

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM

AUDITED FINANCIAL STATEMENTS

AND OTHER INFORMATION

JUNE 30, 2013 AND 2012

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CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF BOARD OF TRUSTEES (UNAUDITED)
JUNE 30, 2013

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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, 2013 and 2012, 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 of 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 principles 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, 2013 and 2012, and the respective 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.

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 23, 2013, 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 23, 2013

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2013 AND 2012

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 position. These statements measure the success of the Museum's operations over the past fiscal year. The final statement is the cash flow statement. The purpose of this statement is to provide information about the Museum's cash receipts and cash payments during this reporting period. This statement reports receipts, payments, and net changes in cash resulting from operations, investing and grants, donations and interest, and provides answers to such questions as where does cash come from, what was cash used for, and what caused the changes in balances during the reporting period.

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

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2013 AND 2012

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	2013	2012	2011	2013-2012 CHANGE
				%
Unrestricted current assets	\$ 296,707	\$ 332,612	\$ 368,460	(10.79)
Restricted cash and cash equivalents	454,937	50,400	40,062	802.65
Subtotal	751,644	383,012	408,522	96.25
OTHER ASSETS				
Property and equipment (net of accumulated depreciation)	2,557,074	2,598,678	2,108,849	(1.60)
Investments	1,484,991	1,393,120	1,509,201	6.59
TOTAL ASSETS	4,793,009	4,374,810	4,026,572	
Deferred outflows of resources	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,793,009	\$ 4,374,810	\$ 4,026,572	9.56

LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	2013	2012	2011	2013-2012 CHANGE
				%
Current liabilities	\$ 44,131	\$ 39,921	\$ 45,423	10.55
Note payable	134,347	151,182	167,478	(11.14)
TOTAL LIABILITIES	178,478	191,103	212,901	(6.61)
Deferred inflows of resources	-	-	-	-
NET POSITION				
Unrestricted	268,709	308,987	338,818	(13.04)
Restricted	1,939,928	1,443,520	1,549,263	34.39
Net investment in capital assets	2,405,894	2,431,200	1,925,590	(10.41)
TOTAL NET POSITION	4,614,531	4,183,707	3,813,671	10.30
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 4,793,009	\$ 4,374,810	\$ 4,026,572	9.56

As can be seen by the table above, total assets and deferred inflows of resources in FY 2013 were \$4,793,009, an increase from FY 2012 of \$418,199 and an increase from FY 2011 of \$766,437. This is attributed to an increase in restricted donations, the addition of another fundraiser, a good turn-out at Flying High as well as the upturn in the market, and a decrease in inventory as the gift shop divested itself of inventory more than 3 years old. It also reflects leasehold improvement through capital projects. The Museum showed a slight increase of current liabilities due to increase in insurance rates. The change in net position is directly attributable to investments, a decrease in use of restricted income for long-range projects and a large one-time restricted donation.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2013 AND 2012

The Museum adopts an operating income and expenses budget to assist in planning and forecasting finances for the fiscal year. The budget is approved by the Board of Trustees and is in effect for the entire fiscal year. The budget may be amended by the Board if events warrant. Management uses the budget as a tool to control and direct income and expenses. Income increased over the previous year. This came mainly from an increase in admissions and membership prices, rental income, gift shop sales and capital funding for leasehold improvements and repairs. Flying High income was up from fiscal years 2012 and 2011. The addition of other fundraising events helped to increase that source of income. The table on the following page shows the major sources of income and expenses for fiscal year 2013. 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, 2013 AND 2012

<u>INCOME/REVENUE</u>	FY actual	PY actual	FY budget	Over (Under) Budget	Budget Variance
					%
Admissions	\$ 31,777	\$ 30,521	\$ 37,900	\$ (6,123)	(16.16)
City of Clarksville	488,351	488,351	488,351	-	-
City of Clarksville – capital budget	92,000	595,307	92,000	-	-
Contributions/Donations	576,684	53,378	15,000	561,684	3,744.56
Donated use of building	330,644	330,644	Non-budget item	330,644	-
Exhibit income	3,230	7,796	30,000	(26,770)	(89.23)
Fundraising	*151,252	*143,394	156,000	(4,748)	(3.04)
Grants	-	1,000	Non-budget item	-	-
Interest/Investment	56,520	52,838	54,000	2,520	4.67
Membership and miscellaneous income	61,751	58,672	61,500	251	0.41
Gift shop sales	33,261	29,713	33,500	(239)	(0.71)
Unrealized gain	91,871	-	Non-budget item	91,871	-
<u>TOTAL REVENUES</u>	\$1,917,341	\$ 1,791,614	\$ 968,251	\$ 949,090	98.02
*includes in-kind donations					
<u>EXPENSES</u>				(Over) Under Budget	
Exhibits	\$ 130,715	\$ 34,032	\$ 33,100	\$ (97,615)	(294.91)
Administrative and general, MAP, interest expense, communications and other expenses	82,240	62,749	98,500	38,152	31.69
Depreciation	142,321	109,800	Non-budget item	(142,321)	-
Marketing and fundraising	*112,150	*124,478	70,000	(42,150)	(60.21)
Salaries, benefits & payroll tax	518,700	488,875	489,800	(28,900)	(5.90)
Legal & accounting fees	24,179	33,694	22,000	(2,179)	(9.90)
Rent	335,359	333,968	3,850	(331,509)	(8,610.62)
Repairs and maintenance	37,793	19,739	15,000	(22,793)	(151.95)
Utilities	83,426	79,794	78,709	(4,717)	(5.99)
Cost of gift shop sales	19,634	18,369	33,500	13,866	41.39
Unrealized loss	-	116,080	Non-budget item	-	-
<u>TOTAL EXPENSES</u>	\$1,486,517	\$ 1,421,578	\$ 844,459	\$ (620,166)	(71.58)
CHANGE IN NET POSITION	430,824	370,036			
BEGINNING NET ASSETS	\$4,183,707	\$ 3,813,671			
<u>ENDING NET POSITION</u>	\$4,614,531	\$ 4,183,707			

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2013 AND 2012

CONDENSED FINANCIAL INFORMATION AND ANALYSIS (CONT'D)

We entered fiscal year 2013 still in the midst of a war and a recession, continuing a year of economic uncertainty in the banking and investment sector. Although the impact of the deployment of 20,000 troops from Fort Campbell impacted sales tax and membership/admissions, our overall financial health looks promising. Two additional fundraisers, coupled with an improved economic outlook and a change of venue for Flying High led to significant gains in fundraising income for 2013. Additionally a one-time \$500,000 restricted donation added dramatically to our bottom line. 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 for unexpected repairs 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 did the cost of sales from fiscal year 2012. 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 has led to an increase in revenue from those areas. Although membership remained steady, admissions were down from fiscal year 2012 due to closure of approximately 50% of the Museum from September through November for capital improvements and repairs. Moving the rentals department into the management of the retail department has resulted in a promising source of on-going revenue. The existence of free Museum parking, completion of downtown reconstruction, and the increase in businesses locating to downtown has increased traffic in our area. Add to this focused marketing to Fort Campbell and area families and we have had a positive impact on attendance and membership numbers, with the resulting increase in income in those areas.

Exhibit expenses have almost always exceeded budget. We fund exhibits solely through Flying High, grants and restricted contributions, all of which are almost impossible to predict. This year's exhibit expense overage is directly attributed to an unexpected donation to fund a new permanent exhibit. A majority of the expenses in that line item were paid for out of that \$500,000 donation. 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. 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, 2013 AND 2012

CAPITAL ASSETS AND LONG-TERM DEBT

Capital assets increased from \$4,068,277 at June 30, 2012, to \$4,168,994 at the end of fiscal year 2013. 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 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 2013 reflects this challenge and goal, i.e. an increase in marketing of the store, membership and our rental facilities, a more aggressive fundraising initiative, a restructuring of staff responsibilities and more dependence on internal resources and partnerships for exhibits. The creation of a separate Museum foundation (the Customs House Foundation) will help to ensure the future fiscal stability of this institution through investment of the maturing Gracy trust, the solicitation of endowments and estate planning.

CONTACTING THE MUSEUM'S FINANCIAL MANAGEMENT

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

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2013</u>	<u>2012</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 251,549	\$ 285,805
Accounts receivable	10,677	12,122
Prepaid expenses	4,479	4,591
Inventory	29,302	30,094
Total current assets	<u>296,007</u>	<u>332,612</u>
<u>RESTRICTED ASSETS</u>		
Cash and cash equivalents	454,937	50,400
Investments	1,484,991	1,393,120
Total restricted assets	<u>1,939,928</u>	<u>1,443,520</u>
<u>PROPERTY AND EQUIPMENT</u>		
Leasehold improvements	4,013,088	3,912,411
Furniture and equipment	155,906	155,866
Total property and equipment	<u>4,168,994</u>	<u>4,068,277</u>
Less: Accumulated depreciation	(1,611,920)	(1,469,599)
Net property and equipment	<u>2,557,074</u>	<u>2,598,678</u>
Total assets	4,793,009	4,374,810
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 4,793,009</u>	<u>\$ 4,374,810</u>

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2013</u>	<u>2012</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 3,186	\$ 466
Accrued and withheld taxes	5,907	4,954
Accrued interest	3,499	3,499
Accrued vacation	14,706	14,706
Current portion of long-term debt	16,833	16,296
Total current liabilities	<u>44,131</u>	<u>39,921</u>
<u>LONG-TERM DEBT</u>		
Note payable	<u>134,347</u>	<u>151,182</u>
Total liabilities	<u>178,478</u>	<u>191,103</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	<u>-</u>	<u>-</u>
<u>NET POSITION</u>		
Net investment in capital assets	2,405,894	2,431,200
Restricted:		
Expendable: restricted for exhibits	454,937	50,400
Nonexpendable	1,484,991	1,393,120
Unrestricted	268,709	308,987
Total net position	<u>4,614,531</u>	<u>4,183,707</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,793,009</u>	<u>\$ 4,374,810</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>OPERATING REVENUES</u>		
City of Clarksville	\$ 580,351	\$ 1,083,658
Grants	-	1,000
Donated use of building	330,644	330,644
Memberships	38,815	38,170
Donations and contributions	576,684	53,378
Admissions receipts	31,777	30,521
Fundraising	151,252	143,394
Exhibit income	3,230	7,796
Gift shop sales	33,261	29,713
Rental and miscellaneous income	22,936	20,502
Total operating revenues	<u>1,768,950</u>	<u>1,738,776</u>
<u>OPERATING EXPENSES</u>		
Administrative and general	13,497	12,864
Advertising	56,858	45,042
Communications	8,874	6,399
Cost of gift shop sales	19,634	18,369
Depreciation	142,321	109,800
Dues and memberships	3,270	2,174
Employee benefits	70,952	53,965
Exhibits	130,715	34,032
Fundraising	55,292	79,436
Insurance	25,140	7,839
Legal and accounting fees	24,179	33,694
Other	7,818	6,461
Payroll taxes	31,730	30,982
Postage	4,617	5,295
Printing and reproduction	5,818	6,259
Rent	335,359	333,968
Repairs and maintenance	37,793	19,739
Salaries	416,018	403,928
Supplies	7,697	9,418
Utilities	83,426	79,794
Total operating expenses	<u>1,481,008</u>	<u>1,299,458</u>
<u>OPERATING INCOME</u>	<u>287,942</u>	<u>439,318</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONT'D)
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Investment income	54,352	50,753
Interest income	2,168	2,085
Unrealized gain (loss)	91,871	(116,080)
Interest expense	(5,509)	(6,040)
Total non-operating revenues (expenses)	<u>142,882</u>	<u>(69,282)</u>
<u>CHANGE IN NET POSITION</u>	430,824	370,036
<u>NET POSITION - BEGINNING</u>	<u>4,183,707</u>	<u>3,813,671</u>
<u>NET POSITION - ENDING</u>	<u><u>\$ 4,614,531</u></u>	<u><u>\$ 4,183,707</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers	\$ 103,853	\$ 98,404
Cash received from contributors	1,335,898	1,308,252
Cash payments to suppliers of goods and services	(587,448)	(457,723)
Cash payments to employees for services	(416,018)	(403,928)
Net cash provided by operating activities	<u>436,285</u>	<u>545,005</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received	2,168	2,085
Investment income received	54,352	50,753
Net cash provided by investing activities	<u>56,520</u>	<u>52,838</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Purchase of leasehold improvements and equipment	(100,717)	(599,628)
Payments on long-term debt	(16,298)	(15,781)
Interest paid	(5,509)	(6,040)
Net cash used in capital and related financing activities	<u>(122,524)</u>	<u>(621,449)</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	370,281	(23,606)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>336,205</u>	<u>359,811</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 706,486</u>	<u>\$ 336,205</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING</u>		
<u>ACTIVITIES</u>		
Operating income	\$ 287,942	\$ 439,318
Reconciling adjustments:		
Depreciation	142,321	109,800
Changes in:		
Accounts receivable	1,445	(1,476)
Prepaid expense	112	(1)
Inventory	792	3,381
Accounts payable	2,720	(7,295)
Accrued and withheld taxes	953	1,278
	<u> </u>	<u> </u>
Net cash provided by operating activities	<u>\$ 436,285</u>	<u>\$ 545,005</u>

During 2013 and 2012, 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 2013 and 2012, the Museum received in-kind donations from various vendors with estimated values of \$57,838 and \$45,386, respectively. The in-kind donations were accounted for as a noncash operating activity.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of Significant Accounting Policies

Organization and Nature of Activities

In November 1982, the Clarksville-Montgomery County Museum (the Museum) was established to collect, preserve, and interpret significant historic, political, social, intellectual, and technological achievements of Clarksville and Montgomery County and further the understanding of the historical development of Clarksville and Montgomery County from the beginning to the present.

Reporting Entity

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates in the near term and those variations could have a material effect on the financial statements.

Concentration of Credit Risk

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

Measurement Focus/Basis of Accounting

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

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

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 \$5,509 and \$6,040 for the years ended June 30, 2013 and 2012, respectively.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

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

Restricted Assets

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

Inventories

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

Property and Equipment

Property and equipment are valued at cost for assets purchased. All assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years are capitalized. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. The Museum's collections are comprised of private documents such as letters, diaries, business ledgers, and other artifacts that shed light on the history of the region. All collections are donated to the Museum and are not recorded because the value of such items is not readily determinable. Upon deaccession, items of collection are returned to the donor or destroyed if they are no longer of value. Donated collections are never sold. The Museum had no deaccessions during the years ended June 30, 2013 and 2012.

Accrued Compensated Absences

Vacation benefits are accrued as earned and charged to salaries.

Tax-Exempt Status

The Museum is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The Museum is not subject to federal income tax except on unrelated trade or business income under Section 511 of the Internal Revenue Code. However, the Museum does file the information returns required by the Internal Revenue Service (the IRS). The Museum has not been determined to be a private foundation by the IRS. The Museum is no longer subject to U.S. federal or state income tax examinations by tax authorities for fiscal years ended before June 30, 2010.

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.

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.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

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

Revenues and Support (Cont'd)

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, 2013 and 2012, the Museum received 1,639 and 1,870 hours of non-skilled and 2,760 and 2,398 hours of skilled volunteer services valued at approximately \$14,751 and \$16,830, and \$70,300 and \$63,645, respectively. None of these services were recognized as income or expense in these financial statements.

Uncollectible Accounts

Bad debts are charged to the related revenue account using the direct-write-off method, which is not materially different from the allowance-for-bad-debt method. Bad debt expense charged to the related revenue accounts for the years ended June 30, 2013 and 2012 was \$540 and \$240, respectively.

Budgets and Budgetary Accounting

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

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

Date of Management's Review

Subsequent events have been evaluated through September 23, 2013, which is the date the financial statements were available to be issued.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

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, 2013:

	<u>Fair Value/ Carrying Value</u>	<u>Cost</u>	<u>Average Credit Quality/Rating</u>	<u>Percent of Total</u>
Common stocks	\$ 397,556	\$ 301,060	n/a	26.77
Money market fund	26,364	26,364	n/a	1.78
Real estate	2,732	2,534	n/a	0.18
Mutual funds				
Equity	713,851	597,220	n/a	48.07
Balanced	29,995	32,625	n/a	2.02
Fixed	<u>314,493</u>	<u>332,027</u>	n/a	<u>21.18</u>
	<u>\$ 1,484,991</u>	<u>\$ 1,291,830</u>		<u>100.00</u>

Following is a schedule of the Museum's investments and other deposits at June 30, 2012:

	<u>Fair Value/ Carrying Value</u>	<u>Cost</u>	<u>Average Credit Quality/Rating</u>	<u>Percent of Total</u>
Common stocks	\$ 500,804	\$ 414,589	n/a	35.94
Money market fund	40,082	40,082	n/a	2.88
Real estate	1,531	1,264	n/a	0.11
Mutual funds				
Equity	489,426	431,523	n/a	35.13
Balanced	31,845	32,625	n/a	2.29
Fixed	<u>329,432</u>	<u>332,027</u>	n/a	<u>23.65</u>
	<u>\$ 1,393,120</u>	<u>\$ 1,252,110</u>		<u>100.00</u>

Custodial credit risk for the Museum's deposits is the risk that in the event of a bank failure, the Museum's deposits may not be returned to it. As required by state statutes, the Museum's policy is to require that financial institutions holding its deposits be members of the Tennessee Collateral Pool or pledge collateral for deposits in excess of federal depository insurance. The collateral is required to be held by the Museum or its agent in the Museum's name. At June 30, 2013 and 2012, cash and other deposits included bank balances of \$743,522 and \$350,841, respectively, all of which was insured by the FDIC or the State of Tennessee Collateral Pool.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

2. Investments and Other Deposits (Cont'd)

Total investment income (loss) of \$146,223 and (\$65,327) for the years ended June 30, 2013 and 2012, respectively, consisted of investment earnings of \$54,352 and \$50,753 for the years ended June 30, 2013 and 2012, respectively, and a net increase (decrease) in fair value of investments of \$91,871 and (\$116,080), 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.

4. Property and Equipment

A summary of changes in property and equipment for the year ended June 30, 2013 is as follows:

<u>Capital Asset</u>	<u>Balance</u> <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2013</u>
Leasehold improvements	\$ 3,912,411	\$ 100,677	\$ -	\$ 4,013,088
Furniture and equipment	141,301	40	-	141,341
Vehicles	14,565	-	-	14,565
Total property and equipment	<u>\$ 4,068,277</u>	<u>\$ 100,717</u>	<u>\$ -</u>	<u>\$ 4,168,994</u>

Accumulated Depreciation

Leasehold improvements	\$ 1,321,213	\$ 137,914	\$ -	\$ 1,459,127
Furniture and equipment	134,792	3,436	-	138,228
Vehicles	13,594	971	-	14,565
Total accumulated depreciation	<u>\$ 1,469,599</u>	<u>\$ 142,321</u>	<u>\$ -</u>	<u>\$ 1,611,920</u>

A summary of changes in property and equipment for the year ended June 30, 2012 is as follows:

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

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

4. Property and Equipment (Cont'd)

	Balance			Balance
<u>Accumulated Depreciation</u>	<u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>
Leasehold improvements	\$ 1,220,334	\$ 100,879	\$ -	\$ 1,321,213
Furniture and equipment	128,784	6,008	-	134,792
Vehicles	<u>10,681</u>	<u>2,913</u>	<u>-</u>	<u>13,594</u>
Total accumulated depreciation	<u>\$ 1,359,799</u>	<u>\$ 109,800</u>	<u>\$ -</u>	<u>\$ 1,469,599</u>

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 18 years beginning June 1, 1990. The fair rental value of the building and warehouse was \$330,644 for each of the years ended June 30, 2013 and 2012 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, 2013 and 2012, the Museum received \$54,352 and \$50,753, 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, 2013 and 2012, was \$1,484,991 and \$1,393,120, 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>2013</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Common stocks and real estate	\$ 303,594	\$ 96,694	\$ -	\$ 400,288
Money market fund	26,364	-	-	26,364
Mutual funds	<u>961,872</u>	<u>116,631</u>	<u>20,164</u>	<u>1,058,339</u>
	<u>\$ 1,291,830</u>	<u>\$ 213,325</u>	<u>\$ 20,164</u>	<u>\$1,484,991</u>

<u>2012</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Common stocks and real estate	\$ 415,853	\$ 86,576	\$ 95	\$ 502,334
Money market fund	40,082	-	-	40,082
Mutual funds	<u>796,175</u>	<u>57,903</u>	<u>3,374</u>	<u>850,704</u>
	<u>\$ 1,252,110</u>	<u>\$ 144,479</u>	<u>\$ 3,469</u>	<u>\$1,393,120</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

7. Long-Term and Other Debt

At June 30, 2013, the Museum had an outstanding balance of \$151,180 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 for the year ended June 30, 2013:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Estimated Amount Due Year Ending June 30, 2014
Note payable	\$ 167,478	\$ -	\$ 16,298	\$ 151,180	\$ 16,833

Following are the changes in long-term debt for the year ended June 30, 2012:

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

Future payments on long-term debt are as follows:

	Principal	Interest
2014	\$ 16,833	\$ 4,959
2015	17,385	4,407
2016	17,955	3,836
2017	18,544	3,247
2018	19,152	2,639
2019-2021	61,311	4,085
	<u>\$ 151,180</u>	<u>\$ 23,173</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 \$11,820 and \$9,850 for the years ended June 30, 2013 and 2012, while no employer contributions were approved by the Board for either year. Full-time employees qualify for the plan after six months of employment. The assets of the plan are not presented in the financial statements. The plan was terminated in July 2012.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

9. Operating Leases

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	4,198
2015	3,859
2016	<u>1,023</u>
	<u>\$ 9,080</u>

For 2013 and 2012, rental expense amounted to \$4,670 and \$3,323, respectively.

10. Commitments and Contingencies

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



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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, 2013, 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 23, 2013.

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 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 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 and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as 2013-1 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as 2013-2 to be a significant deficiency.

The Museum did not resolve prior-year finding 2012-1. The finding recurred in the current year and is reported as finding 2013-1. The Museum resolved prior-year findings 2012-2, 2012-3 and 2012-4 by performing the specific tasks outlined in our report dated September 10, 2012.

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 Museum's Response to Findings

The Museum's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Museum's responses 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stone Rudolph & Henry, PLC

Clarksville, Tennessee
September 23, 2013

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013

FINDINGS RELATED TO INTERNAL CONTROL

2013-1 (Recurring Finding) Management Oversight of Financial Reporting

Condition: The Museum has a lack of management oversight over financial reporting which includes the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP). In addition, 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 generally accepted accounting principles.

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

2013-2 Review of Timesheets

Condition: Four of forty-two timesheets did not include documentation of approval by the supervisor.

Criteria: All timesheets should be reviewed and approved by supervisor.

Effect: Time could be submitted for hours not actually worked and corresponding funds expended erroneously.

Recommendation: We recommend management implement procedures to ensure the review of timesheets is properly documented.

Management Response: Internal policy calls for each timesheet to be signed by the employee's supervisor, with the exception of the Executive Director. His sheet is reviewed by the CFO and initialed. All timesheets are reviewed by the CFO, as a matter of course, to insure that all timesheets are accurate. The timesheets in question were missed because the supervisors were out of town and legally, employees must be paid on time. The timesheets were put aside by the CFO to be signed at a later date and inadvertently filed by mistake. The Museum proposed to change the internal policy to allow that "in the absence of the employee's supervisor, and in order to insure the timely payment of employees, the CFO may sign the timesheets – a copy of which can later be reviewed by the supervisor if necessary."