

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM

AUDITED FINANCIAL STATEMENTS

AND OTHER INFORMATION

JUNE 30, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Clarksville-Montgomery County Museum
Clarksville, Tennessee

We have audited the accompanying financial statements of the Clarksville-Montgomery County Museum (the Museum), a component unit of the City of Clarksville, Tennessee, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 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 the 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.

As discussed in Note 1, the financial statements present only the Museum and do not purport to, and do not, present fairly the financial position of the City of Clarksville, Tennessee, as of June 30, 2012 and 2011, and the changes in its financial position, and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of June 30, 2012 and 2011, and the changes in financial position and cash flows thereof for the years 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 September 10, 2012, on our consideration of the Museum'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Museum's financial statements as a whole. The other information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of board and trustees has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Stone Rudolph & Henry, PLC

September 10, 2012

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2012 AND 2011

FINANCIAL STATEMENTS

These statements offer financial information about the Museum's activities. The statement of net assets includes all of the Museum's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities). All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. These statements measure the success of the Museum's operations over the past fiscal year. The final statement is the cash flow statement. The purpose of this statement is to provide information about the Museum's cash receipts and cash payments during this reporting period. This statement reports receipts, payments, and net changes in cash resulting from operations, investing and grants, donations and interest, and provides answers to such questions as where does cash come from, what was cash used for, and what caused the changes in balances during the reporting period.

The financial statements of the Museum include only activities from Museum operations. Over time increases and/or decreases in net assets can show whether the Museum's financial health is improving or deteriorating. However, outside factors such as massive troop deployments from Fort Campbell and the ensuing drop in sales tax revenue, the recession and the increasing instability in the economy should be considered. The increase in operating costs in all areas including the cost of ongoing repairs and maintenance to a century-old building, increasing energy prices for utilities and transportation, and insurance needs are also major factors. The recession has also heavily impacted donations, contributions, interest income and the annual fundraiser Flying High.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2012 AND 2011

CONDENSED FINANCIAL INFORMATION AND ANALYSIS

An important question to be asked about the Museum's finances is "Is the Museum, as a whole, better off or worse off as a result of this fiscal year's (FY) activities?" The statements of net assets and revenues, expenses, and changes in net assets will attempt to answer this question.

ASSETS	2012	2011	2010	2012-2011 CHANGE
				%
Unrestricted current assets	\$ 332,612	\$ 368,460	\$ 454,865	(9.73)
Restricted cash and cash equivalents	50,400	40,062	35,610	25.81
Subtotal	383,012	408,522	490,475	(6.24)
OTHER ASSETS				
Property and equipment (net of accumulated depreciation)	2,598,678	2,108,849	2,209,867	23.23
Investments	1,393,120	1,509,201	1,218,289	(7.69)
TOTAL ASSETS	\$ 4,374,810	\$ 4,026,572	\$ 3,918,631	8.65

LIABILITIES & NET ASSETS	2012	2011	2010	2012-2011 CHANGE
				%
Current liabilities	\$ 39,921	\$ 45,423	\$ 49,305	(12.11)
Note payable	151,182	167,478	183,258	(9.73)
TOTAL LIABILITIES	191,103	212,901	232,563	(10.24)
NET ASSETS				
Unrestricted	308,987	338,818	420,840	(8.80)
Restricted	1,443,520	1,549,263	1,253,899	(6.83)
Plant investment (net of related debt)	2,431,200	1,925,590	2,011,329	26.26
TOTAL NET ASSETS	4,183,707	3,813,671	3,686,068	9.70
TOTAL LIABILITIES & NET ASSETS	\$ 4,374,810	\$ 4,026,572	\$ 3,918,631	8.65

As can be seen by the table above, total assets in FY 2012 were \$4,374,810, an increase from 2011 of \$348,238 and an increase since 2010 of \$456,461. This is attributed to an increase in restricted donations, the addition of another fundraiser and a good turn out at Flying High as well as the upturn in the economy, and a decrease in inventory as the gift shop divested itself of inventory more than 3 years old. It also reflects leasehold improvements through capital projects. The Museum showed a decrease of liabilities due to continued pay down of the city loan. The change in net assets is directly attributable to investments and a decrease in use of restricted income for long-range projects.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2012 AND 2011

The Museum adopts an operating income and expenses budget to assist in planning and forecasting finances for the fiscal year. The budget is approved by the Board of Trustees and is in effect for the entire fiscal year. The budget may be amended by the Board if events warrant. Management uses the budget as a tool to control and direct income and expenses. Income increased over the previous year. This came mainly from an increase in admissions and membership prices, rental income, gift shop sales and capital funding for leasehold improvements and repairs. Flying High income was up from 2011 and 2010. The addition of other fundraising events helped to increase that source of income. The table on the following page shows the major sources of income and expenses for fiscal year 2011-2012. This budget explanation excludes depreciation, in-kind donations/expenditures such as advertising and professional discounts, and unrealized income/losses from investments.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2012 AND 2011

<u>INCOME/REVENUE</u>	FY actual	FY budget	Over (Under)	Variance
				%
Admissions	\$ 30,521	\$ 37,900	\$ (7,379)	(19.47)
City of Clarksville	488,351	488,351	-	-
City of Clarksville – Capital Budget	595,307	600,000	(4,693)	(0.78)
Contributions/Donations	53,378	15,000	38,378	255.85
Donated Use of Building	330,644	Non-budget item	330,644	-
Exhibit Income	7,796	30,000	(22,204)	(74.01)
Fundraising	*143,394	151,000	(7,606)	(5.04)
Grants	1,000	Non-budget item	1,000	-
Interest/Investment	52,838	57,100	(4,262)	(7.46)
Membership and Miscellaneous Income	58,672	54,000	4,672	8.65
Gift Shop Sales	29,713	30,000	(287)	(0.96)
<u>TOTAL REVENUES</u>	\$1,791,614	\$ 1,463,351	\$ 328,263	22.43
*includes in-kind donations				
<u>EXPENSES</u>			(Over) Under	
Exhibits	\$ 34,032	\$ 36,850	\$ 2,818	7.65
Administrative and General, MAP, Interest Expense, Communications and Other Expenses	62,749	112,091	49,342	44.02
Depreciation	109,800	Non-budget item	(109,800)	-
Marketing and Fundraising	*124,478	72,000	(52,478)	(72.89)
Salaries, Benefits & Payroll Tax	488,875	494,710	5,835	1.18
Legal & Accounting Fees	33,694	34,200	506	1.48
Rent	333,968	4,000	(329,968)	824.92
Repairs and Maintenance	19,739	21,500	1,761	8.19
Utilities	79,794	66,500	(13,294)	(19.99)
Cost of Gift Shop Sales	18,369	21,500	3,131	14.56
Unrealized Loss	116,080	Non-budget item	(116,080)	
<u>TOTAL EXPENSES</u>	\$1,421,578	\$ 863,351	\$ (558,227)	(64.66)
CHANGE IN NET ASSETS	370,036			
BEGINNING NET ASSETS	\$3,813,671			
<u>ENDING NET ASSETS</u>	\$4,183,707			

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2012 AND 2011

CONDENSED FINANCIAL INFORMATION AND ANALYSIS (CONT'D)

We entered fiscal year 2011/12 still in the midst of a war and a recession, continuing a year of economic uncertainty in the banking and investment sector. In addition, the impact of the deployment of 20,000 troops from Fort Campbell, the overall depressed economy and the reality of less discretionary income for charitable giving is reflected in our bottom line. The Museum added another fundraiser in 2011/12 and combined with an improved economic outlook and better weather at Flying High led to significant gains in fundraising income for 2012. Annually, \$22,000 of the income from Flying High is used to pay the city loan installment, with any remaining funds giving a much-needed boost to general operating funds. The necessity of using money market funds to finance exhibits and repairs also reduced our assets, and an increase in unrealized losses impacted the bottom line. The recession-driven drop in interest rates reduced our expected interest income. The dedication of the Hand Gallery to the Challenges and Champions permanent exhibit has reduced space available for renting and therefore rental income. The increase in energy costs and repairs to an aging building are also mitigating circumstances in increased operating expenses.

The Museum gift shop's overall sales decreased slightly, as did the cost of sales from 2010/11. A change in shop management and marketing approach has resulted in a more positive cash flow.

Aggressive marketing, the addition of more and varied exhibit and program offerings has lead to an increase in revenue from those areas. Although membership remained steady, admissions were down from 2011 due to closure of approximately 50% of the Museum from February 1 until April 28 for capital improvements and repairs. Moving the rentals department into the management of the retail department has resulted in a promising source of on-going revenue. The existence of free Museum parking, completion of downtown reconstruction, and the increase in businesses locating to downtown has increased traffic in our area. Add to this focused marketing to Fort Campbell and area families and we have had a positive impact on attendance and membership numbers, with the resulting increase in income in those areas.

Exhibit expenses have almost always exceeded budget. We fund exhibits solely through Flying High, grants and restricted contributions, all of which are almost impossible to predict. Aging permanent exhibits are in need of major over-hauls and traveling science and/or hands-on curriculum-based exhibits are becoming more and more expensive. Grants/underwriting from government and/or corporate sources, which have historically been our alternate sources for exhibit costs, are almost non-existent in the current economic climate.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital assets increased from \$3,468,648 at June 30, 2011, to \$4,068,277 at the end of fiscal year 2012. This increase is due to the capitalization of additional leasehold improvements.

The Museum's debt is due solely to day-to-day operating expenses and a 1996 construction loan. These debts are payable through normal revenues sources, including store sales, the Flying High fundraiser and income from investments, including the Gracey Trust. The city construction loan was restructured at a fixed rate in FY 05/06 and will be retired in 2020.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2012 AND 2011

FUTURE EXPECTATIONS

In 1983, the people of Clarksville and Montgomery County entrusted this Museum with the collection, preservation and interpretation of our community's history and culture. They charge this Museum with telling the story of who they were, who they are and who they hope to become. As such, an appropriate goal for us is not necessarily to make more money for the sake of profits, but to generate enough revenue to continue to serve the people of this community in the manner that they deserve and to which they have become accustomed. The current economic climate makes this even more of a challenge. Our budget for fiscal year beginning July 2012 reflects this challenge and goal, i.e. an increase in marketing of the store, membership and our rental facilities, a more aggressive fundraising initiative, a restructuring of staff responsibilities and more dependence on internal resources and partnerships for exhibits. The creation of a separate Museum foundation (the Customs House Foundation) will help to ensure the future fiscal stability of this institution through investment of the maturing Gracy trust, the solicitation of endowments and estate planning.

CONTACTING THE MUSEUM'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Board's finances. If you have any questions about this report or need any additional information contact the Director of the Clarksville-Montgomery County Museum, 200 South Second Street, Clarksville, Tennessee 37040.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 285,805	\$ 319,749
Accounts receivable	12,122	10,646
Prepaid expenses	4,591	4,590
Inventory	30,094	33,475
Total current assets	<u>332,612</u>	<u>368,460</u>
 <u>RESTRICTED ASSETS</u>		
Cash and cash equivalents	50,400	40,062
Investments	1,393,120	1,509,201
Total restricted assets	<u>1,443,520</u>	<u>1,549,263</u>
 <u>PROPERTY AND EQUIPMENT</u>		
Leasehold improvements	3,912,411	3,314,261
Furniture and equipment	155,866	154,387
Total property and equipment	<u>4,068,277</u>	<u>3,468,648</u>
 Less: Accumulated depreciation	<u>(1,469,599)</u>	<u>(1,359,799)</u>
 Net property and equipment	<u>2,598,678</u>	<u>2,108,849</u>
 Total assets	 <u><u>\$ 4,374,810</u></u>	 <u><u>\$ 4,026,572</u></u>

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 466	\$ 7,761
Accrued and withheld taxes	4,954	3,676
Accrued interest	3,499	3,499
Accrued vacation	14,706	14,706
Current portion of long-term debt	<u>16,296</u>	<u>15,781</u>
Total current liabilities	39,921	45,423
 <u>LONG-TERM DEBT</u>		
Note payable	<u>151,182</u>	<u>167,478</u>
 Total liabilities	<u>191,103</u>	<u>212,901</u>
 <u>NET ASSETS</u>		
Invested in capital assets, net of related debt	2,431,200	1,925,590
Restricted - expendable	50,400	40,062
Restricted - nonexpendable	1,393,120	1,509,201
Unrestricted	<u>308,987</u>	<u>338,818</u>
Total net assets	<u>4,183,707</u>	<u>3,813,671</u>
 Total liabilities and net assets	<u><u>\$ 4,374,810</u></u>	<u><u>\$ 4,026,572</u></u>

The accompanying notes are an integral part of the financial statements.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>OPERATING REVENUES</u>		
City of Clarksville	\$ 1,083,658	\$ 455,055
Grants	1,000	2,000
Donated use of building	330,644	330,644
Memberships	38,170	39,165
Donations and contributions	53,378	67,993
Admissions receipts	30,521	39,801
Fundraising	143,394	109,354
Exhibit income	7,796	20,895
Gift shop sales	29,713	31,979
Rental and miscellaneous income	20,502	22,338
Total operating revenues	<u>1,738,776</u>	<u>1,119,224</u>
<u>OPERATING EXPENSES</u>		
Administrative and general	12,864	9,523
Advertising	45,042	47,576
Communications	6,399	9,436
Cost of gift shop sales	18,369	19,195
Depreciation	109,800	104,202
Dues and memberships	2,174	2,787
Employee benefits	53,965	65,343
Exhibits	34,032	53,322
Fundraising	79,436	76,109
Insurance	7,839	23,693
Legal and accounting fees	33,694	35,765
Other	6,461	9,586
Payroll taxes	30,982	28,694
Postage	5,295	5,656
Printing and reproduction	6,259	8,678
Rent	333,968	334,745
Repairs and maintenance	19,739	27,039
Salaries	403,928	382,501
Supplies	9,418	8,667
Utilities	79,794	75,313
Total operating expenses	<u>1,299,458</u>	<u>1,327,830</u>
<u>OPERATING INCOME (LOSS)</u>	<u>439,318</u>	<u>(208,606)</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (CONT'D)
YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Investment income	50,753	47,359
Interest income	2,085	4,485
Unrealized gain (loss)	(116,080)	290,911
Interest expense	(6,040)	(6,546)
Total non-operating revenues (expenses)	<u>(69,282)</u>	<u>336,209</u>
 <u>CHANGE IN NET ASSETS</u>	 370,036	 127,603
 <u>NET ASSETS - BEGINNING</u>	 <u>3,813,671</u>	 <u>3,686,068</u>
 <u>NET ASSETS - ENDING</u>	 <u><u>\$ 4,183,707</u></u>	 <u><u>\$ 3,813,671</u></u>

The accompanying notes are an integral part of the financial statements.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers	\$ 98,404	\$ 110,945
Cash received from contributors	1,308,252	668,441
Cash payments to suppliers of goods and services	(457,723)	(507,417)
Cash payments to employees for services	(403,928)	(382,501)
Net cash provided by (used in) operating activities	<u>545,005</u>	<u>(110,532)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received	2,085	4,485
Investment income received	50,753	47,359
Net cash provided by investing activities	<u>52,838</u>	<u>51,844</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED</u> <u>FINANCING ACTIVITIES</u>		
Purchase of leasehold improvements and equipment	(599,628)	(3,185)
Payments on long-term debt	(15,781)	(15,279)
Interest paid	(6,040)	(6,546)
Net cash used in capital and related financing activities	<u>(621,449)</u>	<u>(25,010)</u>
<u>NET DECREASE IN CASH AND CASH EQUIVALENTS</u>	(23,606)	(83,698)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>359,811</u>	<u>443,509</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 336,205</u>	<u>\$ 359,811</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF CASH FLOWS (CONT'D)
YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS)</u>		
<u>TO NET CASH PROVIDED BY (USED IN) OPERATING</u>		
<u>ACTIVITIES</u>		
Operating income (loss)	\$ 439,318	\$ (208,606)
Reconciling adjustments:		
Depreciation	109,800	104,202
Changes in:		
Accounts receivable	(1,476)	(9,195)
Prepaid expense	(1)	-
Inventory	3,381	7,450
Accounts payable	(7,295)	2,325
Accrued and withheld taxes	1,278	(6,708)
	<u>\$ 545,005</u>	<u>\$ (110,532)</u>
Net cash provided by (used in) operating activities	<u>\$ 545,005</u>	<u>\$ (110,532)</u>

During 2012 and 2011, the Museum received free use of facilities from the City of Clarksville with an estimated value of \$330,644. The in-kind rent was accounted for as a noncash operating activity.

During 2012 and 2011, the Museum received in-kind donations from various vendors with estimated values of \$45,386 and \$51,644, respectively. The in-kind donations were accounted for as a noncash operating activity.

The accompanying notes are an integral part of the financial statements.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization and Nature of Activities

In November 1982, the Clarksville-Montgomery County Museum (the Museum) was established to collect, preserve, and interpret significant historic, political, social, intellectual, and technological achievements of Clarksville and Montgomery County and further the understanding of the historical development of Clarksville and Montgomery County from the beginning to the present. The Museum applies all relevant Governmental Accounting Standards Boards (GASB) and Financial Accounting Standards Boards (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Museum has the option to apply all FASB pronouncements issued after November 30, 1989, but has instead chosen to follow GASB pronouncements.

Reporting Entity

The Museum is a component unit of the City of Clarksville, Tennessee, which is the principal reporting entity and primary government. The City is responsible for appointing the majority of the Museum's board of trustees and provides its primary funding support.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 in the near term and those variations could have a material effect on the financial statements.

Concentration of Credit Risk

Financial instruments that potentially subject the Museum to significant concentrations of credit risk consist principally of cash and receivables. The Museum is exposed to credit risk by placing its deposits in financial institutions. The Museum has mitigated this risk because the bank balance in excess of the FDIC limit is collateralized by the State of Tennessee bank collateral pool. With respect to receivables, credit risk is dispersed across a few customers who are geographically concentrated in the service area of the Museum.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The financial statements of the Museum have been prepared using the economic resources measurement focus using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Cash and Cash Equivalents

The Museum considers all highly liquid investments purchased with a maturity of 90 days or less to be cash equivalents. Cash payments for interest were \$6,040 and \$6,546 for the years ended June 30, 2012 and 2011, respectively.

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the Museum's policy to use restricted resources first, then unrestricted resources as needed.

Inventories

Inventories are stated at lower of cost or market value and are determined by the moving average inventory method. A perpetual inventory is maintained with a physical inventory being taken annually.

Property and Equipment

Property and equipment are valued at cost for assets purchased. All assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years are capitalized. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. The Museum's collections are comprised of private documents such as letters, diaries, business ledgers, and other artifacts that shed light on the history of the region. All collections are donated to the Museum and are not recorded because the value of such items is not readily determinable. Upon deaccession, items of collection are returned to the donor or destroyed if they are no longer of value. Donated collections are never sold. The Museum had no deaccessions during the years ended June 30, 2012 and 2011.

Accrued Compensated Absences

Vacation benefits are accrued as earned and charged to salaries.

Tax-Exempt Status

The Museum is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The Museum is not subject to federal income tax except on unrelated trade or business income under Section 511 of the Internal Revenue Code. However, the Museum does file the information returns required by the Internal Revenue Service (the IRS). The Museum has not been determined to be a private foundation by the IRS. The Museum is no longer subject to U.S. federal or state income tax examinations by tax authorities for fiscal years ending before June 30, 2009.

Revenues and Support

Operating income includes revenues and expenses related to the primary, continuing operations. Operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Revenues and Support (Cont'd)

Contributions are generally available for unrestricted use in the current fiscal year unless specifically restricted by the donor. Unconditional promises to give are recorded as received.

Grants and other contributions of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. To ensure observance of limitations and restrictions placed on the use of resources available to the Museum, separate bank accounts of the Museum are maintained for each distinct donor restriction.

The endowment fund is the Museum's portion of a trust, which is restricted for thirty years from its inception in 1991. These funds are considered to be restricted. The earnings that are distributed from the trust are not restricted as to their use and are recorded, as allowed by state law, as unrestricted assets available for expenditure.

Contributions of non-cash assets and the use of facilities are recognized as economic resources and are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require special skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During the years ended June 30, 2012 and 2011, the Museum received 1,870 and 1,966 hours of non-skilled and 2,398 and 2,256 hours of skilled volunteer services valued at approximately \$16,830 and \$16,711, and \$63,645 and \$60,515, respectively. None of these services were recognized as income or expense in these financial statements.

Uncollectible Accounts

Bad debts are charged to the related revenue account using the direct-write-off method, which is not materially different from the allowance-for-bad-debt method. Bad debt expense charged to the related revenue accounts for the years ended June 30, 2012 and 2011 were \$240 and \$630, respectively.

Budgets and Budgetary Accounting

The Museum follows these procedures in establishing its budgetary data (not reflected in the financial statements):

- (1) The budget document is approved by the Board of Trustees. The primary planning tool used is the actual and projected revenues and expenditures of the immediately preceding year. The budget is approved by line item and not by broad category.
- (2) Unused budgetary appropriations lapse at the end of the year.

Change in Presentation

Certain items from the prior year may have been reclassified to conform to current year presentation.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Date of Management's Review

Subsequent events have been evaluated through September 10, 2012, which is the date the financial statements were available to be issued.

2. Investments and Other Deposits

Investments and other deposits are restricted by state law to deposits with financial institutions and certain obligations guaranteed by the United States government, while investments and other deposits received by bequest and held in the endowment fund are not subject to such restrictions. Investments and other deposits are stated at fair value based on quoted market prices. No information on derivatives, if any, held in mutual funds is available. Following is a schedule of the Museum's investments and other deposits at June 30, 2012:

	<u>Fair Value/ Carrying Value</u>	<u>Cost</u>	<u>Average Credit Quality/Rating</u>	<u>Percent of Total</u>
Common stocks	\$ 500,804	\$ 414,589	n/a	35.95
Money market fund	40,082	40,082	n/a	2.88
Real estate	1,531	1,264	n/a	0.11
Mutual funds				
Equity	489,426	431,523	n/a	35.13
Balanced	31,845	32,625	n/a	2.29
Fixed	<u>329,432</u>	<u>332,027</u>	n/a	<u>23.65</u>
	<u>\$ 1,393,120</u>	<u>\$ 1,252,110</u>		<u>100.00</u>

Custodial credit risk for the Museum's deposits is the risk that in the event of a bank failure, the Museum's deposits may not be returned to it. As required by state statutes, the Museum's policy is to require that financial institutions holding its deposits be members of the Tennessee Collateral Pool or pledge collateral for deposits in excess of federal depository insurance. The collateral is required to be held by the Museum or its agent in the Museum's name. At June 30, 2012 and 2011, cash and other deposits included bank balances of \$350,841 and \$401,366, respectively, all of which was insured by the FDIC or the State of Tennessee Collateral Pool.

Total investment income (loss) of (\$65,327) and \$338,270 for the years ended June 30, 2012 and 2011, respectively, consisted of investment earnings of \$50,753 and \$47,359 for the years ended June 30, 2012 and 2011, respectively, and a net increase (decrease) in fair value of investments of (\$116,080) and \$290,911, respectively. As described in Note 6, substantially all of the Museum's investments are held by a trustee and are not registered in the name of the Museum.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

3. Funding Sources

The Museum's operating expenses are primarily funded by transfers of funds from the City of Clarksville. Other funding sources include grants, donations, endowments, memberships, gift shop sales, and fundraising projects. A major reduction in funding by the City of Clarksville or other grantor entities could have a significant effect on the future operations of the Museum's programs and activities.

4. Property and Equipment

A summary of changes in property and equipment is as follows:

<u>Capital Asset</u>	<u>Balance</u> <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>
Leasehold improvements	\$ 3,314,261	\$ 598,150	\$ -	\$ 3,912,411
Furniture and equipment	139,822	1,479	-	141,301
Vehicles	14,565	-	-	14,565
Total property and equipment	<u>\$ 3,468,648</u>	<u>\$ 599,629</u>	<u>\$ -</u>	<u>\$ 4,068,277</u>

Accumulated Depreciation

Leasehold improvements	\$ 1,220,334	\$ 100,879	\$ -	\$ 1,321,213
Furniture and equipment	128,784	6,008	-	134,792
Vehicles	10,681	2,913	-	13,594
Total accumulated depreciation	<u>\$ 1,359,799</u>	<u>\$ 109,800</u>	<u>\$ -</u>	<u>\$ 1,469,599</u>

5. Operating Leases

The building which houses the Museum was leased from the City of Clarksville for \$1 per year for 25 years beginning May 1, 2008. The warehouse which houses the Museum's artifacts was leased from the City of Clarksville for \$1 per year for 18 years beginning June 1, 1990. The fair rental value of the building and warehouse was \$330,644 for each of the years ended June 30, 2012 and 2011 and was recognized as rent expense. The fair rental value of the building and warehouse was determined by considering the age and condition of the buildings and the cost of rental space for property in the same vicinity. The Museum has completed significant renovation of the building with funds from various grants.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

6. Endowment Fund

A significant bequest was made to the Museum in fiscal year 1991 from the Estate of Finley Gracey. During the years ended June 30, 2012 and 2011, the Museum received \$50,753 and \$47,359, respectively, of investment income from the trust established under this bequest. The Museum will receive 14.5% of the annual income from the trust for thirty years. After thirty years, the same percentage of accrued income and principal will be distributed to the Museum. The Museum's portion of the funded principal balance of the trust at June 30, 2012 and 2011, was \$1,393,120 and \$1,509,201, respectively. This amount represents 14.5% of the fair value of the assets of the trust.

Endowment fund investments were composed of the following at June 30:

<u>2012</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Common stocks and real estate	\$ 415,853	\$ 86,576	\$ 95	\$ 502,334
Money market fund	40,082	-	-	40,082
Mutual funds	796,175	57,903	3,374	850,704
	<u>\$ 1,252,110</u>	<u>\$ 144,479</u>	<u>\$ 3,469</u>	<u>\$1,393,120</u>
<u>2011</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Common stocks and real estate	\$ 364,253	\$ 90,277	\$ -	\$ 454,530
Money market fund	45,657	-	-	45,657
Mutual funds	843,989	165,025	-	1,009,014
	<u>\$ 1,253,899</u>	<u>\$ 255,302</u>	<u>\$ -</u>	<u>\$1,509,201</u>

7. Long-Term and Other Debt

At June 30, 2012, the Museum had an outstanding balance of \$167,478 on an unsecured promissory note dated January 1, 2006 with the City of Clarksville. The note will mature on December 31, 2020. Interest is charged on the unpaid balance of the loan at a fixed rate of 3.28% annually. Annual payments are due December 31 of each year, with a minimum annual payment of principal and interest totaling \$21,792.

Following are the changes in long-term debt:

	<u>Balance July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2012</u>	<u>Estimated Amount Due Year Ending June 30, 2013</u>
Note payable	\$ 183,259	\$ -	\$ 15,781	\$ 167,478	\$ 16,296

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

7. Long-Term and Other Debt (Cont'd)

Future payments on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 16,296	\$ 5,493
2014	16,833	4,959
2015	17,385	4,407
2016	17,955	3,836
2017	18,544	3,247
2018-2021	<u>80,465</u>	<u>6,704</u>
	<u>\$ 167,478</u>	<u>\$ 28,646</u>

8. Deferred Compensation Plan

The Museum has a Group Variable Annuity Contract with General American Life Insurance Company covered by IRC Section 403(b), a defined contribution pension plan, which allows both employee and employer contributions. Employee contributions were \$9,850 and \$9,245 for the years ended June 30, 2012 and 2011, while no employer contributions were approved by the Board for either year. Full-time employees qualify for the plan after six months of employment. The assets of the plan are not presented in the financial statements. The plan was terminated in July 2012.

9. Operating Leases

The Museum is the lessee under three operating lease agreements involving office equipment. The following is a schedule of future lease payments by year:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 4,198
2014	4,198
2015	3,858
2016	<u>1,023</u>
	<u>\$ 13,277</u>

For 2012 and 2011, rental expense amounted to \$3,323 and \$4,099, respectively.

10. Commitments and Contingencies

The Museum's exposure to property loss and general liability is handled through the purchase of commercial insurance. Insurance coverage was adequate to cover settlements for the past three fiscal years.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

11. Subsequent Event

In August 2012, the Museum created a foundation, Customs House Foundation (Foundation), the earnings of which would directly benefit the Museum. The Foundation's board of directors was chosen by the Museum's board of trustees and includes seven voting members, including one member who serves on both boards. The Foundation's board of directors also includes two members of the Museum's management who are non-voting members.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF BOARD OF TRUSTEES (UNAUDITED)
JUNE 30, 2012

BOARD OF TRUSTEES

Mr. Jim Durrett
Mr. Ray Runyon
Mr. Dan Hanley
Ms. Jill Crow
Mr. Scott Donnellan
Dr. Mac Edington
Mr. Dave Farris
Dr. Solie Fott
Mr. Tracy Jackson
Mr. Charles Keene
Mr. Garnett Ladd III
Mr. Ted Purdom
Dr. Carmen Reagan
Ms. Khandra Smalley
Mr. Nick Steward
Ms. Dianne Todd
Ms. Eleanor Williams

Chairman
Vice-Chairman
Treasurer
Secretary



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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 Trustees
Clarksville-Montgomery County Museum
Clarksville, Tennessee

We have audited the financial statements of the Clarksville-Montgomery County Museum (the Museum), a component unit of the City of Clarksville, Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 10, 2012. 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

Management of the Museum is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Museum's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Museum's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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. We consider the deficiencies described in the accompanying schedule of findings as 2012-1 and 2012-2 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings as 2012-3 to be a significant deficiency.

The Museum did not resolve prior-year findings 2011-1 or 2011-2. The findings recurred in the current year and are reported as findings 2012-1 and 2012-2, respectively.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Museum's financial statements are free of 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is reported as item 2012-4 in the accompanying schedule of findings.

The Museum's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Museum's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Trustees, the City of Clarksville, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Stone Rudolph & Henry, PLC

September 10, 2012

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

FINDINGS RELATED TO INTERNAL CONTROL

2012-1 (Recurring Finding) Management Oversight of Financial Reporting

Condition: The Museum has a lack of management oversight over financial reporting which includes the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP). In addition, eighteen adjusting entries were required for the financial statements to be presented in conformity with GAAP.

Criteria: Proper management oversight over financial reporting should include the preparation of the financial statements and footnote disclosures in conformity with GAAP.

Effect: The financial statements and footnote disclosures may not be in conformity with GAAP.

Recommendation: We recommend that management implement review procedures to ensure that the financial statements are prepared in conformity with generally accepted accounting principles.

Management Response: A cost-benefit analysis of the financial reporting process deemed it cost-prohibitive to obtain third-party assistance to prepare financial statements and footnotes in accordance with generally accepted accounting principles prior to the independent audit. However, we believe that our knowledge and experience enables us to review the report and understand it fully. We take full responsibility for the financial statements and all adjusting and reclassification journal entries.

2012-2 (Recurring Finding) Segregation of Duties

Condition: The Museum lacks proper segregation of duties within its accounting and admissions departments. The same person who records transactions also has the authority to sign checks and approve invoices. At times only one person sells admissions tickets and admits guests into the Museum.

Criteria: Proper segregation of duties should be maintained.

Effect: Without proper segregation of duties, opportunities exist where accounting transactions could be misstated, not recorded, or other irregularities could occur.

Recommendation: We recommend that management segregate the duties of authorizing, executing and recording financial transactions. We also recommend that management segregate the functions of ticket sales and admissions.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF FINDINGS (CONT'D)
YEAR ENDED JUNE 30, 2012

FINDINGS RELATED TO INTERNAL CONTROL (CONT'D)

Management Response: As to the recommendation that at least two people be in admissions selling tickets, there are no employees currently available to put in a second position. The cost of hiring another person for the accounting and/or admissions departments is cost prohibitive. We are proposing to move all cash and credit card transactions for admissions, rentals, and memberships from the "admissions" desk into the Gift shop where they would be processed through the current "POS" system. At the end of each month the monies would then be transferred to the proper Museum accounts via check. This would allow for the proper segregation of the collection and depositing of monies from the actual transactions involved in expenditures. This will take place no later than January 1, 2013.

Museum policy states that checks up to \$1,000 require only one signature. There are 6 people designated by the Board to sign checks – the Director, the Deputy Director/CFO, the Chairman of the Board, the Vice-Chairman of the Board, the Treasurer of the Board and the Secretary of the Board. The Director always signs checks over \$1,000 and always has approval of all disbursements. With only one person in the "finance" department, it is cost prohibitive to hire another person to physically "cut" checks. It would be almost impossible for the Director to be available to sign every check that is cut – hence the policy that the disbursements are always approved by someone other than the person who physically "cuts" the check. To that end, the CFO will no longer have the authority to sign checks. Another professional staff member will be authorized by the Board of Trustees to do so. This will be the person who is the third person in authority, i.e. The Curator of Education/Director of Visitor Services. This will take effect as soon as Board permission is granted. The timeline for this is no later than November 1, 2012.

2012-3 Review of Bank Reconciliations

Condition: Twenty-three of twenty-six bank reconciliations did not include documentation of review by the CFO. In addition, reconciling items noted on certain bank reconciliations were not cleared in a timely manner.

Criteria: The Museum should follow its internal control policy of requiring the CFO to document her review of all bank reconciliations for both the museum and its gift store. Also, reconciling items should be cleared each month.

Effect: Bank account reconciliations may not be accurate and outstanding items may not be promptly identified for follow-up.

Recommendation: We recommend that the CFO initial and date each bank account reconciliation to document her review. In addition, reconciling items should be cleared each month.

Management Response: Bank reconciliations will be reviewed and initialed by the CFO in a timely manner for any discrepancies.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF FINDINGS (CONT'D)
YEAR ENDED JUNE 30, 2012

FINDING RELATED TO COMPLIANCE

2012-4 Minutes of Committee Meetings

Condition: During the fiscal year, the Museum established six committees to enhance the efficiency and effectiveness of the Board of Trustees. Minutes were not kept for the majority of the committee meetings as required by the Museum's bylaws and Section 48-66-101 of the Tennessee Nonprofit Corporation Act.

Criteria: The Museum should maintain minutes of all committee meetings.

Effect: Minutes of committee meetings typically include documentation of important matters which would not be available if minutes are not kept.

Recommendation: We recommend that minutes be kept of all committee meetings.

Management Response: The Museum's by-laws have always provided for the use of standing committees. The Board has only started consistently using these committees to streamline the work of the Board in the last eighteen months. The same by-laws specify that the minutes be kept for the Executive Committee only. The Museum was unaware of the requirement for any other active committees to keep minutes. As soon as we were apprised of this requirement by the auditors in August 2012, we instituted the keeping of minutes as a requirement for all Board committees. These minutes are now made available to all Board members prior to any Board meeting in which the discussions, recommendations or findings of such committees will have an impact on the decisions to be made. All committee minutes are made available to any Board member who wishes to see them.