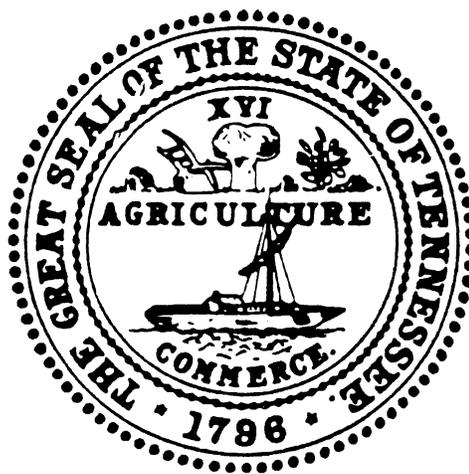


AUDIT REPORT

Tennessee Board of Regents
Endowment for Educational Excellence
Tennessee State University Foundation

For the Year Ended
June 30, 2007



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

February 20, 2008

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

and

Dr. Melvin N. Johnson, President
Tennessee State University
3500 John A. Merritt Boulevard
Nashville, Tennessee 37209

Ladies and Gentlemen:

Transmitted herewith is the report on the Endowment for Educational Excellence at Tennessee State University Foundation, for the year ended June 30, 2007. The audit was conducted under the requirements of the trust agreement which established the endowment. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
08/034



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
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Independent Auditor's Report

December 12, 2007

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying basic financial statements of the Endowment for Educational Excellence at the Tennessee State University Foundation as of and for the year ended June 30, 2007. These financial statements are the responsibility of the foundation's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the

The Honorable John G. Morgan
December 12, 2007
Page Two

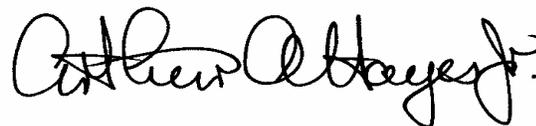
Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of many agencies, commissions, and component units of the State of Tennessee; managing the state's debt; and making loans to the state's colleges and universities from debt proceeds. Some of the boards of which the Comptroller of the Treasury serves as a member per state statutes include the State Building Commission and the Tennessee Higher Education Commission.

As discussed in Note 1, the financial statements of the Endowment for Educational Excellence are intended to present the financial position and the changes in financial position of that portion of the Tennessee State University Foundation's activities that is attributable to the transactions of the endowment. They do not purport to, and do not, present fairly the financial position of the Tennessee State University Foundation as of June 30, 2007, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Endowment for Educational Excellence at the Tennessee State University Foundation as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." in a cursive script.

Arthur A. Hayes, Jr., CPA
Director

AAH/cj
08/034

**Tennessee Board of Regents
Endowment for Educational Excellence
Tennessee State University Foundation
Management's Discussion and Analysis
June 30, 2007**

This section of Tennessee State University Foundation's Endowment for Educational Excellence trust's report presents a discussion and analysis of the financial performance of the trust during the fiscal year ended June 30, 2007, with comparative information presented for the fiscal year ended June 30, 2006. This discussion has been prepared by management along with the financial statements and accompanying note disclosures and should be read in conjunction with the independent auditor's report, the financial statements, and notes to the financial statements. The financial statements, notes, and this discussion are the responsibility of management.

Using This Report

This report consists of two basic financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information on Tennessee State University Foundation's Endowment for Educational Excellence trust as a whole and present a long-term view of the trust's finances.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the trust at the end of the fiscal year and includes all assets and liabilities of the trust. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the trust. Assets and liabilities are generally measured using current values.

Net assets are reported as restricted net assets, which are divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the trust 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 assets.

**Tennessee Board of Regents
Endowment for Educational Excellence
Tennessee State University Foundation
Management's Discussion and Analysis (Cont.)
June 30, 2007**

Net Assets (in thousands of dollars)

	June 30, 2007	June 30, 2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 688	\$ 310
Total current assets	<u>688</u>	<u>310</u>
Noncurrent assets:		
Cash and cash equivalents	2,335	5,235
Investments	<u>25,545</u>	<u>9,350</u>
Total noncurrent assets	<u>27,880</u>	<u>14,585</u>
Total assets	<u>28,568</u>	<u>14,895</u>
NET ASSETS		
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	27,880	14,585
Expendable:		
Scholarships and fellowships	<u>688</u>	<u>310</u>
Total net assets	<u>\$ 28,568</u>	<u>\$ 14,895</u>

- Current assets and restricted expendable net assets increased as the result of investment income of over \$418 thousand related to the expendable portion of the endowment.
- Noncurrent assets and nonexpendable net assets for the current fiscal year increased over \$13.2 million as a result of \$9 million received in state funds, over \$3.2 million received in federal funds, and an investment program that resulted in almost \$326 thousand in investment income related to the nonexpendable portion of the endowment and over \$689 thousand in gains in the value of the investments.

**Tennessee Board of Regents
Endowment for Educational Excellence
Tennessee State University Foundation
Management's Discussion and Analysis (Cont.)
June 30, 2007**

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the trust, as well as the nonoperating revenues and expenses.

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

	2007	2006
Nonoperating revenues (expenses):		
State appropriations	9,000	1,000
Gifts	20	112
Grants and contracts	3,260	-
Investment income	744	494
Investment expense	(40)	(25)
Other nonoperating revenues	689	1,576
Total nonoperating revenues (expenses)	13,673	3,157
Increase in net assets	13,673	3,157
Net assets at beginning of period	14,895	11,738
Net assets at end of year	\$ 28,568	\$ 14,895

Revenues

- State appropriations increased as a result of additional state funds allocated with the settlement of the Geier case in September 2006.

**Tennessee Board of Regents
Endowment for Educational Excellence
Tennessee State University Foundation
Management's Discussion and Analysis (Cont.)
June 30, 2007**

- Gifts for the trust decreased due to a decrease in funds received from non-governmental organizations.
- Grants and contracts increased as a result of Title III matching funds received from the state.
- Investment income increased as a result of more funds invested for the entire fiscal year.
- Other nonoperating revenues decreased due to a decrease in the gains of the investments held by the trust.

Economic Factors That Will Affect the Future

After a series of court orders during the past 25 years, the parties in the Geier Desegregation Case reached an agreement in September of 2006 to bring an end to the lawsuit. The agreement allowed for an additional \$40 million to be allocated to Tennessee State University. The use of the funds will be determined by the university. As much as \$30 million of these funds may be invested in the Endowment for Educational Excellence over the next four years.

Requests for Information

This financial report is designed to provide a general overview of the trust's finances for all those with an interest in the trust's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to:

Mrs. Cynthia B. Brooks
Vice President for Business and Finance
Tennessee State University
3500 John A. Merritt Blvd.
Nashville, TN 37209

**TENNESSEE BOARD OF REGENTS
 ENDOWMENT FOR EDUCATIONAL EXCELLENCE
 TENNESSEE STATE UNIVERSITY FOUNDATION
 STATEMENT OF NET ASSETS
 JUNE 30, 2007**

ASSETS

Current assets:

Cash and cash equivalents (Note 2)	\$ 687,930.12
Total current assets	<u>687,930.12</u>

Noncurrent assets:

Cash and cash equivalents (Note 2)	2,335,319.29
Investments (Note 3)	<u>25,544,805.08</u>
Total noncurrent assets	<u>27,880,124.37</u>
Total assets	<u>28,568,054.49</u>

NET ASSETS

Restricted for:

Nonexpendable:

Scholarships and fellowships	27,880,124.37
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Expendable:

Scholarships and fellowships (Note 4)	<u>687,930.12</u>
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Total net assets	<u>\$ 28,568,054.49</u>
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The notes to the financial statements are an integral part of this statement.

**TENNESSEE BOARD OF REGENTS
 ENDOWMENT FOR EDUCATIONAL EXCELLENCE
 TENNESSEE STATE UNIVERSITY FOUNDATION
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2007**

NONOPERATING REVENUES (EXPENSES)

State appropriations	9,000,000.00
Gifts	20,163.43
Grants and contracts	3,259,354.58
Investment income	743,977.92
Investment expenses	(40,000.00)
Other nonoperating revenues	689,174.09
Net nonoperating revenues (expenses)	<u>13,672,670.02</u>
Increase in net assets	<u>13,672,670.02</u>

NET ASSETS

Net assets - beginning of year	<u>14,895,384.47</u>
Net assets - end of year	\$ <u><u>28,568,054.49</u></u>

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

**Tennessee Board of Regents
Endowment for Educational Excellence
Tennessee State University Foundation
Notes to the Financial Statements
June 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Pursuant to the consent decree entered into on January 5, 2001, in settlement of the Geier v. Sundquist lawsuit, the Tennessee State University Endowment for Educational Excellence trust was established. This trust was created by the Tennessee Board of Regents and is operated exclusively for the educational purposes at Tennessee State University. The Tennessee State University Foundation is the trustee of these funds and, in accordance with the trust agreement, delegates the actual management of the endowment assets to professional investment managers. These assets are the property of the state of Tennessee.

Tennessee State University Foundation is a legally separate, tax-exempt organization supporting Tennessee 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 14-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. The size of the board shall be determined by the majority vote of its members, and any vacancy in its membership shall be filled in the same way. The entire membership of the Board of Trustees shall not exceed twenty-five (25) in number and a minimum of eight (8). All trustees shall serve until the expiration of their respective terms and until their respective successors are selected and qualified. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, which the foundation holds and invests, is 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 financial statements present only that portion of the Tennessee State University Foundation's activities that is attributable to the transactions of the Endowment for Educational Excellence.

Tennessee Board of Regents
Endowment for Educational Excellence
Tennessee State University Foundation
Notes to the Financial Statements (Cont.)
June 30, 2007

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Basis of Accounting

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The foundation has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The foundation has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

All other activity of the endowment is nonoperating in nature and includes (1) state appropriations provided as a part of the consent decree, (2) federal grant funds from the U.S. Department of Education under the Title III Strengthening Historically Black Colleges and Universities Program, (3) investment income, and (4) gifts.

Cash Equivalents

This classification includes instruments which are readily convertible to known amounts of cash and have original maturities of three months or less.

Net Assets

Nonexpendable restricted net assets - Nonexpendable restricted net assets consist 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.

**Tennessee Board of Regents
Endowment for Educational Excellence
Tennessee State University Foundation
Notes to the Financial Statements (Cont.)
June 30, 2007**

Expendable restricted net assets - Expendable restricted net assets include resources which the endowment is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. The trust agreement does provide for spending a portion of the income, as discussed in Note 4. Spending decisions are to be made by the Budget Committee established in the trust agreement through the preparation of an annual budget.

NOTE 2. CASH AND CASH EQUIVALENTS

At June 30, 2007, cash and cash equivalents consisted of \$ 3,023,249.41 in capital management account money funds.

NOTE 3. INVESTMENTS

The endowment is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2007, the endowment had the following 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		
U.S. Treasury	\$ 2,124,240.72	\$ 49,648.45	\$1,773,503.43	\$228,764.82	\$ 72,324.02	\$ -	
U.S. agencies	1,014,405.65	49,628.70	267,100.13	-	697,676.82	-	
Corporate stocks	2,901,962.16	-	-	-	-	2,901,962.16	
Corporate bonds	727,975.91	168,797.92	435,626.39	106,154.96	17,396.64	-	
Mutual bond funds	6,351,792.85	-	-	-	-	6,351,792.85	
Mutual equity funds	9,956,853.12	-	-	-	-	9,956,853.12	
Real estate investments	2,467,574.67	-	-	-	-	2,467,574.67	
Money funds and short-term investments	3,023,249.41	-	-	-	-	3,023,249.41	

**Tennessee Board of Regents
Endowment for Educational Excellence
Tennessee State University Foundation
Notes to the Financial Statements (Cont.)
June 30, 2007**

Less amount reported as cash and cash equivalents: Money funds and short-term investments	(3,023,249.41)	-	-	-	-	(3,023,249.41)
Total	<u>\$25,544,805.08</u>	<u>\$268,075.07</u>	<u>\$2,476,229.95</u>	<u>\$334,919.78</u>	<u>\$787,397.48</u>	<u>\$21,678,182.80</u>

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 endowment does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The foundation is authorized to invest the endowment funds in accordance with the trust agreement. Under the trust agreement, the foundation is authorized to invest and reinvest the property of the trust in any kind of real and/or personal property and any kind of investment specifically including, but not limited to, domestic or foreign government obligations of any kind; domestic or foreign securities of any kind including, but not limited to, preferred or common stocks, bonds, mortgage participations and shares of investment trusts, investment companies, money market funds, and mutual funds (including market or index funds); options to purchase or sell domestic or foreign securities or domestic or foreign government obligations of any kind; and interests in partnerships, so long as such investments are made with the care of a fiduciary. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale. The endowment has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. As of June 30, 2007, the endowment's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating				
		AAA	AA	A	BBB	Unrated
U.S. Treasury	\$ 2,124,240.72	\$2,074,592.27	\$ -	\$ -	\$ -	\$ 49,648.45
U.S. agencies	1,014,405.65	316,728.83	-	-	-	697,676.82
Corporate bonds	727,975.91	85,960.74	269,263.08	259,968.35	112,783.74	-
Mutual bond funds	6,351,792.85	-	-	-	-	6,351,792.85
Mutual equity funds	<u>9,956,853.12</u>	-	-	-	-	<u>9,956,853.12</u>
Total	<u>\$20,175,268.25</u>	<u>\$2,477,281.84</u>	<u>\$269,263.08</u>	<u>\$259,968.35</u>	<u>\$112,783.74</u>	<u>\$17,055,971.24</u>

**Tennessee Board of Regents
Endowment for Educational Excellence
Tennessee State University Foundation
Notes to the Financial Statements (Cont.)
June 30, 2007**

Concentration of credit risk – The endowment places no limit on the amount it may invest in any one issuer. More than 5 percent of the endowment’s investments are invested in the following single issuers at June 30, 2007:

<u>Issuer</u>	<u>Percentage of Total Investments</u>
Regions (AmSouth) Bank	24.2%
Charles Schwab International	61.3%
Diversified Trends	5.8%

NOTE 4. ENDOWMENT INCOME

The trust agreement requires that at least 25% of the annual income be added to the corpus and stipulates approved and prohibited uses of the other 75%. The grant agreement for the Title III program requires that 50% of the income be added to the corpus and has provisions on the allowable uses of the other 50%. As of June 30, 2007, net appreciation of \$687,930.12 is available to be spent and is included in restricted net assets expendable for scholarships and fellowships.