

Tennessee State Museum Foundation

Financial Statements

June 30, 2010

Table of Contents

Independent Auditors' Report.....	1
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets.....	3
Statement of Cash Flows	4
Notes to the Financial Statements.....	5
Report on Compliance and Internal Control.....	12

McKerley & Noonan, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Trustees of
Tennessee State Museum Foundation
Nashville, Tennessee

We have audited the accompanying statement of financial position of the Tennessee State Museum Foundation (the Foundation) as of June 30, 2010, and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation'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 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 of material misstatements. 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 for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee State Museum Foundation as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2011, on our consideration of the Tennessee State Museum Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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*, and should be considered in assessing the results of our audit.

McKerley & Noonan

McKerley and Noonan, P.C.
Certified Public Accountants
March 21, 2011

Tennessee State Museum Foundation
Statement of Financial Position
June 30, 2010

ASSETS	2010
Cash and cash equivalents	\$ 351,669
Certificates of deposit (Note 3)	313,360
Investments at market (Note 2)	11,184
Accounts receivable (Note 4)	36,226
Grants receivable (Note 5)	48,555
Interest receivable	2,027
Inventory	86,683
Furniture and equipment, net (Note 6)	311
TOTAL ASSETS	\$ 850,015
LIABILITIES	
Accounts payable	\$ 2,175
Accrued expenses	55,082
TOTAL LIABILITIES	57,257
NET ASSETS	
Unrestricted	345,599
Temporarily restricted (Note 8)	436,654
Permanently restricted (Note 8)	10,505
TOTAL NET ASSETS	792,758
TOTAL LIABILITIES AND NET ASSETS	\$ 850,015

See Notes to the Financial Statements

Tennessee State Museum Foundation
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2010

Public Support and Other Revenues	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions and grants (Note 9)	\$ 26,427	164,261	\$ 100	\$ 190,788
Special events (Note 10)	227,986	-	-	227,986
Membership fees	40,801	-	-	40,801
Retail store sales	111,094	-	-	111,094
Investment income	17,306	-	-	17,306
Miscellaneous income	999	-	-	999
Net assets released from restrictions	208,347	(208,347)	-	-
Total Public Support and Revenue and Other Revenues	632,960	(44,086)	100	588,974
Functional Expenses				
Program services:				
Programs and exhibits	275,118	-	-	275,118
Direct costs and expenses - retail store	84,853	-	-	84,853
Total Program Services	359,971	-	-	359,971
Supporting services:				
Management and general	182,320	-	-	182,320
Fundraising	8,634	-	-	8,634
Special events (Note 10)	120,286	-	-	120,286
Total Supporting Services	311,240	-	-	311,240
Total Expenses	671,211	-	-	671,211
Change in Net Assets	(38,251)	(44,086)	100	(82,237)
Net Assets at Beginning of Year	383,850	480,740	10,405	874,995
Net Assets at End of Year	\$ 345,599	\$ 436,654	\$ 10,505	\$ 792,758

See Notes to the Financial Statements

Tennessee State Museum Foundation
Statement of Cash Flows
For the Year Ended June 30, 2010

	<u>2010</u>
Operating Activities	
Change in Net Assets	\$ (82,237)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities	
Depreciation	339
Unrealized gain on investments	(2,421)
(Increase) Decrease in grants receivable	30,958
(Increase) Decrease in accounts receivable	(3,086)
(Increase) Decrease in inventory	2,796
(Increase) Decrease in accrued interest	2,487
Increase (Decrease) in accounts payable	(4,089)
Increase (Decrease) in accrued expenses	50,276
Total Adjustments	<u>77,260</u>
Net Cash Provided by Operating Activities	(4,977)
Investing Activities	
Net change in certificates of deposit	<u>74,640</u>
Net Cash Provided by Investing Activities	<u>74,640</u>
Net Increase in Cash and Cash Equivalents	69,663
Cash and Cash Equivalents Beginning of Year	<u>282,006</u>
Cash and Cash Equivalents End of Year	<u><u>\$ 351,669</u></u>

See Notes to the Financial Statements

Tennessee State Museum Foundation
Notes to the Financial Statements
June 30, 2010

Note 1 - General

Tennessee State Museum Foundation (the "Foundation") is a Tennessee not-for-profit corporation organized exclusively for charitable, educational and scientific purposes. The Foundation's purpose is to enhance the operations and visibility of the Tennessee State Museum (the "Museum"), a State Government entity. The Foundation receives funding from certain local grants and private contributions, and revenues from membership fees, special fundraiser events and operation of the Tennessee State Museum retail store.

Note 2 – Summary of Significant Accounting Policies

The accompanying financial statements present the financial position and operations of the Foundation in conformity with accounting principles generally accepted in the United States of America. The presentation is limited to the accounts of the Foundation only and does not include any operations of the Museum. A summary of the significant accounting policies utilized in the preparation of these financial statements follows:

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

The Foundation reports gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used, or cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Tennessee State Museum Foundation
Notes to the Financial Statements
June 30, 2010

Cash and Cash Equivalents

Cash and cash equivalents consist principally of checking account balances and money market funds with original maturities when purchased of three months or less.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

The Foundation has investments in mutual funds through a brokerage firm. These investments are recorded at fair market value. The Foundation's investments are measured on a recurring basis at fair value at the reporting date using quoted prices in active markets for identical assets (Level 1). At June 30, 2010, the Foundation's investments were valued at \$11,184 and consisted of equity mutual funds.

Inventory

Inventory is reported at the lower of cost (first-in, first-out method) or market.

Furniture and Equipment

Furniture and equipment are stated at acquisition cost or at estimated fair market value at the time of the gift if donated. Depreciation of these assets is calculated by the straight-line method over estimated useful lives of five to seven years.

Tennessee State Museum Foundation
Notes to the Financial Statements
June 30, 2010

In-Kind Contributions

Donated facilities and materials are recorded as gifts in the period received at fair value, if there is an objective and measurable basis for determining such value.

Donated services are recognized if they create or enhance non-financial assets or the donated service requires specialized skills, was performed by a donor who possesses such skills, and would have been purchased by the Foundation if not donated. Such services are recognized at fair value as support and expense in the period the services are performed.

A number of unpaid volunteers including staff of the Tennessee State Museum have made significant contributions of their time to assist the Foundation in implementing various programs and exhibits. The value of contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Program and Supporting Services - Functional Allocation

The following program and supporting services are included in the accompanying financial statements:

Program services - include activities carried out to fulfill the Foundation's mission, resulting in services provided for specific exhibits and auxiliary services to support the Museum.

Supporting services

Management and general - relates to the overall direction of the organization. These expenses are not identifiable with a particular program or event or with fundraising, but are indispensable to the conduct of those activities and are essential to the organization. Specific activities include organization oversight, business management, record keeping, budgeting, financing, and other administrative activities.

Fundraising - includes cost of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

Special events - includes costs directly related to these fundraising events. Costs consist primarily of food, space rental, entertainment, communication, wait staff, lighting, and printing.

Tennessee State Museum Foundation
Notes to the Financial Statements
June 30, 2010

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Effective July 1, 2008, the Foundation adopted the guidance in ASC 740 on accounting for uncertainty in income taxes (formerly FIN 48). For all tax positions taken by the Foundation, management believes it is clear that the likelihood is greater than 50 percent that the full amount of the tax positions taken will be ultimately realized. With few exceptions, the Foundation is no longer subject to U.S. federal tax examinations by tax authorities for years before 2007. The Foundation incurred no interest or penalties during the year ended June 30, 2010.

Note 3 – Certificates of Deposit

At June 30, 2010, the Foundation held \$313,360 of certificates of deposit with interest rates ranging from 1.98% to 4.60%, with various maturity dates extending to October, 2013.

Note 4 - Accounts Receivable

Accounts receivable as of June 30, 2010 represent amounts due from the State of Tennessee and other unrelated third parties. Management has recorded an allowance for potential bad debt of \$8,600 as of June 30, 2010.

Note 5 - Grants Receivable

The Organization has several governmental grants. Grants receivable at June 30, 2010 represent amounts due based on the grant contracts. Management believes all amounts are fully collectible.

Tennessee State Museum Foundation
Notes to the Financial Statements
June 30, 2010

Note 6 - Furniture and Equipment

Furniture and equipment consisted of the following as of June 30, 2010:

	2010
Computer and related equipment	\$15,553
Furniture and fixtures	2,775
Office Equipment	1,690
	<u>20,018</u>
Less: accumulated depreciation	<u>(19,707)</u>
	<u>\$ 311</u>

Depreciation expense amounted to \$339 for the year ended June 30, 2010.

Note 7 - Agreement with State of Tennessee

The Foundation has an agreement with the State of Tennessee for the use of certain space in the James K. Polk Cultural Center for the Foundation's business office. The Foundation pays no rent or other charges for the use of this space. In addition, the Foundation operates a retail store in the Museum. The revenue generated, the related costs of sales, and the ending inventory of the retail store are reflected in the financial statements of the Foundation.

Note 8 - Restricted Net Assets

Temporarily restricted net assets consisted of donations for the following specific exhibits or programs at June 30, 2010:

	2010
Story Baskets	1,080
Conservation Fund	7,761
Bridgestone Painting	13,021
Cracker Barrel Quilt Fund	4,062
Artifact	1,558
Bellsouth Sculpture	6,410
Photo Fund	9,491
George Kip Keel	1,535
Marty Stuart Traveling Exhibit	24,235
Sit-Ins Exhibit	1,741
Bagels and Barbeque	1,623
Hippie Jacks	1,152
Carousel Revenue	265,655
Confederate Flag Conservation	14,781

Tennessee State Museum Foundation
Notes to the Financial Statements
June 30, 2010

Note 8 - Restricted Net Assets (cont.)

Guider Traveling Show	5,341
Public Programs	1,263
Hoofbeats	2,616
Teachers Workshop	3,390
Flag Conservation	4,007
New Museum	17,050
NEH Traveling Trunks Grant	48,555
Other	327
	<u>\$ 436,654</u>

Permanently restricted net assets consisted of the following endowment fund at June 30, 2010:

	<u>2010</u>
Shelia Green Memorial Fund	\$ 10,505

Note 9 – Federal Grants

The Organization is owed \$48,555 from a federal governmental grant with the National Endowment for the Humanities.

Note 10 - Special Events

The Foundation held several special fundraising events during the year ended June 30, 2010. The related revenues and costs were as follows for the year ended June 30, 2010:

	Revenues	Expenses
Special events	\$227,986	\$120,286

Tennessee State Museum Foundation
Notes to the Financial Statements
June 30, 2010

Note 11 - Concentration of Risk

Cash and investments are maintained with financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor as of June 30, 2010. At times, the deposits may exceed the insurance limits.

The Foundation also maintains money market funds at a brokerage and investment company. The investments are insured by the Securities Investor Protection Corporation (SPIC), which covers investor losses, in some cases, attributable to bankruptcy or fraudulent practices of brokerage firms, up to \$500,000. The amount on deposit at June 30, 2010, did not exceed the insurance limits of the Securities Investor Protection Corporation.

Note 12- Subsequent Events

Subsequent events have been evaluated through the financial statement issuance date of March 21, 2011.

**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**

To the Board of Directors of
Tennessee State Museum Foundation

We have audited the financial statements of Tennessee State Museum Foundation (a nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated March 21, 2011. 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, we considered Tennessee State Museum Foundation's internal control over financial reporting as a basis for designing our auditing procedures 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 Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether Tennessee State Museum Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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.

This report is intended solely for the information and use of management and the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McKerley & Noonan

McKerley & Noonan, P.C.
Nashville, Tennessee
March 21, 2011