

AUDIT REPORT

Tennessee Sports Hall of Fame

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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October 21, 2013

The Honorable Bill Haslam, 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, 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.

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

Sincerely,

Deborah V. Loveless, CPA
Director

DVL/so
13/066

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 Sports Hall of Fame
For the Year Ended December 31, 2012

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, or grant agreements; 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 Sports Hall of Fame
For the Year Ended December 31, 2012

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Tennessee Sports Hall of Fame For the Year Ended December 31, 2012

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, 2012, through December 31, 2012, 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 generally accepted government auditing standards. 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 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, or grant agreements;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and to the transactions that the auditors are able to test during that period. Management's risk assessment 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 controls 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

The American Institute of Certified Public Accountants' *Professional Standards*, 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 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.

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, 2012, 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 generally accepted government auditing standards.

Fairness of Financial Statement Presentation

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



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**Independent Auditor's 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 9, 2013

The Honorable Bill Haslam, 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:

We have audited the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows of the Tennessee Sports Hall of Fame as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Tennessee Sports Hall of Fame's basic financial statements, and have issued our report thereon dated October 9, 2013. We conducted our audit in accordance with the 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 of the financial statements, we considered the Tennessee Sports Hall of Fame's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

October 9, 2013

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Accordingly, we do not express an opinion on the effectiveness of the Tennessee Sports Hall of Fame's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tennessee Sports Hall of Fame's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, or grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Deborah V. Loveless, CPA

Director

DVL/so



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Independent Auditor's Report

October 9, 2013

The Honorable Bill Haslam, 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:

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Sports Hall of Fame as of and for the years ended December 31, 2012, and December 31, 2011, and the related notes to the financial statements, which collectively comprise the Tennessee Sports Hall of Fame'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 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 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 Sports Hall of Fame 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an

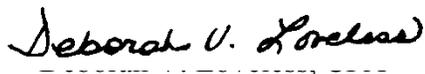
October 9, 2013
Page Three

opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2013, on our consideration of the Tennessee Sports Hall of Fame's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, or 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tennessee Sports Hall of Fame's internal control over financial reporting and compliance.

Sincerely,



Director

DVL/so

Tennessee Sports Hall of Fame 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, 2012, and December 31, 2011. 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, 2012, the TSHF had current assets of \$695,271, a decrease of \$151,650, or 17.9%, from \$846,921 at December 31, 2011.
- Total operating revenue for the year ended December 31, 2012, totaled \$178,575, an increase of \$10,337, or 6.1%, from \$168,238 for the year ended December 31, 2011.
- Net investment income for the year ended December 31, 2012, totaled \$1,043, a decrease of \$1,103, or 51.4%, from \$2,146 for the year ended December 31, 2011. Market conditions have resulted in a simple average return to the TSHF portfolio of .1% during fiscal year 2012. The 6-month Average Treasury Bill Rate for 2012 was .13%.
- An operating loss of \$137,488 was recognized for the year ended December 31, 2012. This was an increase of \$3,033, or 2.3%, from a \$134,455 loss for the year ended December 31, 2011. Excluding depreciation expense, the operating loss was \$84,383 for the year ended December 31, 2012. This was an increase of \$24,877, or 41.8%, from a \$59,506 operating loss for the year ended December 31, 2011.
- Operating expenses for the year ended December 31, 2012, totaled \$316,063, an increase of \$13,370, or 4.4%, from \$302,693 for the year ended December 31, 2011. Excluding depreciation expense, operating expenses for the year ended December 31, 2012, were \$262,959, an increase of \$10,215, or 4.0%, from \$252,744 for the year ended December 31, 2011. The Consumer Price Index (Rate of Inflation) was 2.1% for the 12 months ended December 31, 2012.
- In 2007, the State of Tennessee provided a one-time direct appropriation grant in the amount of \$250,000 to the Tennessee Sports Hall of Fame for the improvement of museum exhibits and equipment and the acquisition of additional artifacts for the museum. The grant must be matched on a dollar-for-dollar basis by private donations. In 2012, \$9,967 was received in donations toward the grant, and \$29,456.67 was spent on improvements and additions to the museum. In 2011, \$2,375 was received in donations toward the grant, and \$73,066.87 was spent on improvements and additions to the museum.

Tennessee Sports Hall of Fame Management's Discussion and Analysis (Cont.)

OVERVIEW OF THE FINANCIAL STATEMENTS

The TSHF's financial statements consist of the *Statements of Net Position*; the *Statements of Revenues, Expenses, and Changes in Net Position*; 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 Position* and the *Statements of Revenues, Expenses, and Changes in Net Position* report information about the TSHF's Net Position (total assets in excess of total liabilities) as of the end of the fiscal year and the changes in net position 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 Position* 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 Position* provide information on the activities that caused the financial position to change during the fiscal year. Over time, increases or decreases in the Net Position 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 essential 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 policies used in the recording of financial transactions and in the preparation of these financial statements.

ANALYSIS OF ASSETS, LIABILITIES, AND NET POSITION

At December 31, 2012, the TSHF had a net position (total assets in excess of total liabilities) of \$1,101,179, a decrease of \$116,478, or 10.0%, from \$1,217,657 at December 31, 2011. The decrease in net position was primarily due to not receiving as many contributions as needed and using unrestricted net position to cover the operating loss. Net position at December 31, 2011, represented a decrease of \$104,934, or 7.9%, from \$1,322,591 at December 31, 2010. The assets of the TSHF consist primarily of short-term investments and museum exhibits. More detailed information about the TSHF's capital assets is presented in Note 3 to the financial statements.

Liabilities at December 31, 2012; December 31, 2011; and December 31, 2010, consisted primarily of unearned revenue. Unearned revenue at December 31, 2012, was \$140,454, a decrease of \$36,867, or 20.8%, from \$177,321 at December 31, 2011. Unearned revenue at December 31, 2011, increased \$10,625, or 6.4%, from \$166,696 at December 31, 2010. Unearned revenue is decreased and grant revenue is recognized when private donations for the grant are received.

Tennessee Sports Hall of Fame Management's Discussion and Analysis (Cont.)

Net position - net investment in capital assets at December 31, 2012, was \$516,062, a decrease of \$30,286, or 5.5%, from \$546,348 at December 31, 2011. The decrease was due to capital asset purchases of \$22,818 and depreciation of \$53,104. Net position - net investment in capital assets at December 31, 2011, was \$546,348, an increase of \$14,230, or 2.7%, from \$532,118 at December 31, 2010. The increase was due to capital asset purchases of \$64,179 and depreciation of \$49,949. Net position - restricted for scholarships, nonexpendable at December 31, 2012, was \$35,000, an increase of \$10,000, or 40.0%, from \$25,000 at December 31, 2011. This increase was due to a \$10,000 donation to the endowment. Net position - restricted for scholarships, nonexpendable was \$25,000 at December 31, 2011, an increase of \$25,000 from a zero balance at December 31, 2010, because of the creation of an endowment for scholarships in 2011. Net position - restricted for scholarships, expendable at December 31, 2012, was \$2,040, an increase from a zero balance at December 31, 2011, because at December 31, 2011, no donations had yet been indicated for the scholarship fund. Net position - restricted for museum improvements, expendable at December 31, 2012, was \$88,763, a decrease of \$9,532, or 9.7%, from \$98,295 at December 31, 2011. Net position - restricted for museum improvements, expendable at December 31, 2011, was \$98,295, a decrease of \$68,317, or 41.0%, from \$166,612 at December 31, 2010, due to an increase in improvements and additions made at the TSHF.

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

Net Position

	December 31, 2012	December 31, 2011	Percent Change FY 12-FY 11	December 31, 2010	Percent Change FY 11-FY 10
Assets					
Current assets	\$ 695,271	\$ 846,921	-18%	\$ 959,764	-12%
Capital assets	516,062	546,348	-6%	532,118	3%
Other assets	<u>35,000</u>	<u>25,000</u>	40%	-	-
Total assets	<u>1,246,333</u>	<u>1,418,269</u>	-12%	<u>1,491,882</u>	-5%
Liabilities					
Current liabilities	<u>145,154</u>	<u>200,612</u>	-3%	<u>169,291</u>	19%
Net position					
Net investment in capital assets	516,062	546,348	-6%	532,118	3%
Restricted-nonexpendable	35,000	25,000	40%	-	-
Restricted-expendable	90,803	98,295	-8%	166,612	-41%
Unrestricted	<u>459,314</u>	<u>548,014</u>	-16%	<u>623,861</u>	-12%
Total net position	<u>\$ 1,101,179</u>	<u>\$ 1,217,657</u>	-10%	<u>\$ 1,322,591</u>	-8%

Tennessee Sports Hall of Fame Management's Discussion and Analysis (Cont.)

ANALYSIS OF REVENUES AND EXPENSES

Revenues consist of contributions, program revenue, fundraising revenue, investment income, and grant revenue. Contributions for fiscal year 2012 increased by \$17,815, or 64.0%, from contributions in 2011 due to funds from sponsorships and private donations. Contributions for fiscal year 2011 increased by \$2,942, or 11.8%, from contributions in 2010 due to funds received for sponsorships. Contributions can fluctuate on an annual basis depending on market and economic cycles. Grant revenue for the matching private donations recognized for the year ended December 31, 2012, was \$9,967, an increase of \$7,592, or 320.0%, from \$2,375 for the year ended December 31, 2011. Grant revenue for the matching private donations recognized for the year ended December 31, 2011, was \$2,375, a decrease of \$1,450, or 37.9%, from \$3,825 for the year ended December 31, 2010.

Fundraising revenue in fiscal year 2012 decreased by \$20,202, or 34.5%, from fiscal year 2011 due to less participation and sponsorships in the annual golf tournament and a sponsor paying directly for some golf tournament expenses in lieu of their normal donation. Fundraising revenue in fiscal year 2011 increased by \$22,880, or 64.1%, from 2010 due to more participation and sponsorships in the annual golf tournament. Fundraising revenue consists solely of the annual golf tournament. Investment income for fiscal year 2012 totaled \$1,043, a decrease of \$1,103 from fiscal year 2011. Investment income for fiscal year 2011 totaled \$2,146, a decrease of \$525 from fiscal year 2010.

Total operating expenses for the year ended December 31, 2012, were \$316,063, an increase of \$13,370, or 4.4%, from \$302,693 for the year ended December 31, 2011. Total operating expenses for the year ended December 31, 2011, increased \$41,633, or 15.9%, from \$261,060 for the year ended December 31, 2010. The cost of goods and services fluctuates over time; however, management of the TSHF continues to seek out the best alternatives for providing these goods and services at the lowest cost. The chief expense items in total operating expenses include depreciation expense related to museum exhibits of \$53,104 in 2012, \$49,949 in 2011, and \$48,024 in 2010, and salary expense of \$135,182, \$106,502, and \$99,495 in fiscal years 2012, 2011, and 2010, respectively.

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

Tennessee Sports Hall of Fame Management's Discussion and Analysis (Cont.)

Changes in Net Position

	Year Ended December 31, 2012	Year Ended December 31, 2011	Percent Change FY 12-FY 11	Year Ended December 31, 2010	Percent Change FY 11-FY 10
Operating revenues					
Membership dues	\$ 5,900	\$ 2,925	102%	\$ 4,810	-39%
Banquet revenue	85,960	74,025	16%	71,375	4%
Golf tournament	38,353	58,555	-35%	35,675	64%
Contributions	45,732	27,917	64%	24,975	12%
Museum ticket sales	<u>2,630</u>	<u>4,816</u>	-45%	<u>4,908</u>	-2%
Total operating revenues	<u>178,575</u>	<u>168,238</u>	6%	<u>141,743</u>	19%
Operating expenses					
Membership	774	312	148%	2,912	-89%
Banquet	65,348	65,860	<-1%	57,854	14%
General and administrative	161,601	133,548	21%	114,370	17%
Golf tournament	4,173	12,300	-66%	14,351	-14%
Hall of fame museum	<u>84,167</u>	<u>90,673</u>	-7%	<u>71,573</u>	27%
Total operating expenses	<u>316,063</u>	<u>302,693</u>	4%	<u>261,060</u>	16%
Operating loss	<u>(137,488)</u>	<u>(134,455)</u>	2%	<u>(119,317)</u>	13%
Nonoperating revenues					
Interest income	1,043	2,146	-51%	2,671	-20%
Grant revenue	<u>9,967</u>	<u>2,375</u>	320%	<u>3,825</u>	-38%
Net nonoperating revenues	<u>11,010</u>	<u>4,521</u>	144%	<u>6,496</u>	-30%
Loss before other revenues	<u>(126,478)</u>	<u>(129,934)</u>	-3%	<u>(112,821)</u>	15%
Additions to permanent endowment	<u>10,000</u>	<u>25,000</u>	-60%	<u>-</u>	-
Decrease in net position	<u>(116,478)</u>	<u>(104,934)</u>	11%	<u>(112,821)</u>	-7%
Total net position, January 1	<u>1,217,657</u>	<u>1,322,591</u>	-8%	<u>1,435,412</u>	-8%
Total net position, December 31	<u>\$ 1,101,179</u>	<u>\$ 1,217,657</u>	-10%	<u>\$ 1,322,591</u>	-8%

ECONOMIC FACTORS, FUNDING, AND OVERALL OUTLOOK

The economic outlook for the foreseeable future is uncertain. The economic downturn has had a negative impact on most entities. The Federal Reserve lowered interest rates to the current historically low level in December 2008, and this affects the investment portfolio for the TSHF. Interest rates are forecast to remain near zero for at least another year.

There was a slight increase in total operating expenses for the year. The Tennessee Sports Hall of Fame continued its extensive remodel of the museum during the year, which led to an increase in museum expenses and the use of restricted net position. The TSHF also focused on gaining additional sponsorships and contributions, which increased expenses. The TSHF expects to see

Tennessee Sports Hall of Fame Management's Discussion and Analysis (Cont.)

more progress from these efforts in the coming years. Net position continues to decrease as it is used to cover operating expenses of the TSHF. If market conditions continue, the net position of the TSHF is expected to be adequate to sustain the current expense rates for several years.

The financial condition for 2012 was fairly consistent with that of the prior year. Due to continued low interest rates, interest income was essentially the same as 2011; the TSHF did receive more in contributions this year. Some highlights for 2012 were that the banquet was a great success with its highest revenue yet by far, and total operating revenues continued to increase.

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, 502 Deaderick Street, Nashville, Tennessee 37243.

TENNESSEE SPORTS HALL OF FAME
STATEMENTS OF NET POSITION
DECEMBER 31, 2012, AND DECEMBER 31, 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current assets		
Cash (Note 2)	\$ 138,586	\$ 260,300
Investments (Note 2)	548,861	577,778
Receivables	321	1,245
Inventory	2,018	2,307
Prepaid expenses	5,485	5,291
Total current assets	<u>695,271</u>	<u>846,921</u>
Noncurrent assets		
Cash (Note 2)	35,000	25,000
Capital assets, net (Note 3)	516,062	546,348
Total noncurrent assets	<u>551,062</u>	<u>571,348</u>
Total assets	<u>1,246,333</u>	<u>1,418,269</u>
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	4,700	23,291
Unearned revenue	140,454	177,321
Total liabilities	<u>145,154</u>	<u>200,612</u>
<u>NET POSITION</u>		
Net investment in capital assets	516,062	546,348
Restricted for:		
Nonexpendable:		
Scholarships	35,000	25,000
Expendable:		
Scholarships	2,040	-
Museum improvements	88,763	98,295
Unrestricted	459,314	548,014
Total net position	<u>\$ 1,101,179</u>	<u>\$ 1,217,657</u>

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 POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2012, AND DECEMBER 31, 2011

	2012	2011
<u>OPERATING REVENUES</u>		
Membership dues	\$ 5,900	\$ 2,925
Banquet revenue	85,960	74,025
Golf tournament	38,353	58,555
Contributions	45,732	27,917
Museum ticket sales	2,630	4,816
Total operating revenues	<u>178,575</u>	<u>168,238</u>
<u>OPERATING EXPENSES</u>		
Membership	774	312
Banquet	65,348	65,860
General and administrative	161,601	133,548
Golf tournament	4,173	12,300
Hall of fame museum	84,167	90,673
Total operating expenses	<u>316,063</u>	<u>302,693</u>
Operating loss	<u>(137,488)</u>	<u>(134,455)</u>
<u>NONOPERATING REVENUES</u>		
Interest income	1,043	2,146
Grant revenue	9,967	2,375
Net nonoperating revenues	<u>11,010</u>	<u>4,521</u>
Loss before other revenues	<u>(126,478)</u>	<u>(129,934)</u>
Additions to permanent endowment	<u>10,000</u>	<u>25,000</u>
Decrease in net position	(116,478)	(104,934)
Total net position, January 1	<u>1,217,657</u>	<u>1,322,591</u>
Total net position, December 31	<u>\$ 1,101,179</u>	<u>\$ 1,217,657</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, 2012, AND DECEMBER 31, 2011

	2012	2011
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from customers	\$ 152,282	\$ 179,501
Payments to suppliers	(130,987)	(133,385)
Payments to employees	(134,609)	(106,066)
Net cash used by operating activities	(113,314)	(59,950)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Private gifts for endowment purposes	10,000	25,000
Net cash provided by noncapital financing activities	10,000	25,000
<u>CASH FLOWS FROM CAPITAL AND RELATED ACTIVITIES</u>		
Purchases of capital assets	(38,677)	(48,320)
Net cash used by capital and related activities	(38,677)	(48,320)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received	1,361	2,113
Investment purchases	(1,127,365)	(1,169,674)
Proceeds from maturities of investments	1,156,281	1,267,957
Net cash provided by investing activities	30,277	100,396
Net increase (decrease) in cash	(111,714)	17,126
Cash, January 1	285,300	268,174
Cash, December 31	\$ 173,586	\$ 285,300
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</u>		
Operating loss	\$ (137,488)	\$ (134,455)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	53,104	49,949
(Increase) decrease in accounts receivables	607	(108)
Decrease in inventory	288	288
(Increase) decrease in prepaid expenses	(194)	5,539
Increase (decrease) in accounts payable	(2,731)	4,837
Increase (decrease) in deferred revenue	(26,900)	14,000
Net cash used by operating activities	\$ (113,314)	\$ (59,950)

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, 2012, and December 31, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Tennessee Sports Hall of Fame is a nonprofit corporation exempt from federal income tax under the provisions of Section 501(c)(3) of the *Internal Revenue Code*. The Tennessee Sports Hall of Fame was 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 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 is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

Tennessee Sports Hall of Fame
Notes to the Financial Statements (Cont.)
December 31, 2012, and December 31, 2011

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.

When both restricted and unrestricted resources are available for use, generally it is the Tennessee Sports Hall of Fame's policy to use the restricted resources first.

Capital Assets

Capital assets are comprised of museum exhibits, which are reported net of accumulated depreciation and include improvements costing in excess of \$5,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized. 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. Depreciation expense is included within the hall of fame museum line item on the Statements of Revenues, Expenses, and Changes in Net Position.

Museum exhibits include multi-media equipment, display cases, design, fabrication and installation, and arena build-out. Generally, the artifacts exhibited in the museum are owned by and on loan from the Tennessee State Museum.

Inventory

Inventory consists of inductee medallions and is valued at cost.

Contributed Services

The Tennessee Sports Hall of Fame receives contributed services. Under GASB pronouncements, the Tennessee Sports Hall of Fame is not required to recognize contributed services in the financial statements. Contributed services are not reflected in the Statements of Revenues, Expenses, and Changes in Net Position. However, certain contributed services could represent significant expenses that may be incurred should the donation of services not be received in a subsequent period.

**Tennessee Sports Hall of Fame
Notes to the Financial Statements (Cont.)
December 31, 2012, and December 31, 2011**

NOTE 2. DEPOSITS AND INVESTMENTS

Cash includes demand deposits in the bank and an account with the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

Investments include certificates of deposit with maturities of more than 90 days and are reported at cost. Investments at December 31, 2012, had maturities of 182 days and returns ranging from .08% to .15%. Investments at December 31, 2011, had maturities of 180 to 182 days and returns of .15% and .30%.

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, 2012, was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Museum exhibits	\$ 1,500,497	\$ 22,818	\$ (4,550)	\$ 1,518,765
Less accumulated depreciation	<u>(954,149)</u>	<u>(53,104)</u>	<u>4,550</u>	<u>(1,002,703)</u>
Total capital assets, net of depreciation	<u>\$ 546,348</u>	<u>\$ (30,286)</u>	<u>\$ -</u>	<u>\$ 516,062</u>

**Tennessee Sports Hall of Fame
Notes to the Financial Statements (Cont.)
December 31, 2012, and December 31, 2011**

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Museum exhibits	\$ 1,436,318	\$ 64,179	\$ -	\$ 1,500,497
Less accumulated depreciation	<u>(904,200)</u>	<u>(49,949)</u>	<u>-</u>	<u>(954,149)</u>
Total capital assets, net of depreciation	<u>\$ 532,118</u>	<u>\$ 14,230</u>	<u>\$ -</u>	<u>\$ 546,348</u>

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.

NOTE 5. ENDOWMENT

The Jeff Byrd Memorial Scholarship Endowment Fund was established to award a scholarship annually to a college junior or senior with an interest in sports journalism, sports management, or a related sports field.

If a donor to the endowment fund has not provided specific instructions, state law permits the Tennessee Sports Hall of Fame's board to authorize for expenditure the earnings of the investments of the endowment fund. When administering its power to spend the earnings, the board is required to consider the long- and short-term needs, present and anticipated financial requirements, expected return on its investments, price-level trends, and general economic conditions. Any earnings spent are required to be spent for the purposes for which the endowment was established.

The board plans to spend the investment income when it is deemed sufficient to sustain scholarship awards. At December 31, 2012, investment income of \$40.56 is available to be spent, all of which is included in restricted net position expendable for scholarships.

**Tennessee Sports Hall of Fame
Notes to the Financial Statements (Cont.)
December 31, 2012, and December 31, 2011**

NOTE 6. RECLASSIFICATIONS

Certain fiscal year 2011 revenue and net position amounts have been reclassified to conform to the fiscal year 2012 presentation. These reclassifications have not changed the fiscal year 2011 results.

NOTE 7. ACCOUNTING CHANGE

The Tennessee Sports Hall of Fame 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.