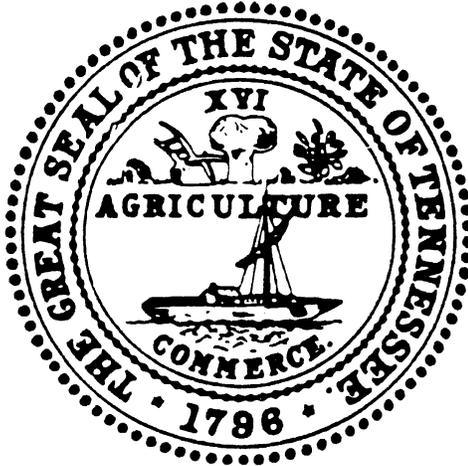


AUDIT REPORT

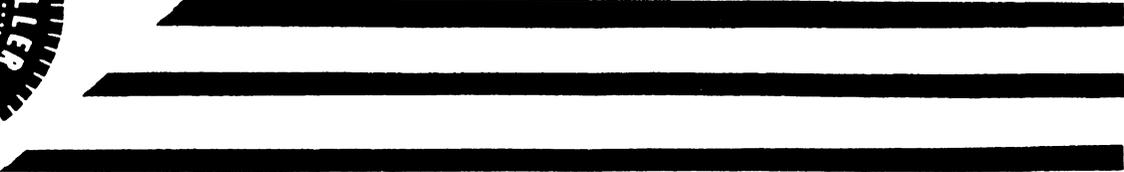
Tennessee Sports Hall of Fame

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**

October 25, 2007

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 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.

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

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
07/102

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Sports Hall of Fame
For the Year Ended December 31, 2006

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.

AUDIT COMMITTEE HAS NOT MET

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 controls;
3. formally reiterating, on a regular basis, to the board, agency management, and staff 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 assessment 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 Directors created an audit committee on February 24, 2006; however, the audit committee had not met as of August 16, 2007. The Board of Directors has developed and approved an audit committee charter. The Comptroller of the Treasury approved the charter on June 12, 2007. Management completed a risk assessment on June 6, 2007. The risk assessment was distributed to the audit committee members; however, the audit committee has not evaluated the entity's risk assessment and corresponding system of internal controls related to those risks.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Tennessee Sports Hall of Fame
For the Year Ended December 31, 2006

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Tennessee Sports Hall of Fame For the Year Ended December 31, 2006

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, 2006, through December 31, 2006, 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 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 Sports Hall of Fame's internal control over financial reporting as a basis for designing 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 FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Tennessee Sports Hall of Fame filed its report with the Department of Audit on May 30, 2007. A follow-up of the prior audit finding was conducted as part of the current audit.

The prior audit report contained a finding concerning the board not having a functioning audit committee and management not conducting a risk assessment. The board of directors developed and approved an audit committee charter, and it has been approved by the Comptroller of the Treasury. Also, management has conducted a risk assessment. However, as discussed in the Observations and Comments section of this report, the audit committee has not met and has not evaluated management's risk assessment.

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. The assessment and the controls should be reviewed and approved by the head of the entity.

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 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 HAS NOT MET

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 controls;
3. formally reiterating, on a regular basis, to the board, agency management, and staff 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 assessment 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 Directors created an audit committee on February 24, 2006; however, the audit committee had not met as of August 16, 2007. The Board of Directors has developed and approved an audit committee charter. The Comptroller of the Treasury approved the charter on June 12, 2007. Management completed a risk assessment on June 6, 2007. The risk assessment was distributed to the audit committee members; however, the audit committee has not evaluated the entity’s risk assessment and corresponding system of internal controls related to those risks.

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 year ended December 31, 2006, we considered internal control over financial reporting as a basis for designing 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. 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
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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PHONE (615) 401-7897
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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***

October 1, 2007

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 year ended December 31, 2006, and have issued our report thereon dated October 1, 2007. As discussed in Note 1 to the financial statements, the Tennessee Sports Hall of Fame changed its policy on recognizing donated services. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tennessee Sports Hall of Fame's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tennessee Sports Hall of Fame's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally

The Honorable John G. Morgan
October 1, 2007
Page Two

accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted certain 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

As part of obtaining reasonable assurance about whether the Tennessee Sports Hall of Fame's financial statements are free of material misstatement, we determined that there were no compliance requirements related to provisions of laws, regulations, contracts, and grant agreements, 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.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, management, and others within the entity 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, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

Arthur A. Hayes, Jr., CPA
Director

AAH/cj



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

October 1, 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 net assets of the Tennessee Sports Hall of Fame as of December 31, 2006, and December 31, 2005, 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 audits.

We conducted our audits 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 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 Sports Hall of Fame, as of December 31, 2006, and December 31, 2005, 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.

As discussed in Note 1 to the financial statements, the Tennessee Sports Hall of Fame changed its policy on recognizing donated services.

The Honorable John G. Morgan

October 1, 2007

Page Two

The management's discussion and analysis on pages 10 through 14 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 October 1, 2007, on our consideration of the Tennessee Sports Hall of Fame's internal control over financial reporting and 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." The signature is written in a cursive style with a large, prominent initial "A".

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Tennessee Sports Hall of Fame, Inc. (TSHF) provides this discussion and analysis as an overview of the TSHF's financial activities for the fiscal years ended December 31, 2006, and December 31, 2005. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- At December 31, 2006, the TSHF had current assets of \$792,279, a decrease of \$6,884, or 0.86%, from \$799,163 at December 31, 2005.
- Net investment income for the year ended December 31, 2006, totaled \$28,434, an increase of \$9,087, or 47.0%, from \$19,347 at December 31, 2005. The continued improvement in market conditions has resulted in a weighted average return to the TSHF portfolio of 3.94% during fiscal year 2006. The 3-month Treasury bill rate for 2006 was 4.73%.
- An operating loss of \$104,888 was recognized for the year ended December 31, 2006. This was an increase of \$36,103, or 52.5%, from a \$68,785 loss for the year ended December 31, 2005.
- Operating expenses for the year ended December 31, 2006, totaled \$266,214, a decrease of \$5,983, or 2.2%, from \$272,197 for the year ended December 31, 2005. The Consumer Price Index was 2.5% for the 12 months ended December 31, 2006.

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, 2006, the TSHF had net assets (total assets in excess of total liabilities) of \$1,569,262, a decrease of \$74,503, or 4.5%, from \$1,643,765 at December 31, 2005. Net assets at December 31, 2005, represented a decrease of \$49,438, or 2.9%, from \$1,693,203 at December 31, 2004. The assets of the TSHF consist primarily of short-term investments and museum exhibits. During fiscal year 2006, the investments in certificates of deposit garnered over \$28,000 in investment income while museum exhibits depreciated over \$71,000. During fiscal year 2005, the investments in certificates of deposit garnered over \$19,000 in investment income while museum exhibits depreciated over \$71,000. More detailed information about the TSHF's capital assets is presented in Note 3 to the financial statements.

Liabilities at December 31, 2006, consist primarily of accounts payable for general and administrative expenses. Liabilities at December 31, 2005, consist primarily of deferred revenue.

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

Net Assets

	December 31, 2006	December 31, 2005	Percent Change FY 06-FY 05	December 31, 2004	Percent Change FY 05-FY 04
Assets					
Current assets					
Cash and cash equivalents	\$ 60,754	\$ 42,536	43%	\$ 71,086	-40%
Investments	724,154	750,897	-4%	694,691	8%
Receivable	<u>7,371</u>	<u>5,730</u>	29%	<u>2,864</u>	100%
Total current assets	<u>792,279</u>	<u>799,163</u>	-1%	<u>768,641</u>	4%
Noncurrent assets					
Capital assets	<u>783,909</u>	<u>855,857</u>	-8%	<u>927,804</u>	-8%
Total assets	<u>1,576,188</u>	<u>1,655,020</u>	-5%	<u>1,696,445</u>	-2%
Liabilities					
Current liabilities					
Accounts payable	4,251	3,805	12%	2,592	47%
Deferred revenue	<u>2,675</u>	<u>7,450</u>	-64%	<u>650</u>	1046%
Total liabilities	<u>6,926</u>	<u>11,255</u>	-38%	<u>3,242</u>	247%
Net assets					
Invested in capital assets	783,909	855,857	-8%	927,804	-8%
Unrestricted	<u>785,353</u>	<u>787,908</u>	0%	<u>765,399</u>	3%
Total net assets	<u>\$ 1,569,262</u>	<u>\$ 1,643,765</u>	-5%	<u>\$ 1,693,203</u>	-3%

ANALYSIS OF REVENUES AND EXPENSES

Revenues consist of contributions, program revenue, fundraising revenue, and investment income. Contributions for fiscal year 2006 decreased by \$46,145, or 39.1%, from contributions for fiscal year 2005. This is due to the loss of corporate partnerships with FedEx and Eastman Chemical Co. Contributions for fiscal year 2005 decreased by \$8,535, or 6.8%, from contributions for fiscal year 2004, due chiefly to the loss of a corporate partnership with American General, Inc., who chose not to renew their sponsorship following a five-year commitment. Contributions consist of corporate sponsorships and other donations. Contributions can fluctuate on an annual basis depending on market and economic cycles. Program revenues from membership were down slightly from fiscal year 2005, and fiscal year 2005 membership revenues were up slightly from fiscal year 2004. Museum ticket sales and banquet ticket sales were up slightly from the prior fiscal year. Banquet and museum ticket sales for fiscal year 2005 were up by \$16,444, or 46.5%, from fiscal year 2004. Fund raising efforts from our annual golf tournament were down \$2,260, or 8.5%; however, the golf tournament did secure a partnership with a corporate partner for the next three years. Revenue from this sponsorship is recorded as contributions revenue and not as golf tournament revenue. Golf tournament revenues for fiscal year 2005 were up \$7,210, or 37%, from fiscal year 2004. Investment income for the year ended December 31, 2006, totaled \$28,434, an increase of \$9,087 versus fiscal year 2005. Investment income for the year ended December 31, 2005, totaled \$19,347, an increase of \$8,892 versus fiscal year 2004.

Total operating expenses for the fiscal year ending December 31, 2006, were \$266,214, a decrease of \$5,983, or 2.2%, over fiscal year 2005. The decrease in expenses is a result of reductions in the expenses for the banquet, museum, and the general and administrative areas. Total operating expenses for the fiscal year ending December 31, 2005, were \$272,197, a decrease of \$12,844, or 4.5%, over fiscal year 2004. This can be attributed to reductions in expenses for membership and the museum. The chief expense items in total operating expenses for the fiscal years ending December 31, 2006, and December 31, 2005, include the depreciation expense relating to museum exhibits of \$71,947, for each fiscal year, and salary expense of \$95,516 and \$98,250, respectively.

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, 2006	Year Ended December 31, 2005	Percent Change FY 06-FY 05	Year Ended December 31, 2004	Percent Change FY 05-FY 04
Operating revenues					
Membership dues	\$ 6,300	\$ 6,925	-9%	\$ 6,200	12%
Banquet revenues	49,010	43,445	13%	27,875	56%
Golf tournament	24,420	26,680	-8%	19,470	37%
Contributions	71,820	117,965	-39%	126,500	-7%
Museum ticket sales	9,690	8,397	15%	7,523	12%
Other revenue	<u>86</u>	<u>-</u>	-	<u>-</u>	-
Total operating revenues	<u>161,326</u>	<u>203,412</u>	-21%	<u>187,568</u>	8%

Operating expenses					
Membership	2,495	2,303	8%	3,426	-33%
Banquet	49,096	51,831	-5%	46,116	12%
General and administrative	112,778	118,941	-5%	116,186	2%
Golf tournament	13,583	10,128	34%	3,996	153%
Hall of fame museum	<u>88,262</u>	<u>88,994</u>	-1%	<u>115,317</u>	-23%
Total operating expenses	<u>266,214</u>	<u>272,197</u>	-2%	<u>285,041</u>	-5%
Operating loss	<u>(104,888)</u>	<u>(68,785)</u>	-52%	<u>(97,473)</u>	29%
Nonoperating revenues					
Interest income	28,434	19,347	47%	10,455	85%
Grant revenue	<u>1,951</u>	<u>-</u>	-	<u>-</u>	-
Total nonoperating revenues	<u>30,385</u>	<u>19,347</u>	57%	<u>10,455</u>	85%
Decrease in net assets	<u>(74,503)</u>	<u>(49,438)</u>	-51%	<u>(87,018)</u>	43%
Total net assets, January 1	<u>1,643,765</u>	<u>1,693,203</u>	-3%	<u>1,780,221</u>	-5%
Total net assets, December 31	<u>\$ 1,569,262</u>	<u>\$ 1,643,765</u>	-5%	<u>\$ 1,693,203</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 (CDs). In the past year, interest rates for CDs have risen from 3.0% to 4.35%; however, rates are expected to remain steady or trend down slightly over the next 6-12 months. This should provide a steady stream of investment revenue from the \$725,000 portfolio. Projections for investment income are expected to meet and exceed the budgeted \$10,000 in investment earnings.

Management continues to minimize spending for the TSHF on the whole. Expenditures from operations were reduced in 2006, by almost \$6,000 over the prior year. While the inflation rate for 2006 was steady at 2.5%, management continued to find ways to reduce the cost of operations for the TSHF further. In addition, the reserves of the TSHF are adequate to sustain the current expense rates for several years.

The financial conditions for fiscal year 2006 provided steady progress toward recovery for the TSHF. Though the prior-year losses of three corporate partnerships (FedEx, Eastman Chemical Co., and American General, Inc.) were substantial, executive management in conjunction with the board of directors is encouraged by potential new partnerships in the corporate community. Beginning in 2006, Vanderbilt University committed to a three-year sponsorship of the annual golf tournament fundraiser. Renewals of the corporate partnerships, including First Tennessee, Pilot Oil, and AT&T also serve to encourage the continued support of the TSHF by corporations throughout the state.

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, Tennessee 37243.

TENNESSEE SPORTS HALL OF FAME
STATEMENTS OF NET ASSETS
DECEMBER 31, 2006, AND DECEMBER 31, 2005

	2006	2005
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents (Note 2)	\$ 60,754	\$ 42,536
Investments (Note 2)	724,154	750,897
Interest receivable	7,371	5,730
Total current assets	792,279	799,163
Noncurrent assets		
Capital assets (Note 3)		
Museum exhibits	1,419,969	1,419,969
Less accumulated depreciation	(636,060)	(564,112)
Total noncurrent assets	783,909	855,857
Total assets	1,576,188	1,655,020
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	4,251	3,805
Deferred revenue	2,675	7,450
Total liabilities	6,926	11,255
<u>NET ASSETS</u>		
Invested in capital assets	783,909	855,857
Unrestricted	785,353	787,908
Total net assets	\$ 1,569,262	\$ 1,643,765

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, 2006, AND DECEMBER 31, 2005

	2006	2005
<u>OPERATING REVENUES</u>		
Membership dues	\$ 6,300	\$ 6,925
Banquet revenue	49,010	43,445
Golf tournament	24,420	26,680
Contributions	71,820	117,965
Museum ticket sales	9,690	8,397
Other revenue	86	-
Total operating revenues	<u>161,326</u>	<u>203,412</u>
<u>OPERATING EXPENSES</u>		
Membership	2,495	2,303
Banquet	49,096	51,831
General and administrative	112,778	118,941
Golf tournament	13,583	10,128
Hall of fame museum	88,262	88,994
Total operating expenses	<u>266,214</u>	<u>272,197</u>
Operating loss	<u>(104,888)</u>	<u>(68,785)</u>
<u>NONOPERATING REVENUES</u>		
Interest income	28,434	19,347
Grant revenue	1,951	-
Total nonoperating revenues	<u>30,385</u>	<u>19,347</u>
Decrease in net assets	(74,503)	(49,438)
Total net assets, January 1	<u>1,643,765</u>	<u>1,693,203</u>
Total net assets, December 31	<u>\$ 1,569,262</u>	<u>\$ 1,643,765</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, 2006, AND DECEMBER 31, 2005

	2006	2005
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from customers	\$ 156,552	\$ 207,367
Payments to suppliers	(96,506)	(95,934)
Payments to employee and contractor	(97,315)	(100,258)
Net cash provided (used) by operating activities	(37,269)	11,175
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Receipts from state grant	1,951	-
Net cash provided by noncapital financing activities	1,951	-
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received	26,793	16,480
Investment purchases	(1,434,144)	(1,491,947)
Proceeds from maturities of investments	1,460,887	1,435,742
Net cash provided (used) by investing activities	53,536	(39,725)
Net increase (decrease) in cash and cash equivalents	18,218	(28,550)
Cash and cash equivalents, January 1	42,536	71,086
Cash and cash equivalents, December 31	\$ <u>60,754</u>	\$ <u>42,536</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET</u>		
<u>CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>		
Operating loss	\$ (104,888)	\$ (68,785)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation expense	71,948	71,947
Increase in accounts payable	446	1,213
Increase (decrease) in deferred revenue	(4,775)	6,800
Net cash provided (used) by operating activities	\$ <u>(37,269)</u>	\$ <u>11,175</u>

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, 2006, and December 31, 2005**

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, *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*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298.

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 follows all applicable GASB pronouncements, as well as applicable private-sector pronouncements issued on or before November 30, 1989, to the extent that those standards do not conflict with or contradict guidance of the GASB. 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.

Tennessee Sports Hall of Fame
Notes to the Financial Statements (Cont.)
December 31, 2006, and December 31, 2005

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 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.

Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Capital Assets

Capital assets are comprised of museum exhibits which 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.

Change in Accounting Principle

On January 1, 2006, the Tennessee Sports Hall of Fame changed its policy on recognizing donated services. Donated services will no longer be reflected in the Statement of Revenues, Expenses, and Changes in Net Assets. As a result, the financial statements for the year ended December 31, 2005, have been restated to reflect this change in policy. Banquet revenues and banquet expenses have been reduced by \$15,000 in the Statement of Revenues, Expenses, and Changes in Net Assets for the year ended December 31, 2005.

**Tennessee Sports Hall of Fame
Notes to the Financial Statements (Cont.)
December 31, 2006, and December 31, 2005**

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. Investments at December 31, 2006, had maturities ranging from 182 to 183 days and ranges of return from 3.9% to 4.35%. Investments at December 31, 2005, had maturities ranging from 182 to 183 days and ranges of return from 3% to 3.75%.

The bank balances of deposits and investments, including accrued interest, are in financial institutions which participate in the bank collateral pool administered by the 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

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Museum exhibits	\$ 1,419,969	\$ -	\$ -	\$ 1,419,969
Less accumulated depreciation	<u>(564,112)</u>	<u>(71,948)</u>	<u>-</u>	<u>(636,060)</u>
Total capital assets, net of depreciation	<u>\$ 855,857</u>	<u>\$ (71,948)</u>	<u>\$ -</u>	<u>\$ 783,909</u>

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Museum exhibits	\$ 1,419,969	\$ -	\$ -	\$ 1,419,969
Less accumulated depreciation	<u>(492,165)</u>	<u>(71,947)</u>	<u>-</u>	<u>(564,112)</u>
Total capital assets, net of depreciation	<u>\$ 927,804</u>	<u>\$ (71,947)</u>	<u>\$ -</u>	<u>\$ 855,857</u>

Tennessee Sports Hall of Fame
Notes to the Financial Statements (Cont.)
December 31, 2006, and December 31, 2005

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.