AUDIT REPORT

Tennessee Residence Foundation

For the Year Ended
December 31, 2007

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

July 24, 2008

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, 2007. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ddb
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State of Tennessee

Audit Highlights

Comptroller of the Treasury　　　　Division of State Audit

Financial and Compliance Audit
Tennessee Residence Foundation
For the Year Ended December 31, 2007

AUDIT OBJECTIVES

The objectives of the audit were 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, 2007

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Tennessee Residence Foundation
For the Year Ended December 31, 2007

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, 2007, through December 31, 2007, 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, 2007, and for comparative purposes, the year ended December 31, 2006.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to determine the fairness of the presentation of the financial statements and

2. 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 transact ions 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 control 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 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.

RESULTS OF THE AUDIT

AUDIT CONCLUSION

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

July 10, 2008

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 Residence Foundation as of December 31, 2007, and December 31, 2006, and the related statements of revenues, expenses, and changes in net assets and statements of 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.

The Tennessee Residence Foundation has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Honorable John G. Morgan
July 10, 2008
Page Two

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, 2007, and December 31, 2006, 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.

Arthur A. Hayes, Jr., CPA
Director

Exhibit A

Tennessee Residence Foundation
Statements of Net Assets
December 31, 2007, and December 31, 2006

	2007	2006
ASSETS		
Current assets:		
Cash (Note 2)	$ 5,110,366.37	$ 4,576,759.67
Investments (Note 2)	524,816.66	505,178.08
Contributions receivable (Note 4)	261,000.00	691,499.69
Grants receivable (Note 6)	225,098.80	-
Prepaid expenses/refunds	5,176.10	-
Total current assets	6,126,457.93	5,773,437.44
Noncurrent assets:		
Cash (Note 2)	1,922.96	2,433.00
Contributions receivable, net (Note 4)	331,242.24	723,298.49
Capital assets (Note 7)	550.00	-
Total noncurrent assets	333,715.20	725,731.49
Total assets	6,460,173.13	6,499,168.93
LIABILITIES		
Liabilities:		
Accounts payable	465.48	773.15
Total liabilities	465.48	773.15
NET ASSETS		
Invested in capital assets	550.00	-
Restricted	1,922.96	2,473.00
Unrestricted	6,457,234.69	6,495,922.78
Total net assets	$ 6,459,707.65	$ 6,498,395.78

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

Exhibit B

Tennessee Residence Foundation
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended December 31, 2007, and December 31, 2006

	2007	2006
REVENUES		
Operating revenues:		
Contributions (Note 3)	$ 707,611.26	$ 303,266.79
Proceeds from sale of mementos	4,915.03	7,964.40
Total operating revenues	712,526.29	311,231.19
EXPENSES		
Operating expenses:		
Fundraising	57,381.15	10,835.69
Management and general	43,925.97	36,812.15
Phase I - restoration		
Furnishings and fixtures	383,285.54	-
Interior design	58,341.70	-
Painting	72,542.50	-
Other	33,290.99	-
Phase II - conservation hall		
Architectural	498,549.42	13,038.76
Construction	80,076.53	-
Total operating expenses	1,227,393.80	60,686.60
Operating income (loss)	(514,867.51)	250,544.59
NONOPERATING REVENUES (EXPENSES)		
Investment income	251,422.00	184,976.02
State grant revenue	225,098.80	-
Realized loss on sale of donated stocks	(341.42)	(70.07)
Net nonoperating revenue	476,179.38	184,905.95
Increase (decrease) in net assets	(38,688.13)	435,450.54
NET ASSETS		
Net assets - beginning of the year	6,498,395.78	6,062,945.24
Net assets - end of the year	$ 6,459,707.65	$ 6,498,395.78

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

Exhibit C

Tennessee Residence Foundation
Statements of Cash Flows
For the Years Ended December 31, 2007, and December 31, 2006

		2007		2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Contributions	$	1,463,136.90	$	1,202,265.16
Proceeds from sales of mementos		4,915.03		7,964.40
Payments to contractors		(1,097,044.45)		(13,038.76)
Payments to suppliers		(69,352.82)		(47,500.11)
Net cash flows provided by operating activities		301,654.66		1,149,690.69
CASH FLOWS FROM INVESTING ACTIVITIES				
Maturities of investments		1,019,875.65		1,041,629.33
Investment income		251,080.58		184,905.95
Purchase of investments		(1,039,514.23)		(505,178.08)
Net cash flows provided by investing activities		231,442.00		721,357.20
Net increase in cash		533,096.66		1,871,047.89
Cash - beginning of year		4,579,192.67		2,708,144.78
Cash - end of year	$	5,112,289.33	$	4,579,192.67

		2007		2006
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	$	(514,867.51)	$	250,544.59
Changes in assets and liabilites				
Receivables		822,555.94		898,998.37
Prepaid expenses/refunds		(5,176.10)		47.58
Capital assets		(550.00)		-
Accounts payable		(307.67)		100.15
Net cash provided by operating activities	$	301,654.66	$	1,149,690.69
Noncash transactions:				
Contributed services	$	67,030.30	$	-

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Tennessee Residence Foundation, as created by Tennessee Public Act 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.

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

Basis of Presentation

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

Basis of Accounting

For financial statement purposes, the foundation is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

Other activity is nonoperating in nature and includes investment income and grants.

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

Capital Assets

The foundation has one capital asset which is a piece of artwork that is used as the pattern for the china for the mansion. The artwork is not being depreciated.

Reclassification

Certain amounts have been reclassified and reformatted for comparative purposes.

NOTE 2. DEPOSITS AND INVESTMENTS

At December 31, 2007, the foundation had cash of $5,112,289.33 in demand deposits and cash on hand and $524,816.66 in a one-year certificate of deposit reported as an investment on the statement of net assets. The combined bank balance of these deposits was $5,496,696.00. Of this amount, $5,386,481.07 was uninsured and uncollateralized.

At December 31, 2006, the foundation had cash of $4,579,192.67 in demand deposits and cash on hand and $505,178.08 in a one-year certificate of deposit reported as an investment on the statement of net assets. The combined bank balance of these deposits was $4,898,100.12. Of this amount, $4,699,930.27 was uninsured and uncollateralized.

The foundation has no policy limiting its custodial credit risk.

NOTE 3. CONTRIBUTIONS

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

NOTE 4. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are recognized as a receivable. 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, 2007, and December 31, 2006, all receivables are for unconditional promises to give.

The contributions receivable as of December 31, 2007, and December 31, 2006, are given below:

	2007	2006
Contributions due in:		
Less than one year	$ 261,000.00	$ 691,499.69
One year to five years	384,000.00	838,500.00
Contributions receivable before unamortized discount	645,000.00	1,529,999.69
Less: Unamortized discount	(52,757.76)	(115,201.52)
Contributions receivable, net	$ 592,242.24	$ 1,414,798.18

NOTE 5. CONTRIBUTED SERVICES

Contributed services represent the value of noncash contributions provided by an external organization. These contributions consisted of services provided for fundraising events and appliances for the residence. 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 $67,030.30 for the year ended December 31, 2007.

NOTE 6. GRANTS

The Tennessee Residence Foundation received a grant from the State of Tennessee for reimbursement of a percentage of the expenses for the Tennessee Residence Improvements project. At December 31, 2007, the foundation had a receivable of $225,098.80 for expenses incurred.

NOTE 7. CAPITAL ASSETS

The foundation has a painting of the state flower which is used as the pattern for the mansion's china. The asset is not being depreciated.

NOTE 8. CORRECTION OF AN ERROR

The Tennessee Residence Foundation has previously issued financial statements prepared in compliance with standards of the Financial Accounting Standards Board. The foundation's financial statements for the year ended December 31, 2007, have been prepared in compliance with standards of the Governmental Accounting Standards Board. The financial statements for the year ended December 31, 2006, have been reformatted for comparative purposes. The correction did not affect revenues, expenses, or total net assets.