

STATE OF CONNECTICUT



***AUDITORS' REPORT
GOVERNOR'S RESIDENCE CONSERVANCY, INC.
FOR THE FISCAL YEARS ENDED
JUNE 30, 2004, 2005, AND 2006***

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of the
Governor's Residence Conservancy, Inc.:

We have audited the accompanying statement of financial position of the Governor's Residence Conservancy, Inc. (the Conservancy) as of June 30, 2004, 2005, & 2006 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Conservancy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis of our opinion.

In our opinion, except for the inventory of the personal property which is not accounted for by the Conservancy, the financial statements referred to above present fairly, in all material respects, the financial position of the Conservancy as of June 30, 2004, 2005, & 2006 and the changes in net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

September 14, 2007
State Capitol
Hartford, Connecticut

**GOVERNOR'S RESIDENCE CONSERVANCY, INC.
 STATEMENT OF FINANCIAL POSITION
 AS OF JUNE 30, 2004, 2005 AND 2006**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS:			
Cash and cash equivalents	\$ 45,868	\$ 48,543	\$ 56,228
TOTAL ASSETS	<u>\$ 45,868</u>	<u>\$ 48,543</u>	<u>\$ 56,228</u>
LIABILITIES AND NET ASSETS			
LIABILITIES	-	-	-
NET ASSETS:			
Unrestricted	45,868	48,543	56,228
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 45,868</u>	<u>\$ 48,543</u>	<u>\$ 56,228</u>

See Notes to the Financial Statements

GOVERNOR'S RESIDENCE CONSERVANCY, INC.
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEARS ENDED JUNE 30, 2004, 2005 AND 2006

	<u>2006</u>	<u>Unrestricted</u> <u>2005</u>	<u>2004</u>
REVENUES AND SUPPORT:			
Sales	\$ 11,608	\$ 9,826	\$ 5,048
	<u>\$ 11,608</u>	<u>\$ 9,826</u>	<u>\$ 5,048</u>
TOTAL REVENUE AND SUPPORT			
EXPENSES:			
Program services:			
Restoration/Improvement/Preservation	2,885	6,188	2,276
Supporting services:			
General and administrative	1,707	1,648	4,175
Fund raising	9,691	9,675	8,285
TOTAL EXPENSES	<u>14,283</u>	<u>17,511</u>	<u>14,736</u>
CHANGES IN NET ASSETS	(2675)	(7,685)	(9688)
NET ASSETS, BEGINNING OF YEAR	<u>\$ 48,543</u>	<u>56,228</u>	<u>65,916</u>
NET ASSETS, END OF YEAR	<u>\$ 45,868</u>	<u>\$ 48,543</u>	<u>\$ 56,228</u>

See Notes to the Financial Statements

GOVERNOR'S RESIDENCE CONSERVANCY, INC.
 STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE FISCAL YEARS ENDED JUNE 30, 2004, 2005 AND 2006

	<u>2006</u>				<u>2005</u>				<u>2004</u>			
	<u>Program Services</u>		<u>Supporting Services</u>		<u>Program Services</u>		<u>Supporting Services</u>		<u>Program Services</u>		<u>Supporting Services</u>	
	<u>Restoration/ Improvement/ Preservation</u>	<u>General & Adm.</u>	<u>Fundraising</u>	<u>Total</u>	<u>Restoration/ Improvement/ Preservation</u>	<u>General & Adm.</u>	<u>Fundraising</u>	<u>Total</u>	<u>Restoration/ Improvement/ Preservation</u>	<u>General & Adm.</u>	<u>Fundraising</u>	<u>Total</u>
Floral Decorations	\$ 1,764	\$ -	\$ -	\$ 1,764	\$ 2,000	\$ -	\$ -	\$ 2,000	\$ 1,976	\$ -	\$ -	\$ 1,976
Furniture & Decor	121	-	-	121	751	-	-	751	300	-	-	300
Fabric	1,000	-	-	1,000	3,437	-	-	3,437	-	-	-	-
Christmas ornaments	-	-	9,691	9,691	-	-	9,675	9,675	-	-	8,285	8,285
Filling fees	-	25	-	25	-	50	-	50	-	50	-	50
Legal fees	-	-	-	-	-	-	-	-	-	1,483	-	1,483
Professional fees	-	975	-	975	-	900	-	900	-	2,000	-	2,000
Sales Tax	-	667	-	667	-	675	-	675	-	542	-	542
Bank Charges	-	22	-	22	-	23	-	23	-	-	-	-
Postage	-	18	-	18	-	-	-	-	-	-	-	-
Christmas cards	-	-	-	-	-	-	-	-	-	100	-	100
TOTAL EXPENSES	\$ 2,885	\$ 1,707	\$ 9,691	\$ 14,283	\$ 6,188	\$ 1,648	\$ 9,675	\$ 17,511	\$ 2,276	\$ 4,175	\$ 8,285	\$ 14,736

See Notes to the Financial Statements

GOVERNOR'S RESIDENCE CONSERVANCY, INC.
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004, 2005 AND 2006

	<u>2006</u>	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in Net Assets	\$ (2,675)	\$ (7,685)	\$ (9,688)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(2,675)</u>	<u>(7,685)</u>	<u>(9,688)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	-	-	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	-	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ (2,675)</u>	<u>\$ (7,685)</u>	<u>\$ (9,688)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OR YEAR	\$ 48,543	\$ 56,228	\$ 65,916
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 45,868</u>	<u>\$ 48,543</u>	<u>\$ 56,228</u>

See Notes to the Financial Statements

**THE GOVERNOR'S RESIDENCE CONSERVANCY, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities:

The Governor's Residence Conservancy, Inc., (the Conservancy) is a non-profit Connecticut corporation and operates exclusively for planning, directing, and supervising the preservation, restoration, and maintenance of the Governor's residence and gardens. The Conservancy assists the Department of Public Works in maintaining the Governor's mansion.

Basis of Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles, except that the Conservancy does not capitalize asset acquisitions. Net assets and revenue, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets— Net assets that are not subject to donor-imposed restrictions. The Conservancy has no assets that are subject to donor-imposed restrictions.

Cash and cash equivalents:

Cash and cash equivalents consist of cash in checking accounts, as well as highly liquid investments that are readily convertible to cash.

Revenue:

The Conservancy's primary source of revenue during the period under review was the sale of Christmas ornaments.

Sales Tax:

The Conservancy is subject to sales tax on the sales of Christmas ornaments.

Income Tax:

The Conservancy is exempt from income taxes under Internal Revenue Code Section 501(c) (3) as a private foundation.

Federal Excise Tax:

The Conservancy is a private Foundation under Internal Revenue Services regulations. Federal excise taxes are imposed on private foundations at the rate of 1% or 2 % on net investment income.

NOTE 2 FUNCTIONAL ALLOCATIONS OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis below and are presented by account classification in the statement of activities.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Program Services	\$ 2,885	\$ 6,188	\$ 2,276
Supporting Services	<u>11,398</u>	<u>11,323</u>	<u>12,460</u>
Total	<u>\$14,283</u>	<u>\$17,511</u>	<u>\$14,736</u>

NOTE 3 CONCENTRATION OF CREDIT RISK

The Conservancy maintains its cash in a bank deposit account which, at times, may exceed federally insured limits. The Conservancy has not experienced any losses in such account. The Conservancy believes it is not exposed to any significant credit risk on cash.

NOTE 4 MINIMUM DISTRIBUTION

In accordance with the Internal Revenue Code Section 4942, an organization qualifying as a “private foundation” must distribute, in the year received or in the year following receipt, its minimum investment return, generally 5% of the average fair market value of its aggregate noncharitable assets. The Conservancy has an excess distribution carryover at June 30, 2006 of \$32,928 which can be used to satisfy this requirement. The distribution consists of charitable purpose activities and related charitable purpose expenses.

NOTE 5 INTERNAL REVENUE SERVICE AUDIT

An Internal Revenue Service audit of the Conservancy for the fiscal year ended June 30, 2003 was pending as of the date of this report. The board of directors of the Conservancy does not expect an adverse determination, and no provision has been made for a corresponding tax liability.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
BASED UPON AN AUDIT OF FINANCIAL STATEMENTS**

The Board of Directors of the
Governor's Residence Conservancy, Inc.:

We have audited the financial statements of the Governor's Residence Conservancy, Inc. (the Conservancy) as of June 30, 2004, 2005, & 2006, and we have issued our report thereon dated September 14, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Conservancy is responsible of establishing and maintaining effective internal control. In planning and performing our audit, we considered the Conservancy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that would be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we have noted other matters involving internal controls over financial reporting that are described in the accompanying Management Letter.

This report is intended for the information of the Board of Directors. However, this report is a matter of public record, and its distribution is not limited.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

September 14, 2007
State Capitol
Hartford, Connecticut

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

The Board of Directors of the
Governor's Residence Conservancy, Inc.:

We have audited the financial statements of the Governor's Residence Conservancy, Inc. (the Conservancy) as of and for the fiscal years ended June 30, 2004, 2005, & 2006, and have issued our report dated September 14, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with Sections 4-37e to 4-37k of the Connecticut General Statutes and any other laws and internal controls relevant to the Conservancy is the responsibility of the Conservancy's management. As part of our obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Conservancy's compliance with Sections 4-37e to 4-37k of the Connecticut General Statutes. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such statutes. Accordingly, we do not express such an opinion.

The result of our tests disclosed no instances of noncompliance that are required to be reported herein.

This report is intended for the information of the Board of Directors. However, this report is a matter of public record, and its distribution is not limited.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

September 14, 2007
State Capitol
Hartford, Connecticut

MANAGEMENT LETTER

The Board of Directors of the
Governor's Residence Conservancy, Inc.:

In planning and performing our audit of the financial statements of the Governor's Residence Conservancy, Inc. for the fiscal years ended June 30, 2004, 2005, and 2006, we assessed the Conservancy's internal controls and financial records to determine our auditing procedures. We noted no matters concerning the internal control over the financial statements that we considered to be a material weakness. However, we noted other matters discussed in the findings below:

Segregation of Duties:

<i>Criteria:</i>	Sound internal controls suggests that there should be a segregation of duties in handling accounting transactions.
<i>Condition:</i>	The Conservancy does not have an adequate segregation of duties. The treasurer of the Conservancy is authorized to perform all the steps involved in transactions of the Conservancy.
<i>Effect:</i>	An inadequate segregation of duties increases the risk that material errors in the financial statements may not be detected in a timely manner.
<i>Cause:</i>	A limited number of office personnel in the Conservancy causes the lack of segregation of duties.
<i>Recommendation:</i>	The Conservancy should consider implementing different procedures in order to accomplish segregation of duties in the performance of accounting transactions.
<i>Auditee Response:</i>	"We agree with the comment. The Conservancy's current policy requires Board approval of all purchases in excess of \$5,000. In addition, the Conservancy will implement a

policy to require a second signature on all checks in excess of \$1,000.”

Custody and Insurance Coverage of Personal Property:

Criteria: In accordance with a Memorandum of Understanding (MOU) between the Conservancy and the State Department of Public Works, it is agreed that in the event that the Conservancy ceases to exist, the personal property purchased by or donated to the Conservancy shall become the property of the Department of Public Works. Implicit in this provision is the fact that the Conservancy owns the property until such point that it desires to turn custody over to the State.

Sound business practice suggests that property of value owned by an entity should be insured in the event that the property is lost or damaged. Insurance coverage and premiums are normally based on the current value of the goods being insured.

Condition: The Conservancy had not regarded the property as belonging to it, and had not pursued insuring the items. However, since the Department of Public Works (DPW) did not consider itself to be the owner of the property, insurance coverage was also never obtained by DPW. As a result, it appears that this property, a value for which is not readily determinable, may not have any insurance coverage available.

The Conservancy was able to produce a list of property that it had purchased for the Governor’s residence, but original costs and assessed values were not available with that data.

Effect: The financial statements of the Conservancy do not include the value of the property, primarily because the Conservancy did not regard itself as the owner. The omission of this property would be a material misstatement if the property were to be considered as an asset of the Conservancy.

Cause: Contrary to the language in the Memorandum of Understanding, the Conservancy does not regard itself as the legal owner of the property that it has acquired.

Recommendation: The Conservancy should consider modifying their MOU with the Department of Public Works to clarify whether the title to the personal property and the responsibility to provide insurance coverage rests with the Conservancy or the State. The Conservancy should also attempt to determine reasonable values for the items in order to provide sufficient insurance coverage.

Auditee Response: “We agree with the comment. The conservancy is working with the Department of Public Works to have the Fine Arts purchased by the Conservancy insured by the Department of Public Works.

All of the other non-Fine Art items purchased by the Conservancy and generally valued below the deductible of the State’s insurance policy are covered under an insurance policy already purchased by the Conservancy.”

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies shown to our representatives during the course of our audit. The assistance and cooperation extended to them by the personnel of the Governor's Residence Conservancy, Inc. greatly facilitated the conduct of this examination.

Kenneth Post
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts