

AUDIT REPORT

Tennessee Residence Foundation

**For the Year Ended
December 31, 2012**



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

**Department of Audit
Division of State Audit**



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STATE OF TENNESSEE
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May 16, 2013

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee Residence Foundation
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Residence Foundation for the year ended December 31, 2012. You will note from the independent auditor's report that an unmodified opinion was given on the fairness of the presentation of the financial statements.

Sincerely,

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

Deborah V. Loveless, CPA
Director

DVL/ard
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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, 2012

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 unmodified.

Audit Report
Tennessee Residence Foundation
For the Year Ended December 31, 2012

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Tennessee Residence Foundation For the Year Ended December 31, 2012

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 through December 31, 2012, 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, 2012, and for comparative purposes, the year ended December 31, 2011.

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 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 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 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

The American Institute of Certified Public Accountants' Professional Standards, AU-C Section 240, *Consideration of Fraud in a Financial Statement Audit*, 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 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. All levels of 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 unmodified opinion on the financial statements of the Tennessee Residence Foundation.



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Independent Auditor's Report

May 6, 2013

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee Residence Foundation
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying financial statements of the Tennessee Residence Foundation, a component unit of the State of Tennessee, as of December 31, 2012, and December 31, 2011, and the related notes to the financial statements, which collectively comprise the Tennessee Residence Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the

May 6, 2013
Page Two

United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Residence Foundation as of December 31, 2012, and December 31, 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

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

Sincerely,



Deborah V. Loveless, CPA
Director

DVL/ard

Tennessee Residence Foundation
Statements of Net Position
December 31, 2012, and December 31, 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets		
Cash (Note 2)	\$ 472,565.14	\$ 651,227.53
Contributions receivable (Note 4)	29,000.00	22,500.00
Total current assets	<u>501,565.14</u>	<u>673,727.53</u>
Noncurrent assets		
Contributions receivable, net (Note 4)	35,666.00	5,000.00
Total noncurrent assets	<u>35,666.00</u>	<u>5,000.00</u>
Total assets	<u>537,231.14</u>	<u>678,727.53</u>
LIABILITIES		
Accounts payable	<u>113,921.47</u>	<u>768.00</u>
Total liabilities	<u>113,921.47</u>	<u>768.00</u>
NET POSITION		
Unrestricted (Note 7)	<u>423,309.67</u>	<u>677,959.53</u>
Total net position	<u>\$ 423,309.67</u>	<u>\$ 677,959.53</u>

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

Tennessee Residence Foundation
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2012, and December 31, 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Operating revenues		
Contributions (Notes 3 and 5)	\$ 491,566.97	\$ 403,943.00
Proceeds from sales of mementos	9,737.08	8,294.58
Total operating revenues	<u>501,304.05</u>	<u>412,237.58</u>
EXPENSES		
Operating expenses		
Fundraising	10,117.56	71,075.58
Management and general	3,881.50	22,572.75
Phase I - restoration		
Furnishings and fixtures	-	9,418.56
Phase II - conservation hall		
Architectural	-	9,319.70
Construction	-	49,751.64
Furnishings and fixtures	-	7,857.00
Landscaping	-	1,718.00
Phase III - Carriage house	-	15,542.42
Phase IV - Garden restoration plan	742,706.49	15,734.48
Total operating expenses	<u>756,705.55</u>	<u>202,990.13</u>
Operating income (loss)	<u>(255,401.50)</u>	<u>209,247.45</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	751.64	1,177.49
Donation of capital asset (Note 6)	-	(550.00)
Net nonoperating revenue	<u>751.64</u>	<u>627.49</u>
Increase (decrease) in net position	<u>(254,649.86)</u>	<u>209,874.94</u>
NET POSITION		
Net position - beginning of year	677,959.53	468,084.59
Net position - end of year	<u>\$ 423,309.67</u>	<u>\$ 677,959.53</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, 2012, and December 31, 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions	\$ 453,880.97	\$ 344,770.00
Proceeds from sales of mementos	9,737.08	8,294.58
Payments to contractors	(628,961.68)	(109,891.80)
Payments to suppliers	(14,070.40)	(48,486.33)
Net cash provided (used) by operating activities	(179,414.03)	194,686.45
 CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	751.64	1,177.49
Net cash provided by investing activities	751.64	1,177.49
 Net increase (decrease) in cash	(178,662.39)	195,863.94
Cash - beginning of year	651,227.53	455,363.59
Cash - end of year	\$ 472,565.14	\$ 651,227.53
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (255,401.50)	\$ 209,247.45
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Changes in assets and liabilities		
Increase in receivables	(37,166.00)	(15,000.00)
Increase in accounts payable	113,153.47	439.00
Net cash provided (used) by operating activities	\$ (179,414.03)	\$ 194,686.45

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

Tennessee Residence Foundation
Notes to the Financial Statements
December 31, 2012, and December 31, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Tennessee Residence Foundation (the “Foundation”), as created by Tennessee Public Acts of 1999, Chapter 212, is a 501(c)(3) not-for-profit organization that was incorporated on December 5, 2000. The original purpose of the Foundation was to purchase, receive through loan, or otherwise acquire or dispose of furnishings, fixtures, works of art, and other articles which are of Tennessee origin 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 applicable to special-purpose governments engaged only in business-type activities as prescribed by the Governmental Accounting Standards Board.

Tennessee Residence Foundation
Notes to the Financial Statements (Cont.)
December 31, 2012, and December 31, 2011

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.

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

Other activity is nonoperating in nature and includes investment income.

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

Capital Assets

The Foundation had one capital asset, a piece of artwork that was used as the pattern for the china for the mansion. During 2011, the Foundation donated this asset to the Tennessee State Museum. The artwork had not been depreciated.

NOTE 2. DEPOSITS

At December 31, 2012, the Foundation had cash of \$472,565.14 in demand deposits and cash on hand. The combined bank balance of the deposits was \$355,337.14. Of this amount, \$1,560.61 was uninsured and uncollateralized.

At December 31, 2011, the Foundation had cash of \$651,227.53 in demand deposits. The combined bank balance of these deposits was \$656,227.53. Of this amount, \$156,227.55 was uninsured and uncollateralized.

The Foundation has no policy limiting its custodial credit risk.

**Tennessee Residence Foundation
Notes to the Financial Statements (Cont.)
December 31, 2012, and December 31, 2011**

NOTE 3. CONTRIBUTIONS

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

NOTE 4. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are recognized as a receivable. Conditional promises to give are not included as support until the conditions are substantially met. As of December 31, 2012, and December 31, 2011, all receivables are for unconditional promises to give.

The contributions receivable as of December 31, 2012, and December 31, 2011, are as follows:

	2012	2011
Contributions due in:		
Less than one year	\$ 29,000.00	\$ 22,500.00
One to five years	35,666.00	4,000.00
More than five years	-	1,000.00
	\$ 64,666.00	\$ 27,500.00
Total		

NOTE 5. NONCASH CONTRIBUTIONS

Noncash contributions represent the value of goods and services provided by an external organization. As it would have been necessary for the Foundation to provide these items had they not been donated, the receipt of these contributions resulted in financial resources and was recognized in the financial statements. The Tennessee Residence Foundation received \$520 and \$44,173 in noncash contributions during the years ended December 31, 2012, and December 31, 2011, respectively.

Tennessee Residence Foundation
Notes to the Financial Statements (Cont.)
December 31, 2012, and December 31, 2011

NOTE 6. CAPITAL ASSETS

The Foundation had a painting of the state flower which was used as the pattern for the residence's china. During 2011, the Foundation donated this painting to the Tennessee State Museum. The asset had not been depreciated.

NOTE 7. UNRESTRICTED NET POSITION

Unrestricted net position at December 31, 2012, includes \$100,000.00 that has been designated for operating reserves. Unrestricted net position at December 31, 2011, includes \$41,028.25 that has been designated for administrative expenses and \$100,000.00 that has been designated for operating reserves.

NOTE 8. COMMITMENTS

The Foundation has commitments for the garden restoration plan of approximately \$52,000 at December 31, 2012, including \$35,098 for retainage.

NOTE 9. ACCOUNTING CHANGE

The Foundation implemented the Governmental Accounting Standards Board's Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the year ended December 31, 2012. Among other requirements, GASB 63 renames the residual of all other elements in a statement of financial position as net position, rather than net assets.