

STATE OF CONNECTICUT



*AUDITORS' REPORT
GOVERNOR'S RESIDENCE CONSERVANCY, INC.
FOR THE FISCAL YEARS ENDED JUNE 30, 2007, 2008 and 2009*

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, 2007, 2008, & 2009 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, 2007, 2008, & 2009 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

July 28, 2010
State Capitol
Hartford, Connecticut

**GOVERNOR'S RESIDENCE CONSERVANCY, INC.
 STATEMENT OF FINANCIAL POSITION
 AS OF JUNE 30, 2007, 2008 AND 2009**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
ASSETS:			
Cash and cash equivalents	\$ 26,505	\$ 7,342	\$ 34,447
TOTAL ASSETS	<u>\$ 26,505</u>	<u>\$ 7,342</u>	<u>\$ 34,447</u>
LIABILITIES AND NET ASSETS			
LIABILITIES	-	-	-
NET ASSETS:			
Unrestricted	26,505	7,342	34,447
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 26,505</u>	<u>\$ 7,342</u>	<u>\$ 34,447</u>

See Notes to the Financial Statements

**GOVERNOR'S RESIDENCE CONSERVANCY, INC.
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEARS ENDED JUNE 30, 2007, 2008, AND 2009**

REVENUES AND SUPPORT:	<u>2009</u>	<u>Unrestricted</u> <u>2008</u>	<u>2007</u>
Sales	\$ 13,449	\$ 15,550	\$ 11,921
Contributions	22,500		
TOTAL REVENUE AND SUPPORT	<u>\$ 35,949</u>	<u>\$ 15,550</u>	<u>\$ 11,921</u>
EXPENSES:			
Program services:			
Restoration/Improvement/Preservation	3,074	25,651	8,245
Supporting services:			
General and administrative	2,161	6,528	2,050
Fund raising	11,551	10,476	13,087
TOTAL EXPENSES	<u>16,786</u>	<u>42,655</u>	<u>23,382</u>
CHANGES IN NET ASSETS	19,163	(27,105)	(11,461)
NET ASSETS, BEGINNING OF YEAR	<u>7,342</u>	<u>34,447</u>	<u>45,908</u>
NET ASSETS, END OF YEAR	<u>\$ 26,505</u>	<u>\$ 7,342</u>	<u>\$ 34,447</u>

See Notes to the Financial Statements

GOVERNOR'S RESIDENCE CONSERVANCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2007, 2008 AND 2009

	<u>2009</u>				<u>2008</u>				<u>2007</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>
Professional fees	-	1,000	-	1,000	-	1,065	-	1,065	-	1,000	-	1,000
Filing fees	-	75	-	75	-	95	-	95	-	75	-	75
Decorating-Open House	-	-	231	231	-	-	-	-	-	-	2,180	2,180
Christmas ornaments	-	-	11,320	11,320	-	-	10,476	10,476	-	-	10,907	10,907
Bank Charges	-	9	-	9	-	120	-	120	-	14	-	14
Repairs & Maintenananc \$	960	-	-	960	3,450	-	-	3,450	1,670	-	-	1,670
Appraisal Services	-	-	-	-	-	4,098	-	4,098	-	-	-	-
Insurance fees	-	-	-	-	-	306	-	306	-	296	-	296
Postage	-	-	-	-	-	-	-	-	-	4	-	4
Furniture & Decor	508	-	-	508	8,101	-	-	8,101	6,575	-	-	6,575
Fabric	1,606	-	-	1,606	14,100	-	-	14,100	-	-	-	-
Legal fees	-	310	-	310	-	-	-	-	-	-	-	-
Sales Tax	-	767	-	767	-	844	-	844	-	661	-	661
TOTAL EXPENSES	\$ 3,074	\$ 2,161	\$ 11,551	\$ 16,786	\$ 25,651	\$ 6,528	\$ 10,476	\$ 42,655	\$ 8,245	\$ 2,050	\$ 13,087	\$ 23,382

See Notes to the Financial Statements

GOVERNOR'S RESIDENCE CONSERVANCY, INC.
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007, 2008 AND 2009

	<u>2009</u>	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in Net Assets	\$ 19,163	\$ (27,105)	\$ (11,461)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>19,163</u>	<u>(27,105)</u>	<u>(11,461)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	-	-	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	-	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ 19,163</u>	<u>\$ (27,105)</u>	<u>\$ (11,461)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>\$ 7,342</u>	<u>\$ 34,447</u>	<u>\$ 45,908</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 26,505</u>	<u>\$ 7,342</u>	<u>\$ 34,447</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>2009</u>	<u>2008</u>	<u>2007</u>
Program Services	\$ 3,074	\$ 25,651	\$ 8,245
Supporting Services	<u>2,161</u>	<u>6,528</u>	<u>2,050</u>
Total	<u>\$ 5,235</u>	<u>\$32,179</u>	<u>\$10,295</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, 2009 of \$14,072 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

The Internal Revenue Service performed an examination of the information return filed by the Conservancy for the fiscal year ended June 30, 2003. The examination was completed in December 2007 and the return was accepted as filed. The examination identified certain deficiencies pertaining to Forms 1099-MISC which we have addressed in our Management Letter.

**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, 2007, 2008, & 2009, and we have issued our report thereon dated July 28, 2010.

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 for 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

July 28, 2010
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, 2007, 2008, & 2009, and have issued our report dated July 28, 2010.

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

July 28, 2010
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, 2007, 2008, and 2009, 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. Our prior audit noted matters pertaining to the segregation of duties, and insurance coverage of personal property which resulted in recommendations. We are repeating those recommendations in a modified form. Those and other matters are discussed in the findings below:

Segregation of Duties:

Criteria: Sound internal controls suggest that there should be segregation of duties in handling accounting transactions. The Conservancy's current policy requires a second signature on checks exceeding \$1,000 and Board approval for purchases over \$5,000.

Condition: 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.

Fifty-four checks were written during the fiscal years ended June 30, 2007, 2008 and 2009. Seventeen checks totaling \$69,888 were for amounts exceeding \$1,000. A second signature was not obtained for any of the checks exceeding the threshold.

Effect: Inadequate segregation of duties increases the risk that material errors in the financial statements may not be detected in a timely manner.

Cause: A limited number of office personnel in the Conservancy causes the lack of segregation of duties.

Recommendation: The Conservancy should adhere to the established procedures in order to accomplish segregation of duties in the performance of accounting transactions.

Auditee Response: “We agree with this finding and will adhere to the established procedure in the future.”

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. The MOU which terminates January 31, 2011, was amended to explicitly assign responsibility for insurance to the Department of Public Works.

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 was able to produce a list of property purchased for the Governor’s residence, but original costs or assessed values were not made available with that data. During the fiscal year ended June 30, 2007, the Conservancy purchased a painting and two pieces of furniture with a total value of \$10,952 which were not included on the inventory.

The Conservancy obtained an appraisal of the fine arts and furniture items on loan to the Governor’s Residence. The appraisal did not include all items on the Conservancy’s inventory list and the inventory list did not contain all items purchased during the audited period.

Effect: The inventory list does not completely and accurately reflect the value of the inventory owned by the

Conservancy. Some items on the inventory list have not been appraised.

Cause: A cause for the condition was not determined.

Recommendation: The Conservancy should work with the Department of Public Works to develop a comprehensive list of assets and determine the values of those assets.

Auditee Response: “We agree with this finding and we will work with the Department of Public Works to develop a comprehensive list of assets and determine the value of those assets.”

Terms of the Bylaws:

Criteria: The Bylaws of The Governor’s Residence Conservancy, Inc. state “The directors shall meet three times a year at the call of the chairperson. At the first meeting of each year, the Corporation shall determine the schedule of the meetings for the directors for the calendar year. The schedule shall be transmitted to the Secretary of the State pursuant to Connecticut General Statutes Section 1-19a”.

The Bylaws also state that the duties of the Secretary include keeping the records of the meeting proceedings.

Condition: The Board of Directors for the Governor’s Residence Conservancy, Inc. does not pre-schedule meetings for the calendar year, therefore a schedule is not transmitted to the Secretary of State.

The Conservancy does not meet three times a year as stated in the Bylaws. Minutes for all the meetings were not available.

Effect: The Board of Directors is not in compliance with the Bylaws. Documentation of the Board proceedings was not available.

Cause: The Board of Directors for the Governor’s Residence Conservancy, Inc. does not pre-schedule meetings. The minutes were not retained.

Recommendation: The Board should adhere to the requirements as set forth in the Bylaws.

Auditee Response: “We agree with this finding and we will revisit the By-Laws in an effort to determine if the Bylaws reflect the limited activity of the Conservancy.”

Compliance with Internal Revenue Code:

Criteria: The By-Laws of the Conservancy state that the Directors shall not be empowered to engage in any activity which would result in the Corporation’s loss of its Federal income tax exemption under Section 501(c)(3) of the Internal Revenue Code.

Section 6041A (a) of the Internal Revenue Code generally requires certain service-recipients to report non-employee compensation of \$600 or more. The payor is required to file an information return with the Internal Revenue Service and to furnish a statement to the payee.

Condition: During September 2007, the Conservancy paid \$3,200 to an individual for services rendered. An additional payment of \$1,400 was made to an artist during December 2006. The required Forms 1099-MISC were not issued or filed as required by the Internal Revenue Code.

Effect: Non-compliance with the requirements could result in penalties and/or the loss of exempt status.

Cause: We were not able to determine the cause.

Recommendation: The Conservancy should adhere to the Internal Revenue Code and issue 1099-MISC forms when required.

Auditee Response: “We agree with this finding and will issue Forms 1099-MISC when appropriate.”

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.

Mary C. Avery
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts