

*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, 2007, 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, 2007, 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 December 21, 2007, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

*McKerley & Noonan*

McKerley and Noonan, P.C.  
Certified Public Accountants  
December 21, 2007

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**Tennessee State Museum Foundation**  
**Statement of Financial Position**  
**June 30, 2007**

<b>ASSETS</b>	<u>2007</u>
Cash and cash equivalents	\$ 149,071
Certificates of deposit (Note 3)	393,290
Investments at market (Note 2)	33,491
Accounts receivable (Note 4)	83,398
Grants receivable (Note 5)	321,357
Interest receivable	24,402
Prepaid expenses	2,515
Inventory	72,493
Furniture and equipment, net (Note 6)	<u>1,509</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,081,526</u></u>
 <b>LIABILITIES</b>	
Accounts payable	\$ 6,037
Accrued expenses	<u>4,705</u>
<b>TOTAL LIABILITIES</b>	10,742
 <b>NET ASSETS</b>	
Unrestricted	382,216
Temporarily restricted (Note 8)	678,963
Permanently restricted (Note 8)	<u>9,605</u>
<b>TOTAL NET ASSETS</b>	<u>1,070,784</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,081,526</u></u>

See Notes to the Financial Statements

**Tennessee State Museum Foundation**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended June 30, 2007**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Public Support and Other Revenues</b>				
Contributions and grants (Note 9)	\$ 54,621	553,503	\$ 600	\$ 608,724
Special events (Note 10)	280,621	-	-	280,621
Membership fees	34,293	-	-	34,293
Retail store sales	105,800	-	-	105,800
Investment income	36,560	-	-	36,560
Miscellaneous income	652	-	-	652
Net assets released from restrictions	307,071	(307,071)	-	-
<b>Total Public Support and Revenue and Other Revenues</b>	<b>819,618</b>	<b>246,432</b>	<b>600</b>	<b>1,066,650</b>
<b>Functional Expenses</b>				
Program services:				
Programs and exhibits	485,142	-	-	485,142
Direct costs and expenses - retail store	104,607	-	-	104,607
<b>Total Program Services</b>	<b>589,749</b>	<b>-</b>	<b>-</b>	<b>589,749</b>
Supporting services:				
Management and general	67,163	-	-	67,163
Fundraising	15,912	-	-	15,912
Special events (Note 10)	174,409	-	-	174,409
<b>Total Supporting Services</b>	<b>257,484</b>	<b>-</b>	<b>-</b>	<b>257,484</b>
<b>Total Expenses</b>	<b>847,233</b>	<b>-</b>	<b>-</b>	<b>847,233</b>
<b>Change in Net Assets</b>	<b>(27,615)</b>	<b>246,432</b>	<b>600</b>	<b>219,417</b>
<b>Net Assets at Beginning of Year</b>	<b>409,831</b>	<b>432,531</b>	<b>9,005</b>	<b>851,367</b>
<b>Net Assets at End of Year</b>	<b>\$ 382,216</b>	<b>\$ 678,963</b>	<b>\$ 9,605</b>	<b>\$ 1,070,784</b>

See Notes to the Financial Statements

**Tennessee State Museum Foundation**  
**Notes to the Financial Statements**  
**June 30, 2007**

**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, 2007**

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. At June 30, 2007, the Foundation's investments were valued at \$33,491 and primarily consisted of certificates of deposit (60%) and equity funds (37%).

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, 2007**

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 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, 2007**

**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).

**Note 3 – Certificates of Deposit**

At June 30, 2007, the Foundation held \$393,290 of certificates of deposit with interest rates ranging from 4.85% to 5.26%. All mature during 2007.

**Note 4 - Accounts Receivable**

Accounts receivable as of June 30, 2007 represent amounts which management asserts are fully collectable; and therefore, no allowance for bad debt is made.

**Note 5 - Grants Receivable**

The Organization has several governmental grants. Grants receivable at June 30, 2007 represent amounts due based on the grant contracts. Management believes all amounts are fully collectible.

**Note 6 - Furniture and Equipment**

Furniture and equipment consisted of the following as of June 30, 2007:

	<b>2007</b>
Computer and related equipment	\$15,553
Furniture and fixtures	2,775
Office Equipment	1,690
	<hr/> 20,018
Less: accumulated depreciation	(18,510)
	<hr/> \$ 1,509

Depreciation expense amounted to \$1,242 for the year ended June 30, 2007.



**Tennessee State Museum Foundation**  
**Notes to the Financial Statements**  
**June 30, 2007**

**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, 2007:

	<u>2007</u>
Story Baskets	\$ 1,018
Conservation Fund	4,365
Bridgestone Painting	8,215
Grooms Exhibit	48,157
Cracker Barrel Quilt Fund	21,582
Kids Quilt Table	369
Joe Thompson	854
Artifact	640
Bellsouth Sculpture	1,160
Photo Fund	10,533
Civil War Institute	540
TN Flag Traveling Show	1,500
African American Program	619
TACA	1,917
Herb Williams Painting	2,500
Larger Than Life	1,625
LeQuire Acquisition	1,500
Julian Nichol	14,202
Carousel Revenue	265,655
Confederate Flag Conservation	21,811
Old Glory	3,080
Chicago Trip	2,875
Public Programs	646
Sevens Party	6,001
Consulting Grant	5,000
Flag Conservation	4,228
John Guider River Show	20,000
Jack Stoddart	36,300

**Tennessee State Museum Foundation**  
**Notes to the Financial Statements**  
**June 30, 2007**

New Museum	3,500
NEH Website Grant	126,650
NEH Traveling Trunks Grant	59,249
Other	2,672
	<u>\$ 678,963</u>

Permanently restricted net assets consisted of the following endowment fund at June 30, 2007:

	<u>2007</u>
Shelia Green Memorial Fund	\$ 9,605

**Note 9 – Grant Income**

The Organization received \$424,889 from various governmental agencies, including the State of Tennessee and the National Endowment for the Humanities.

**Note 10 - Special Events**

The Foundation held several special fundraising events during the year ended June 30, 2007. The related revenues and costs were as follows for the year ended June 30, 2007:

	<b>Revenues</b>	<b>Expenses</b>
Special events	\$280,621	\$174,409

**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 \$100,000 per depositor. 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, 2007, did not exceed the insurance limits of the Securities Investor Protection Corporation.

*McKerley & Noonan, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS  
**Report on Compliance and on Internal Control over Financial  
Reporting 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, 2007, and have issued our report thereon dated December 21, 2007. 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.

**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 that are required to be reported under Government Auditing Standards.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Tennessee State Museum Foundation'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 the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might 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 the following matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. Numerous significant audit adjustments were made to the financial statements in order to correct misstatements. The organization has not appointed a qualified individual with significant accounting skills to oversee the preparation of the financial statements.

This report is intended solely for the information and use of management and the Board of Directors 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  
December 21, 2007