

# AUDIT REPORT

## Tennessee Residence Foundation

For the Year Ended  
December 31, 2013



## 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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June 12, 2014

The Honorable Bill Haslam, Governor  
Members of the General Assembly  
Board of Directors, Tennessee Residence Foundation

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Residence Foundation for the year ended December 31, 2013. 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

14/074

**Audit Report**  
**Tennessee Residence Foundation**  
**For the Year Ended December 31, 2013**

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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, 2013

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### **Opinion on the Financial Statements**

The opinion on the financial statements is unmodified.

### **Audit Findings**

The audit report contains no findings.



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## Independent Auditor's Report

The Honorable Bill Haslam, Governor  
Members of the General Assembly  
Board of Directors, Tennessee Residence Foundation

We have audited the accompanying financial statements of the Tennessee Residence Foundation, a component unit of the State of Tennessee, as of and for the years ended December 31, 2013, and December 31, 2012, 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 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 policies 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, 2013, and December 31, 2012, and the changes in financial position and cash flows thereof 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 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 appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



Deborah V. Loveless, CPA  
Director  
June 5, 2014

**TENNESSEE RESIDENCE FOUNDATION**  
**Statements of Net Position**  
**December 31, 2013, and December 31, 2012**

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
<b>ASSETS</b>		
Current assets		
Cash (Note 2)	\$511,802.66	\$472,565.14
Contributions receivable (Note 4)	179,000.00	29,000.00
<b>Total current assets</b>	<b>690,802.66</b>	<b>501,565.14</b>
Noncurrent assets		
Contributions receivable (Note 4)	-	35,666.00
<b>Total noncurrent assets</b>	<b>-</b>	<b>35,666.00</b>
<b>Total assets</b>	<b>690,802.66</b>	<b>537,231.14</b>
<b>LIABILITIES</b>		
Accounts payable	29,739.46	113,921.47
<b>Total liabilities</b>	<b>29,739.46</b>	<b>113,921.47</b>
<b>NET POSITION</b>		
Unrestricted (Note 6)	661,063.20	423,309.67
<b>Total net position</b>	<b>\$661,063.20</b>	<b>\$423,309.67</b>

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, 2013, and December 31, 2012**

	Year Ended December 31, 2013	Year Ended December 31, 2012
<b>OPERATING REVENUES</b>		
Contributions (Notes 3 and 5)	\$ 1,163,339.63	\$ 491,566.97
Proceeds from sales of mementos	9,241.42	9,737.08
<b>Total operating revenues</b>	<b>1,172,581.05</b>	<b>501,304.05</b>
<b>OPERATING EXPENSES</b>		
Fundraising	111,433.69	10,117.56
Management and general	6,297.00	3,881.50
Bad debt expense	25,000.00	-
Phase II - Conservation hall	939.15	-
Phase IV - Garden restoration plan	791,419.07	742,706.49
<b>Total operating expenses</b>	<b>935,088.91</b>	<b>756,705.55</b>
<b>Operating income (loss)</b>	<b>237,492.14</b>	<b>(255,401.50)</b>
<b>NONOPERATING REVENUE</b>		
Investment income	261.39	751.64
<b>Total nonoperating revenue</b>	<b>261.39</b>	<b>751.64</b>
<b>Increase (decrease) in net position</b>	<b>237,753.53</b>	<b>(254,649.86)</b>
<b>NET POSITION</b>		
Net position - beginning of year	423,309.67	677,959.53
<b>Net position - end of year</b>	<b>\$ 661,063.20</b>	<b>\$ 423,309.67</b>

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, 2013, and December 31, 2012**

	<u>Year Ended</u> <u>December 31, 2013</u>	<u>Year Ended</u> <u>December 31, 2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions	\$ 968,541.88	\$ 453,880.97
Proceeds from sales of mementos	9,241.42	9,737.08
Payments to contractors	(877,425.82)	(628,961.68)
Payments to suppliers	(61,381.35)	(14,070.40)
<b>Net cash provided (used) by operating activities</b>	<b>38,976.13</b>	<b>(179,414.03)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	261.39	751.64
<b>Net cash provided by investing activities</b>	<b>261.39</b>	<b>751.64</b>
Net increase (decrease) in cash	39,237.52	(178,662.39)
Cash - beginning of year	472,565.14	651,227.53
<b>Cash - end of year</b>	<b>\$ 511,802.66</b>	<b>\$ 472,565.14</b>
<b>RECONCILIATION OF OPERATING INCOME</b>		
<b>(LOSS) TO NET CASH PROVIDED (USED) BY</b>		
<b>OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 237,492.14	\$(255,401.50)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Bad debt expense	25,000.00	-
Increase in receivables	(139,334.00)	(37,166.00)
Increase (decrease) in accounts payable	(84,182.01)	113,153.47
<b>Net cash provided (used) by operating activities</b>	<b>\$ 38,976.13</b>	<b>\$(179,414.03)</b>

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

**TENNESSEE RESIDENCE FOUNDATION**  
**Notes to the Financial Statements**  
**December 31, 2013, and December 31, 2012**

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**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 (GASB).

During the year ended December 31, 2012, the Foundation adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of GASB Statement No. 63 was to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The statement was implemented retroactively and resulted in a change in the presentation of the statement of net assets to what is now referred to as the statement of net position, and the term “net assets” was changed to “net position” throughout the financial statements.

## **Notes to the Financial Statements (Continued)**

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### **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 a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all of the provider's eligibility requirements 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.

### **Note 2. Deposits**

At December 31, 2013, the Foundation had cash of \$511,802.66 in demand deposits and cash on hand. The combined bank balance of the deposits was \$494,052.66. Of this amount, \$143,940.35 was uninsured and uncollateralized.

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.

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. Conditional promises to give are not included as support until the conditions are substantially met. As of December 31, 2013, and December 31, 2012, all receivables are for unconditional promises to give.

## **Notes to the Financial Statements (Continued)**

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The contributions receivable as of December 31, 2013, and December 31, 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Contributions due in:		
Less than one year	\$179,000.00	\$29,000.00
One to five years	-	35,666.00
More than five years	-	-
	<hr/>	
Total	<u>\$179,000.00</u>	<u>\$64,666.00</u>

### **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 \$55,463.75 (consisting of \$42,463.75 in goods and services provided for fundraising events and \$13,000.00 provided for the garden restoration plan) and \$520 in noncash contributions during the years ended December 31, 2013, and December 31, 2012, respectively.

### **Note 6. Unrestricted Net Position**

Unrestricted net position at December 31, 2013, and December 31, 2012, includes \$100,000 that has been designated for operating reserves.