



JASON E. MUMPOWER
Comptroller

Independent Auditor's Report

Members of the General Assembly
Members of the Board of Trustees
The Honorable David H. Lillard, Jr., Treasurer

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying balance sheet of the Tennessee Promise Scholarship Endowment, a part of the State of Tennessee's education fund, a special revenue fund, as of June 30, 2023; the related statement of revenues, expenditures, and changes in fund balance for the year then ended; and the related notes to the financial statements, which collectively comprise the Tennessee Promise Scholarship Endowment's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Promise Scholarship Endowment as of June 30, 2023, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Tennessee Promise Scholarship Endowment and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of trustees of Tennessee Promise Scholarship

Endowment Trust. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Promise Scholarship Endowment.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Tennessee Promise Scholarship Endowment's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Tennessee Promise Scholarship Endowment's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Tennessee Promise Scholarship Endowment's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note A.1, the financial statements present only the Tennessee Promise Scholarship Endowment, a part of the State of Tennessee's education fund, a special revenue fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee or of the State of Tennessee's education fund, a special revenue fund, as of June 30, 2023, and the changes in financial position 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2023, on our consideration of the Tennessee Promise Scholarship Endowment's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts 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 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 Tennessee Promise Scholarship Endowment's internal control over financial reporting and compliance.



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 12, 2023

Tennessee Promise Scholarship Endowment

Tennessee Promise Scholarship Endowment Balance Sheet June 30, 2023

ASSETS

Cash and Cash Equivalents	\$	18,032,536
Investments at Fair Value		
Investment in Mutual Funds		927,082,405
Total Investments		927,082,405
Receivables		
Receivable for Tuition Refunds		51,481
Investment Income Receivable		786,188
Total Receivables		837,669
TOTAL ASSETS	\$	945,952,610

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to Colleges and Universities	\$	322,873
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TOTAL LIABILITIES

322,873

FUND BALANCE

Nonspendable Corpus		361,381,325
Restricted for Scholarships		584,248,412

TOTAL FUND BALANCE

945,629,737

TOTAL LIABILITIES AND FUND BALANCE

\$ 945,952,610

See accompanying Notes to the Financial Statements

Tennessee Promise Scholarship Endowment

Tennessee Promise Scholarship Endowment Statement of Revenues, Expenditures, and Change in Fund Balance For the Year Ended June 30, 2023

REVENUES

Investment Income	\$	49,736,888
Sports Wagering License Revenue		<u>7,600,290</u>

TOTAL REVENUES		<u>57,337,178</u>
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EXPENDITURES

Scholarship Payments		21,705,080
Administrative Cost		<u>654,874</u>

TOTAL EXPENDITURES		<u>22,359,954</u>
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EXCESS OF REVENUES OVER EXPENDITURES		34,977,224
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OTHER FINANCING SOURCE

Transfer in from Education Fund		<u>151,506,154</u>
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TOTAL OTHER FINANCING SOURCE		<u>151,506,154</u>
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NET CHANGE IN FUND BALANCE		186,483,378
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FUND BALANCE, BEGINNING OF YEAR		<u>759,146,359</u>
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FUND BALANCE, END OF YEAR	\$	<u><u>945,629,737</u></u>
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See accompanying Notes to the Financial Statements

Tennessee Promise Scholarship Endowment Notes to the Financial Statements For Fiscal Year Ended June 30, 2023

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The Tennessee Promise Scholarship Endowment (TN Promise) is a part of the State of Tennessee's Education Fund which forms an integral part of the primary government and has been included as a special revenue fund in the *Tennessee Annual Comprehensive Financial Report*. That report is available on the state's website at <https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html>. The financial statements present only that portion of the Education Fund's activities that is attributable to the transactions of the Tennessee Promise Scholarship Endowment.

2. Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available, expenditures are recognized when the related fund liability is incurred. Interest associated with the current fiscal year is considered to be available if received in six months.

3. Cash and Cash Equivalents

Cash and cash equivalents include cash and short term investments with a maturity date within three months of the acquisition date. Cash management pools are included as cash. Cash received that cannot be immediately invested in securities, or that is needed for operations, is invested in either the State Pooled Investment Fund, sponsored by the State of Tennessee and administered by the State Treasurer, or a short-term, open-end mutual fund under the contractual arrangement for master custody services and invested in State Street Government Money Market Fund.

4. Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest and dividend income. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis.

The fair value of assets held at June 30, 2023, represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Assets held are categorized for fair value measurement within the fair value hierarchy established by Generally Accepted Accounting Principles (GAAP). The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date.

Tennessee Promise Scholarship Endowment

- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; assets or liabilities that have a bid-ask spread price in an inactive dealer market, brokered market and principal-to-principal market; and Level 1 assets or liabilities that are adjusted.
- Level 3 - Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments where fair value is measured using the Net Asset Value (“NAV”) per share have no readily determinable fair value and have been determined to be calculated consistent with FASB principles for investment companies.

Where inputs used in the measurement of fair value fall into different levels of the hierarchy, fair value of the instrument in its entirety are categorized based on the lowest level input that is significant to the valuation. This assessment requires professional judgement and as such management developed a fair value committee that worked in conjunction with our custodian and investment professionals to make these valuations. All assets held were valued individually and aggregated into classes so to be represented in the table below.

Short-term securities generally include investments in money market-type securities reported at cost plus accrued interest.

Equity and equity derivative securities classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date.

**Investments Measured at Fair Value
For Fiscal Year Ended June 30, 2023
*Expressed in Thousands***

Investments	GAAP Hierarchy Level 1
Mutual Funds	\$ 927,082
TOTAL INVESTMENTS AT FAIR VALUE	927,082
Cash and Cash Equivalents	18,033
Receivables	838
TOTAL FINANCIAL STATEMENT ASSETS	\$ 945,953

4. Fund Balances

Non-spendable fund balance includes amounts that cannot be spent because they are legally or contractually required to be maintained intact. TN Promise's non-spendable corpus consists of the initial deposit of (i) the program-generated revenues plus the earnings as of June 30, 2014, of the Tennessee Student Assistance Corporation (TSAC) invested as part of the Chairs of Excellence Endowment Fund established by *Tennessee Code Annotated* Section 49-7-501 and pursuant to Chapter 98 of the *Public Acts of 2013*; and (ii) the June 30, 2014, balance of the lottery for education account established in accordance with Tennessee Code Annotated Section 4-51-111(b), but excluding the general shortfall reserve subaccount provided in *Tennessee Code Annotated* Section 4-51-111(b) (3) and the sum of ten million dollars (\$10,000,000). TN Promise's restricted fund balance, which may be subject to future allocation and/or distribution in accordance with the Tennessee Promise Scholarship Endowment agreement, includes all amounts that are transferred to TN Promise, except the initial deposit constituting the corpus, and all investment income of TN Promise.

B. DEPOSITS AND INVESTMENTS

State statute authorizes the funds of TN Promise to be commingled for investment with other trust funds and other funds subject to investment by the State Treasurer. TN Promise does not maintain its own bank accounts but utilizes the State Pooled Investment Fund (SPIF) for its operating cash needs. The SPIF is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements and various U.S. Treasury and Agency obligations. The SPIF is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities.

State statute also authorizes the Trust to invest in any security or investment in which the Tennessee Consolidated Retirement System (TCRS) is permitted to invest, provided that the Board of Trustees of TN Promise adopts an investment policy. The State Treasurer is responsible for the investments of TN Promise in accordance with the policy established by the trustees. The current investment policy for TN Promise allows for investments in bonds, debentures, preferred stock and common stock, real estate, private equities, derivative instruments and in other good and solvent securities subject to the approval of the Board of Trustees. The policy further allows for investment in non-investment grade or non-rated fixed income securities, including but not limited to, high yield bonds.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2023, the TN Promise investment portfolio did not include any fixed income securities subject to credit risk. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency. The State Street Government Money Market Fund is not rated at June 30, 2023. The investment policy and required risk disclosures relative to the SPIF are presented in the State Pooled Investment Fund Report. That report is available on the state's website at <https://treasury.tn.gov>.

Bond issues subject for purchase are to be investment grade bonds rated by one of the Nationally Recognized Statistical Rating Organizations (NRSROs). Short-term investments should be of only the highest quality debt issues and commercial paper should be rated in the highest tier by all rating agencies, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch.

Concentration of Credit Risk

A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. The TN Promise Fund had no investments at June 30, 2023, in organizations representing five percent or more of total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments.

TN Promise's investment policy does not specifically address limitations on investing in any one issuer.

Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The investment policy for TN Promise does not specifically address limits on investment maturities. There were no TN Promise investments subject to interest rate risk at June 30, 2023.

C: OTHER ACCOUNTING DISCLOSURES

The Tennessee Promise Scholarship Endowment

TN Promise was established by Chapter No. 900 of the *Public Acts of 2014* for the purpose of funding the Tennessee Promise Scholarship Program, a scholarship program for Tennessee residents seeking an associate degree, certificate or diploma from an eligible postsecondary institution. TN Promise consists of the Tennessee Promise Endowment Account and the Tennessee Promise Scholarship Special Reserve Account. The Tennessee Promise Endowment Account is comprised of the initial deposit of \$361,381,325 and is the non-spendable corpus amount of TN Promise. All income and subsequent deposits and transfers to TN Promise will be credited to the Tennessee Promise Scholarship Special Reserve Account, to be used only for the payment of scholarships and expenses relative to the administration and investment of assets.