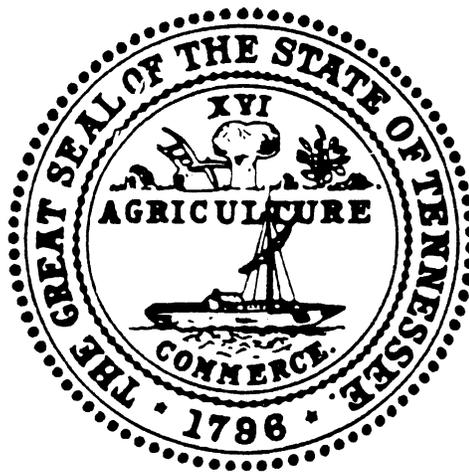


AUDIT REPORT

Tennessee Sports Hall of Fame

For the Years Ended
December 31, 2004, and December 31, 2003



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
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John G. Morgan
Comptroller

February 24, 2006

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee Sports Hall of Fame
Nashville, Tennessee 37203

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Sports Hall of Fame for the years ended December 31, 2004, and December 31, 2003. 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.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The Tennessee Sports Hall of Fame's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
05/012

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit Tennessee Sports Hall of Fame

For the Years Ended December 31, 2004, and December 31, 2003

AUDIT OBJECTIVES

The objectives of the audit were to consider the Tennessee Sports Hall of Fame's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDINGS

Bank Reconciliations Were Not Reviewed

The Tennessee Sports Hall of Fame's (TSHF) accountant prepares monthly bank reconciliations; however, these reconciliations are not reviewed by anyone. In addition to preparing the bank account reconciliations, the accountant receives and maintains the monthly bank statement, maintains custody of the blank checks, and has sole access to the accounting system (page 10).

Revenue Reconciliations Were Not Always Performed

TSHF personnel do not reconcile museum tickets sold to ticket receipts, nor do they reconcile ticket receipts to deposit records. In addition, TSHF personnel do not

reconcile golf tournament entry forms with deposits or revenue recorded (page 10).

The Credit Card Policy Was Not Always Followed

A policy governing credit card usage and controls was written; however, the Executive Director did not completely comply with the policy. Because receipts supporting purchases were not always maintained, the monthly credit card statements could not be reconciled with the receipts (page 12).

Disbursements Were Not Always Properly Approved

Some non-credit-card disbursements tested either did not have proper approval or did not have evidence of approval (page 13).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Tennessee Sports Hall of Fame
For the Years Ended December 31, 2004, and December 31, 2003

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Tennessee Sports Hall of Fame

For the Years Ended December 31, 2004, and December 31, 2003

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Sports Hall of Fame. The audit was conducted pursuant to Section 4-3-5405, *Tennessee Code Annotated*, which states, “All annual reports and all books of accounts and financial records of the hall of fame shall be subject to audit annually by the comptroller of the treasury.”

BACKGROUND

The Tennessee Sports Hall of Fame was created in 1994 by the General Assembly under Section 4-3-5402, *Tennessee Code Annotated*. The purpose of the Hall of Fame is to honor athletes, athletic teams, and other sports personalities of Tennessee.

ORGANIZATION

The Tennessee Sports Hall of Fame is governed by a 25-member board of directors. Eight members are appointed by the Governor, eight by the Lieutenant Governor, and eight by the Speaker of the House of Representatives. The State Treasurer or his designee serves *ex officio*.

AUDIT SCOPE

The audit was limited to the period January 1, 2003, through December 31, 2004, and was conducted 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. Financial statements are presented for the years ended December 31, 2004, and December 31, 2003.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the Tennessee Sports Hall of Fame's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the

effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99 promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, and not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

AUDIT COMMITTEE RECOMMENDED

As a result of the fraud-related business failures of companies such as Enron and WorldCom in recent years, Congress and the accounting profession have taken aggressive measures to try to detect and prevent future failures related to fraud. These measures have included the signing of the *Sarbanes-Oxley Act of 2002* by the President of the United States and the issuance of Statement on Auditing Standards No. 99 by the American Institute of Certified Public Accountants. This new fraud auditing standard has not only changed the way auditors perform audits but has also provided guidance to management and boards of directors on

creating antifraud programs and controls. This guidance has included the need for an independent audit committee.

In recognition of the benefits of audit committees for government, the Tennessee General Assembly has enacted legislation known as the “State of Tennessee Audit Committee Act of 2005.” This legislation requires the creation of audit committees for those entities that have governing boards, councils, commissions, or equivalent bodies that can hire and terminate employees and/or are responsible for the preparation of financial statements. Applicable entities are required to develop an audit committee charter and appoint the audit committee in accordance with the legislation. The specific activities of any audit committee will depend on, among other things, the mission, nature, structure, and size of each agency. In establishing the audit committee and creating its charter, each board should examine its agency’s particular circumstances. Anti-fraud literature notes that there are two categories of fraud: fraudulent financial reporting and misappropriation of assets. The audit committee should consider the risks of fraud in its agency in general as well as the history of its particular agency with regard to prior audit findings, previously disclosed weaknesses in internal control, and compliance issues. The audit committee should consider both the risk of fraudulent financial reporting and the risk of fraud due to misappropriation or abuse of agency assets.

Boards should exercise professional judgment in establishing the duties, responsibilities, and authority of their audit committee. The factors noted below are not intended to be an exhaustive listing of those matters to be considered. The committee should not limit its scope to reacting to a preconceived set of issues and actions but rather should be proactive in its oversight of the agency as it concentrates on the internal control and audit-related activities of the entity. In fact, this individualized approach is one of the main benefits derived from an audit committee.

At a minimum, audit committees should:

1. Develop a written charter that addresses the audit committee’s purpose and mission, which should be, at a minimum, to assist the board in its oversight of the agency.
2. Formally reiterate, on a regular basis, to the board, agency management, and staff their responsibilities for preventing, detecting, and reporting fraud, waste, and abuse.
3. Serve as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information they may receive or otherwise note regarding risks of fraud or weaknesses in the agency’s internal controls; reviewing with the auditors any findings or other matters noted by the auditors during audit engagements; working with the agency management and staff to ensure implementation of audit recommendations; and assisting in the resolution of any problems the auditors may have with cooperation from agency management or staff.

4. Develop a formal process for assessing the risk of fraud at the agency, including documentation of the results of the assessments and assuring that internal controls are in place to adequately mitigate those risks.
5. Develop and communicate to staff of the agency their responsibilities to report allegations of fraud, waste, or abuse at the agency to the committee and the Comptroller of the Treasury's office as well as a process for immediately reporting such information.
6. Immediately inform the Comptroller's office when fraud is detected.
7. Develop and communicate to the board, agency management, and staff a written code of conduct reminding those individuals of the public nature of the agency and the need for all to maintain the highest level of integrity with regard to the financial operations and any related financial reporting responsibilities of the agency; to avoid preparing or issuing fraudulent or misleading financial reports or other information; to protect agency assets from fraud, waste, and abuse; to comply with all relevant laws, rules, policies, and procedures; and to avoid engaging in activities which would otherwise bring dishonor to the agency.

The charter of the audit committee should include, at a minimum, the following provisions:

1. The audit committee should be a standing committee of the board.
2. The audit committee should be composed of at least three members. The chair of the audit committee should preferably have some accounting or financial management background. Each member of the audit committee should have an adequate background and education to allow a reasonable understanding of the information presented in the financial reports of the agency and the comments of auditors with regard to internal control and compliance findings and other issues.
3. The members of the audit committee must be independent from any appearances of other interests that are in conflict with their duties as members of the audit committee.
4. An express recognition that the board, the audit committee, and the management and staff of the agency are responsible for taking all reasonable steps to prevent, detect, and report fraud, waste, and abuse.
5. The audit committee should meet regularly throughout the year. The audit committee can meet by telephone, if that is permissible for other committees. However, the audit committee is strongly urged to meet at least once a year in person. Members of the audit committee may be members of other standing committees of the board, but the audit committee meetings should be separate from the meetings of other committees of the board.

6. The audit committee should record minutes of its meetings.

The Division of State Audit will be available to discuss with the board any questions it might have about the creation of its particular audit committee. There are also other audit committees which have already been established at other state agencies that the board may wish to contact for advice and further information.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee Sports Hall of Fame's financial statements for the years ended December 31, 2004, and December 31, 2003, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by 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. Reportable conditions, along with recommendations and management's responses, are detailed in the Findings and Recommendations section of this report. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

The results of our audit tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the Tennessee Sports Hall of Fame's financial statements.



STATE OF TENNESSEE
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**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***

September 12, 2005

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

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee Sports Hall of Fame as of and for the years ended December 31, 2004, and December 31, 2003, and have issued our report thereon dated September 12, 2005. As discussed in Note 1 to the financial statements, the Tennessee Sports Hall of Fame implemented GASB Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and GASB Statement 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Tennessee Sports Hall of Fame’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the

internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Tennessee Sports Hall of Fame's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following reportable conditions were noted:

- Bank reconciliations were not reviewed
- Revenue reconciliations were not always performed
- The credit card policy was not always followed
- Disbursements were not always properly approved

These conditions are described in the Findings and Recommendations section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the Tennessee Sports Hall of Fame's management in a separate letter.

Compliance and Other Matters

We assessed compliance with laws, regulations, contracts, and grant agreements pertaining to the Tennessee Sports Hall of Fame. We determined that there were no compliance requirements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Therefore, we did not test for compliance with laws, regulations, contracts, and grant agreements.

The Honorable John G. Morgan
September 12, 2005
Page Three

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

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

Arthur A. Hayes, Jr., CPA
Director

AAH/th

FINDINGS AND RECOMMENDATIONS

1. Bank reconciliations were not reviewed

Finding

The Tennessee Sports Hall of Fame's (TSHF) accountant prepares monthly bank reconciliations; however, these reconciliations are not reviewed by anyone.

In addition to preparing the bank account reconciliations, the accountant is also responsible for the disbursement of funds and for the recording of cash disbursements in the accounting system. The accountant receives and maintains the monthly bank statement, maintains custody of the blank checks, and has sole access to the accounting system.

The review of bank reconciliations is necessary to ensure that the Tennessee Sports Hall of Fame's assets are properly monitored. Without review, inaccuracies in the reconciliations will not be detected, and unauthorized disbursements could be made without being detected.

Recommendation

The monthly bank reconciliations should be reviewed by a person independent of the preparation of the reconciliation, such as the Executive Director, and the review should be documented.

Management's Comment

Management concurs with the finding. The TSHF accountant does reconcile the monthly bank statements. However, these statements are not reviewed by an independent person. The structure of the TSHF as of the audit date does not lend itself to separation of these functions; however, management will enlist the aid of an independent person in the State Treasurer's Office to review the monthly bank statements.

2. Revenue reconciliations were not always performed

Finding

The Tennessee Sports Hall of Fame's sources of revenue include, but are not limited to, museum ticket sales and golf tournament participation reservations. TSHF personnel do not reconcile museum tickets sold to ticket receipts, nor do they reconcile ticket receipts to deposit records. In addition, TSHF personnel do not reconcile golf tournament entry forms with deposits or revenue recorded.

Museum tickets are purchased from TSHF personnel or they are purchased from the Nashville Convention and Visitors Bureau (NCVB) when TSHF personnel are not available. The revenue from the NCVB ticket sales is decreased by a labor charge billed by the NCVB. The NCVB then issues a monthly reimbursement check to the TSHF for the net ticket sales made by NCVB personnel. A sales report listing the number of tickets sold accompanies the reimbursement check; however, per the TSHF marketing coordinator and accountant, this report is not reviewed by anyone at the TSHF. Thus, there is no comparison performed with the check received from the NCVB to net ticket sales. In addition, there is no record maintained of the museum tickets sold by TSHF personnel, so there is no comparison or reconciliation of the total number of museum tickets distributed to revenue collected. This procedure is essential in ensuring that all receipts have been accounted for and that they have been recorded properly.

The TSHF holds an annual fund-raising golf tournament. Reservations are sold by cash, check, or credit card. Four complimentary reservations are given to each corporate sponsor. There are no physical tickets given to the attendees of the golf tournament. All participants are required to complete a participation form and then they are added to a list of participants. The participation list and forms are maintained up to the completion of the golf tournament, and then they are discarded. There is no comparison of the number of attendees to the amount of revenue collected or recorded. In the absence of documented reconciliation procedures, management cannot be assured it has received all the revenue it is due or that the TSHF receipts are being correctly recorded.

Recommendation

A person independent of deposit preparation, such as the TSHF accountant, should reconcile museum tickets sold to ticket receipts and further reconcile ticket receipts to deposit records. Also, the list of golf tournament attendees and entry forms should be maintained and compared to deposits and revenues recorded by someone independent of the preparation of the deposits, such as the TSHF accountant.

Management's Comment

Management concurs with the finding. Reconciliations of the golf tournament and museum ticket sales are not performed. An annual reconciliation of the tournament will be performed in the future by the accountant.

Museum ticket sale reconciliations would need to be done on a weekly basis and would require additional time and resources to complete. Management will review the cost of these reconciliations and determine if the benefit of these reconciliations would be sufficient to incur that additional cost.

3. The credit card policy was not always followed

Finding

The Tennessee Sports Hall of Fame's Executive Director is authorized to have a commercial credit card to expedite the purchasing process. It appears that the credit card is used primarily for meals, supplies, postage, board meeting expenses, and some banquet expenses. A policy governing credit card usage and controls was written; however, the Executive Director did not completely comply with the policy. Because receipts supporting purchases were not always maintained, the monthly credit card statements could not be reconciled with the receipts.

The Tennessee Sports Hall of Fame's credit card policy states, "Receipts for all purchases with the credit card should be maintained and forwarded to the accountant at Treasury." The policy also states, "Every month the accountant will reconcile the statement with the receipts provided and the accountant will pay the balance." Since receipts were often not submitted to the accountant as required, it was impossible for the statement to be properly reconciled.

Our testwork found that there were no receipts to support \$690.25 of the \$2,782.44 in credit card purchases (25%) made during the year ended December 31, 2003, and there were no receipts to support \$1,139.91 of the \$5,158.10 in credit card purchases (22%) made during the year ended December 31, 2004. Our initial testwork had found that there were no receipts to support \$2,419.74 of the credit card purchases (87%) made during the year ended December 31, 2003, and \$4,913.05 of the credit card purchases (95%) made during the year ended December 31, 2004. However, after these deficiencies were brought to the Executive Director's attention, an additional \$1,729.49 in credit card receipts was found for the year ended December 31, 2003, and an additional \$3,773.14 in credit card receipts was found for the year ended December 31, 2004. These receipts had not been submitted to the accountant. It should also be noted that an unsupported charge of \$329.50 for the year ended December 31, 2004, is believed to be a duplicate charge by the vendor. The failure to retain receipts for individual purchases prevents the accountant from being able to verify the charges on the invoices, and it increases the risk that the State Treasurer is authorizing payment for charges that are incorrect or unallowable.

In addition, the Executive Director stated that the marketing coordinator sometimes uses the credit card for business purchases. However, the credit card policy specifically states, "The ED [Executive Director] should be the only authorized signer on the account."

Recommendation

The Executive Director should completely follow the credit card policy that he signed and ensure that all receipts for credit card purchases are retained and submitted to the accountant. Also, the accountant should ensure that each month's credit card statement is reconciled to receipts prior to payment. In addition, the credit card should not be used by the marketing coordinator.

Management's Comment

Management does concur with the finding in that credit card receipts were not always forwarded to the accountant. However, all purchases with the credit card were for justifiable TSHF expenses. Credit card receipts were maintained by the Executive Director at the Hall of Fame Museum Office. A portion of these receipts, as well as PC's and office furniture, were lost when the museum office received flood damage, and could not be provided to the auditors. In cases where purchases were not receipted, there was communication between the Executive Director and the accountant; however, these were not documented.

The credit card is utilized to expedite the purchasing process and a policy is in place to direct its use. Our primary focus was on getting the credit card paid in a timely manner to avoid financing charges. The payment process to date required a minimum of 1 week to complete the routing from the Hall of Fame to the accountant and to the Treasurer, and finally to mailing.

Since this issue was brought to our attention, all receipts have been forwarded to the accountant, and all documentation has been maintained.

Management will review the policy covering the use of the credit card and will revise as necessary in regard to use by authorized individuals.

All purchases were for justifiable TSHF expenses to meet the needs of the Hall of Fame; the propriety of the expenses was not an issue.

4. Disbursements were not always properly approved

Finding

The Tennessee Sports Hall of Fame's disbursements were not always properly approved. For the year ended December 31, 2003, 2 of 11 non-credit-card disbursements tested in our 2003 sample (18%) either did not have proper approval or did not have evidence of approval. One disbursement was initialed by the accountant, but there was no indication of approval by the Executive Director. There was no support for the other disbursement, and hence, no evidence of approval. Also, while reviewing all non-credit-card disbursements for the year ended December 31, 2003, 55 additional items were noted as either having no approval or having not been properly approved. This includes two reimbursements to the marketing coordinator that she approved herself.

For the year ended December 31, 2004, 5 of 11 non-credit-card disbursements tested in our 2004 sample (45%) did not have evidence of approval. While reviewing all non-credit-card disbursements for the year ended December 31, 2004, 39 additional items were noted as either having no approval or having not been properly approved.

In addition, none of the credit card statements received during the years ended December 31, 2003, and December 31, 2004, had documentation of approval for payment.

Effective internal controls are essential to account for the TSHF's resources and to ensure that payments are appropriate. When controls are not in place, payments may be made for goods and services that do not have a business purpose.

Recommendation

Before payments are made, the invoices or vendor statements and receipts should be reviewed by the Executive Director, and this review should be documented. This provides assurance from the Executive Director that the expense was reasonable and necessary for the operations of the TSHF. In addition, the State Treasurer should ensure that support is properly approved before signing TSHF checks. The Board of Directors should consider adopting a policy requiring the Executive Director to perform the procedures noted above and ensure that the policy is followed.

Management's Comment

Management does concur with the finding that some disbursements did not have documented approval. However, all purchases were for justifiable TSHF expenses. All invoices and statements were reviewed and approved by the Executive Director and forwarded to the accountant for payment. The majority of expenses that did not show approval were invoices and statements with detachable remittance advices. The approval was made on the detachable portion and the accountant mailed that along with the payment to the vendor.



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Independent Auditor's Report

September 12, 2005

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

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the Tennessee Sports Hall of Fame as of December 31, 2004, and December 31, 2003, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Tennessee Sports Hall of Fame'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 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Sports Hall of Fame, as of December 31, 2004, and December 31, 2003, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

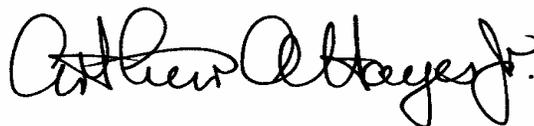
The Honorable John G. Morgan
September 12, 2005
Page Two

As discussed in Note 1 to the financial statements, the Tennessee Sports Hall of Fame implemented GASB Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and GASB Statement 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*.

The management’s discussion and analysis on pages 17 through 20 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2005, on our consideration of the Tennessee Sports Hall of Fame’s internal control over financial reporting and 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* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

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

Arthur A. Hayes, Jr., CPA
Director

AAH/th

Management's Discussion and Analysis

Management of the Tennessee Sports Hall of Fame (TSHF) provides this discussion and analysis as an overview of the TSHF's financial activities for the fiscal years ended December 31, 2004, and December 31, 2003.

FINANCIAL HIGHLIGHTS

- At December 31, 2004, the TSHF had net assets of \$1,693,203, a decrease of \$87,018 (5 percent) from \$1,780,221 at December 31, 2003.
- Net investment income for the year ended December 31, 2004, totaled \$10,455, an increase of \$1,072 versus fiscal year 2003. Market conditions have resulted in a return to the TSHF portfolio of 1.58 percent during fiscal year 2004, which was greater than that of the average 90-day Treasury bill rate of 1.39 percent.
- An operating loss of \$97,473 was recognized for the year ended December 31, 2004. This was an increase of \$27,091 over the prior fiscal year loss of \$70,382.
- Operating expenses for the year ended December 31, 2004, totaled \$323,191 versus \$294,087 for the year ended December 31, 2003. This is an increase of 10% or \$29,104 compared to the Consumer Price Index of 3.3% for the 12 months ended December 31, 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

The TSHF's financial statements consist of the *Statements of Net Assets*, the *Statements of Revenues, Expenses, and Changes in Net Assets*, the *Statements of Cash Flows*, and the *Notes to the Financial Statements*. In addition, this *Management's Discussion and Analysis* is included as *Required Supplementary Information*.

The *Statements of Net Assets* and the *Statements of Revenues, Expenses, and Changes in Net Assets* report information about the TSHF's net assets (total assets in excess of total liabilities) as of the end of the fiscal year and the changes in those net assets during the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, the current year's revenues and expenses are included in the financial activity, regardless of when cash is received or paid. The difference between the total assets and total liabilities on the *Statements of Net Assets* provides a measurement of the financial position of the TSHF as of the end of the fiscal year. The *Statements of Revenues, Expenses, and Changes in Net Assets* provide information on the activities that caused the financial position to change during the fiscal year. Over time, increases or decreases in the net assets of the TSHF are one indicator of whether the TSHF's financial health is improving or deteriorating. The *Statements of Cash Flows* provide an overall indication of the amount and sources of cash received and how it was used during the fiscal years. The *Notes to the Financial Statements* are also important to the reader's understanding of the financial statements and provide additional information regarding the TSHF, such as the general composition of the Board of Directors and information about the accounting principles used in the recording of financial transactions and in the preparation of these financial statements.

ANALYSIS OF ASSETS, LIABILITIES, AND NET ASSETS

At December 31, 2004, the TSHF had net assets (total assets in excess of total liabilities) of \$1,693,203, a decrease of \$87,018 (5 percent) from \$1,780,221 at December 31, 2003. The assets of the TSHF consist primarily of short-term investments and museum exhibits. During fiscal year 2004, the investments in certificates of deposit garnered over \$10,000 in investment income while museum exhibits depreciated over \$98,000. More detailed information about the TSHF's capital assets is presented in Note 3 to the financial statements.

Liabilities consist primarily of accounts payable for general and administrative expenses due at December 31.

Condensed financial information comparing the TSHF's assets, liabilities, and net assets for the past three fiscal years follows.

Net Assets

	December 31, 2004	December 31, 2003	Percent Change FY 04-FY 03	December 31, 2002	Percent Change FY 03-FY 02
Assets					
Current assets					
Cash and cash equivalents	\$ 71,086	\$ 73,264	-3%	\$ 116,468	-37%
Investments	694,691	685,496	1%	601,817	14%
Receivable	2,864	2,130	34%	2,232	-5%
Prepaid assets	-	-	-	680	-100%
Total current assets	<u>768,641</u>	<u>760,890</u>	1%	<u>721,197</u>	6%
Noncurrent assets					
Capital assets	<u>927,804</u>	<u>1,026,237</u>	-10%	<u>1,124,670</u>	-9%
Total assets	<u>1,696,445</u>	<u>1,787,127</u>	-5%	<u>1,845,867</u>	-3%
Liabilities					
Current liabilities					
Accounts payable	2,592	6,906	-62%	4,647	49%
Deferred revenue	<u>650</u>	<u>-</u>	-	<u>-</u>	-
Total liabilities	<u>3,242</u>	<u>6,906</u>	-53%	<u>4,647</u>	49%
Net assets					
Invested in capital assets	927,804	1,026,237	-10%	1,124,670	-9%
Unrestricted	<u>765,399</u>	<u>753,984</u>	2%	<u>716,550</u>	5%
Total net assets	<u>\$ 1,693,203</u>	<u>\$ 1,780,221</u>	-5%	<u>\$ 1,841,220</u>	-3%

ANALYSIS OF REVENUES AND EXPENSES

Revenues consist of contributions, program revenue, fundraising revenue, and investment income. Contributions for fiscal year 2004 decreased by \$11,478 (8 percent) over contributions for fiscal year 2003. Contributions consist of corporate sponsorships and other donations. Contributions and donations can fluctuate on an annual basis depending on market and economic cycles. Program revenues from membership were up slightly from fiscal year 2003 as a result of a membership campaign. Banquet revenues were up by \$16,534 from the prior fiscal year. Fund raising efforts from our annual golf

tournament were down \$1,475, and museum ticket sales were down \$2,818. Investment income for the year ended December 31, 2004, totaled \$10,455, an increase of \$1,072 versus fiscal year 2003. Market conditions have resulted in a return to the TSHF portfolio of 1.58 percent during fiscal year 2004, which was greater than that of the average 90-day Treasury bill rate of 1.39 percent.

Total operating expenses for fiscal year ending December 31, 2004, were \$323,191, an increase of 10 percent over fiscal year 2003. This can be attributed to the increases in maintenance and upgrading of the museum, an increase to the cost per attendee at the banquet, and to the increase in expenses as a result of the membership campaign. The chief expense items in total operating expenses include the depreciation expense relating to museum exhibits of \$98,433 and salary expense of \$98,250.

Condensed financial information comparing the TSHF's revenues and expenses for the past three fiscal years follows.

Changes in Net Assets

	Year Ended December 31, 2004	Year Ended December 31, 2003	Percent Change FY 04-FY 03	Year Ended December 31, 2002	Percent Change FY 03-FY 02
Operating revenues					
Membership dues	\$ 6,200	\$ 4,950	25%	\$ 5,725	-14%
Banquet revenues	49,525	32,991	50%	45,960	-28%
Golf tournament	35,970	37,445	-4%	16,980	121%
Contributions	126,500	137,978	-8%	211,550	-35%
Museum ticket sales	<u>7,523</u>	<u>10,341</u>	-27%	<u>6,224</u>	66%
Total operating revenues	<u>225,718</u>	<u>223,705</u>	1%	<u>286,439</u>	-22%
Operating expenses					
Membership	3,426	1,974	74%	1,826	8%
Banquet	67,766	45,862	48%	45,220	1%
General and administrative	116,186	112,773	3%	99,699	13%
Golf tournament	20,496	19,479	5%	16,263	20%
Hall of fame museum	<u>115,317</u>	<u>113,999</u>	1%	<u>112,836</u>	1%
Total operating expenses	<u>323,191</u>	<u>294,087</u>	10%	<u>275,844</u>	7%
Operating income (loss)	<u>(97,473)</u>	<u>(70,382)</u>	-38%	<u>10,595</u>	-764%
Nonoperating revenues					
Interest income	<u>10,455</u>	<u>9,383</u>	11%	<u>9,899</u>	-5%
Increase (decrease) in net assets	<u>(87,018)</u>	<u>(60,999)</u>	-43%	<u>20,494</u>	-398%
Total net assets, January 1	<u>1,780,221</u>	<u>1,841,220</u>	-3%	<u>1,820,726</u>	1%
Total net assets, December 31	<u>\$ 1,693,203</u>	<u>\$ 1,780,221</u>	-5%	<u>\$ 1,841,220</u>	-3%

ECONOMIC FACTORS, FUNDING, AND OVERALL OUTLOOK

The continued rise in the interest rate has benefited the TSHF's investment portfolio, which is comprised 100% of certificates of deposit. In the past year, interest rates for certificates of deposit have risen from 1.5% to 2.75% and are expected to steadily increase over the next six months. This should mean increased investment revenue for the nearly \$700,000 portfolio. The TSHF has no immediate plans to begin drawing funds from this portfolio, and projections for investment income are expected to meet and exceed the budgeted \$10,000 in investment earnings.

The down cycle in the market during 2003 resulted in a general reduction of contribution income, as planned corporate sponsorship payments were delayed or not made in the scheduled year. Other program and fundraising efforts suffered downturns as well. For 2004, the banquet and museum ticket sales were down as fewer large blocks of tickets were sold for the banquet, and school systems had fewer dollars to spend on school trips. There were also fewer entries from corporations in the annual golf fundraiser.

The past five years have been buoyed by the corporate sponsorship commitments made to contribute thousands of dollars to the TSHF over that period of time. Now, as those commitments are ending, management has begun a new campaign to attract these commitments again. The prospects for continued funding from corporate partners are good, and management has kept expenses to a very moderate growth rate. In addition, if the corporate sponsorships do not materialize in the near term, the TSHF has sufficient reserves to maintain the current expense rates for the next several years.

CONTACTING THE TSHF

This report is designed to provide a financial overview of the TSHF to state legislators, members of the Board of Directors of the TSHF, state officials, and any other interested parties. Questions or requests for additional information regarding the financial information presented in this report may be addressed in writing to the Tennessee Sports Hall of Fame, State Treasurer's Office, 500 Charlotte Avenue, Nashville, TN 37243.

TENNESSEE SPORTS HALL OF FAME
STATEMENTS OF NET ASSETS
DECEMBER 31, 2004, AND DECEMBER 31, 2003

	2004	2003
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 71,086	\$ 73,264
Investments	694,691	685,496
Interest receivable	2,864	2,130
Total current assets	768,641	760,890
Noncurrent assets		
Capital assets		
Museum exhibits	1,419,969	1,419,969
Less accumulated depreciation	(492,165)	(393,732)
Total noncurrent assets	927,804	1,026,237
Total assets	1,696,445	1,787,127
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	2,592	6,906
Deferred revenue	650	-
Total liabilities	3,242	6,906
<u>NET ASSETS</u>		
Invested in capital assets	927,804	1,026,237
Unrestricted	765,399	753,984
Total net assets	\$ 1,693,203	\$ 1,780,221

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

TENNESSEE SPORTS HALL OF FAME
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED DECEMBER 31, 2004, AND DECEMBER 31, 2003

	2004	2003
<u>OPERATING REVENUES</u>		
Membership dues	\$ 6,200	\$ 4,950
Banquet revenue	49,525	32,991
Golf tournament	35,970	37,445
Contributions	126,500	137,978
Museum ticket sales	7,523	10,341
Total operating revenues	<u>225,718</u>	<u>223,705</u>
<u>OPERATING EXPENSES</u>		
Membership	3,426	1,974
Banquet	67,766	45,862
General and administrative	116,186	112,773
Golf tournament	20,496	19,479
Hall of fame museum	115,317	113,999
Total operating expenses	<u>323,191</u>	<u>294,087</u>
Operating loss	<u>(97,473)</u>	<u>(70,382)</u>
<u>NONOPERATING REVENUES</u>		
Interest income	<u>10,455</u>	<u>9,383</u>
Decrease in net assets	(87,018)	(60,999)
Total net assets, January 1	<u>1,780,221</u>	<u>1,841,220</u>
Total net assets, December 31	<u>\$ 1,693,203</u>	<u>\$ 1,780,221</u>

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

TENNESSEE SPORTS HALL OF FAME
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, AND DECEMBER 31, 2003

	2004	2003
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from customers	\$ 203,218	\$ 223,217
Payments to suppliers	(105,792)	(93,018)
Payments to employees	(100,130)	(99,209)
Net cash provided (used) by operating activities	(2,704)	30,990
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received	9,721	9,485
Investment purchases	(1,384,949)	(1,291,877)
Proceeds from maturities of investments	1,375,754	1,208,198
Net cash provided (used) by investing activities	526	(74,194)
Net decrease in cash and cash equivalents	(2,178)	(43,204)
Cash and cash equivalents, January 1	73,264	116,468
Cash and cash equivalents, December 31	\$ 71,086	\$ 73,264
<u>RECONCILIATION OF OPERATING LOSS TO NET</u>		
<u>CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>		
Operating loss	\$ (97,473)	\$ (70,382)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation expense	98,433	98,433
Decrease in prepaid assets	-	680
Increase (decrease) in accounts payable	(4,314)	2,259
Increase in deferred revenue	650	-
Net cash provided (used) by operating activities	\$ (2,704)	\$ 30,990

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

**Tennessee Sports Hall of Fame
Notes to the Financial Statements
December 31, 2004, and December 31, 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Tennessee Sports Hall of Fame is a nonprofit corporation founded in the 1960s to honor the outstanding achievements of Tennesseans in the realm of sports. With Title 4, Chapter 3, of *Tennessee Code Annotated*, the General Assembly passed the Tennessee Sports Hall of Fame Act of 1994 (Act) to officially create a Tennessee Sports Hall of Fame to honor, preserve, and perpetuate the names and accomplishments of outstanding Tennessee athletes, athletic teams, and other sports personalities; to establish, erect, and maintain a permanent archive for the collection and display of memorabilia related to the lives and careers of individuals, teams, and sports events chosen for induction by the hall of fame; and to promote the spirit of sportsmanship and genteel competition both inside and outside the arena of athletic competition.

Under the act, a new board of directors was founded composed of 25 Tennessee citizens: 8 appointed by the Governor, 8 by the Lieutenant Governor, and 8 by the Speaker of the House. The State Treasurer or his designee serves as an *ex officio* member of the board.

The Tennessee Sports Hall of Fame has been classified as a related organization of the State of Tennessee and is discussed in a note to the financial statements in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Tennessee Sports Hall of Fame generally follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Tennessee Sports Hall of Fame has the option of following subsequent private-sector guidance subject to the same limitation, but has elected not to follow subsequent private-sector guidance.

Measurement Focus and Basis of Accounting

The accompanying financial statements of the Tennessee Sports Hall of Fame have been prepared using the flow of economic resources measurement focus and the

Tennessee Sports Hall of Fame
Notes to the Financial Statements (Cont.)
December 31, 2004, and December 31, 2003

accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

The Tennessee Sports Hall of Fame distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. The principal operating revenues are contributions and revenue from fund-raising events. Operating expenses include general and administrative, hall of fame museum, and fund-raising expenses. Any revenues and expenses not meeting this definition would be reported as nonoperating revenues and expenses.

New Accounting Pronouncements

Effective January 1, 2003, the Tennessee Sports Hall of Fame adopted GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* and GASB Statement 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*. To conform to the requirements of these statements, the following changes have been made to the Tennessee Sports Hall of Fame’s financial statements:

- a. Management’s Discussion and Analysis has been added as required supplementary information.
- b. The statement of financial position is now classified into a statement of net assets format rather than a balance sheet format.
- c. Equity, including contributed capital and retained earnings, has been classified into the following categories of net assets—invested in capital assets and unrestricted.
- d. The statement of cash flows is now presented using the direct method of reporting cash flows.

NOTE 2. DEPOSITS AND INVESTMENTS

Cash and cash equivalents include demand deposits, savings deposits in banks, and certificates of deposit with maturities of 90 days or less. Investments include certificates of deposit with maturities of more than 90 days and are reported at cost. The bank balances of deposits and investments, including accrued interest, are in financial institutions which participate in the bank collateral pool administered by the

**Tennessee Sports Hall of Fame
Notes to the Financial Statements (Cont.)
December 31, 2004, and December 31, 2003**

Treasurer of the State of Tennessee. The securities pledged to protect these deposits and investments are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

NOTE 3. CAPITAL ASSETS

Museum exhibits are reported net of accumulated depreciation and include any improvements costing in excess of \$5,000. Costs of maintenance and repairs are charged to expense. Depreciation is calculated by the straight-line method to allocate the cost of the assets over their estimated useful lives. The general range of useful lives is 5 to 10 years for interactive, audio-visual, and multi-media assets and 20 to 30 years for all other exhibit assets.

Capital asset activity for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Museum exhibits	\$ 1,419,969	\$ -	\$ -	\$ 1,419,969
Less accumulated depreciation	<u>(393,732)</u>	<u>(98,433)</u>	<u>-</u>	<u>(492,165)</u>
Total capital assets, net of depreciation	<u>\$ 1,026,237</u>	<u>\$ (98,433)</u>	<u>\$ -</u>	<u>\$ 927,804</u>

Capital asset activity for the year ended December 31, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Museum exhibits	\$ 1,419,969	\$ -	\$ -	\$ 1,419,969
Less accumulated depreciation	<u>(295,299)</u>	<u>(98,433)</u>	<u>-</u>	<u>(393,732)</u>
Total capital assets, net of depreciation	<u>\$ 1,124,670</u>	<u>\$ (98,433)</u>	<u>\$ -</u>	<u>\$ 1,026,237</u>

Tennessee Sports Hall of Fame
Notes to the Financial Statements (Cont.)
December 31, 2004, and December 31, 2003

NOTE 4. RISK MANAGEMENT

The Tennessee Sports Hall of Fame is exposed to various risks of loss related to general liability; flood, fire, and other disasters, including terrorist acts, with respect to its office and museum space; and errors and omissions. The Tennessee Sports Hall of Fame has purchased commercial insurance for these risks. There have been no claims filed with the commercial insurer in the past three years.