

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2017 AND 2016

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CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF BOARD OF TRUSTEES AND MANAGEMENT (UNAUDITED)
JUNE 30, 2017

BOARD OF TRUSTEES

Mr. Bill Wyatt
Mr. Brad Martin
Dr. Carmen Reagan
Ms. Suzanne Langford
Mr. Mike Alexander
Mr. Tommy Bates
Mr. Charles Booth
Mr. Tom Creech
Ms. Carol Daniels
Dr. Sollie Fott
Ms. Katie Gambill
Mr. Tracy Jackson
Dr. Jennifer Johnston
Mr. Charles Keene
Mr. Ray Runyon
Ms. Dianne Todd
Ms. Eleanor Williams

Chairman
Vice-Chairman
Secretary
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Mr. James Zimmer
Mr. Colin McAlexander

Director
Chief Financial Officer



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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, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

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, 2017 and 2016, 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 that collectively comprise the Museum's basic financial statements. The introductory section and the other information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 26, 2017, 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 26, 2017

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2017 AND 2016

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

The financial statements of the Museum include only activities from Museum operations. Increases and/or decreases in net position, over time, can show whether the Museum's financial health is improving or deteriorating. However, external factors such as massive troop deployments, downsizing of troop strength and returning troops to Fort Campbell and the associated sales tax revenue, decreased activity in downtown Clarksville, and the increasing recovery in the economy should also be considered. The increase in operating costs in all areas, including the cost of on-going repairs and maintenance to a one hundred and nineteen year old building, increasing prices for utilities and transportation, increasing health insurance costs, and overall insurance needs are also major factors. These external factors have also impacted many of the Museum's earned revenue streams such as: memberships, admission fees, donations, gift shop sales, fundraising events and facility rentals.

CONDENSED FINANCIAL INFORMATION AND ANALYSIS

An important question to be asked about the Museum's finances is "Is the Museum, as a whole, better or worse off as a result of this fiscal year's activities?" The statements of net position, revenues, expenses, and changes in net position will attempt to answer this question. As can be seen on the following table on the next page, total assets in FY 2017 were \$4,721,872, an increase from FY 2016 of \$77,116 and an increase since FY 2015 of \$122,810. Over the two year period, this is attributed to the final payouts from the \$500,000 in a restricted donation from FY 2013 toward the permanent exhibit, "Becoming Clarksville," as well as restricted donations for Education, Exhibits, and collections conservation. The primary changes in assets over the past fiscal year reflects leasehold improvement investment through capital projects and the use of grant funds restricted for collections conservation. The Museum showed a large decrease in liabilities due to payments on the long term note payable to the City of Clarksville as well as from facilitating faster payment on invoices. The change in net position is directly attributable to an increase in use of restricted income for long-range capital projects, payment on a long term loan from the City and the grant funding for exhibits, collection conservation and education.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2017 AND 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017	2016	2015	% Change 16 to 17	% Change 15 to 16
Unrestricted	\$ 142,064	\$ 163,306	\$ 143,318	(13.01)	13.95
Restricted	82,466	90,755	172,807	(9.13)	(47.48)
Subtotal	224,530	254,061	316,125	(11.62)	(19.63)
OTHER ASSETS					
Inventory	23,979	22,404	26,455	7.03	(15.31)
Property and equipment (net of accumulated depreciation)	2,797,034	2,797,635	2,590,885	(0.02)	7.98
Investments	1,676,329	1,570,656	1,665,597	6.73	(5.70)
TOTAL ASSETS	4,721,872	4,644,756	4,599,062	1.66	(0.99)
Deferred outflows of resources	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,721,872	\$ 4,644,756	\$ 4,599,062	1.66	(0.99)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	2017	2016	2015	% Change 16 to 17	% Change 15 to 16
Current liabilities	\$ 86,348	\$ 107,577	\$ 103,516	(19.73)	3.92
Note payable	61,310	80,463	99,007	(23.80)	(18.73)
TOTAL LIABILITIES	147,658	188,040	202,523	(21.48)	(7.15)
Deferred inflows of resources	-	-	-	-	-
NET POSITION					
Unrestricted	98,848	96,677	84,212	2.25	14.80
Restricted	1,758,795	1,661,411	1,838,404	5.86	(9.63)
Plant investment/net of related debt	2,716,571	2,698,628	2,473,923	0.66	9.08
TOTAL NET POSITION	4,574,214	4,456,716	4,396,539	2.64	1.37
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 4,721,872	\$ 4,644,756	\$ 4,599,062	1.66	0.99

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2017 AND 2016

The Museum adopts an Operating Income & Expense 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. During FY 2017, overall revenue decreased from the previous year. This was primarily due to a decrease in capital project support from the City of Clarksville. The facilities in which the Museum operates are comprised of a historic 1898 building, a 35,000 square foot expansion built in 1996 and an offsite collections storage facility and workshop. The age and condition of these buildings, in addition to the need to maintain environmental conditions according to museum industry standards, continues to be costly, which results in increased repairs and maintenance expenses.

Many of the Museum's income streams traditionally fluctuate due to availability of the Museum's financial and human resources; however, overall expenses were reduced to help maintain profitability. The Museum's gift shop sales increased compared to last year, primarily due to more foot traffic. Increased events, marketing and fresh inventory are part of future planning to increase gift shop sales. Over the past couple of years, the Museum was able to have a paid member of the staff dedicated to development and fundraising, which significantly helped the Museum's ability to reach out to potential donors and sponsors in the community. This position remained vacant for the year and the Museum relied heavily on volunteers and staff available to take on the responsibilities of this position. The Museum's management recognizes the need to fill this position on staff and has secured partial funding that will be critical to filling the position in the near future.

The table on the following page shows the major sources of income and expenses for FY 2017. Because the Museum's operating budget does not budget for them, this explanation excludes bad debt expense, depreciation, donated rent, and unrealized gains or losses, but does include interest and investment pay-out income.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2017 AND 2016

<u>INCOME/REVENUE</u>	FY 2017 budget	FY 2017 actual	FY 2016 actual	Over (Under) Budget	Budget Variance
					%
Admissions	\$ 40,000	\$ 37,512	\$ 36,778	\$ (2,488)	(6.22)
City of Clarksville	698,514	621,501	613,702	(77,013)	(11.03)
City of Clarksville – capital budget	400,000	185,621	339,478	(214,379)	(53.59)
Contributions/Donations	20,000	10,453	18,790	(9,547)	(47.74)
Donated use of building	Non-Budgeted	330,644	330,644	330,644	-
Exhibit income	30,000	-	1,477	(30,000)	(100.00)
Fundraising	154,000	113,750	112,613	(40,250)	(26.14)
Grants	4,500	3,000	13,005	(1,500)	(33.33)
Interest/Investment	76,456	76,460	76,358	4	0.01
Membership	40,000	39,467	45,754	(533)	(1.33)
Rental & Miscellaneous Inc.	16,000	22,429	20,104	6,429	40.18
Gift shop sales	37,500	32,746	31,434	(4,754)	(12.68)
Unrealized gain (loss)	Non-Budgeted	105,673	(94,942)	105,673	-
<u>TOTAL REVENUES</u>	\$ 1,516,970	\$ 1,579,256	\$ 1,545,195	\$ 62,286	4.11
*includes in-kind donations					
<u>EXPENSES</u>				(Over) Under Budget	
Exhibits	\$ 49,755	\$ 49,062	\$ 36,729	\$ 693	1.39
Administrative and General, Interest Expense, Advertising, City Loan, Insurance, Communications, Professional Fees etc.	185,096	101,038	120,709	84,058	45.41
Depreciation	Non-budgeted	185,936	175,962	(185,936)	-
Fundraising	75,000	49,495	56,900	25,505	34.01
Payroll, Benefits (Health Insurance) & Payroll Tax	624,869	576,611	566,818	48,258	7.88
Legal & Accounting Fees	25,000	23,031	25,267	1,969	
Repairs and maintenance	40,000	28,492	42,605	11,508	28.77
Rent	Non-budgeted	342,897	346,259	(342,897)	-
Utilities	98,000	85,607	90,597	12,393	12.65
Cost of gift shop sales	19,250	19,589	23,172	(339)	(1.76)
<u>TOTAL EXPENSES</u>	\$ 1,116,970	\$ 1,461,758	\$ 1,485,018	\$ (344,788)	(30.87)
CHANGE IN NET POSITION		117,498	60,177		
BEGINNING NET POSITION		\$ 4,456,716	\$ 4,396,539		
<u>ENDING NET POSITION</u>		\$ 4,574,214	\$ 4,456,716		

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2017 AND 2016

CAPITAL ASSETS AND LONG-TERM DEBT

At the end of FY 2017 the Museum had total assets of \$4,721,872 compared to \$4,644,756 at the end of FY 2016. The increase is due to increased investment in leasehold improvements to maintain the two aging buildings in which the museum operates, built in 1898 and expanded in 1996. The Museum's debt is due solely to day-to-day operating expenses and a 1996 construction loan. The construction loan with the City of Clarksville was restructured at a fixed rate in FY 2006, and it will be retired in 2020. These debts are payable through normal revenue sources, including gift shop sales, admission fees, memberships, Flying High and other fundraisers, and income from investments, including the Gracey Trust.

FUTURE EXPECTATIONS

In 1983, the people of Clarksville and Montgomery County entrusted the Museum with the collection, preservation and interpretation of our community's history and culture, past, present, and future. As a public trust, 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 2017 reflects this challenge, as well as goals for overcoming this challenge, namely increased marketing of the gift shop and exhibits, aggressive fundraising initiative, restructuring of staff responsibilities, and more dependence on internal resources and partnerships for exhibits. The separate Museum Foundation, created in June 2012, will help to insure the future fiscal stability of this institution through investment.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2017</u>	<u>2016</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 124,404	\$ 123,173
Accounts receivable	9,788	37,122
Grants receivable	3,000	-
Prepaid expenses	4,872	3,011
Inventory	23,979	22,404
Total current assets	<u>166,043</u>	<u>185,710</u>
<u>RESTRICTED ASSETS</u>		
Cash and cash equivalents	82,466	90,755
Investments	1,676,329	1,570,656
Total restricted assets	<u>1,758,795</u>	<u>1,661,411</u>
<u>PROPERTY AND EQUIPMENT</u>		
Leasehold improvements	4,840,053	4,654,718
Furniture and equipment	184,080	184,080
Total property and equipment	<u>5,024,133</u>	<u>4,838,798</u>
Less: Accumulated depreciation	<u>(2,227,099)</u>	<u>(2,041,163)</u>
Net property and equipment	<u>2,797,034</u>	<u>2,797,635</u>
Total assets	4,721,872	4,644,756
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u><u>\$ 4,721,872</u></u>	<u><u>\$ 4,644,756</u></u>

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2017</u>	<u>2016</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 48,255	\$ 72,937
Accrued and withheld taxes	4,234	285
Accrued vacation	14,706	14,706
Due to Foundation	-	1,105
Current portion of long-term debt	19,153	18,544
Total current liabilities	<u>86,348</u>	<u>107,577</u>
<u>LONG-TERM DEBT</u>		
Note payable	<u>61,310</u>	<u>80,463</u>
Total liabilities	<u>147,658</u>	<u>188,040</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	<u>-</u>	<u>-</u>
<u>NET POSITION</u>		
Net investment in capital assets	2,716,571	2,698,628
Restricted:		
Expendable: restricted for projects	82,466	90,755
Nonexpendable	1,676,329	1,570,656
Unrestricted	98,848	96,677
Total net position	<u>4,574,214</u>	<u>4,456,716</u>
 Total liabilities, deferred inflows of resources and net position	 <u><u>\$ 4,721,872</u></u>	 <u><u>\$ 4,644,756</u></u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>OPERATING REVENUES</u>		
City of Clarksville	\$ 807,122	\$ 953,180
Grants	3,000	13,005
Donated use of building	330,644	330,644
Memberships	39,467	45,754
Donations and contributions	10,453	18,790
Admissions receipts	37,512	36,778
Fundraising	113,750	112,613
Exhibit income	-	1,477
Gift shop sales	32,746	31,434
Rental and miscellaneous income	22,429	20,104
Total operating revenues	<u>1,397,123</u>	<u>1,563,779</u>
<u>OPERATING EXPENSES</u>		
Administrative and general	2,100	11,333
Advertising	6,240	26,165
Communications	6,626	6,432
Cost of gift shop sales	19,589	23,172
Depreciation	185,936	175,962
Dues and memberships	4,059	4,086
Education	530	2,703
Employee benefits	107,659	89,944
Exhibits	49,062	36,729
Fees	5,835	4,951
Fundraising	49,495	56,900
Grants	3,000	2,990
Insurance	18,245	13,569
Legal and accounting fees	23,031	25,267
Other	11,792	11,051
Payroll taxes	34,018	33,022
Postage	6,190	3,351
Printing and reproduction	5,919	4,700
Rent	342,897	346,259
Repairs and maintenance	28,492	42,605
Salaries	434,934	443,852
Supplies	26,052	23,774
Travel and entertainment	1,203	1,768
Utilities	85,607	90,597
Total operating expenses	<u>1,458,511</u>	<u>1,481,182</u>
<u>OPERATING INCOME (LOSS)</u>	<u>(61,388)</u>	<u>82,597</u>

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

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONT'D)
YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Investment income	75,956	75,956
Interest income	504	402
Unrealized gain (loss)	105,673	(94,942)
Interest expense	(3,247)	(3,836)
Total non-operating revenues (expenses)	<u>178,886</u>	<u>(22,420)</u>
 <u>CHANGE IN NET POSITION</u>	 117,498	 60,177
 <u>NET POSITION - BEGINNING</u>	 <u>4,456,716</u>	 <u>4,396,539</u>
 <u>NET POSITION - ENDING</u>	 <u>\$ 4,574,214</u>	 <u>\$ 4,456,716</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers	\$ 109,725	\$ 113,966
Cash received from contributors	978,843	1,127,500
Cash payments to suppliers of goods and services	(530,026)	(504,893)
Cash payments to employees for services	(434,934)	(443,852)
Net cash provided by operating activities	<u>123,608</u>	<u>292,721</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received	504	402
Investment income received	75,956	75,956
Net cash provided by investing activities	<u>76,460</u>	<u>76,358</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Purchases of leasehold improvements and equipment	(185,335)	(382,712)
Payments on long-term debt	(18,544)	(17,955)
Interest paid	(3,247)	(7,336)
Net cash used in capital and related financing activities	<u>(207,126)</u>	<u>(408,003)</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	(7,058)	(38,924)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>213,928</u>	<u>252,852</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 206,870</u>	<u>\$ 213,928</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>(LOSS) TO NET CASH PROVIDED BY</u>		
<u>OPERATING ACTIVITIES</u>		
Operating income (loss)	\$ (61,388)	\$ 82,597
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	185,936	175,962
Changes in:		
Accounts receivable	27,334	21,560
Grants receivable	(3,000)	-
Prepaid expense	(1,861)	1,580
Inventory	(1,575)	4,051
Accounts payable	(24,682)	10,520
Accrued and withheld taxes	3,949	(4,654)
Due to Foundation	(1,105)	1,105
	<u>\$ 123,608</u>	<u>\$ 292,721</u>
Net cash provided by operating activities		

During the years ended June 30, 2017 and 2016, 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 the years ended June 30, 2017 and 2016, the Museum received in-kind donations from various vendors with estimated values of \$2,245 and \$16,857, respectively. The in-kind donations were accounted for as a noncash operating activity.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

1. Summary of Significant Accounting Policies

Reporting Entity

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

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

Use of Estimates

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

Concentration of Credit Risk

Financial instruments that potentially subject the Museum to significant concentrations of credit risk consist principally of cash and accounts receivable. Custodial credit risk for the Museum's deposits is the risk that the Museum's deposits may not be returned in the event of a bank failure. As required by state statutes, the Museum's policy is to require that financial institutions holding its deposits be members of the Tennessee Collateral Pool or pledge collateral for deposits in excess of federal depository insurance. The collateral is required to be held by the Museum or its agent in the Museum's name. With respect to accounts receivable, credit risk is dispersed across a few customers who are geographically concentrated in the service area of the Museum.

Measurement Focus/Basis of Accounting

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

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

Cash and Cash Equivalents

The Museum considers all liquid investments purchased with a maturity of 90 days or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. Cash payments for interest were \$3,247 and \$7,335 for the years ended June 30, 2017 and 2016, respectively.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2017 AND 2016

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, 2017 and 2016 was \$1,812 and \$7,578, respectively.

Restricted Net Position

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

Inventories

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

Property and Equipment

Property and equipment are valued at cost for assets purchased. All assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years are capitalized. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. The Museum's collections are comprised of private documents such as letters, diaries, business ledgers, and other artifacts that shed light on the history of the region. All collections are donated to the Museum and are not recorded because the value of such items is not readily determinable. Upon deaccession, items of collection are returned to the donor or destroyed if they are no longer of value. Donated collections are never sold. The Museum had one deaccession during the year ended June 30, 2017 and 21 deaccessions during the year ended June 30, 2016.

Accrued Compensated Absences

Vacation benefits are accrued as earned and charged to salaries.

Tax-Exempt Status

The Museum is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The Museum is not subject to federal income tax except on unrelated trade or business income under Section 511 of the Internal Revenue Code. However, the Museum does file the information returns required by the Internal Revenue Service (the IRS). The Museum has not been determined to be a private foundation by the IRS. The Museum is no longer subject to federal or state income tax examinations by tax authorities for fiscal years ended before June 30, 2014.

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, 2017 AND 2016

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 general ledger accounts of the Museum are maintained for each distinct donor restriction.

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

Contributions of noncash assets and the use of facilities are recognized as economic resources and are recorded at their fair values in the period received. During the year ended June 30, 2017, the Museum received approximately 1,686 hours of non-skilled and 1,885 hours of skilled volunteer services valued at approximately \$15,740, and \$44,725, respectively. During the year ended June 30, 2016, the Museum received approximately 1,800 hours of non-skilled and 4,148 hours of skilled volunteer services valued at approximately \$16,686, and \$96,395, 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 26, 2017, which is the date the financial statements were available to be issued.

2. Investments and Other Deposits

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

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2017 AND 2016

2. Investments and Other Deposits (Cont'd)

Following is a schedule of the Museum's investments and other deposits at June 30, 2017:

	<u>Fair Value/ Carrying Value</u>	<u>Cost</u>	<u>Average Credit Quality/Rating</u>	<u>Percent of Total</u>
Common stocks	\$ 1,643,043	\$ 1,344,957	n/a	98.01
Money market fund	<u>33,286</u>	<u>33,286</u>	n/a	<u>1.99</u>
	<u>\$ 1,676,329</u>	<u>\$ 1,378,243</u>		<u>100.00</u>

Following is a schedule of the Museum's investments and other deposits at June 30, 2016:

	<u>Fair Value/ Carrying Value</u>	<u>Cost</u>	<u>Average Credit Quality/Rating</u>	<u>Percent of Total</u>
Common stocks	\$ 959,011	\$ 766,106	n/a	61.06
Money market fund	153,118	153,118	n/a	9.75
Mutual funds				
Equity	289,925	272,895	n/a	18.46
Balanced	88,290	93,438	n/a	5.62
Fixed	<u>80,312</u>	<u>87,615</u>	n/a	<u>5.11</u>
	<u>\$ 1,570,656</u>	<u>\$ 1,373,172</u>		<u>100.00</u>

At June 30, 2017 and 2016, cash and other deposits included bank balances of \$205,960 and \$227,199, respectively, all of which was insured by the FDIC or collateral was pledged by the State of Tennessee Bank Collateral Pool.

Total investment income (loss) of \$181,629 and (\$18,986) for the years ended June 30, 2017 and 2016, respectively, consisted of investment earnings of \$75,956 and \$75,956 for the years ended June 30, 2017 and 2016, respectively, and a net increase (decrease) in fair value of investments of \$105,673 and (\$94,942), 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 could have a significant effect on the future operations of the Museum's programs and activities.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2017 AND 2016

4. Property and Equipment

A summary of changes in property and equipment for the year ended June 30, 2017 is as follows:

<u>Property and Equipment</u>	<u>Balance</u> <u>July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2017</u>
Leasehold improvements	\$ 4,654,718	\$ 185,335	\$ -	\$ 4,840,053
Furniture and equipment	169,516	-	-	169,516
Vehicles	14,564	-	-	14,564
Total property and equipment	<u>\$ 4,838,798</u>	<u>\$ 185,335</u>	<u>\$ -</u>	<u>\$ 5,024,133</u>

<u>Accumulated Depreciation</u>	<u>Balance</u> <u>July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2017</u>
Leasehold improvements	\$ 1,881,212	\$ 181,628	\$ -	\$ 2,062,840
Furniture and equipment	145,386	4,308	-	149,694
Vehicles	14,565	-	-	14,565
Total accumulated depreciation	<u>\$ 2,041,163</u>	<u>\$ 185,936</u>	<u>\$ -</u>	<u>\$ 2,227,099</u>

A summary of changes in property and equipment for the year ended June 30, 2016 is as follows:

<u>Property and Equipment</u>	<u>Balance</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2016</u>
Leasehold improvements	\$ 4,291,994	\$ 362,724	\$ -	\$ 4,654,718
Furniture and equipment	149,528	19,988	-	169,516
Vehicles	14,564	-	-	14,564
Total property and equipment	<u>\$ 4,456,086</u>	<u>\$ 382,712</u>	<u>\$ -</u>	<u>\$ 4,838,798</u>

<u>Accumulated Depreciation</u>	<u>Balance</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2016</u>
Leasehold improvements	\$ 1,708,402	\$ 172,810	\$ -	\$ 1,881,212
Furniture and equipment	142,234	3,152	-	145,386
Vehicles	14,565	-	-	14,565
Total accumulated depreciation	<u>\$ 1,865,201</u>	<u>\$ 175,962</u>	<u>\$ -</u>	<u>\$ 2,041,163</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2017 AND 2016

5. Related Party Transactions

The building which houses the Museum was leased from the City of Clarksville for \$1 per year for 25 years beginning May 1, 2008. The warehouse which houses the Museum's artifacts was leased from the City of Clarksville for \$1 per year for 10 years beginning June 1, 2008. The fair rental value of the building and warehouse was \$330,644 for each of the years ended June 30, 2017 and 2016 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, 2017 and 2016, the Museum received \$75,956 and \$75,956, 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, 2017 and 2016, was \$1,676,329 and \$1,570,656, 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>2017</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Common stocks	\$ 1,344,957	\$ 300,574	\$ 2,488	\$1,643,043
Money market fund	33,286	-	-	33,286
	<u>\$ 1,378,243</u>	<u>\$ 300,574</u>	<u>\$ 2,488</u>	<u>\$1,676,329</u>
<u>2016</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Common stocks	\$ 766,106	\$ 193,110	\$ 205	\$ 959,011
Money market fund	153,118	-	-	153,118
Mutual funds	453,949	17,029	12,451	458,527
	<u>\$ 1,373,173</u>	<u>\$ 210,139</u>	<u>\$ 12,656</u>	<u>\$1,570,656</u>

7. Long-Term and Other Debt

At June 30, 2017, the Museum had an outstanding balance of \$80,463 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, 2017 AND 2016

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

Following are the changes in long-term debt for the year ended June 30, 2017:

	Balance			Balance	Estimated Amount Due Year Ending
	July 1, 2016	Increases	Decreases	June 30, 2017	June 30, 2018
Note payable	\$ 99,007	\$ -	\$ 18,544	\$ 80,463	\$ 19,153

Following are the changes in long-term debt for the year ended June 30, 2016:

	Balance			Balance	Estimated Amount Due Year Ending
	July 1, 2015	Increases	Decreases	June 30, 2016	June 30, 2017
Note payable	\$ 116,962	\$ -	\$ 17,955	\$ 99,007	\$ 18,544

Future payments on long-term debt are as follows:

Year ending June 30,	Principal	Interest
2018	\$ 19,153	\$ 2,639
2019	19,781	2,011
2020	20,429	1,362
2021	21,100	692
Total	\$ 80,463	\$ 6,704

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 \$-0- and \$5,035 for the years ended June 30, 2017 and 2016. The Museum made no employer contributions during either year.

9. Operating Leases

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

Year ending June 30,	Amount
2018	\$ 4,800
	\$ 4,800

For 2017 and 2016, rental expense amounted to \$12,253 and \$15,615, respectively.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2017 AND 2016

10. Commitments and Contingencies

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

11. Related Entity

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

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2017

<u>State Grantor/Program Title</u>	<u>Grant Number Or Pass Through Grantor's Contract Number</u>	<u>Federal CFDA Number</u>	<u>Accrued Receivable July 1, 2016</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued Receivable June 30, 2017</u>
<u>State of Tennessee, Department of State, Tennessee State Library and Archives</u>						
Collections Conservation	30504-01417-20	N/A	\$ -	\$ -	\$ 3,000	\$ 3,000
Total State Assistance			<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,000</u>	<u>\$ 3,000</u>



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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, 2017, and the related notes to the financial statements, as listed in the table of contents, which collectively comprise the Museum's basic financial statements and have issued our report thereon dated September 26, 2017.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Museum's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Museum's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Stone Rudolph & Henry, PLC

Clarksville, Tennessee
September 26, 2017

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

There were no prior year findings reported.