



## FINANCIAL AND COMPLIANCE AUDIT REPORT

### Tennessee Residence Foundation

*For the Year Ended December 31, 2018*

**Justin P. Wilson**  
*Comptroller of the Treasury*



**DIVISION OF STATE AUDIT**

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JUSTIN P. WILSON  
*Comptroller*

JASON E. MUMPOWER  
*Deputy Comptroller*

December 3, 2020

The Honorable Bill Lee, 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, 2018. 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,

A handwritten signature in black ink that reads "Katherine J. Stickel".

Katherine J. Stickel, CPA, CGFM, Director  
Division of State Audit

19/054

**Audit Report**  
**Tennessee Residence Foundation**  
**For the Year Ended December 31, 2018**

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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, 2018

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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.



JUSTIN P. WILSON  
*Comptroller*

JASON E. MUMPOWER  
*Deputy Comptroller*

## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

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, 2018, and December 31, 2017, 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 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 policies used

and the 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, 2018, and December 31, 2017, 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, which 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 the missing information.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2020, on our consideration of the Tennessee Residence Foundation’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Residence Foundation’s internal control over financial reporting and compliance.



Katherine J. Stickel, CPA, CGFM, Director  
Division of State Audit  
November 23, 2020

**TENNESSEE RESIDENCE FOUNDATION**  
**Statements of Net Position**  
**December 31, 2018, and December 31, 2017**

	December 31, 2018	December 31, 2017
<b>Assets</b>		
Current assets:		
Cash (Note 2)	\$654,847.50	\$851,656.71
Accounts receivable	90.00	-
Prepaid inventories	9,000.00	-
Inventories	-	2,803.99
Total assets	663,937.50	854,460.70
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	15,360.48	16,391.40
Total liabilities	15,360.48	16,391.40
<b>Net position</b>		
Unrestricted (Note 6)	648,577.02	838,069.30
Total net position	\$648,577.02	\$838,069.30

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, 2018, and December 31, 2017**

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	<u>Year Ended</u> <u>December 31, 2018</u>	<u>Year Ended</u> <u>December 31, 2017</u>
<b>Operating revenues</b>		
Contributions (Notes 3 and 5)	\$ -	\$352,149.09
Proceeds from sales of mementos	16,447.30	18,123.13
<b>Total operating revenues</b>	<b>16,447.30</b>	<b>370,272.22</b>
<b>Operating expenses</b>		
Fundraising	28,173.60	124,456.84
Management and general	6,605.28	6,481.59
Phase IV - garden restoration plan	172,078.50	56,098.89
<b>Total operating expenses</b>	<b>206,857.38</b>	<b>187,037.32</b>
Operating income (loss)	(190,410.08)	183,234.90
<b>Nonoperating revenue</b>		
Investment income	917.80	365.50
<b>Total nonoperating revenue</b>	<b>917.80</b>	<b>365.50</b>
Increase (decrease) in net position	(189,492.28)	183,600.40
Net position - beginning of year	838,069.30	654,468.90
<b>Net position - end of year</b>	<b>\$648,577.02</b>	<b>\$838,069.30</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, 2018 and December 31, 2017**

	Year Ended December 31, 2018	Year Ended December 31, 2017
<b>Cash flows from operating activities</b>		
Contributions	\$ -	\$295,596.72
Proceeds from sales of mementos	16,357.30	18,123.13
Payments to contractors	(181,078.50)	(56,098.89)
Payments to suppliers	(33,005.81)	(72,211.94)
Net cash provided (used) by operating activities	(197,727.01)	185,409.02
<b>Cash flows from investing activities</b>		
Investment income	917.80	365.50
Net cash provided by investing activities	917.80	365.50
Net increase (decrease) in cash	(196,809.21)	185,774.52
Cash - beginning of year	851,656.71	665,882.19
Cash - end of year	\$654,847.50	\$851,656.71
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$(190,410.08)	\$183,234.90
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Changes in assets and liabilities:		
Accounts receivable	(90.00)	-
Prepaid inventories	(9,000.00)	-
Inventories	2,803.99	1,394.58
Accounts payable	(1,030.92)	779.54
Net cash provided (used) by operating activities	\$(197,727.01)	\$185,409.02

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

**TENNESSEE RESIDENCE FOUNDATION**  
**Notes to the Financial Statements**  
**December 31, 2018, and December 31, 2017**

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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; are of particular historic or artistic interest to the citizens of Tennessee; or are otherwise needed to furnish and 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 accordance 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).

**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. Contributions are recorded as a promise is received. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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Amounts reported as operating revenues include contributions and sales of mementos. Operating expenses for the foundation include fundraising, management, and general and restoration, renovation, and 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, 2018, the foundation had cash of \$654,847.50 in demand deposits and cash on hand. The combined bank balance of the deposits was \$654,847.50.

At December 31, 2017, the foundation had cash of \$851,656.71 in demand deposits and cash on hand. The combined bank balance of the deposits was \$851,656.71.

The foundation has no policy limiting its custodial credit risk.

Due to the statutory nature of the creation of the Tennessee Residence Foundation, the funds of the organization are considered public funds. These funds are designated by the financial institution as public funds collateralized under the Tennessee Bank Collateral Pool.

### **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, 2018, and December 31, 2017, there were no unconditional promises to give.

### **Note 5. Noncash Contributions**

Noncash contributions represent the value of goods and services provided by an external organization. Noncash contributions consisted of goods and services provided for fundraising

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

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events (\$56,465.20) for the year ended December 31, 2017. 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 current financial resources and was recognized in the financial statements. There were no noncash contributions of goods and services for 2018.

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

Unrestricted net position for the year ended December 31, 2018, included \$100,375 that has been designated for operating reserves. The amount designated for the year ended December 31, 2017, was \$100,325.

### **Note 7. Commitments**

As of December 31, 2018, there was an outstanding commitment to Glenn E Mitchell and Co., Inc. for \$19,462.90 for executive residence site improvements. There was also an outstanding commitment to Nautilus Publishing for \$21,750.00 for the Tennessee Garden book contract. There were no outstanding commitments at December 31, 2017.



JUSTIN P. WILSON  
*Comptroller*

JASON E. MUMPOWER  
*Deputy Comptroller*

## **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***

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

We have audited the financial statements of the Tennessee Residence Foundation (TRF) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the TRF’s basic financial statements, and have issued our report thereon dated November 23, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the TRF’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 TRF’s internal control. Accordingly, we do not express an opinion on the effectiveness of the TRF’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 TRF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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.



Katherine J. Stickel, CPA, CGFM, Director  
Division of State Audit  
November 23, 2020