

HUMANITIES TENNESSEE

FINANCIAL STATEMENTS

December 31, 2009 and 2008

HUMANITIES TENNESSEE

TABLE OF CONTENTS

Independent Auditor's Report.....	1 – 2
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities	4 – 5
Statements of Cash Flows	6
Statements of Functional Expenses.....	7 – 8
Notes to Financial Statements	9 – 19
Additional Information:	
Schedule of Expenditures of Federal and Other Awards.....	20
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 <i>Government Auditing Standards</i>	21 – 22
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	23 – 24
Schedule of Findings and Questioned Costs.....	25 – 26
Corrective Action Plan.....	27



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Humanities Tennessee
Nashville, Tennessee

We have audited the accompanying statement of financial position of Humanities Tennessee (the "Organization"), a Tennessee not-for-profit corporation, as of December 31, 2009, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Humanities Tennessee as of December 31, 2008 were audited by other auditors whose report dated August 6, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Humanities Tennessee as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2010 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Humanities Tennessee taken as a whole. The accompanying schedule of expenditures of federal and other awards is presented for purposes of additional analysis as required by U.S. Office of

Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Frasier, Dean + Howard, PLLC

Nashville, Tennessee
June 9, 2010

HUMANITIES TENNESSEE
STATEMENTS OF FINANCIAL POSITION
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents	\$ 190,743	\$ 87,442
Investments	101,269	95,518
Federal grants receivable	41,843	161,274
Other grants receivable	11,420	6,986
Other receivables	-	2,128
Merchandise inventory	3,516	3,152
Prepaid expenses	7,208	142
Furniture and equipment, net of accumulated depreciation of \$41,018 and \$45,736, respectively	10,074	17,165
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	10,300	8,621
Total assets	<u><u>\$ 376,373</u></u>	<u><u>\$ 382,428</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 36,954	\$ 38,497
Regrants payable	51,736	32,124
Accrued leave	83,092	73,021
Total liabilities	<u>171,782</u>	<u>143,642</u>
Net assets:		
Unrestricted:		
Undesignated	98,674	123,078
Furniture and equipment	10,074	17,165
Designated for beneficial interest in agency endowment fund	10,300	8,621
Total unrestricted	119,048	148,864
Temporarily restricted	70,543	74,922
Permanently restricted	15,000	15,000
Total net assets	<u>204,591</u>	<u>238,786</u>
Total liabilities and net assets	<u><u>\$ 376,373</u></u>	<u><u>\$ 382,428</u></u>

See accompanying notes.

HUMANITIES TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Public support:				
Grants - NEH and other governmental	\$ 757,674	\$ -	\$ -	\$ 757,674
Contributions and private grants	158,874	-	-	158,874
Programs	40,620	-	-	40,620
Sales of books, t-shirts and miscellaneous	59,322	-	-	59,322
Author in the Round special event	46,800	-	-	46,800
Less: costs of direct benefits to donors	(31,495)	-	-	(31,495)
Investment income	19,663	-	-	19,663
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	1,679	-	-	1,679
Donated services	140,790	-	-	140,790
Donated goods and facilities	95,865	-	-	95,865
Net assets released in satisfaction of purpose restrictions	4,379	(4,379)	-	-
Total public support and revenue	1,294,171	(4,379)	-	1,289,792
Expenses:				
Program services	1,172,626	-	-	1,172,626
Supporting services	151,361	-	-	151,361
Total expenses	1,323,987	-	-	1,323,987
Change in net assets	(29,816)	(4,379)	-	(34,195)
Net assets - beginning of year	148,864	74,922	15,000	238,786
Net assets - end of year	\$ 119,048	\$ 70,543	\$ 15,000	\$ 204,591

See accompanying notes.

HUMANITIES TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Public support:				
Grants - NEH and other governmental	\$ 754,760	\$ -	\$ -	\$ 754,760
Contributions and private grants	130,163	-	-	130,163
Programs	39,750	-	-	39,750
Sales of books, t-shirts and miscellaneous	65,391	-	-	65,391
Author in the Round special event	58,800	-	-	58,800
Less: costs of direct benefits to donors	(48,934)	-	-	(48,934)
Investment loss	(46,397)	-	-	(46,397)
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(3,485)	-	-	(3,485)
Donated services	146,500	-	-	146,500
Donated goods and facilities	155,709	-	-	155,709
Net assets released in satisfaction of purpose restrictions	23,014	(23,014)	-	-
Total public support and revenue	1,275,271	(23,014)	-	1,252,257
Expenses:				
Program services	1,131,081	-	-	1,131,081
Supporting services	145,586	-	-	145,586
Total expenses	1,276,667	-	-	1,276,667
Change in net assets	(1,396)	(23,014)	-	(24,410)
Net assets - beginning of year	150,260	97,936	15,000	263,196
Net assets - end of year	\$ 148,864	\$ 74,922	\$ 15,000	\$ 238,786

See accompanying notes.

HUMANITIES TENNESSEE
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (34,195)	\$ (24,410)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	7,091	7,766
Realized and unrealized (gains) losses on investments	(17,327)	50,034
Change in value of beneficial interest in agency endowment fund held by Community Foundation of Middle Tennessee	(1,679)	3,485
Changes in operating assets and liabilities:		
Federal grants receivable	119,431	(60,499)
Other grants receivable	(4,434)	(1,678)
Other receivables	2,128	(2,128)
Merchandise inventory	(364)	2,807
Prepaid expenses	(7,066)	5,858
Regrants payable	19,612	(35,669)
Accounts payable and accrued expenses	(1,543)	18,164
Accrued leave	10,071	750
	<u>91,725</u>	<u>(35,520)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Purchase of investments	(2,362)	(31,665)
Sale of investments	13,938	56,231
Purchases of equipment	-	(2,089)
	<u>11,576</u>	<u>22,477</u>
Net cash provided by investing activities		
Increase (decrease) in cash and cash equivalents	103,301	(13,043)
Cash and cash equivalents - beginning of year	<u>87,442</u>	<u>100,485</u>
Cash and cash equivalents - end of year	<u>\$ 190,743</u>	<u>\$ 87,442</u>

See accompanying notes.

HUMANITIES TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2009

	Program Services			Supporting Services		
	Grants and Awards	Community History	Language and Literature	Total	Administrative	Fundraising
Salaries	\$ 45,806	\$ 147,147	\$ 184,064	\$ 377,017	\$ 34,254	\$ -
Travel	29	4,020	116,992	121,041	21,565	-
Fees/honorarium writers/others	-	600	141,717	142,317	-	-
Regrants	105,044	-	-	105,044	-	-
Consultants	2,000	1,500	67,260	70,760	-	10,190
Employee benefits	9,232	28,740	26,029	64,001	14,100	-
Cost of books sold	-	-	51,461	51,461	-	-
Rent	4,653	14,316	20,384	39,353	1,677	-
Accounting and bookkeeping services	-	-	-	-	33,482	-
Printing	300	924	30,868	32,092	277	-
Employer taxes	3,504	11,257	14,081	28,842	3,466	-
Supplies	396	1,220	24,118	25,734	350	-
Other expenses	73	379	16,958	17,410	6,463	-
Community history fund awards	-	17,785	-	17,785	-	-
Food and beverage	135	794	16,374	17,303	20	20
National Federation of State Humanities Councils	-	-	-	-	16,136	-
Tents	-	-	13,515	13,515	-	-
Computer and equipment costs	575	6,432	1,705	8,712	531	531
Security	-	-	8,102	8,102	-	-
Postage	751	2,329	3,376	6,456	868	868
Depreciation	-	-	-	-	7,091	-
TAM Scholarships	-	5,696	-	5,696	-	-
Cost of t-shirts and sweatshirts sold	-	-	4,659	4,659	-	-
Telephone	539	1,705	1,876	4,120	498	-
Insurance	425	1,308	2,380	4,113	393	-
Utilities	-	-	3,622	3,622	-	-
Contracted services	-	-	3,471	3,471	-	-
	\$ 173,462	\$ 246,152	\$ 753,012	\$ 1,172,626	\$ 141,171	\$ 10,190
					\$ 151,361	\$ -
						\$ 1,323,987

See accompanying notes.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 1 – ORGANIZATION AND PURPOSE

Humanities Tennessee (the “Organization”) is a not-for-profit corporation that is the independent state affiliate of the National Endowment for the Humanities (“NEH”). Approximately 66% of the Organization’s public support (excluding donated goods and services) came from the Federal Government through NEH in 2009 and 2008. Support also comes from state and local government and corporate and foundation grants, from private contributions and from earned income. The Organization was incorporated in 1973 to promote public understanding of the humanities in Tennessee. Its principal activities consist of conducting humanities programs and offering services and grants in support of the humanities programs of other organizations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Codification

The Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") became the sole authoritative source of generally accepted accounting principles in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC had no effect on the Organization's statements of financial position, activities, cash flows, or functional expenses.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At year end, cash and cash equivalents consisted primarily of cash held in checking and money market accounts.

Investments

Investments consist of an account held with a financial manager investing in cash and equivalents, government securities, publicly held equities, corporate bonds and certificates of deposit, and are carried at fair value.

All gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Dividends, interest and other investment income are reported in the period earned as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Merchandise Inventory

Merchandise inventory is reported at the lower of cost (first-in, first-out method) or net realizable value and consists of fundraising items sold by the Organization at the Southern Festival of Books.

Furniture and Equipment

Furniture and equipment are reported at cost, less accumulated depreciation. The Organization has no formalized capitalization policy. Items are capitalized based on their cost and estimated useful life. Insignificant amounts are expensed. Furniture and equipment are being depreciated over estimated useful lives of five to seven years using the straight-line method. Furniture and equipment purchased with NEH grant funds are owned by the Organization with the understanding that the equipment will be used for the project for which it was obtained. Fully depreciated assets had original costs totaling \$30,099 and \$24,996 as of December 31, 2009 and 2008, respectively.

Agency Endowment Fund

The Organization's beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee is recognized as an asset. Investment income and changes in the value of the fund are recognized in the statements of activities, and distributions received from the fund are recorded as decreases in the beneficial interest. (See Note 9.)

Accrued Leave

Employee benefits expense is accrued and recognized for general leave and sabbatical leave that employees are allowed to accumulate and be paid for upon termination of employment. Employees are allowed up to 30 days of paid general leave during the first five continuous years of employment, and an additional paid day for every year after five, to a maximum of 15 additional paid days of general leave. Employees are allowed to accumulate up to 60 days of sabbatical leave, although a maximum of 30 days will be paid upon termination of employment.

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or passage of time.

Permanently restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Support

Cash contributions are recognized as revenue when received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Grant funds are earned and reported as revenues when the Organization has incurred expenses in compliance with the specific restrictions of the grant agreement. Grant expenses incurred, including regrants authorized, for which grant funds have not been received, are reported as grants receivable, while grant funds received but not yet earned are reported as deferred revenues.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if the restriction is fulfilled in the same reporting period in which the contribution is received, the Organization reports the support as unrestricted.

Donated Services, Goods and Facilities

A number of volunteers donate their time to the Organization's programs during the year which are not reflected in the financial statements since they do not require specialized skills. During 2009 and 2008, board members spent approximately 455 and 628 hours, respectively, attending meetings, training, and other seminars in support of the Organization. Additionally, volunteers and committee members contributed approximately 1,900 hours in support of the Organization's 2009 and 2008 Southern Festival of Books that is held each fall. These amounts are not reflected in donated services, but are significant contributions to the Organization. Donated professional services, use of facilities, materials and other assets received as donations are reflected in the accompanying financial statements at their estimated fair value in the period received.

Program and Supporting Services

The following program and supporting service classifications are included in the accompanying financial statements:

Program services

Grants and awards – includes a community initiated grants and sponsorships program supporting humanities programs of other organizations, a teachers award program that recognizes and rewards Tennessee's outstanding teachers of the humanities in grades K-12, and contributions to the Southern Humanities Media Fund which makes grants for film, video, and radio programs on southern history and culture. No contributions were made to the Southern Humanities Media Fund in 2009 or 2008.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program and Supporting Services (Continued)

Program services (Continued)

Community history programs – includes expenses for the Museums on Main Street program that tours educational exhibits throughout Tennessee and to assist history organizations across the state in developing their capacity for long-term growth and sustainability and in improving their humanities programming for the public.

Language and literature – includes programs supporting the Southern Festival of Books, the Tennessee Young Writers Workshop and other activities relating to the celebration of the written word.

Supporting services

Fundraising – includes costs incurred to induce potential donors to contribute money, services, materials, facilities or time.

Administrative – represents expenses related to the overall management of Organization operations, but not directly related to a specific program.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity benefited based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by the Organization's management.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Organization is exempt from income taxes under section 501(c)(3) of the internal revenue code and has been classified as other than a private foundation. Accordingly, no provision has been made for income taxes in the accompanying financial statements.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

On January 1, 2009 the Organization adopted FASB ASC guidance related to unrecognized tax benefits. The guidance clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This interpretation prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended December 31, 2006 through 2009. Adoption of this pronouncement had no impact on the Organization's financial position or activities.

NOTE 3 – INVESTMENTS

Investments consist of the following as of December 31:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 2,367	\$ 1,775
Certificates of deposit	10,000	10,000
Corporate bonds	15,037	13,206
Marketable securities	7,336	-
Government securities	-	12,008
Mutual funds	<u>66,529</u>	<u>58,529</u>
	<u>\$ 101,269</u>	<u>\$ 95,518</u>

The following schedule summarizes investment income (loss) for the year ended December 31:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 2,336	\$ 3,637
Realized and unrealized gains (losses)	<u>17,327</u>	<u>(50,034)</u>
	<u>\$ 19,663</u>	<u>\$ (46,397)</u>

All investments are reported at fair value as described in Note 10.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 4 – GRANTOR AWARDS AVAILABLE

Grantor awards available from the National Endowment for the Humanities consist of the following as of December 31, 2009:

<u>Grant Number</u>	<u>Operations</u>	<u>Special Projects</u>	<u>Total</u>
#SO-50227-08	\$ 702,640	\$ -	\$ 702,640
#BC-50423-08	-	127,280	127,280
#BC-50476-09	-	117,280	117,280
	<u>\$ 702,640</u>	<u>\$ 244,560</u>	<u>\$ 947,200</u>

Grantor awards available from the National Endowment for the Humanities consist of the following as of December 31, 2008:

<u>Grant Number</u>	<u>Operations</u>	<u>Special Projects</u>	<u>Total</u>
#SO-50227-08	\$ 324,708	\$ -	\$ 324,708
#BC-50338-06	-	38,705	38,705
#BC-50380-07	-	87,020	87,020
#BC-50281-08	-	109,780	109,780
	<u>\$ 324,708</u>	<u>\$ 235,505</u>	<u>\$ 560,213</u>

NOTE 5 – REGRANTS PAYABLE

Regrants payable consist of amounts awarded, but not yet paid, to state and public agencies and not-for-profit institutions, organizations and groups under the Organization's grant program.

A summary of regrants activity is as follows for the year ended December 31:

	<u>2009</u>	<u>2008</u>
Regrants payable – beginning of year	\$ 32,124	\$ 67,793
Regrants awarded	106,348	51,658
Awards paid to recipients	<u>(86,736)</u>	<u>(87,327)</u>
Regrants payable – end of year	<u>\$ 51,736</u>	<u>\$ 32,124</u>

Regrants expense for 2009 and 2008 on the statements of functional expenses is shown net of \$1,304 and \$18,016, respectively, of grant repayments from recipients who had previously received funding but did not complete all the grant requirements.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 6 – RETIREMENT PLAN

The Organization sponsors a simplified employee pension plan covering all full-time employees. Employer contributions are based on 10% of the participating employee's annual compensation. Contributions to the plan for the years ended December 31, 2009 and 2008 amounted to \$38,628 and \$36,621, respectively, and are included in employee benefits expense.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Operating Lease

The Organization rents office space under a non-cancelable operating lease that runs through July 2015, and provides for scheduled annual rent increases. Rent expense is recognized on the straight-line basis over the term of the lease. The excess of rent expense recognized over the amount paid is included in accounts payable and accrued expenses. Total rent expense recognized under this arrangement for the years ended December 31, 2009 and 2008 was \$33,173 and \$31,105, respectively. The Organization is also required to pay excess operating costs in addition to the scheduled minimum lease payments which covers taxes, insurance, certain utilities, general maintenance repairs, and other miscellaneous expenses.

A schedule of the aggregate future minimum lease commitment for office space as of December 31, 2009 follows:

<u>Year Ending</u> <u>December 31,</u>	
2010	\$ 28,250
2011	28,788
2012	29,325
2013	29,862
2014	30,400
Thereafter	<u>17,864</u>
	<u>\$ 164,489</u>

In addition, the Organization paid \$7,857 and \$10,015 in 2009 and 2008, respectively, for the temporary use of certain facilities for its annual book festival and other programs, and incurred other rent expenses for facilities and equipment on an as-needed basis.

Federal Grant

The Organization receives a substantial amount of its support from a single federal grantor. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the Organization's programs and activities.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 8 – CONCENTRATION OF CREDIT RISK

The Organization maintains cash accounts at a financial institution whose accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to statutory limits. The Emergency Economic Stabilization Act of 2008 temporarily increased the FDIC coverage from \$100,000 to \$250,000 per depositor, effective October 3, 2008 through December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase in FDIC coverage through December 31, 2013. As of December 31, 2009, all depositor accounts of the Organization were fully insured.

NOTE 9 – AGENCY ENDOWMENT FUND

The Organization has a beneficial interest in the Humanities Tennessee Endowment Fund (the “Fund”), an agency endowment fund held by the Community Foundation of Middle Tennessee (the “Community Foundation”). Earnings on this fund are used to benefit various programs for the humanities. The Organization has granted variance power to the Community Foundation, and the Community Foundation has the ultimate authority and control over the Fund and the income derived therefrom. The Fund is charged a .4% administrative fee annually. Upon request by the Organization, income from the Fund representing a 5% annual return may be distributed to the Organization or to another suggested beneficiary.

A schedule of changes in the Organization’s beneficial interest in this Fund follows for the year ended December 31:

	<u>2009</u>	<u>2008</u>
Balance – beginning of the year	\$ 8,621	\$ 12,106
Change in value of beneficial interest in agency endowment fund:		
Investment income (loss)	1,739	(3,416)
Administrative expenses	<u>(60)</u>	<u>(69)</u>
	<u>1,679</u>	<u>(3,485)</u>
Balance – end of the year	<u>\$ 10,300</u>	<u>\$ 8,621</u>

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 10 – FAIR VALUE MEASUREMENTS

The Organization has established a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under generally accepted accounting principles are described below:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include: 1) quoted prices for similar assets or liabilities in active markets, 2) quoted prices for identical or similar assets or liabilities in inactive markets, 3) inputs other than quoted prices that are observable for the asset or liability, and 4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for asset measurement at fair value at December 31, 2009 and 2008.

Investments – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities, certificates of deposit, and certain other products, such as corporate bonds and mutual funds. If quoted market prices are not available, the fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and are classified within Level 2 of the valuation hierarchy.

Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee – The carrying amount is based on information received from the Community Foundation of Middle Tennessee indicating the financial performance of the endowment fund. The Organization reflects this asset within Level 2 of the valuation hierarchy.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while The Organization's management believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2009 and 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2009			
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Investments	\$ 101,269	\$ -	\$ -	\$ 101,269
Beneficial interest in agency endowment fund	<u>-</u>	<u>10,300</u>	<u>-</u>	<u>10,300</u>
	<u>\$ 101,269</u>	<u>\$ 10,300</u>	<u>\$ -</u>	<u>\$ 111,569</u>
	December 31, 2008			
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Investments	\$ 95,518	\$ -	\$ -	\$ 95,518
Beneficial interest in agency endowment fund	<u>-</u>	<u>8,621</u>	<u>-</u>	<u>8,621</u>
	<u>\$ 95,518</u>	<u>\$ 8,621</u>	<u>\$ -</u>	<u>\$ 104,139</u>

NOTE 11 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets totaling \$70,543 and \$74,922 at December 31, 2009 and 2008, respectively, relate to funds received from an antitrust lawsuit settlement. According to court documents, these funds must be utilized to benefit children by providing them with toys, books, or other educational materials.

The FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The guidance also requires additional disclosures about an organization's endowment funds whether or not the organization is subject to UPMIFA.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 11 – RESTRICTIONS ON NET ASSETS (Continued)

The State of Tennessee enacted UPMIFA effective July 1, 2007, the provisions of which apply to endowment funds existing on or established after that date. The Organization adopted this guidance during the year ended December 31, 2008.

Permanently restricted net assets at December 31, 2009 and 2008 consist of an endowment fund established in 2006 to support the Tennessee Young Writers workshop. The original contribution to the endowment fund was subject to a donor restriction stipulating that the original principal of the gift is to be held and invested by the Organization indefinitely, and income from the fund is to be used to fund an annual scholarship. The Organization has informally adopted investment and spending policies based on the requirements of the State Prudent Management of Institutional Funds Act (“SPMIFA”). Based on the Organization’s interpretation of SPMIFA, and in accordance with donor restrictions, contributions to the endowment fund are classified as permanently restricted net assets. The historic dollar value of those contributions must be maintained in perpetuity. Income from the fund is classified as temporarily restricted net assets until the purposed restriction is satisfied, at which time the net assets are reclassified to unrestricted. However, if the restriction is fulfilled in the same reporting period in which the income is earned, the income is reported as unrestricted.

The Organization’s permanently restricted funds are invested with the unrestricted funds in corporate bonds, government bonds, and mutual funds. At December 31, 2009 and 2008, the endowment fund in the amount of \$15,000 is classified as permanently restricted net assets. Changes in endowment net assets for the years ended December 31, 2009 and 2008 were insignificant.

NOTE 12 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through June 9, 2010, when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

ADDITIONAL INFORMATION

HUMANITIES TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER AWARDS
For the Year Ended December 31, 2009

Grantor/Program Title	Federal CFDA Number	Receivable December 31, 2008	Cash Receipts	Expenditures	Receivable December 31, 2009
Federal awards:					
National Endowment for the Humanities, National Foundation on the Arts and Humanities:					
Promotion of the Humanities - Federal/State Partnership	45.129	* \$ 189,381	\$ 722,920	\$ 438,102	\$ (95,437)
Promotion of the Humanities - We the People	45.168	(28,107)	110,785	266,172	127,280
National Endowment for the Arts	45.unknown	-	-	10,000	10,000
Total Federal awards		161,274	833,705	714,274	41,843
Other awards - State and local governments:					
"Southern Festival of Books"					
State of Tennessee, Tennessee Arts Commission	N/A	-	3,500	3,500	-
Metropolitan Nashville Arts Commission	N/A	6,394	34,874	39,900	11,420
Total other awards - State and local governments		6,394	38,374	43,400	11,420
Total grant revenue		\$ 167,668	\$ 872,079	\$ 757,674	\$ 53,263

* Designates major program

BASIS OF PRESENTATION

This schedule includes the federal and other grant activity of Humanities Tennessee and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*.



FRASIER, DEAN & HOWARD, PLLC

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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 Directors of
Humanities Tennessee
Nashville, Tennessee

We have audited the financial statements of Humanities Tennessee (a nonprofit organization) as of and for the year ended December 31, 2009, and have issued our report thereon dated June 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as finding 2009-1, that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

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

Humanities Tennessee's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Humanities Tennessee's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the finance committee, others within the entity and the board of directors and is not intended to be and should not be used by anyone other than these specified parties.

Frasier, Dean + Howard, PLLC

June 9, 2010
Nashville, Tennessee



FRASIER, DEAN & HOWARD, PLLC

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of
Humanities Tennessee
Nashville, Tennessee

Compliance

We have audited the compliance of Humanities Tennessee (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, Humanities Tennessee complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

The management of Humanities Tennessee is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants

applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Frasier, Deen + Howard, PLLC

June 9, 2010
Nashville, Tennessee

HUMANITIES TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2009

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Humanities Tennessee.
2. One significant deficiency disclosed during the audit of the financial statements is reported in the 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*. The condition is not considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of Humanities Tennessee were disclosed during the audit.
4. The auditor's report on compliance for the major federal award programs for Humanities Tennessee expresses an unqualified opinion on all major federal programs.
5. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
6. The programs tested as major programs included:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
45.129	Promotion of the Humanities – Federal/State Partnership

7. The threshold for distinguishing Types A and B programs was \$300,000.
8. Humanities Tennessee was not determined to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

2009-1 Significant Audit Adjustments

Statement of Condition: Significant audit adjustments related to in-kind revenue and expenses and grants receivable were made to Humanities Tennessee's financial statements to conform to generally accepted accounting principles.

Criteria: SAS No. 115 defines a significant deficiency as 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.

Effect of Condition: Financial statements could be issued that do not properly reflect the Organization's financial position, activities, functional expenses and cash flows.

HUMANITIES TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended December 31, 2009

FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

Auditor's Recommendation: The Organization should consider making all adjusting entries prior to commencement of its year-end audit.

Grantee Response: We concur with the finding and will have an objective of no audit adjustments for 2010.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

NONE

**HUMANITIES TENNESSEE
CORRECTIVE ACTION PLAN
For the Year Ended December 31, 2009**

Management's response to findings is included in the Schedule of Findings and Questioned Costs.