

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM

AUDITED FINANCIAL STATEMENTS

AND OTHER INFORMATION

JUNE 30, 2011 AND 2010

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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, 2011 and 2010, 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, 2011 and 2010, and the changes in its financial position, or, where applicable, its cash flows 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, 2011 and 2010, 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 27, 2011, 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 the 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 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.

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 27, 2011

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
YEARS ENDED JUNE 30, 2011 AND 2010

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 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, 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, increases 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 should also be considered. 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, 2011 AND 2010

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	2011	2010	CHANGE
			%
Unrestricted current assets	\$ 368,460	\$ 454,865	(19.00)
Restricted cash and cash equivalents	40,062	35,610	12.50
Subtotal	408,522	490,475	(16.71)
OTHER ASSETS			
Property/equipment (net of accumulated depreciation)	2,108,849	2,209,867	(4.57)
Investments	1,509,201	1,218,289	23.88
TOTAL ASSETS	\$ 4,026,572	\$ 3,918,631	2.75

LIABILITIES & NET ASSETS	2011	2010	CHANGE
			%
Current liabilities	\$ 45,423	\$ 49,305	(7.87)
Note payable	167,478	183,258	(8.61)
TOTAL LIABILITIES	212,901	232,563	(8.45)
NET ASSETS			
Unrestricted	338,818	420,840	(19.49)
Restricted	1,549,253	1,253,899	23.56
Plant investment (net/related debt)	1,925,590	2,011,329	(4.26)
TOTAL NET ASSETS	3,813,671	3,686,068	3.46
TOTAL LIABILITIES & NET ASSETS	\$ 4,026,572	\$ 3,918,631	2.75

As can be seen by the table above, total assets in FY 2011 were \$4,026,572, an increase from 2010 of \$107,941. This is attributed to an increase in restricted donations, improved return on investments, as well as a decrease in inventory as the gift shop divested itself of inventory more than 3 years old. 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, 2011 AND 2010

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, memberships, rental income, and gift shop sales. Although Flying High income was down, the addition of other fundraising events helped to hold that source of income steady. The table on the following page shows the major sources of income and expenses for fiscal year 2010-2011. 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, 2011 AND 2010

<u>INCOME/REVENUE</u>	<u>FY actual</u>	<u>FY budget</u>	<u>Over (Under)</u>	<u>Variance</u>
				%
Admissions	\$ 39,801	\$ 22,000	\$ 17,801	80.91
City of Clarksville	455,055	455,055	-	-
Contributions/Donations	67,993	15,000	52,993	353.29
Donated Use of Building	330,644	Non-budget item	330,644	-
Exhibit Income	20,895	30,000	(9,105)	(30.35)
Fundraising	*109,354	150,000	(40,646)	(27.10)
Grants	2,000	Non-budget item	2,000	-
Interest/Investment	51,844	53,584	(1,740)	(3.25)
Membership and Miscellaneous Income	61,503	46,600	14,903	31.98
Gift Shop Sales	31,979	30,000	1,979	6.60
Unrealized Gain	290,911	Non-budget item	290,911	-
<b><u>TOTAL REVENUES</u></b>	<b>\$1,461,979</b>	<b>\$ 802,239</b>	<b>\$ 659,740</b>	<b>82.24</b>
*includes in-kind donations				
<b><u>EXPENSES</u></b>			<b>(Over) Under</b>	
Exhibits	\$ 53,322	\$ 30,000	\$ (23,322)	(70.74)
Administrative and General, MAP, Interest Expense, Communications and Other Expenses	94,556	102,565	8,009	7.81
Depreciation	104,202	Non-budget item	(104,202)	-
Marketing and Fundraising	*117,801	60,000	(57,801)	(96.34)
Salaries, Benefits & Payroll Tax	476,538	468,500	(8,038)	(1.72)
Legal & Accounting Fees	35,765	22,000	(13,765)	(62.57)
Rent	330,645	Non-budget item	(330,645)	-
Repairs and Maintenance	27,039	31,174	4,135	13.26
Utilities	75,313	66,500	(8,813)	(13.25)
Cost of Gift Shop Sales	19,195	21,500	2,305	10.72
<b><u>TOTAL EXPENSES</u></b>	<b>\$1,334,376</b>	<b>\$ 802,239</b>	<b>\$ (532,137)</b>	<b>(66.33)</b>
CHANGE IN NET ASSETS	127,603			
BEGINNING NET ASSETS	\$3,686,068			
<b><u>ENDING NET ASSETS</u></b>	<b>\$3,813,671</b>			



CLARKSVILLE-MONTGOMERY COUNTY MUSEUM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)  
YEARS ENDED JUNE 30, 2011 AND 2010

CONDENSED FINANCIAL INFORMATION AND ANALYSIS (CONT'D)

We entered fiscal year 2010/11 still in the midst of a war and a recession, continuing a year of economic uncertainty in the banking and investment sector. Add to that the deployment of 20,000 troops, the overall depressed economy and the reality of less discretionary income for charitable giving and our bottom line makes sense. The Museum added another fundraiser in 2010/11 and combined with Flying High income, fundraising held steady. 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, although an increase in unrealized gains helped to mitigate that loss. 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 have increased. Even though the cost was up slightly during the 2010/11 fiscal year, a change in management and marketing approach has resulted in a more positive cash flow.

Aggressive marketing, the addition of more and varied exhibit and program offerings, and a new and vigorous restructuring of admission prices and membership levels in 2010/11 lead to an increase in revenue in those areas. 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 \$3,465,464 at June 30, 2010, to \$3,468,648 at the end of fiscal year 2011. 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 13 years.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)  
YEARS ENDED JUNE 30, 2011 AND 2010

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 2011 reflects this challenge and goal, i.e. an increase in aggressive 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.

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, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 319,749	\$ 407,899
Accounts receivable	15,236	6,041
Inventory	33,475	40,925
Total current assets	<u>368,460</u>	<u>454,865</u>
 <u>RESTRICTED ASSETS</u>		
Cash and cash equivalents	40,062	35,610
Investments	1,509,201	1,218,289
Total restricted assets	<u>1,549,263</u>	<u>1,253,899</u>
 <u>PROPERTY AND EQUIPMENT</u>		
Leasehold improvements	3,314,261	3,311,077
Furniture and equipment	154,387	154,387
Total property and equipment	<u>3,468,648</u>	<u>3,465,464</u>
 Less: Accumulated depreciation	<u>(1,359,799)</u>	<u>(1,255,597)</u>
 Net property and equipment	<u>2,108,849</u>	<u>2,209,867</u>
  Total assets	  <u>\$ 4,026,572</u>	  <u>\$ 3,918,631</u>

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 7,761	\$ 5,436
Accrued and withheld taxes	3,676	10,384
Accrued interest	3,499	3,499
Accrued vacation	14,706	14,706
Current portion of long-term debt	<u>15,781</u>	<u>15,280</u>
Total current liabilities	45,423	49,305
 <u>LONG-TERM DEBT</u>		
Note payable	<u>167,478</u>	<u>183,258</u>
 Total liabilities	<u>212,901</u>	<u>232,563</u>
 <u>NET ASSETS</u>		
Invested in capital assets, net of related debt	1,925,590	2,011,329
Restricted - expendable	40,062	35,610
Restricted - nonexpendable	1,509,201	1,218,289
Unrestricted	<u>338,818</u>	<u>420,840</u>
Total net assets	<u>3,813,671</u>	<u>3,686,068</u>
  Total liabilities and net assets	  <u><u>\$ 4,026,572</u></u>	  <u><u>\$ 3,918,631</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>OPERATING REVENUES</u>		
City of Clarksville	\$ 455,055	\$ 455,055
Grants	2,000	2,009
Donated use of building	330,644	330,644
Memberships	39,165	29,144
Donations and contributions	67,993	77,627
Admissions receipts	39,801	18,520
Flying High fundraiser	99,055	110,225
Champagne and Chocolates fundraiser	10,299	10,415
Exhibit income	20,895	23,273
Gift shop sales	31,979	27,406
Rental and miscellaneous income	22,338	9,329
Total operating revenues	<u>1,119,224</u>	<u>1,093,647</u>
<u>OPERATING EXPENSES</u>		
Administrative and general	9,523	13,245
Advertising	47,576	81,402
Communications	9,436	11,914
Cost of gift shop sales	19,195	18,090
Depreciation	104,202	103,999
Dues and memberships	2,787	2,825
Employee benefits	65,343	67,826
Exhibit expense	53,322	60,350
Fundraising expense	70,225	62,855
Insurance	23,693	6,527
Legal and accounting fees	35,765	26,479
Other	19,570	15,094
Payroll tax expense	28,694	30,510
Postage	5,656	5,086
Printing and reproduction	8,678	8,157
Rent	330,645	330,645
Repairs and maintenance	27,039	23,500
Salaries	382,501	379,737
Supplies	8,667	7,851
Utilities	75,313	65,929
Total operating expenses	<u>1,327,830</u>	<u>1,322,021</u>
<u>OPERATING LOSS</u>	<u>(208,606)</u>	<u>(228,374)</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (CONT'D)  
YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Investment income	47,359	48,120
Interest income	4,485	6,650
Unrealized gain	290,911	104,322
Interest expense	<u>(6,546)</u>	<u>(7,099)</u>
Total non-operating revenues (expenses)	<u>336,209</u>	<u>151,993</u>
 <u>CHANGE IN NET ASSETS</u>	 127,603	 (76,381)
 <u>NET ASSETS - BEGINNING</u>	 <u>3,686,068</u>	 <u>3,762,449</u>
 <u>NET ASSETS - ENDING</u>	 <u><u>\$ 3,813,671</u></u>	 <u><u>\$ 3,686,068</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers	\$ 110,945	\$ 75,071
Cash received from contributors	668,441	721,456
Cash payments to suppliers of goods and services	(507,417)	(494,534)
Cash payments to employees for services	(382,501)	(379,737)
Net cash used in operating activities	<u>(110,532)</u>	<u>(77,744)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received	4,485	6,650
Investment income received	47,359	48,120
Net cash provided by investing activities	<u>51,844</u>	<u>54,770</u>
<u>CASH FLOWS FROM NONCAPITAL</u> <u>FINANCING ACTIVITIES</u>		
Payments on long-term debt	(15,279)	(14,794)
Interest paid	(6,546)	(7,099)
Net cash used in noncapital financing activities	<u>(21,825)</u>	<u>(21,893)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED</u> <u>FINANCING ACTIVITIES</u>		
Purchase of equipment	(3,185)	(11,201)
Net cash used in capital and related financing activities	<u>(3,185)</u>	<u>(11,201)</u>
<u>NET DECREASE IN CASH AND CASH EQUIVALENTS</u>	(83,698)	(56,068)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>443,509</u>	<u>499,577</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 359,811</u>	<u>\$ 443,509</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM  
STATEMENTS OF CASH FLOWS (CONT'D)  
YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH</u> <u>USED IN OPERATING ACTIVITIES</u>		
Operating loss	\$ (208,606)	\$ (228,374)
Reconciling adjustments:		
Depreciation	104,202	103,999
Changes in:		
Accounts receivable	(9,195)	27,523
Grant receivable	-	6,000
Inventory	7,450	4,245
Accounts payable	2,325	1,692
Accrued and withheld taxes	<u>(6,708)</u>	<u>7,171</u>
Net cash used in operating activities	<u>\$ (110,532)</u>	<u>\$ (77,744)</u>

During 2011 and 2010, 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.

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

a. 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.

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.

b. 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 directors and provides its primary funding support.

c. Basis of Accounting

The financial statements of the Museum have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable. Expenditures are recognized in the accounting period in which the liability is incurred and is measurable.

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.

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.

d. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's 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.

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

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

e. 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 \$6,546 and \$7,099 for the years ended June 30, 2011 and 2010, respectively.

f. 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, 2011 and 2010.

g. Revenues and Support

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, 2011 and 2010, the Museum received 1,966 and 2,205 hours of non-skilled and 2,256 and 1,640 hours of skilled volunteer services valued at approximately \$16,711 and \$17,640, and \$60,515 and \$44,850, respectively. None of these services were recognized as income or expense in these financial statements.

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

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

h. 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.

i. Accrued Compensated Absences

Vacation benefits are accrued as earned and charged to salaries.

j. 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.

k. 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, 2011 and 2010 were \$630 and \$14,855, respectively.

l. Change in Presentation

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

m. Date of Management's Review

Subsequent events have been evaluated through September 27, 2011, 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, 2011:

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

2. Investments and Other Deposits (Cont'd)

	<u>Fair Value/ Carrying Value</u>	<u>Cost</u>	<u>Average Credit Quality/Rating</u>	<u>Average Maturity in years</u>
Common Stocks	\$ 453,238	\$ 363,755	n/a	n/a
Money Market Fund	45,657	45,657	n/a	n/a
Real Estate	1,293	498	n/a	n/a
Mutual Funds				
Equity	698,409	540,962	n/a	n/a
Fixed	<u>310,604</u>	<u>303,027</u>	n/a	n/a
	<u>\$ 1,509,201</u>	<u>\$ 1,253,899</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 to 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, 2011 and 2010, cash and other deposits included bank balances of \$401,366 and \$487,097, respectively, all of which was insured by the FDIC or the State of Tennessee Collateral Pool.

Total investment income of \$338,270 and \$152,442 for the years ended June 30, 2011 and 2010, respectively, consisted of investment earnings of \$47,359 and \$48,120 for the years ended June 30, 2011 and 2010, respectively, and a net increase in fair value of investments of \$290,911 and \$104,322, 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.

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.

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

4. Property and Equipment

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

	Balance July 1, 2010	Additions	Dispositions	Balance June 30, 2011
<u>Capital Asset</u>				
Leasehold Improvements	\$ 3,311,077	\$ 3,184	\$ -	\$ 3,314,261
Furniture and Equipment	139,822	-	-	139,822
Vehicles	14,565	-	-	14,565
Total Property and Equipment	<u>\$ 3,465,464</u>	<u>\$ 3,184</u>	<u>\$ -</u>	<u>\$ 3,468,648</u>
<u>Accumulated Depreciation</u>				
Leasehold Improvements	\$ 1,125,395	\$ 94,939	\$ -	\$ 1,220,334
Furniture and Equipment	122,434	6,350	-	128,784
Vehicles	7,768	2,913	-	10,681
Total Accumulated Depreciation	<u>\$ 1,255,597</u>	<u>\$ 104,202</u>	<u>\$ -</u>	<u>\$ 1,359,799</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. This lease converted to a month-to-month basis as of June 1, 2008. For the years ended June 30, 2011 and 2010, the fair rental value of the building and warehouse was \$330,644 and \$330,644, respectively, 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, 2011 and 2010, the Museum received \$47,359 and \$48,120, respectively, of investment income each year 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, 2011 and 2010, was \$1,509,201 and \$1,218,289, respectively. This amount represents 14.5% of the fair value of the assets of the trust.

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

6. Endowment Fund (Cont'd)

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

<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>

  

<u>2010</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Common Stocks and Real Estate	\$ 340,987	\$ 14,676	\$ 10,194	\$ 345,469
Money Market Fund	47,819	-	-	47,819
U.S. Treasury Obligations	28,697	1,399	-	30,096
Mutual Funds	814,989	2,487	22,571	794,905
	<u>\$ 1,232,492</u>	<u>\$ 18,562</u>	<u>\$ 32,765</u>	<u>\$1,218,289</u>

7. Long-Term and Other Debt

At June 30, 2011, the Museum had an outstanding balance of \$183,259 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, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>	<u>Estimated Amount Due Year Ending June 30, 2012</u>
Note Payable	<u>\$ 198,538</u>	<u>\$ -</u>	<u>\$ 15,279</u>	<u>\$ 183,259</u>	<u>\$ 15,781</u>

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>
2012	\$ 15,781	\$ 6,011
2013	16,296	5,493
2014	16,833	4,959
2015	17,385	4,407
2016	18,544	3,247
2017-2020	98,420	6,704
	<u>\$ 183,259</u>	<u>\$ 30,821</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 \$9,245 and \$8,395 for the years ended June 30, 2011 and 2010, and 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.

9. 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  
SCHEDULE OF BOARD OF TRUSTEES (UNAUDITED)  
JUNE 30, 2011

BOARD OF TRUSTEES

Ms. Khandra Samlley  
Mr. Dan Hanley  
Dr. Tom Ely  
Mr. Bill Orgain  
Ms. Jill Crow  
Mr. Scott Donnellan  
Mr. Jim Durrett  
Mr. Mac Edington  
Mr. Dave Farris  
Mr. Bill Hoy  
Mr. Tracy Jackson  
Mr. Charles Keene  
Mr. Garnet Ladd III  
Mr. Frank Lott  
Mr. Ray Runyon  
Mr. Bill Summers  
Ms. Eleanor Williams

Chairman  
Vice-Chairman  
Treasurer  
Secretary





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, 2011, and have issued our report thereon dated September 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 on the following page, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

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 deficiency described on the following page as findings 2011-1 and 2011-2 to be material weaknesses.

The Museum did not resolve prior-year finding 2010-1 or 2010-3. The findings recurred in the current year and are reported as findings 2011-1 and 2011-2, respectively. The Museum resolved prior-year finding numbers 2010-2 and 2010-4 by performing the specific tasks outlined in our report dated September 7, 2010.

2011-1 (Recurring Finding) Management Oversight of Financial Reporting: We noted a lack of management oversight over financial reporting consisting of the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP). In addition, nine adjusting journal entries and two reclassification entries were required for the financial statements to be presented 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.

2011-2 (Recurring Finding) Segregation of Duties: 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 there is only one person selling admissions tickets.

Recommendation: We recommend that management designate the Director as the one who signs checks under the dual signature requirement amount and to require at least two people to be in admissions selling tickets at any given time.

Management Response: 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 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 disbursements are always approved by someone other than the person who physically cuts the checks. 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. It is cost-prohibitive for the Museum to hire another person for admissions, as the current position is only part-time. Traffic does not consistently warrant more than one person in at the admissions desk. There are always two people on that floor and the cash is counted at least three times daily by two people. The Museum is currently seeking funding for a point-of-sale system that will increase security of that area.

### 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Museum's responses to the findings identified in our audit are described above and on the previous page. 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 27, 2011