,113.94)
<b>Net cash provided by capital and related financing activities</b>	<b>472,111.20</b>
<b>Cash flows from investing activities</b>	
Proceeds from sales and maturities of investments	12,336,030.10
Income on investments	378,543.42
Purchases of investments	(12,922,252.17)
Other investing payments	(112,779.96)
<b>Net cash used for investing activities</b>	<b>(320,458.61)</b>
Net increase in cash and cash equivalents	3,306,582.85
Cash and cash equivalents - beginning of year	6,553,663.31
<b>Cash and cash equivalents - end of year</b>	<b>\$ 9,860,246.16</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 3,212,337.85
Adjustments to reconcile operating income to net cash provided by operating activities:	
Noncash operating expenses	3,011,021.18
Endowment income per spending plan	(858,368.44)
Other adjustments	(489,215.28)
Change in assets, liabilities, and deferrals:	
Receivables	42,069.42
Pledges receivable	(2,122,704.70)
Accounts payable	(405,400.49)
<b>Net cash provided by operating activities</b>	<b>\$ 2,389,739.54</b>
<b>Noncash investing, capital, or financing transactions</b>	
Gifts in-kind - capital	\$ (81,500.00)
Unrealized gains on investments	\$ 7,233,577.98
Loss on sales of capital assets	\$ (1,064,469.22)

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

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JASON E. MUMPOWER  
*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. Michael Licari, 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, 2021, 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 2, 2021. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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*.

## **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 2, 2021



## **AP** Austin Peay State University

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