

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2016 AND 2015

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CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF BOARD OF TRUSTEES AND MANAGEMENT (UNAUDITED)
JUNE 30, 2016

BOARD OF TRUSTEES

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

MANAGEMENT

Mr. James Zimmer	Director
Mr. Colin McAlexander	Chief Financial Officer



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, 2016 and 2015, 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, 2016 and 2015, 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 26, 2016, 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, 2016

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2016 AND 2015

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? What were the funds used for? 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 assets, 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 even returning troops from Fort Campbell and the associated sales tax revenue, decreased activity in downtown Clarksville, and the increasing recovery in the economy should be considered. The increase in operating costs in all areas, including the cost of on-going repairs and maintenance to a one hundred and eighteen 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, admissions, 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 2016 were \$4,644,756, an increase from FY 2015 of \$45,694 and a decrease since FY 2014 of \$36,159. 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." 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 exhibits and education. The Museum showed a slight decrease in liabilities due to payments on the long term note payable to the City of Clarksville. 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 and education.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2016 AND 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	Restated 2015	Restated 2014	% Change 15 to 16	% Change 14 to 15
Unrestricted	\$ 163,306	\$ 143,318	\$ 194,442	13.95	(26.29)
Restricted	90,755	172,807	76,776	(47.48)	125.08
Subtotal	254,061	316,125	271,218	(19.63)	16.56
OTHER ASSETS					
Inventory	22,404	26,455	28,575	(15.31)	(7.42)
Property and equipment (net of accumulated depreciation)	2,797,635	2,590,885	2,672,761	7.98	(3.06)
Investments	1,570,656	1,665,597	1,666,380	(5.70)	(0.04)
TOTAL ASSETS	4,644,756	4,599,062	4,638,934	0.99	(0.86)
Deferred outflows of resources	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,644,756	\$ 4,599,062	\$ 4,638,934	0.99	(0.86)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	2016	Restated 2015	Restated 2014	% Change 15 to 16	% Change 14 to 15
Current liabilities	\$ 107,577	\$ 103,516	\$ 44,957	3.92	103.26
Note payable	80,463	99,007	116,962	(18.73)	(15.35)
TOTAL LIABILITIES	188,040	202,523	161,919	(7.15)	25.08
Deferred inflows of resources	-	-	-	-	-
NET POSITION					
Unrestricted	96,677	84,212	195,445	14.80	(56.91)
Restricted	1,661,411	1,838,404	1,743,156	(9.63)	5.46
Plant investment/net of related debt	2,698,628	2,473,923	2,538,414	9.08	(2.54)
TOTAL NET POSITION	4,456,716	4,396,539	4,477,015	1.37	(1.79)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 4,644,756	\$ 4,599,062	\$ 4,638,934	0.99	(0.86)

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2016 AND 2015

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 2016, overall revenue increased over the previous year. This was primarily due to increased grant income, membership, investment income, admissions, and general operating and 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 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.

While overall revenue increased, not all revenue streams met the budgeted amounts and the FY 2015 totals. Fundraising and exhibits income 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 decreased compared to last year as well, primarily due to less foot traffic while the popular lower level of the Museum was closed for two and a half months during winter for leasehold improvements. An increase in 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 most of 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 and believes doing so will help future revenue growth.

The table on the following page shows the major sources of income and expenses for FY 2016. As 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 income.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2016 AND 2015

<u>INCOME/REVENUE</u>	FY 2016 budget	FY 2016 actual	Restated FY 2015 actual	Over (Under) Budget	Budget Variance
					%
Admissions	\$ 37,900	\$ 36,778	\$ 33,187	\$ (1,122)	(2.96)
City of Clarksville	613,702	613,702	562,378	-	-
City of Clarksville – capital budget	320,000	339,478	201,135	19,478	6.09
Contributions/Donations	10,000	18,790	21,312	8,790	87.90
Donated use of building	Non-Budgeted	330,644	330,644	330,644	-
Exhibit income	35,000	1,477	9,794	(33,523)	(95.78)
Fundraising	180,000	112,613	140,736	(67,387)	(37.44)
Grants	Non-Budgeted	13,005	1,000	13,005	-
Interest/Investment	76,431	76,358	72,945	(73)	(0.10)
Membership	40,000	45,754	41,360	5,754	14.39
Rental & Miscellaneous Inc.	20,000	20,104	22,814	104	0.52
Gift shop sales	40,000	31,434	39,791	(8,566)	(21.42)
Unrealized gain (loss)	Non-Budgeted	(94,942)	(782)	(94,942)	-
<u>TOTAL REVENUES</u>	\$ 1,373,003	\$ 1,545,195	\$ 1,476,314	\$ 172,162	12.54
*includes in-kind donations					
<u>EXPENSES</u>				(Over) Under Budget	
Exhibits	\$ 39,000	\$ 36,729	\$ 40,385	\$ 2,271	5.82
Administrative and General, Interest Expense, Advertising, City Loan, Insurance, Communications, Professional Fees etc.	163,819	120,709	122,455	43,110	26.32
Depreciation	Non-budgeted	175,962	160,767	(175,962)	-
Fundraising	75,000	56,900	64,456	18,100	24.13
Payroll, Benefits (Health Insurance) & Payroll Tax	593,196	566,818	583,792	26,378	4.45
Legal & Accounting Fees	25,000	25,267	24,024	(267)	(1.07)
Repairs and maintenance	35,000	42,605	101,401	(7,605)	(21.73)
Rent	Non-budgeted	346,259	341,238	(346,259)	-
Utilities	97,000	90,597	96,613	6,403	6.60
Cost of gift shop sales	24,985	23,172	21,659	1,813	7.26
<u>TOTAL EXPENSES</u>	\$ 1,053,000	\$ 1,485,018	\$ 1,556,790	\$ (432,018)	(41.03)
CHANGE IN NET POSITION		60,177	(80,476)		
BEGINNING NET POSITION, RESTATED		\$ 4,396,539	\$ 4,477,015		
<u>ENDING NET POSITION</u>		\$ 4,456,716	\$ 4,396,539		

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
YEARS ENDED JUNE 30, 2016 AND 2015

CAPITAL ASSETS AND LONG-TERM DEBT

At the end of FY 2016 the Museum had total assets of \$4,644,756 compared to \$4,599,062 at the end of FY 2015. The increase is due to increased investment in leasehold improvements to maintain the aging buildings, built in 1898 and expanded in 1996. The Museum made a prior period adjustment to remove the support building from its list of assets, which houses its collection and exhibit fabrication equipment. Prior management was under the impression that the museum owned the property through a rent to own agreement, but further research by current management realized the property is owned by the city of Clarksville and is a part of the in-kind value (\$330,644) of the buildings in which the Museum continues to operate. The Museum continues to pay \$1 per year to the city of Clarksville for the use of these properties. The Museum's debt is due solely to day-to-day operating expenses and a 1996 construction loan. The City construction loan 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, admissions, 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. 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 2016 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 (the Customs House Foundation), created in June 2012, will help to insure the future fiscal stability of this institution through investment of the maturing Gracey trust, the solicitation of endowments and planned giving.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2016	Restated 2015
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 123,173	\$ 80,045
Accounts receivable	37,122	58,682
Prepaid expenses	3,011	4,591
Inventory	22,404	26,455
Total current assets	185,710	169,773
<u>RESTRICTED ASSETS</u>		
Cash and cash equivalents	90,755	172,807
Investments	1,570,656	1,665,597
Total restricted assets	1,661,411	1,838,404
<u>PROPERTY AND EQUIPMENT</u>		
Leasehold improvements	4,654,718	4,291,994
Furniture and equipment	184,080	164,092
Total property and equipment	4,838,798	4,456,086
Less: Accumulated depreciation	(2,041,163)	(1,865,201)
Net property and equipment	2,797,635	2,590,885
 Total assets	 4,644,756	 4,599,062
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	-	-
 Total assets and deferred outflows of resources	 \$ 4,644,756	 \$ 4,599,062

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2016	Restated 2015
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 72,937	\$ 62,417
Accrued and withheld taxes	285	4,939
Accrued interest	-	3,499
Accrued vacation	14,706	14,706
Due to Foundation	1,105	-
Current portion of long-term debt	18,544	17,955
Total current liabilities	107,577	103,516
 <u>LONG-TERM DEBT</u>		
Note payable	80,463	99,007
Total liabilities	188,040	202,523
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
	-	-
 <u>NET POSITION</u>		
Net investment in capital assets	2,698,628	2,473,923
Restricted:		
Expendable: restricted for projects	90,755	172,807
Nonexpendable	1,570,656	1,665,597
Unrestricted	96,677	84,212
Total net position	4,456,716	4,396,539
Total liabilities, deferred inflows of resources and net position	\$ 4,644,756	\$ 4,599,062

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	Restated 2015
<u>OPERATING REVENUES</u>		
City of Clarksville	\$ 953,180	\$ 763,513
Grants	13,005	1,000
Donated use of building	330,644	330,644
Memberships	45,754	41,360
Donations and contributions	18,790	21,312
Admissions receipts	36,778	33,187
Fundraising	112,613	140,736
Exhibit income	1,477	9,794
Gift shop sales	31,434	39,791
Rental and miscellaneous income	20,104	22,814
Total operating revenues	1,563,779	1,404,151
<u>OPERATING EXPENSES</u>		
Administrative and general	11,333	6,268
Advertising	26,165	23,937
Communications	6,432	9,807
Cost of gift shop sales	23,172	21,659
Depreciation	175,962	160,767
Dues and memberships	4,086	5,228
Education	2,703	2,106
Employee benefits	89,944	108,218
Exhibits	36,729	40,385
Fees	4,951	5,916
Fundraising	56,900	64,456
Grants	2,990	-
Insurance	13,569	31,571
Legal and accounting fees	25,267	24,024
Other	11,051	4,220
Payroll taxes	33,022	32,112
Postage	3,351	5,964
Printing and reproduction	4,700	8,066
Rent	346,259	341,238
Repairs and maintenance	42,605	101,401
Salaries	443,852	443,462
Supplies	23,774	12,321
Travel and entertainment	1,768	2,653
Utilities	90,597	96,613
Total operating expenses	1,481,182	1,552,392
<u>OPERATING INCOME (LOSS)</u>	82,597	(148,241)

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, 2016 AND 2015

	<u>2016</u>	<u>Restated 2015</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Investment income	75,956	72,443
Interest income	402	502
Unrealized loss	(94,942)	(782)
Interest expense	(3,836)	(4,398)
Total non-operating revenues (expenses)	<u>(22,420)</u>	<u>67,765</u>
 <u>CHANGE IN NET POSITION</u>	 <u>60,177</u>	 <u>(80,476)</u>
 <u>NET POSITION - BEGINNING,</u> <u>AS PREVIOUSLY REPORTED</u>	 4,396,539	 4,518,996
 <u>PRIOR PERIOD ADJUSTMENT</u> - Note 12	 <u>-</u>	 <u>(41,981)</u>
 <u>NET POSITION - BEGINNING,</u> <u>AS RESTATED</u>	 <u>4,396,539</u>	 <u>4,477,015</u>
 <u>NET POSITION - ENDING</u>	 <u>\$ 4,456,716</u>	 <u>\$ 4,396,539</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	Restated 2015
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers	\$ 113,966	\$ 114,338
Cash received from contributors	1,127,500	930,760
Cash payments to suppliers of goods and services	(504,893)	(544,180)
Cash payments to employees for services	(443,852)	(443,462)
Net cash provided by operating activities	292,721	57,456
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received	402	502
Investment income received	75,956	72,443
Net cash provided by investing activities	76,358	72,945
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Purchases of leasehold improvements and equipment	(382,712)	(78,891)
Payments on long-term debt	(17,955)	(17,385)
Interest paid	(7,336)	(4,398)
Net cash used in capital and related financing activities	(408,003)	(100,674)
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	(38,924)	29,727
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	252,852	223,125
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	\$ 213,928	\$ 252,852

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, 2016 AND 2015

	2016	Restated 2015
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>(LOSS) TO NET CASH PROVIDED BY</u>		
<u>OPERATING ACTIVITIES</u>		
Operating income (loss)	\$ 82,597	\$ (148,241)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	175,962	160,767
Changes in:		
Accounts receivable	21,560	(25,180)
Grants receivable	-	10,000
Prepaid expense	1,580	-
Inventory	4,051	2,120
Accounts payable	10,520	60,309
Accrued and withheld taxes	(4,654)	(2,319)
Due to Foundation	1,105	-
	<u>\$ 292,721</u>	<u>\$ 57,456</u>

During the years ended June 30, 2016 and 2015, 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, 2016 and 2015, the Museum received in-kind donations from various vendors with estimated values of \$16,857 and \$13,229, respectively. The in-kind donations were accounted for as a noncash operating activity.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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 \$7,335 and \$4,398 for the years ended June 30, 2016 and 2015, respectively.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2016 AND 2015

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, 2016 and 2015 was \$7,578 and \$5,500, 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 21 deaccessions during the year ended June 30, 2016 and one deaccession during the year ended June 30, 2015.

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, 2013.

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, 2016 AND 2015

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, 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. During the year ended June 30, 2015, the Museum received approximately 1,800 hours of non-skilled and 3,252 hours of skilled volunteer services valued at approximately \$16,686, and \$82,955, 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, 2016, 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, 2016 AND 2015

2. Investments and Other Deposits (Cont'd)

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	\$ 351,078	\$ 263,251	n/a	22.35
Money market fund	153,118	153,118	n/a	9.75
Real estate	9,530	6,939	n/a	0.61
Mutual funds				
Equity	888,328	768,811	n/a	56.56
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>

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

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

At June 30, 2016 and 2015, cash and other deposits included bank balances of \$227,199 and \$256,933, 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 (\$18,986) and \$71,661 for the years ended June 30, 2016 and 2015, respectively, consisted of investment earnings of \$75,956 and \$72,443 for the years ended June 30, 2016 and 2015, respectively, and a net decrease in fair value of investments of \$94,942 and \$782, 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, 2016 AND 2015

3. Funding Sources

The Museum's operating expenses are primarily funded by transfers of funds from the City of Clarksville. Other funding sources include grants, donations, endowments, memberships, gift shop sales, and fundraising projects. A major reduction in funding by the City of Clarksville could have a significant effect on the future operations of the Museum's programs and activities.

4. Property and Equipment

A summary of changes in property and equipment for the year ended June 30, 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	149,527	19,988	-	169,515
Vehicles	14,565	-	-	14,565
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>

A summary of changes in property and equipment for the year ended June 30, 2015 is as follows:

<u>Property and Equipment</u>	<u>(Restated)</u> <u>Balance</u> <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>
Leasehold improvements	\$ 4,216,751	\$ 75,243	\$ -	\$ 4,291,994
Furniture and equipment	145,879	3,648	-	149,527
Vehicles	14,565	-	-	14,565
Total property and equipment	<u>\$ 4,377,195</u>	<u>\$ 78,891</u>	<u>\$ -</u>	<u>\$ 4,456,086</u>

<u>Accumulated Depreciation</u>	<u>(Restated)</u> <u>Balance</u> <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>
Leasehold improvements	\$ 1,549,327	\$ 159,075	\$ -	\$ 1,708,402
Furniture and equipment	140,542	1,692	-	142,234
Vehicles	14,565	-	-	14,565
Total accumulated depreciation	<u>\$ 1,704,434</u>	<u>\$ 160,767</u>	<u>\$ -</u>	<u>\$ 1,865,201</u>

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2016 AND 2015

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, 2016 and 2015 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, 2016 and 2015, the Museum received \$75,956 and \$72,443, 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, 2016 and 2015, was \$1,570,656 and \$1,665,597, 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>2016</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Common stocks and real estate	\$ 270,190	\$ 90,623	\$ 205	\$ 360,608
Money market fund	153,118	-	-	153,118
Mutual funds	<u>949,865</u>	<u>119,516</u>	<u>12,451</u>	<u>1,056,930</u>
	<u>\$ 1,373,173</u>	<u>\$ 210,139</u>	<u>\$ 12,656</u>	<u>\$1,570,656</u>

<u>2015</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Common stocks and real estate	\$ 388,325	\$ 147,160	\$ -	\$ 535,485
Money market fund	19,760	-	-	19,760
Mutual funds	<u>976,579</u>	<u>141,361</u>	<u>7,588</u>	<u>1,110,352</u>
	<u>\$ 1,384,664</u>	<u>\$ 288,521</u>	<u>\$ 7,588</u>	<u>\$1,665,597</u>

7. Long-Term and Other Debt

At June 30, 2016, the Museum had an outstanding balance of \$99,007 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, 2016 AND 2015

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

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

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

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

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

Future payments on long-term debt are as follows:

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>
<u>June 30,</u>		
2017	\$ 18,544	\$ 3,247
2018	19,152	2,639
2019	19,781	2,011
2020	20,429	1,362
2021	21,101	692
Total	<u>\$ 99,007</u>	<u>\$ 9,951</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 \$5,035 and \$9,810 for the years ended June 30, 2016 and 2015. 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:

<u>Year ending</u>	<u>Amount</u>
<u>June 30,</u>	
2017	<u>\$ 5,368</u>
	<u>\$ 5,368</u>

For 2016 and 2015, rental expense amounted to \$15,615 and \$10,594, respectively.

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2016 AND 2015

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.

12. Prior Period Adjustment

During the year ended June 30, 2016, the Museum discovered an error related to its leasehold improvements. Accordingly, the Museum corrected the error and restated its financial position as of June 30, 2014. The effect of the restatement was to decrease net position by \$41,981 as of June 30, 2014.

The effect of the restatement as of and for the year ended June 30, 2015 was as follows:

	<u>As previously reported</u>	<u>Restated</u>
Leasehold improvements	\$ 4,386,994	\$ 4,291,994
Accumulated depreciation	1,920,430	1,865,201
Total assets	4,638,833	4,599,062
Net investment in capital assets	2,513,694	2,473,923
Net position	4,436,310	4,396,539
Depreciation expense	162,977	160,767
Change in net position	(82,686)	(80,476)

Following is a schedule of adjustments to the June 30, 2014 statement of financial position:

Decrease in leasehold improvements	\$ (95,000)
Decrease in accumulated depreciation	<u>53,019</u>
Total decrease to net position	(41,981)
Net position, June 30, 2014, as previously reported	<u>4,518,996</u>
Net position, June 30, 2014, as restated	<u>\$ 4,477,015</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, 2016, 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 26, 2016.

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.

The Museum resolved prior-year findings 2015-001 and 2015-002 by performing the specific tasks outlined in our report dated September 28, 2015.

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, 2016

CLARKSVILLE-MONTGOMERY COUNTY MUSEUM
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Financial Statement Findings

Finding Number	Finding Title	Status
2015-001	Management Oversight of Financial Reporting (original finding #2007-001)	Corrected
2015-002	Control Operating Effectiveness Deficiencies (original finding #2014-002)	Corrected