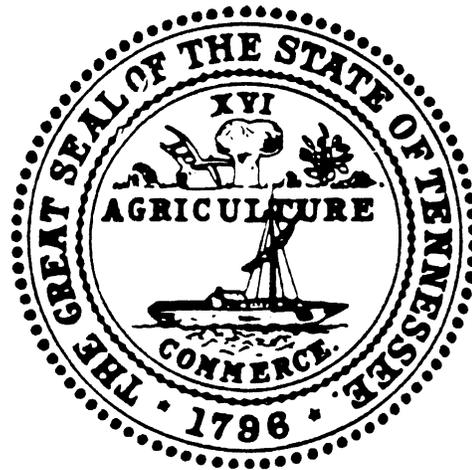


AUDIT REPORT

Tennessee Residence Foundation

For the Year Ended
December 31, 2006



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

May 30, 2007

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee Residence Foundation
Nashville, TN 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Residence Foundation for the year ended December 31, 2006. 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,

A handwritten signature in black ink that reads "John G. Morgan".

John G. Morgan
Comptroller of the Treasury

JGM/ddb
07/078

State of Tennessee

A u d i t H i g h l i g h t s

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Residence Foundation
For the Year Ended December 31, 2006

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Tennessee Residence Foundation
For the Year Ended December 31, 2006

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Tennessee Residence Foundation For the Year Ended December 31, 2006

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Residence Foundation. This audit was performed at the request of the chairperson of the board of directors for the foundation.

BACKGROUND

The Tennessee Residence Foundation, as created by Tennessee Public Acts of 1999, Chapter 212, is a not-for-profit organization that was incorporated on December 5, 2000. The purpose of the foundation is to purchase, receive through loan, or otherwise acquire or dispose of furnishings, fixtures, works of art, and other articles which are of Tennessee origin or of particular historic or artistic interest to the citizens of Tennessee, or which are otherwise needed to furnish and to permanently enhance the interior decor of the public reception and formal entertainment areas within the Tennessee executive residence. Tennessee Public Acts of 2004, Chapter 548, changed the name of the foundation from the Tennessee Executive Residence Preservation Foundation to the Tennessee Residence Foundation. Tennessee Public Acts of 2005, Chapter 267, expanded the powers of the foundation, to include raising and spending funds for the renovation, restoration, reconstruction, expansion, and upkeep of the executive residence.

ORGANIZATION

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.

AUDIT SCOPE

The audit was limited to the period January 1, 2006, through December 31, 2006, and was conducted in accordance with auditing standards generally accepted in the United States of America. Financial statements are presented for the year ended December 31, 2006, and for comparative purposes, the year ended December 31, 2005.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the Tennessee Residence Foundation'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, and contracts;
 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's 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's 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 the board or its agents 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 controls after the auditors have left the field.

The risk assessments and the actions of the 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 the board or its agents, and to maintain a record of areas that are particularly problematic.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, 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, 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 also obtained formal assurances from 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. Management further assured us that all agents of the board 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. Management assured us there were no known instances or allegations of fraud that were not disclosed to us.

AUDIT COMMITTEE

On May 19, 2005, the Tennessee General Assembly 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. Entities, pursuant to the act, are required to appoint the audit committee and develop an audit committee charter in accordance with the legislation. The ongoing responsibilities of an audit committee include, but are not limited to:

1. overseeing the financial reporting and related disclosures, especially when financial statements are issued;
2. evaluating management’s assessment of risk and the agency’s system of internal control;
3. formally reiterating, on a regular basis, to the board and agency management their responsibility for preventing, detecting, and reporting fraud, waste, and abuse;
4. serving as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information it may receive pertinent to audit or investigative matters;
5. informing the Comptroller of the Treasury of the results of assessments and controls to reduce the risk of fraud; and
6. promptly notifying the Comptroller of the Treasury of any indications of fraud.

The board of the foundation appointed a three-member audit committee in February 2006. The audit committee charter was approved by the Comptroller of the Treasury on April 5, 2007. The audit committee met its requirements as outlined in the charter except for developing a risk assessment process.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Tennessee Residence Foundation.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

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Independent Auditor's Report

April 27, 2007

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

Dear Mr. Morgan:

We have audited the accompanying statements of financial position of the Tennessee Residence Foundation as of December 31, 2006, and December 31, 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Tennessee Residence Foundation's board of directors. 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 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 audits provide 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 Residence Foundation, as of December 31, 2006, and December 31, 2005, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb

Tennessee Residence Foundation
Statements of Financial Position
December 31, 2006, and December 31, 2005

	<u>2006</u>	<u>2005</u>
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 4,576,759.67	\$ 2,701,911.78
Investments (Note 3)	505,178.08	1,041,629.33
Contributions receivable (Note 4)	691,499.69	1,091,334.68
Refund receivable	-	47.58
	<u>5,773,437.44</u>	<u>4,834,923.37</u>
Noncurrent assets		
Cash and cash equivalents (Note 2)	2,433.00	6,233.00
Contributions receivable, net (Note 4)	723,298.49	1,222,461.87
	<u>725,731.49</u>	<u>1,228,694.87</u>
Total noncurrent assets	<u>725,731.49</u>	<u>1,228,694.87</u>
Total assets	<u>\$ 6,499,168.93</u>	<u>\$ 6,063,618.24</u>
Liabilities and net assets		
Liabilities		
Accounts payable	\$ <u>773.15</u>	\$ <u>673.00</u>
Net Assets		
Temporarily restricted	1,417,231.18	2,319,674.55
Unrestricted	5,081,164.60	3,743,270.69
	<u>6,498,395.78</u>	<u>6,062,945.24</u>
Total net assets	<u>6,498,395.78</u>	<u>6,062,945.24</u>
Total liabilities and net assets	<u>\$ 6,499,168.93</u>	<u>\$ 6,063,618.24</u>

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

Tennessee Residence Foundation
Statement of Activities
For the Year Ended December 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and gains			
Contributions	\$ 271,943.82	\$ 31,322.97	\$ 303,266.79
Proceeds from sale of souvenirs	7,964.40	-	7,964.40
Investment income	184,976.02	-	184,976.02
Net assets released from restrictions	<u>928,251.34</u>	<u>(928,251.34)</u>	<u>-</u>
Total revenues and gains	<u>1,393,135.58</u>	<u>(896,928.37)</u>	<u>496,207.21</u>
Expenses and losses			
Fundraising	7,035.69	3,800.00	10,835.69
Management and general	36,812.15	-	36,812.15
Program services	13,038.76	-	13,038.76
Realized losses on cash equivalents	<u>70.07</u>	<u>-</u>	<u>70.07</u>
Total expenses and losses	<u>56,956.67</u>	<u>3,800.00</u>	<u>60,756.67</u>
Change in net assets	1,336,178.91	(900,728.37)	435,450.54
Net assets - beginning of the year	<u>3,743,270.69</u>	<u>2,319,674.55</u>	<u>6,062,945.24</u>
Net assets - end of the year	<u>\$ 5,079,449.60</u>	<u>\$ 1,418,946.18</u>	<u>\$ 6,498,395.78</u>

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

**Tennessee Residence Foundation
Statement of Activities
For the Year Ended December 31, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and gains			
Contributions	\$ 353,249.21	\$ 420,896.21	\$ 774,145.42
Proceeds from sale of souvenirs	7,270.10	-	7,270.10
Investment income	59,059.00	-	59,059.00
Net assets released from restrictions	<u>1,124,253.98</u>	<u>(1,124,253.98)</u>	<u>-</u>
Total revenues and gains	<u>1,543,832.29</u>	<u>(703,357.77)</u>	<u>840,474.52</u>
Expenses and losses			
Fundraising	42,671.24	-	42,671.24
Management and general	35,202.50	-	35,202.50
Restoration	5,357.20	-	5,357.20
Realized losses on cash equivalents	<u>103.31</u>	<u>-</u>	<u>103.31</u>
Total expenses and losses	<u>83,334.25</u>	<u>-</u>	<u>83,334.25</u>
Change in net assets	1,460,498.04	(703,357.77)	757,140.27
Net assets - beginning of the year	<u>2,282,772.65</u>	<u>3,023,032.32</u>	<u>5,305,804.97</u>
Net assets - end of the year	<u>\$ 3,743,270.69</u>	<u>\$ 2,319,674.55</u>	<u>\$ 6,062,945.24</u>

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, 2006, and December 31, 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Contributions	\$ 1,202,265.16	\$ 1,456,944.81
Receipts from customers	8,011.98	7,270.10
Payments to contractors	(13,038.76)	(5,357.20)
Payments to suppliers	(47,547.69)	(51,437.36)
Miscellaneous receipts	-	625.42
Interest and dividends received	184,976.02	59,059.00
Loss on cash equivalent	(70.07)	(103.31)
	<u>1,334,596.64</u>	<u>1,467,001.46</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Maturity of securities	1,041,629.33	-
Purchase of certificate of deposit	(505,178.08)	(1,041,629.33)
	<u>536,451.25</u>	<u>(1,041,629.33)</u>
Net cash provided by (used for) investing activities		
Net increase in cash	1,871,047.89	425,372.13
Cash and cash equivalents at beginning of the year	<u>2,708,144.78</u>	<u>2,282,772.65</u>
Cash and cash equivalents at the end of the year	<u>\$ 4,579,192.67</u>	<u>\$ 2,708,144.78</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 435,450.54	\$ 757,140.27
Decrease in receivables	898,998.37	709,188.19
Decrease in refund receivable	47.58	-
Increase in accounts payable	100.15	673.00
	<u>1,334,596.64</u>	<u>1,467,001.46</u>
Net cash provided by operating activities		
Noncash investing, capital and financing activities		
Contributed services	\$ -	\$ 26,436.38

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

Tennessee Residence Foundation
Notes to the Financial Statements
December 31, 2006, and December 31, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Tennessee Residence 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 or of particular historic or artistic interest to the citizens of Tennessee, or which are otherwise needed to furnish and to 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.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The foundation follows all applicable pronouncements of the Financial Accounting Standards Board.

Measurement Focus and Basis of Accounting

The accompanying financial statements of the Tennessee Residence Foundation have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

Tennessee Residence Foundation
Notes to the Financial Statements (Cont.)
December 31, 2006, and December 31, 2005

NOTE 2. CASH AND CASH EQUIVALENTS

In addition to demand deposits, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less.

NOTE 3. INVESTMENTS

Investments, which consist of a certificate of deposit, are stated at cost.

NOTE 4. 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. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional Promises to Give

Unconditional promises to give are recognized as a receivable. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount of those amounts is computed using the interest percentage available for current investments. Conditional promises to give are not included as support until the conditions are substantially met. As of December 31, 2006, and December 31, 2005, all receivables are for unconditional promises to give.

The contributions receivable as of December 31, 2006, and December 31, 2005, are given below:

Tennessee Residence Foundation
Notes to the Financial Statements (Cont.)
December 31, 2006, and December 31, 2005

	<u>2006</u>	<u>2005</u>
Contributions due in:		
Less than one year	\$ 691,499.69	\$ 1,091,334.68
One year to five years	838,500.00	1,417,166.35
Contributions receivable before unamortized discount	1,529,999.69	2,508,501.03
Less: Unamortized discount	(115,201.52)	(194,704.48)
Contributions receivable, net	<u>\$ 1,414,798.18</u>	<u>\$ 2,313,796.55</u>

Contributed Services

Contributed services represent the value of noncash contributions provided by an external organization. These contributions consisted of services provided for fundraising events. As it would have been necessary for the foundation to provide these services had they not been donated by various organizations, the receipt of these contributions resulted in current financial resources and was recognized in the financial statements. The Tennessee Residence Foundation received contributed services of \$26,436.38 for the year ended December 31, 2005.