

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2015 AND 2014

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CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF BOARD OF TRUSTEES (UNAUDITED)
JUNE 30, 2015

BOARD OF TRUSTEES

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2015 and 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of the Museum as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The introductory section listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The introductory section 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2015, 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* in considering the Museum's internal control over financial reporting and compliance.

Stone Rudolph & Henry, PLC

Clarksville, Tennessee
September 28, 2015

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2015 AND 2014

FINANCIAL STATEMENTS

These statements offer financial information about the Museum's activities. The statement of net position 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 statements are the cash flow statements. The purpose of these are to provide information about the Museum's cash receipts and cash payments during this reporting period. These statements report receipts, payments, and net changes in cash that result from operations, investing and grants, donations and interest. The statements provide answers to such questions such as: Where does the Museum get its funding? What were the funds used for? What was the change in balances during the period?

The financial statements of the Museum include only activities from Museum operations. Increases and/or decreases in net assets, over time, can show whether the Museum's financial health is improving or deteriorating. However, outside factors such as massive troop deployments, downsizing of troop strength and even returning troops from Fort Campbell, and the sales tax revenue, the recession and the increasing recovery 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, increasing health insurance costs, and overall insurance needs are also major factors. The recovering economy has also 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, 2015 AND 2014

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 position and revenues, expenses, and changes in net position will attempt to answer this question.

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2015	2014	2013	% Change 14 to 15
Unrestricted	\$ 143,318	\$ 194,442	\$ 266,705	(26.29)
Restricted	172,807	76,776	454,937	125.08
Subtotal	316,125	271,218	721,642	16.56
OTHER ASSETS				
Inventory	26,455	28,575	29,302	(7.42)
Property and equipment (net of accumulated depreciation)	2,630,656	2,714,742	2,557,074	3.10
Investments	1,665,597	1,666,380	1,484,991	(0.04)
TOTAL ASSETS	4,638,833	4,680,915	4,793,009	(0.90)
Deferred outflows of resources	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,638,833	\$ 4,680,915	\$ 4,793,009	(0.90)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	2015	2014	2013	% Change 14 to 15
Current liabilities	\$ 103,516	\$ 44,957	\$ 44,131	103.26
Note payable	99,007	116,962	134,347	(15.35)
TOTAL LIABILITIES	202,523	161,919	178,478	25.08
Deferred inflows of resources	-	-	-	-
NET POSITION				
Unrestricted	84,212	195,445	268,709	(56.91)
Restricted	1,838,404	1,743,156	1,939,928	5.46
Plant investment/net of related debt	2,513,694	2,580,395	2,405,894	(2.65)
TOTAL NET POSITION	4,436,310	4,518,996	4,614,531	(1.83)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 4,638,833	\$ 4,680,915	\$ 4,793,009	(0.90)

As can be seen by the table above, total assets in FY 2015 were \$4,638,833, a decrease from FY 2014 of \$42,082 and a decrease from FY 2013 of \$154,176. This is attributed to the final payouts from the \$500,000 in a restricted donation toward the exhibit "Becoming Clarksville." It also reflects leasehold improvements through capital projects. The Museum showed a slight decrease in liabilities. The change in net position of 1.83% is directly attributable to an increase in use of restricted income for long-range projects, pay down of the long-term loan from the City and the completion of Becoming Clarksville and depletion of the one-time \$500,000 donation that was given to construct that exhibit.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2015 AND 2014

The Museum adopts an Operating Income/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 decreased over the previous year. This came mainly from a decrease in grant income, membership and admission sales and capital funding for leasehold improvement and repair. Flying High income was up from 2014. 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 FY 2015. As the Museum's operating budget does not budget for them, this explanation excludes depreciation, donated rent, interest expense and unrecognized gains or losses, but does include interest and investment pay-out income.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2015 AND 2014

<u>INCOME/REVENUE</u>	FY actual	PY actual	FY budget	Over (Under) Budget	Budget Variance
					%
Admissions	\$ 33,187	\$ 37,415	\$ 37,900	\$ (4,713)	(12.44)
City of Clarksville	562,378	556,551	562,378	-	-
City of Clarksville – capital budget	201,135	283,877	207,000	(5,865)	(2.83)
Contributions/Donations	26,962	86,482	20,000	6,962	34.81
Donated use of building	330,644	330,644	Non-Budgeted	330,644	-
Exhibit income	9,794	48,300	30,000	(20,206)	(67.35)
Fundraising	135,736	117,764	170,000	(34,264)	(20.16)
Grants	1,000	13,000	Non-Budgeted	1,000	-
Interest/Investment	72,945	70,846	70,200	2,745	3.91
Membership	40,710	48,643	40,000	710	1.78
Rental & Miscellaneous Inc.	22,814	32,419	20,000	2,814	14.07
Gift shop sales	39,791	37,817	38,130	1,661	4.36
Unrealized gain (loss)	(782)	181,389	Non-Budgeted	(782)	-
<u>TOTAL REVENUES</u>	\$ 1,476,314	\$ 1,845,147	\$ 1,195,608	\$ 280,706	23.54
*includes in-kind donations					
<u>EXPENSES</u>				(Over) Under Budget	
Exhibits	\$ 40,385	\$ 439,106	\$ 33,000	\$ (7,385)	(22.38)
Administrative and General, Interest Expense, Advertising, City Loan, Insurance, Communications, Professional Fees etc.	121,831	102,522	142,955	21,124	14.78
Depreciation	162,977	145,533	Non-Budgeted	(162,977)	-
Fundraising	64,327	163,937	70,000	5,673	8.10
Payroll, Benefits (Health Insurance) & Payroll Tax	583,792	558,360	587,250	3,458	0.59
Legal & Accounting Fees	24,024	30,988	25,753	1,729	6.71
Repairs and maintenance	103,967	50,224	45,150	(58,817)	(130.27)
Rent	339,425	334,764	Non-Budgeted	(339,425)	-
Utilities	96,613	94,921	88,200	(8,413)	(9.54)
Cost of gift shop sales	21,659	20,327	22,000	341	1.55
<u>TOTAL EXPENSES</u>	\$ 1,559,000	\$ 1,940,682	\$ 1,014,308	\$ (544,692)	(53.70)
CHANGE IN NET POSITION	(82,686)	(95,535)			
BEGINNING NET POSITION	\$ 4,518,996	\$ 4,614,531			
<u>ENDING NET POSITION</u>	\$ 4,436,310	\$ 4,518,996			

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2015 AND 2014

CONDENSED FINANCIAL INFORMATION AND ANALYSIS (CONT'D)

We entered fiscal year 2015 winding down from years of war and a recession, with the accompanying years of economic uncertainty in the banking and investment sector. Although the deployment of 20,000 troops from Fort Campbell and the downsizing of troop numbers impacted sales tax, a noticeable upswing in membership, store sales and rental income shows promise for our future economic health. Two additional fundraisers, coupled with an improved economic outlook led to small gains in general income for FY 2015. The Museum's major fundraiser rebounded from 2014 – due in part to controlling expenses and more ticket sales. Annually, \$22,000 of the income from fundraising is used to pay the city loan installment, with any remaining funds helping to boost general operating and exhibit funds.

The necessity of using money market funds for unexpected repairs and increases in utility and insurance premiums reduced our assets. 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 reduced space available for rentals 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 sales increased as well as the cost of sales remained steady. A change in shop management and marketing approach has resulted in a more positive cash flow and a reduction in old inventory.

Aggressive marketing, the addition of more and varied exhibit and program offerings led to an increase in revenue from almost all areas. With new approaches to membership, and focused programming, the Museum saw a dramatic increase in both areas. The building of an ADA accessible ramp and replacing of one of the support building's HVAC units accounted for capital funding from the City. The creation of a Special Events position promises to be a source of on-going revenue from both rentals and fundraising. The existence of free museum parking, the completion of downtown reconstruction, and the increase in businesses locating to downtown, have increased traffic in our area. Add to this focused marketing to Fort Campbell and area families and we have a positive impact on 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. This year's exhibit expense overage is directly attributed to a pre-pay deposit for an exhibit scheduled in 2017 that only became available after the completion of the budget for FY 15. 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 and 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. Our plans are to increase fundraising efforts for exhibit funding through donations and sponsorships.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2015 AND 2014

CAPITAL ASSETS AND LONG-TERM DEBT

At the end of FY 15 the Museum had total assets of \$4,638,833 compared to \$4,680,915 at the end of FY 14. The decrease is due to using the funds from a restricted donation from 2013 to complete an exhibit begun in that fiscal year and the use of existing funds to make up for 2014 Flying High income not hitting budget.

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 and other fundraisers and income from investments, including the Gracey Trust. The city construction loan was restructured at a fixed rate in fiscal year 2006 and will be retired in 2020.

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 a challenge. Our budget for fiscal year beginning July 2015 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) in FY 2014 should help to ensure the future fiscal stability of this institution through investment of the maturing Gracey trust, the solicitation of endowments and estate planning.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2015</u>	<u>2014</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 80,045	\$ 146,349
Accounts receivable	58,682	33,502
Grants receivable	-	10,000
Prepaid expenses	4,591	4,591
Inventory	26,455	28,575
Total current assets	<u>169,773</u>	<u>223,017</u>
<u>RESTRICTED ASSETS</u>		
Cash and cash equivalents	172,807	76,776
Investments	1,665,597	1,666,380
Total restricted assets	<u>1,838,404</u>	<u>1,743,156</u>
<u>PROPERTY AND EQUIPMENT</u>		
Leasehold improvements	4,386,994	4,311,751
Furniture and equipment	164,092	160,444
Total property and equipment	<u>4,551,086</u>	<u>4,472,195</u>
Less: Accumulated depreciation	(1,920,430)	(1,757,453)
Net property and equipment	<u>2,630,656</u>	<u>2,714,742</u>
Total assets	4,638,833	4,680,915
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u><u>\$ 4,638,833</u></u>	<u><u>\$ 4,680,915</u></u>

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2015</u>	<u>2014</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 62,417	\$ 2,109
Accrued and withheld taxes	4,939	7,258
Accrued interest	3,499	3,499
Accrued vacation	14,706	14,706
Current portion of long-term debt	17,955	17,385
Total current liabilities	<u>103,516</u>	<u>44,957</u>
<u>LONG-TERM DEBT</u>		
Note payable	<u>99,007</u>	<u>116,962</u>
Total liabilities	<u>202,523</u>	<u>161,919</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	<u>-</u>	<u>-</u>
<u>NET POSITION</u>		
Net investment in capital assets	2,513,694	2,580,395
Restricted:		
Expendable: restricted for exhibits	172,807	76,776
Nonexpendable	1,665,597	1,666,380
Unrestricted	84,212	195,445
Total net position	<u>4,436,310</u>	<u>4,518,996</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,638,833</u>	<u>\$ 4,680,915</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>OPERATING REVENUES</u>		
City of Clarksville	\$ 763,513	\$ 840,428
Grants	1,000	13,000
Donated use of building	330,644	330,644
Memberships	40,710	48,643
Donations and contributions	26,962	86,482
Admissions receipts	33,187	37,415
Fundraising	135,736	117,764
Exhibit income	9,794	48,300
Gift shop sales	39,791	37,817
Rental and miscellaneous income	22,814	32,419
Total operating revenues	<u>1,404,151</u>	<u>1,592,912</u>
<u>OPERATING EXPENSES</u>		
Administrative and general	17,032	39,027
Advertising	23,937	63,538
Communications	9,807	6,680
Cost of gift shop sales	21,659	20,327
Depreciation	162,977	145,533
Dues and memberships	5,228	2,716
Employee benefits	108,218	82,064
Exhibits	40,385	439,106
Fundraising	64,327	89,310
Insurance	29,004	19,587
Legal and accounting fees	24,024	30,988
Other	10,730	19,187
Payroll taxes	32,112	31,926
Postage	5,964	4,883
Printing and reproduction	8,066	8,210
Rent	339,425	334,986
Repairs and maintenance	103,967	50,224
Salaries	443,462	444,370
Supplies	7,665	8,140
Utilities	96,613	94,921
Total operating expenses	<u>1,554,602</u>	<u>1,935,723</u>
<u>OPERATING LOSS</u>	<u>(150,451)</u>	<u>(342,811)</u>

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

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONT'D)
YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Investment income	72,443	69,580
Interest income	502	1,266
Unrealized gain (loss)	(782)	181,389
Interest expense	(4,398)	(4,959)
Total non-operating revenues	<u>67,765</u>	<u>247,276</u>
 <u>CHANGE IN NET POSITION</u>	 (82,686)	 (95,535)
 <u>NET POSITION - BEGINNING</u>	 <u>4,518,996</u>	 <u>4,614,531</u>
 <u>NET POSITION - ENDING</u>	 <u><u>\$ 4,436,310</u></u>	 <u><u>\$ 4,518,996</u></u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers	\$ 113,688	\$ 123,875
Cash received from contributors	931,410	1,105,568
Cash payments to suppliers of goods and services	(544,180)	(1,014,287)
Cash payments to employees for services	(443,462)	(444,370)
Net cash provided by (used in) operating activities	<u>57,456</u>	<u>(229,214)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received	502	1,266
Investment income received	72,443	69,580
Net cash provided by investing activities	<u>72,945</u>	<u>70,846</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Purchases of leasehold improvements and equipment	(78,891)	(303,201)
Payments on long-term debt	(17,385)	(16,833)
Interest paid	(4,398)	(4,959)
Net cash used in capital and related financing activities	<u>(100,674)</u>	<u>(324,993)</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	29,727	(483,361)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>223,125</u>	<u>706,486</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 252,852</u>	<u>\$ 223,125</u>

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

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF CASH FLOWS (CONT'D)
YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>RECONCILIATION OF OPERATING LOSS</u>		
<u>TO NET CASH PROVIDED BY (USED IN)</u>		
<u>OPERATING ACTIVITIES</u>		
Operating loss	\$ (150,451)	\$ (342,811)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	162,977	145,533
Changes in:		
Accounts receivable	(25,180)	(22,825)
Grants receivable	10,000	(10,000)
Prepaid expense	-	(112)
Inventory	2,120	727
Accounts payable	60,309	(1,077)
Accrued and withheld taxes	(2,319)	1,351
	<u>\$ 57,456</u>	<u>\$ (229,214)</u>

During 2015 and 2014, 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 2015 and 2014, the Museum received in-kind donations from various vendors with estimated values of \$13,229 and \$66,064, respectively. The in-kind donations were accounted for as a noncash operating activity.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

1. Summary of Significant Accounting Policies

Reporting Entity

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 is a component unit of the City of Clarksville, Tennessee (the City), 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 Museum's financial statements are presented in accordance with accounting principles generally accepted in the United States of America which require the use of management's estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates in the near term and these variances could have a material effect on these financial statements.

Concentration of Credit Risk

Financial instruments that potentially subject the Museum to significant concentrations of credit risk consist principally of cash and accounts receivable. Custodial credit risk for the Museum's deposits is the risk that the Museum's deposits may not be returned in the event of a bank failure. 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. With respect to accounts receivable, 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.

Cash and Cash Equivalents

The Museum considers all liquid investments purchased with a maturity of 90 days or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. Cash payments for interest were \$4,398 and \$4,959 for the years ended June 30, 2015 and 2014, respectively.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2015 AND 2014

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

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, 2015 and 2014 was \$5,500 and \$2,550, respectively.

Restricted Net Position

Restricted net position represents funds restricted for specific projects and the corpus of the endowment fund (see Note 6). 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 one deaccession during the year ended June 30, 2015 and no deaccessions during the year ended June 30, 2014.

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 federal or state income tax examinations by tax authorities for fiscal years ended before June 30, 2012.

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)
JUNE 30, 2015 AND 2014

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 noncash assets and the use of facilities are recognized as economic resources and are recorded at their fair values in the period received. During the years ended June 30, 2015 and 2014, the Museum received 1,800 and 1,971 hours of non-skilled and 3,252 and 2,899 hours of skilled volunteer services valued at approximately \$16,686 and \$17,739, and \$82,955 and \$73,685, respectively. None of these services were recognized as income or expense in these financial statements.

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.

Date of Management's Review

Subsequent events have been evaluated through September 28, 2015, 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 is available on derivatives, if any, held in mutual funds.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2015 AND 2014

2. Investments and Other Deposits (Cont'd)

Following is a schedule of the Museum's investments and other deposits at June 30, 2015:

	<u>Fair Value/ Carrying Value</u>	<u>Cost</u>	<u>Average Credit Quality/Rating</u>	<u>Percent of Total</u>
Common stocks	\$ 535,485	\$ 388,325	n/a	32.15
Money market fund	19,760	19,760	n/a	1.19
Real estate	6,857	6,339	n/a	0.41
Mutual funds				
Equity	840,424	699,581	n/a	50.46
Balanced	101,598	104,277	n/a	6.10
Fixed	<u>161,473</u>	<u>166,382</u>	n/a	<u>9.69</u>
	<u>\$ 1,665,597</u>	<u>\$ 1,384,664</u>		<u>100.00</u>

Following is a schedule of the Museum's investments and other deposits at June 30, 2014:

	<u>Fair Value/ Carrying Value</u>	<u>Cost</u>	<u>Average Credit Quality/Rating</u>	<u>Percent of Total</u>
Common stocks	\$ 488,623	\$ 333,138	n/a	29.32
Money market fund	37,598	37,598	n/a	2.26
Real estate	2,935	2,513	n/a	0.18
Mutual funds				
Equity	819,608	643,840	n/a	49.18
Balanced	14,606	14,500	n/a	0.88
Fixed	<u>303,010</u>	<u>304,072</u>	n/a	<u>18.18</u>
	<u>\$ 1,666,380</u>	<u>\$ 1,335,661</u>		<u>100.00</u>

At June 30, 2015 and 2014, cash and other deposits included bank balances of \$256,933 and \$239,010, respectively, all of which was insured by the FDIC or collateral was pledged by the State of Tennessee Bank Collateral Pool.

Total investment income of \$71,661 and \$250,969 for the years ended June 30, 2015 and 2014, respectively, consisted of investment earnings of \$72,443 and \$69,580 for the years ended June 30, 2015 and 2014, respectively, and a net increase (decrease) in fair value of investments of (\$782) and \$181,389, 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)
JUNE 30, 2015 AND 2014

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 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 for the year ended June 30, 2015 is as follows:

<u>Property and Equipment</u>	<u>Balance</u> <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>
Leasehold improvements	\$ 4,311,751	\$ 75,243	\$ -	\$ 4,386,994
Furniture and equipment	145,879	3,648	-	149,527
Vehicles	14,565	-	-	14,565
Total property and equipment	<u>\$ 4,472,195</u>	<u>\$ 78,891</u>	<u>\$ -</u>	<u>\$ 4,551,086</u>

<u>Accumulated Depreciation</u>	<u>Balance</u> <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>
Leasehold improvements	\$ 1,602,346	\$ 161,285	\$ -	\$ 1,763,631
Furniture and equipment	140,542	1,692	-	142,234
Vehicles	14,565	-	-	14,565
Total accumulated depreciation	<u>\$ 1,757,453</u>	<u>\$ 162,977</u>	<u>\$ -</u>	<u>\$ 1,920,430</u>

A summary of changes in property and equipment for the year ended June 30, 2014 is as follows:

<u>Property and Equipment</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
Leasehold improvements	\$ 4,013,088	\$ 298,663	\$ -	\$ 4,311,751
Furniture and equipment	141,341	4,538	-	145,879
Vehicles	14,565	-	-	14,565
Total property and equipment	<u>\$ 4,168,994</u>	<u>\$ 303,201</u>	<u>\$ -</u>	<u>\$ 4,472,195</u>

<u>Accumulated Depreciation</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
Leasehold improvements	\$ 1,459,127	\$ 143,219	\$ -	\$ 1,602,346
Furniture and equipment	138,228	2,314	-	140,542
Vehicles	14,565	-	-	14,565
Total accumulated depreciation	<u>\$ 1,611,920</u>	<u>\$ 145,533</u>	<u>\$ -</u>	<u>\$ 1,757,453</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2015 AND 2014

5. Related Party Transactions

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 10 years beginning June 1, 2008. The fair rental value of the building and warehouse was \$330,644 for each of the years ended June 30, 2015 and 2014 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.

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, 2015 and 2014, the Museum received \$72,443 and \$69,580, 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, 2015 and 2014, was \$1,665,597 and \$1,666,380, 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>2015</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Common stocks and real estate	\$ 388,325	\$ 147,160	\$ -	\$ 535,485
Money market fund	19,760	-	-	19,760
Mutual funds	976,579	141,361	7,588	1,110,352
	<u>\$ 1,384,664</u>	<u>\$ 288,521</u>	<u>\$ 7,588</u>	<u>\$1,665,597</u>
<u>2014</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Common stocks and real estate	\$ 335,651	\$ 155,907	\$ -	\$ 491,558
Money market fund	37,598	-	-	37,598
Mutual funds	962,412	175,875	1,063	1,137,224
	<u>\$ 1,335,661</u>	<u>\$ 331,782</u>	<u>\$ 1,063</u>	<u>\$1,666,380</u>

7. Long-Term and Other Debt

At June 30, 2015, the Museum had an outstanding balance of \$116,962 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.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2015 AND 2014

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

Following are the changes in long-term debt for the year ended June 30, 2015:

	Balance			Balance	Estimated Amount Due Year Ending
	July 1, 2014	Increases	Decreases	June 30, 2015	June 30, 2016
Note payable	\$ 134,347	\$ -	\$ 17,385	\$ 116,962	\$ 17,955

Following are the changes in long-term debt for the year ended June 30, 2014:

	Balance			Balance	Estimated Amount Due Year Ending
	July 1, 2013	Increases	Decreases	June 30, 2014	June 30, 2015
Note payable	\$ 151,180	\$ -	\$ 16,833	\$ 134,347	\$ 17,385

Future payments on long-term debt are as follows:

Year ending June 30,	Principal	Interest
2016	\$ 17,955	\$ 3,836
2017	18,544	3,247
2018	19,152	2,639
2019	19,781	2,011
2020	20,429	1,382
After 2020	21,101	692
Total	\$ 116,962	\$ 13,807

8. Defined Contribution IRA Plan

The Museum administers a defined contribution individual retirement account (IRA) plan sponsored by American Funds Service Company. Employee contributions were \$9,810 and \$10,265 for the years ended June 30, 2015 and 2014. The Museum made no employer contributions during either year.

9. Operating Leases

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

Year ending June 30,	Amount
2016	\$ 5,823
	\$ 5,823

For 2015 and 2014, rental expense amounted to \$8,781 and \$4,341, respectively.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2015 AND 2014

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.

11. Related Entity

The Museum is supported by the Customs House Foundation, Inc. (the Foundation), a Tennessee nonprofit corporation which is recognized as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation was founded in 2012 and is managed by a board of directors which is autonomous from the Museum board of trustees. The Foundation's board members are nominated and elected by the Foundation board. The Museum's director, chief financial officer and finance committee chair serve as ex-officio (nonvoting) members of the Foundation's board. The Museum has no legal responsibility for or authority over the Foundation's finances. Accordingly, the Foundation does not meet the requirements for inclusion as a component unit of the Museum.



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INDEPENDENT AUDITOR'S 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, in accordance with the 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, 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, 2015, and the related notes to the financial statements, which collectively comprise the Museum's basic financial statements and have issued our report thereon dated September 28, 2015.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Museum's internal control over financial reporting (internal control) 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 Museum's internal control. Accordingly, we do not express an opinion on the effectiveness of the Museum's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 and responses as 2015-001 and 2015-002 to be material weaknesses.

The Museum did not resolve prior-year findings 2014-001 and 2014-002. The findings recurred in the current year and are reported as findings 2015-001 and 2015-002, respectively. The Museum resolved prior-year finding 2014-003 by performing the specific tasks outlined in our report dated September 25, 2014.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Museum's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Museum's Responses to Findings

The Museum's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Museum's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Museum's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Museum's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stone Rudolph & Henry, PLLC

Clarksville, Tennessee
September 28, 2015

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015

FINDINGS RELATED TO INTERNAL CONTROL

2015-001 (Recurring Finding) Management Oversight of Financial Reporting

Condition: The Museum lacks management oversight over the financial reporting processes for the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP). In addition, fourteen 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 GAAP.

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 GAAP prior to the independent audit. However, we believe that our knowledge and experience enables us to review the report and understand it fully. We have added an employee to the department whose knowledge will be helpful in this regard. We take full responsibility for the financial statements and all adjusting and reclassification journal entries.

2015-002 Control Operating Effectiveness Deficiencies

Condition: We noted that one of five checks over \$1,000 tested lacked dual signatures.

Criteria: All checks over \$1,000 should be signed by two authorized individuals.

Effect: Unauthorized disbursements could occur.

Recommendation: We recommend management implement procedures to ensure approval is documented for all disbursements according to the Museum's policies.

Management Response: The Museum was in process of changing the dual signature policy; the new policy requires two signatures on checks over \$2,500 and one of those signatures must be an executive officer of the board. This reduces the number of checks required dual signatures and also adds a level of responsibility.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Financial Statement Findings

Finding Number	Finding Title	Status
2014-001	Management Oversight of Financial Reporting (original finding #2007-001)	Repeated
2014-002	Control Operating Effectiveness Deficiencies	Repeated
2014-003	Expenditures in Excess of Budget	Corrected