



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

TENNESSEE RESIDENCE FOUNDATION

Financial and Compliance Audit Report

For the Year Ended December 31, 2017

Justin P. Wilson, Comptroller



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JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

June 19, 2018

The Honorable Bill Haslam, Governor
Members of the General Assembly
Board of Directors, Tennessee Residence Foundation

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Residence Foundation for the year ended December 31, 2017. You will note from the independent auditor's report that an unmodified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

A handwritten signature in black ink that reads "Deborah V. Loveless".

Deborah V. Loveless, CPA, Director
Division of State Audit

18/073

Audit Report
Tennessee Residence Foundation
For the Year Ended December 31, 2017

TABLE OF CONTENTS

	<u>Page</u>
Audit Highlights	1
Financial Section	
Independent Auditor's Report	2
Basic Financial Statements	
Statements of Net Position	4
Statements of Revenues, Expenses, and Changes in Net Position	5
Statements of Cash Flows	6
Notes to the Financial Statements	7

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

Tennessee Residence Foundation

For the Year Ended December 31, 2017

Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Board of Directors, Tennessee Residence Foundation

We have audited the accompanying financial statements of the Tennessee Residence Foundation, a component unit of the State of Tennessee, as of and for the years ended December 31, 2017, and December 31, 2016, and the related notes to the financial statements, which collectively comprise the Tennessee Residence Foundation's 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 an opinion on these financial statements based on our audits. We conducted our audits 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 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 entity'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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Residence Foundation as of December 31, 2017, and December 31, 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

The Tennessee Residence Foundation has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.



Deborah V. Loveless, CPA, Director
Division of State Audit
June 8, 2018

TENNESSEE RESIDENCE FOUNDATION
Statements of Net Position
December 31, 2017, and December 31, 2016

	December 31, 2017	December 31, 2016 (restated)
Assets		
Current assets:		
Cash (Note 2)	\$851,656.71	\$665,882.19
Inventories	2,803.99	4,198.57
Total assets	854,460.70	670,080.76
Liabilities		
Current liabilities:		
Accounts payable (Note 6)	16,391.40	15,611.86
Total liabilities	16,391.40	15,611.86
Net position		
Unrestricted (Note 6)	838,069.30	654,468.90
Total net position	\$838,069.30	\$654,468.90

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

TENNESSEE RESIDENCE FOUNDATION
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2017, and December 31, 2016

	<u>Year Ended</u> <u>December 31, 2017</u>	<u>Year Ended</u> <u>December 31, 2016</u>
Operating revenues		
Contributions (Notes 3 and 5)	\$352,149.09	\$ 25,600.00
Proceeds from sales of mementos	18,123.13	19,709.95
Total operating revenues	370,272.22	45,309.95
Operating expenses		
Fundraising	124,456.84	9,579.59
Management and general	6,481.59	7,451.00
Phase IV - garden restoration plan	56,098.89	59,053.69
Total operating expenses	187,037.32	76,084.28
Operating income (loss)	183,234.90	(30,774.33)
Nonoperating revenue		
Investment income	365.50	330.30
Total nonoperating revenue	365.50	330.30
Increase (decrease) in net position	183,600.40	(30,444.03)
Net position - beginning of year, as restated	654,468.90	684,912.93
Net position - end of year	\$838,069.30	\$654,468.90

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

TENNESSEE RESIDENCE FOUNDATION
Statements of Cash Flows
For the Years Ended December 31, 2017, and December 31, 2016

	Year Ended December 31, 2017	Year Ended December 31, 2016 (restated)
Cash flows from operating activities		
Contributions	\$295,596.72	\$ 25,600.00
Proceeds from sales of mementos	18,123.13	19,709.95
Payments to contractors	(56,098.89)	(59,053.69)
Payments to suppliers	(72,211.94)	(10,867.06)
Net cash provided (used) by operating activities	185,409.02	(24,610.80)
Cash flows from investing activities		
Income on investments	365.50	330.30
Net cash provided by investing activities	365.50	330.30
Net increase (decrease) in cash	185,774.52	(24,280.50)
Cash - beginning of year	665,882.19	690,162.69
Cash - end of year	\$851,656.71	\$665,882.19
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$183,234.90	(\$ 30,774.33)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Change in assets and liabilities:		
Inventories	1,394.58	(301.53)
Accounts payable	779.54	6,465.06
Net cash provided (used) by operating activities	\$185,409.02	(\$ 24,610.80)

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

TENNESSEE RESIDENCE FOUNDATION
Notes to the Financial Statements
December 31, 2017, and December 31, 2016

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tennessee Residence Foundation (the foundation), as created by Tennessee Public Acts of 1999, Chapter 212, is a 501(c)(3) not-for-profit organization that was incorporated on December 5, 2000. The original purpose of the foundation was to purchase, receive through loan, or otherwise acquire or dispose of furnishings, fixtures, works of art, and other articles which are of Tennessee origin; are of particular historic or artistic interest to the citizens of Tennessee; or are otherwise needed to furnish and permanently enhance the interior decor of the public reception and formal entertainment areas within the Tennessee executive residence. That purpose was expanded by Tennessee Public Acts of 2005, Chapter 267, to include raising and spending funds for the renovation, restoration, reconstruction, expansion, and upkeep of the executive residence.

The Tennessee Residence Foundation is governed by a seven-member board of directors. The board of directors consists of the Governor's spouse, or designee if the Governor is not married; three members, one from each grand division of the state, appointed by the Governor; the chair of the Tennessee State Museum Foundation Board; and two additional members, selected by the Governor from the membership of the Tennessee State Museum Foundation Board.

The Tennessee Residence Foundation is a component unit of the State of Tennessee. In addition to the appointment of the board of directors, the state has the ability to influence the decisions of the board of directors and is a beneficiary of the foundation's activities. Because of materiality considerations, the foundation has not been reported in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to special-purpose governments engaged only in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

Basis of Accounting

For financial statement purposes, the foundation 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 incurred, regardless of the timing of related cash flows. Contributions are recorded as a promise is received. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as operating revenues include contributions and sales of mementos. Operating expenses for the foundation include fundraising, management, and general and restoration, renovation, and expansion costs.

Other activity is nonoperating in nature and includes investment income.

When both restricted and unrestricted resources are available for use, generally it is the foundation's policy to use the restricted resources first.

Note 2. Deposits

At December 31, 2017, the foundation had cash of \$851,656.71 in demand deposits and cash on hand. The combined bank balance of the deposits was \$851,656.71.

At December 31, 2016, the foundation had cash of \$665,882.19 in demand deposits and cash on hand. The combined bank balance of the deposits was \$665,882.19.

The foundation has no policy limiting its custodial credit risk.

Due to the statutory nature of the creation of the Tennessee Residence Foundation, the funds of the organization are considered public funds. In April 2015 these funds were designated by the financial institution as public funds collateralized under the Tennessee Bank Collateral Pool.

Note 3. Contributions

The foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets to a more limited use than the purpose for which the foundation as a whole was established.

Note 4. Unconditional Promises to Give

Unconditional promises to give are recognized as a receivable. Conditional promises to give are not included as support until the conditions are substantially met. As of December 31, 2017, and December 31, 2016, there were no unconditional promises to give.

Note 5. Noncash Contributions

Noncash contributions represent the value of goods and services provided by an external organization. Noncash contributions consisted of goods and services provided for fundraising events (\$56,465.20) for the year ended December 31, 2017. As it would have been necessary for the foundation to provide these items had they not been donated, the receipt of these contributions

resulted in current financial resources and was recognized in the financial statements. There were no noncash contributions of goods and services for 2016.

Note 6. Unrestricted Net Position

Unrestricted net position for the year ended December 31, 2017, included \$100,325 that has been designated for operating reserves. The amount designated for the year ended December 31, 2016, was \$100,275.

Note 7. Restatement of Beginning Net Position

Net position as of January 1, 2016, and December 31, 2016, has been adjusted to properly account for a certain adjustment to the accounts payable balance. The effect of the restatement was to decrease net position by \$9,038.90 as of January 1, 2016; increase fundraising expense for the year ended December 31, 2016, by \$4,777.50; and decrease net position by \$13,816.40 as of December 31, 2016. A schedule summarizing the restatement follows:

Net position as of January 1, 2016, as previously reported	\$693,951.83
To reflect increase in accounts payable at January 1, 2016	<u>(9,038.90)</u>
Net position as of January 1, 2016, as restated	<u>684,912.93</u>
Increase (decrease) in net position for the year ending December 31, 2016, as previously reported	(25,666.53)
To increase 2016 fundraising expenses	<u>(4,777.50)</u>
Increase (decrease) in net position for the year ending December 31, 2016, as restated	<u>(30,444.03)</u>
Net assets as of December 31, 2016, as restated	<u><u>\$654,468.90</u></u>