

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM

AUDITED FINANCIAL STATEMENTS

AND OTHER INFORMATION

JUNE 30, 2014 AND 2013

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CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF BOARD OF TRUSTEES (UNAUDITED)
JUNE 30, 2014

BOARD OF TRUSTEES

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Ms. Dianne Todd
Ms. Jill Crow
Mr. Scott Donnellan
Ms. Jamie Durrett
Dr. Mac Edington
Mr. Dave Farris
Dr. Solie Fott
Ms. Valerie Guzman
Mr. Tracy Jackson
Mr. Charles Keene
Mr. Garnett Ladd III
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Mr. Ted Purdom
Dr. Carmen Reagan
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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, 2014 and 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of the Museum as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2014, 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 25, 2014

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2014 AND 2013

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, 2014 AND 2013

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	2014	2013	2012	2014-2013 CHANGE
				%
Unrestricted current assets	\$ 223,017	\$ 296,007	\$ 332,612	(24.66)
Restricted cash and cash equivalents	76,776	454,937	50,400	(83.12)
Subtotal	299,793	750,944	383,012	(60.08)
OTHER ASSETS				
Property and equipment (net of accumulated depreciation)	2,714,742	2,557,074	2,598,678	6.17
Investments	1,666,380	1,484,991	1,393,120	12.21
TOTAL ASSETS	4,680,915	4,793,009	4,374,810	(2.34)
Deferred outflows of resources	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,680,915	\$ 4,793,009	\$ 4,374,810	(2.34)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	2014	2013	2012	2014-2013 CHANGE
				%
Current liabilities	\$ 44,957	\$ 44,131	\$ 39,921	1.87
Note payable	116,962	134,347	151,182	(12.94)
TOTAL LIABILITIES	161,919	178,478	191,103	(9.28)
Deferred inflows of resources	-	-	-	-
NET POSITION				
Unrestricted	195,445	268,709	308,987	(27.25)
Restricted	1,743,156	1,939,928	1,443,520	(10.14)
Net investment in capital assets	2,580,395	2,405,894	2,431,200	(7.25)
TOTAL NET POSITION	4,518,996	4,614,531	4,183,707	(2.07)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 4,680,915	\$ 4,793,009	\$ 4,374,810	(2.34)

As can be seen by the table above, total assets and deferred inflows of resources in FY 2014 were \$4,680,915, a decrease from FY 2013 of \$112,094 and an increase from FY 2012 of \$306,105. The Museum showed a slight increase of current liabilities. The change in net position of 2% is directly attributable to an increase in use of restricted income for long-range projects and the completion of Becoming Clarksville and depletion of the one-time \$500,000 donation that was given to construct that exhibit.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2014 AND 2013

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 of trustees if events warrant. Management uses the budget as a tool to control and direct income and expenses. Income decreased over the previous year. This decrease was primarily due to the \$500,000 one-time donation received in FY 2013. Flying High income was also down from FY 2013 and FY 2012. The table on the following page shows the major sources of income and expenses for FY 2014. 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, 2014 AND 2013

<u>INCOME/REVENUE</u>	FY actual	PY actual	FY budget	Over (Under) Budget	Budget Variance
					%
Admissions	\$ 37,415	\$ 31,777	\$ 37,900	\$ (485)	(1.28)
City of Clarksville	556,551	488,351	556,551	-	-
City of Clarksville – capital budget	283,877	92,000	301,501	(17,624)	(5.85)
Contributions/Donations	*86,482	*576,684	20,000	66,482	332.41
Donated use of building	330,644	330,644	Non-budget item	330,644	-
Exhibit income	48,300	3,230	70,000	(21,700)	(31.00)
Fundraising	*117,764	*151,252	170,000	(52,236)	(30.73)
Grants	13,000	-	Non-budget item	13,000	-
Interest/Investment	70,846	56,520	71,000	(154)	(0.22)
Membership and miscellaneous income	81,062	61,751	60,000	21,062	35.10
Gift shop sales	37,817	33,261	43,000	(5,183)	(12.05)
Unrealized gain	181,389	91,871	Non-budget item	181,389	-
<u>TOTAL REVENUES</u>	\$1,845,147	\$ 1,917,341	\$ 1,329,952	\$ 515,195	38.74
*includes in-kind donations					
<u>EXPENSES</u>				(Over) Under Budget	
Exhibits	***439,106	\$ 130,715	\$ 84,900	\$ (354,206)	(417.20)
Administrative and general, interest expense, communications and other expenses	102,522	82,240	99,558	(2,964)	(2.98)
Depreciation	145,533	142,321	Non-budget item	(145,533)	-
Marketing and fundraising	*163,937	*112,150	85,000	(78,937)	(92.87)
Salaries, benefits & payroll tax	558,360	518,700	558,904	544	0.10
Legal & accounting fees	30,988	24,179	31,300	312	1.00
Rent	334,764	335,359	5,000	(329,764)	(6,595.28)
Repairs and maintenance	50,224	37,793	40,000	(10,224)	(25.56)
Utilities	94,921	83,426	84,000	(10,921)	(13.00)
Cost of gift shop sales	20,327	19,634	39,458	19,131	48.48
<u>TOTAL EXPENSES</u>	\$1,940,682	\$1,486,517	\$ 1,028,120	\$ (912,562)	(88.76)
CHANGE IN NET POSITION	(95,535)	430,824			
BEGINNING NET POSITION	\$4,614,531	\$4,183,707			
<u>ENDING NET POSITION</u>	\$4,518,996	\$4,614,531			
**used restricted donation from FY13					

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2014 AND 2013

CONDENSED FINANCIAL INFORMATION AND ANALYSIS (CONT'D)

We entered fiscal year 2014 winding down from years of war and a recession, continuing a year of economic uncertainty in the banking and investment sector. Although the deployment of 20,000 troops from Fort Campbell impacted sales tax, a noticeable upswing in membership/admissions and rental shows promise for our future economic health. Two additional fundraisers, coupled with an improved economic outlook led to small gains in general income for FY 2014. The Museum's major fundraiser did not generate as much income as predicted – due in part to weather, a downswing in auction sales and unexpected expenses. 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 and increases in utility and insurance premiums reduced our assets. The recession-driven drop in interest rates reduced our expected interest income. The dedication of the Hand Gallery to the Challenges and Champions permanent exhibit reduced space available for rentals and therefore rental income. The increase in energy costs and repairs to an aging building are also mitigating circumstances in increased operating expenses.

The Museum gift shop's sales increased as well as the cost of sales from FY 2013. 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. With new approaches to membership, and focused programming, the Museum saw a dramatic increase in both areas. Repairs to the roof, windows and soffits of the Museum accounted for capital funding from the City. The creation of a marketing and rental staff position promises to be a source of on-going revenue from both rentals and fundraising. The existence of free Museum parking, the completion of downtown reconstruction, and the increase in businesses locating to downtown have increased traffic in our area. Add to this focused marketing to Fort Campbell and area families and we have a positive impact on income in those areas.

Exhibit expenses have almost always exceeded budget. We fund exhibits solely through Flying High, grants and restricted contributions, all of which are almost impossible to predict. This year's exhibit expense overage is directly attributed to an unexpected donation of \$500,000 in FY 2013 to fund a new permanent exhibit. A majority of the exhibit expenses in FY 2014 were for the completion of that exhibit and were paid for using that 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, 2014 AND 2013

CAPITAL ASSETS AND LONG-TERM DEBT

Capital assets increased from \$4,168,994 at June 30, 2013, to \$4,472,195 at June 30, 2014. The 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 2014 reflects this challenge and goal, i.e. an increase in marketing of the store, membership and our rental facilities, a more aggressive fundraising initiative, a restructuring of staff responsibilities and more dependence on internal resources and partnerships for exhibits. The creation of a separate Museum foundation (the Customs House Foundation) in FY 2014 should help to ensure the future fiscal stability of this institution through investment of the maturing Gracey trust, the solicitation of endowments and estate planning.

CONTACTING THE MUSEUM'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Museum'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, 2014 AND 2013

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2014</u>	<u>2013</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 146,349	\$ 251,549
Accounts receivable	33,502	10,677
Grants receivable	10,000	-
Prepaid expenses	4,591	4,479
Inventory	28,575	29,302
Total current assets	<u>223,017</u>	<u>296,007</u>
<u>RESTRICTED ASSETS</u>		
Cash and cash equivalents	76,776	454,937
Investments	1,666,380	1,484,991
Total restricted assets	<u>1,743,156</u>	<u>1,939,928</u>
<u>PROPERTY AND EQUIPMENT</u>		
Leasehold improvements	4,311,751	4,013,088
Furniture and equipment	160,444	155,906
Total property and equipment	<u>4,472,195</u>	<u>4,168,994</u>
Less: Accumulated depreciation	(1,757,453)	(1,611,920)
Net property and equipment	<u>2,714,742</u>	<u>2,557,074</u>
Total assets	4,680,915	4,793,009
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u><u>\$ 4,680,915</u></u>	<u><u>\$ 4,793,009</u></u>

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2014</u>	<u>2013</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 2,109	\$ 3,186
Accrued and withheld taxes	7,258	5,907
Accrued interest	3,499	3,499
Accrued vacation	14,706	14,706
Current portion of long-term debt	17,385	16,833
Total current liabilities	<u>44,957</u>	<u>44,131</u>
<u>LONG-TERM DEBT</u>		
Note payable	<u>116,962</u>	<u>134,347</u>
Total liabilities	<u>161,919</u>	<u>178,478</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	<u>-</u>	<u>-</u>
<u>NET POSITION</u>		
Net investment in capital assets	2,580,395	2,405,894
Restricted:		
Expendable: restricted for exhibits	76,776	454,937
Nonexpendable	1,666,380	1,484,991
Unrestricted	195,445	268,709
Total net position	<u>4,518,996</u>	<u>4,614,531</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,680,915</u>	<u>\$ 4,793,009</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>OPERATING REVENUES</u>		
City of Clarksville	\$ 840,428	\$ 580,351
Grants	13,000	-
Donated use of building	330,644	330,644
Memberships	48,643	38,815
Donations and contributions	86,482	576,684
Admissions receipts	37,415	31,777
Fundraising	117,764	151,252
Exhibit income	48,300	3,230
Gift shop sales	37,817	33,261
Rental and miscellaneous income	32,419	22,936
Total operating revenues	<u>1,592,912</u>	<u>1,768,950</u>
<u>OPERATING EXPENSES</u>		
Administrative and general	39,027	13,497
Advertising	63,538	56,858
Communications	6,680	8,874
Cost of gift shop sales	20,327	19,634
Depreciation	145,533	142,321
Dues and memberships	2,716	3,270
Employee benefits	82,064	70,952
Exhibits	439,106	130,715
Fundraising	100,399	55,292
Insurance	19,587	25,140
Legal and accounting fees	30,988	24,179
Other	8,320	7,818
Payroll taxes	31,926	31,730
Postage	4,883	4,617
Printing and reproduction	8,210	5,818
Rent	334,764	335,359
Repairs and maintenance	50,224	37,793
Salaries	444,370	416,018
Supplies	8,140	7,697
Utilities	94,921	83,426
Total operating expenses	<u>1,935,723</u>	<u>1,481,008</u>
<u>OPERATING INCOME (LOSS)</u>	<u>(342,811)</u>	<u>287,942</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONT'D)
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Investment income	69,580	54,352
Interest income	1,266	2,168
Unrealized gain	181,389	91,871
Interest expense	(4,959)	(5,509)
Total non-operating revenues (expenses)	<u>247,276</u>	<u>142,882</u>
<u>CHANGE IN NET POSITION</u>	(95,535)	430,824
<u>NET POSITION - BEGINNING</u>	<u>4,614,531</u>	<u>4,183,707</u>
<u>NET POSITION - ENDING</u>	<u><u>\$ 4,518,996</u></u>	<u><u>\$ 4,614,531</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers	\$ 123,875	\$ 103,853
Cash received from contributors	1,105,568	1,335,898
Cash payments to suppliers of goods and services	(1,014,287)	(587,448)
Cash payments to employees for services	(444,370)	(416,018)
Net cash provided by (used in) operating activities	<u>(229,214)</u>	<u>436,285</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received	1,266	2,168
Investment income received	69,580	54,352
Net cash provided by investing activities	<u>70,846</u>	<u>56,520</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Purchase of leasehold improvements and equipment	(303,201)	(100,717)
Payments on long-term debt	(16,833)	(16,298)
Interest paid	(4,959)	(5,509)
Net cash used in capital and related financing activities	<u>(324,993)</u>	<u>(122,524)</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	(483,361)	370,281
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>706,486</u>	<u>336,205</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 223,125</u>	<u>\$ 706,486</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS)</u>		
<u>TO NET CASH PROVIDED BY (USED IN)</u>		
<u>OPERATING ACTIVITIES</u>		
Operating income (loss)	\$ (342,811)	\$ 287,942
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	145,533	142,321
Changes in:		
Accounts receivable	(22,825)	1,445
Grants receivable	(10,000)	-
Prepaid expense	(112)	112
Inventory	727	792
Accounts payable	(1,077)	2,720
Accrued and withheld taxes	1,351	953
	<u>\$ (229,214)</u>	<u>\$ 436,285</u>

During 2014 and 2013, 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 2014 and 2013, the Museum received in-kind donations from various vendors with estimated values of \$66,064 and \$57,838, respectively. The in-kind donations were accounted for as a noncash operating activity.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

1. Summary of Significant Accounting Policies

Reporting Entity

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

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

Use of Estimates

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

Concentration of Credit Risk

Financial instruments that potentially subject the Museum to significant concentrations of credit risk consist principally of cash and accounts receivable. Custodial credit risk for the Museum's deposits is the risk that 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. With respect to accounts receivable, credit risk is dispersed across a few customers who are geographically concentrated in the service area of the Museum.

Measurement Focus/Basis of Accounting

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

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

Cash and Cash Equivalents

The Museum considers all liquid investments purchased with a maturity of 90 days or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. Cash payments for interest were \$4,959 and \$5,509 for the years ended June 30, 2014 and 2013, respectively.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014 AND 2013

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

Uncollectible Accounts

Bad debts are charged to the related revenue account using the direct-write-off method, which is not materially different from the allowance-for-bad-debt method. Bad debt expense charged to the related revenue accounts for the years ended June 30, 2014 and 2013 was \$2,550 and \$540, respectively.

Restricted Net Position

Restricted net position represents funds restricted for specific projects and the corpus of the endowment fund (see note 6). When both restricted and unrestricted resources are available for use, it is the Museum's policy to use restricted resources first, then unrestricted resources as needed.

Inventories

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

Property and Equipment

Property and equipment are valued at cost for assets purchased. All assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years are capitalized. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. The Museum's collections are comprised of private documents such as letters, diaries, business ledgers, and other artifacts that shed light on the history of the region. All collections are donated to the Museum and are not recorded because the value of such items is not readily determinable. Upon deaccession, items of collection are returned to the donor or destroyed if they are no longer of value. Donated collections are never sold. The Museum had no deaccessions during the years ended June 30, 2014 and 2013.

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, 2011.

Revenues and Support

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

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014 AND 2013

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

Revenues and Support (Cont'd)

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

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

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

Contributions of non-cash assets and the use of facilities are recognized as economic resources and are recorded at their fair values in the period received. During the years ended June 30, 2014 and 2013, the Museum received 1,971 and 1,639 hours of non-skilled and 2,899 and 2,760 hours of skilled volunteer services valued at approximately \$17,739 and \$14,751, and \$73,685 and \$70,300, respectively. None of these services were recognized as income or expense in these financial statements.

Budgets and Budgetary Accounting

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

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

Date of Management's Review

Subsequent events have been evaluated through September 25, 2014, 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.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014 AND 2013

2. Investments and Other Deposits (Cont'd)

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

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

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>

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, 2014 and 2013, cash and other deposits included bank balances of \$239,010 and \$743,522, respectively, all of which was insured by the FDIC or the State of Tennessee Bank Collateral Pool.

Total investment income of \$250,969 and \$146,223 for the years ended June 30, 2014 and 2013, respectively, consisted of investment earnings of \$69,580 and \$54,352 for the years ended June 30, 2014 and 2013, respectively, and a net increase in fair value of investments of \$181,389 and \$91,871, respectively. As described in Note 6, substantially all of the Museum's investments are held by a trustee and are not registered in the name of the Museum.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014 AND 2013

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, 2014 is as follows:

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

Accumulated Depreciation

Leasehold improvements	\$ 1,459,127	\$ 143,219	\$ -	\$ 1,602,346
Furniture and equipment	138,228	2,314	-	140,542
Vehicles	<u>14,565</u>	<u>-</u>	<u>-</u>	<u>14,565</u>
Total accumulated depreciation	<u>\$ 1,611,920</u>	<u>\$ 145,533</u>	<u>\$ -</u>	<u>\$ 1,757,453</u>

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

<u>Property and Equipment</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	<u>14,565</u>	<u>-</u>	<u>-</u>	<u>14,565</u>
Total property and equipment	<u>\$ 4,068,277</u>	<u>\$ 100,717</u>	<u>\$ -</u>	<u>\$ 4,168,994</u>

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

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014 AND 2013

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, 2014 and 2013 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, 2014 and 2013, the Museum received \$69,580 and \$54,352, 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, 2014 and 2013, was \$1,666,380 and \$1,484,991, 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>2014</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Common stocks and real estate	\$ 335,651	\$ 155,907	\$ -	\$ 491,558
Money market fund	37,598	-	-	37,598
Mutual funds	962,412	175,875	1,063	1,137,224
	<u>\$ 1,335,661</u>	<u>\$ 331,782</u>	<u>\$ 1,063</u>	<u>\$1,666,380</u>
<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	961,872	116,631	20,164	1,058,339
	<u>\$ 1,291,830</u>	<u>\$ 213,325</u>	<u>\$ 20,164</u>	<u>\$1,484,991</u>

7. Long-Term and Other Debt

At June 30, 2014, the Museum had an outstanding balance of \$134,347 on an unsecured promissory note dated January 1, 2006 with the City of Clarksville. The note will mature on December 31, 2020. Interest is charged on the unpaid balance of the loan at a fixed rate of 3.28% annually. Annual payments are due December 31 of each year, with a minimum annual payment of principal and interest totaling \$21,792.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014 AND 2013

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

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

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

Following are the changes in long-term debt for the year ended June 30, 2013:

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

Future payments on long-term debt are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 17,385	\$ 4,407
2016	17,955	3,836
2017	18,544	3,247
2018	19,152	2,639
2019	19,781	2,011
2020-2021	41,530	2,054
Total	<u>\$ 134,347</u>	<u>\$ 18,194</u>

8. Defined Contribution IRA Plan

The Museum administers a defined contribution individual retirement account (IRA) plan sponsored by American Funds Service Company. Employee contributions were \$10,265 and \$11,820 for the years ended June 30, 2014 and 2013.

9. Operating Leases

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

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 8,658
2016	1,023
	<u>\$ 9,681</u>

For 2014 and 2013, rental expense amounted to \$4,341 and \$4,670, respectively.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014 AND 2013

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, 2014, 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 25, 2014.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2014-001, 2014-002 and 2014-003 to be material weaknesses.

The Museum did not resolve prior-year finding 2013-1. The finding recurred in the current year and is reported as finding 2014-001. The Museum resolved prior-year finding 2013-2 by performing the specific tasks outlined in our report dated September 23, 2013.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Museum's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The Museum's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 25, 2014

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014

FINDINGS RELATED TO INTERNAL CONTROL

2014-001 (Recurring Finding) Management Oversight of Financial Reporting

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

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

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

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

Management Response: A cost-benefit analysis of the financial reporting process deemed it cost-prohibitive to obtain third-party assistance to prepare financial statements and footnotes in accordance with GAAP prior to the independent audit. However, we believe that our knowledge and experience enables us to review the report and understand it fully. We have added an employee to the department whose knowledge will be helpful in this regard. We take full responsibility for the financial statements and all adjusting and reclassification journal entries.

2014-002 Control Operating Effectiveness Deficiencies

Condition: We noted one of five checks over \$1,000 tested lacked dual signatures and one check under \$1,000 had no signature. We also noted one of three purchases over \$7,500 lacked documentation of board approval and two of five electronic payments tested lacked proper authorization.

Criteria: All checks should be signed by an authorized individual. All checks over \$1,000 should be signed by two authorized individuals. Documentation of board approval is required for all purchases over \$7,500. Electronic payments should be approved by an authorized individual.

Effect: Unauthorized disbursements could occur.

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

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF FINDINGS AND RESPONSES (CONT'D)
YEAR ENDED JUNE 30, 2014

FINDINGS RELATED TO INTERNAL CONTROL (CONT'D)

Management Response: This finding will be addressed by more diligent review of statements and checks as they are processed. A third party will be involved with the final processing and mailing to ensure proper documentation and signatures. The issue is documentation – although items are discussed and/or approved by the authorized individual and/or the board of trustees, documentation will be more stringently enforced.

2014-003 Expenditures in Excess of Budget

Condition: The key control for fundraising activity expenses is the board-approved budget. We noted fundraising expenses exceeded the budgeted amounts.

Criteria: Budgeted amounts should be closely monitored to ensure expenditures do not exceed approved budgeted limits.

Effect: Expenditures could exceed approved budgeted amounts.

Recommendation: We recommend that the budget be amended prior to incurring expenses or making expenditures in excess of the amounts authorized by the budget.

Management Response: There will be more control placed on fundraising expenditures by the CFO. Also an oversight evaluation by the board of trustees has been put in place to monitor expenditures for fundraising.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Financial Statement Findings

Finding Number	Finding Title	Status
2013-1	Management Oversight of Financial Reporting	Uncorrected
2013-2	Review of Timesheets	Corrected