

HUMANITIES TENNESSEE

FINANCIAL STATEMENTS

***As of and for the Years Ended December 31, 2017
and 2016***

And Report of Independent Auditor

HUMANITIES TENNESSEE
FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITOR 1-2

FINANCIAL STATEMENTS

Statements of Financial Position3
Statements of Activities..... 4-5
Statements of Functional Expenses 6-7
Statements of Cash Flows8
Notes to the Financial Statements 9-17

ADDITIONAL INFORMATION

Schedule of Expenditures of Federal and Other Awards18
Notes to Schedule of Expenditures of Federal and Other Awards 19
Report of Independent Auditor 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*..... 20-21
Report of Independent Auditor on Compliance for Each Major Federal Program and on
Internal Control over Compliance Required by the Uniform Guidance 22-23
Schedule of Findings and Questioned Costs..... 24-25
Summary Schedule of Prior Audit Findings26

Report of Independent Auditor

To the Board of Directors of
Humanities Tennessee
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Humanities Tennessee (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 above present fairly, in all material respects, the financial position of Humanities Tennessee as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and other awards, as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2018, on our consideration of Humanities Tennessee'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 solely 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 effectiveness of 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 Humanities Tennessee's internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements as of December 31, 2016, were audited by other auditors whose report dated May 22, 2017, expressed an unmodified opinion on those statements.



Nashville, Tennessee
July 9, 2018

HUMANITIES TENNESSEE

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 140,953	\$ 127,956
Investments	110,170	97,972
Federal grants receivable	95,895	46,405
Other grants receivable	20,000	50,000
Merchandise inventory	12,896	6,952
Other assets	10,953	15,008
Property and equipment, net of accumulated depreciation of \$58,723 and \$40,305, respectively	149,996	168,414
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	17,933	15,764
Total Assets	\$ 558,796	\$ 528,471
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 31,577	\$ 20,658
Regrants payable	92,235	59,625
Accrued leave	102,209	86,197
Deferred lease incentive	107,250	120,250
Total Liabilities	333,271	286,730
Net Assets:		
Unrestricted:		
Undesignated	38,621	26,015
Property and equipment	149,996	168,414
Designated for beneficial interest in agency endowment fund	17,933	15,764
Total unrestricted	206,550	210,193
Temporarily restricted	3,975	16,548
Permanently restricted	15,000	15,000
Total Net Assets	225,525	241,741
Total Liabilities and Net Assets	\$ 558,796	\$ 528,471

HUMANITIES TENNESSEE

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue:				
Public support:				
Grants - NEH and other governmental	\$ 996,052	\$ -	\$ -	\$ 996,052
Contributions and private grants	201,037	-	-	201,037
Author in the Round special event	34,840	-	-	34,840
Programs	36,525	-	-	36,525
Sales of books, t-shirts and miscellaneous	21,375	-	-	21,375
Less costs of direct benefits to donors	(74,435)	-	-	(74,435)
Donated services	100,100	-	-	100,100
Donated goods and facilities	48,119	-	-	48,119
Investment income	12,917	-	-	12,917
Change in value of beneficial interest in agency endowment	2,169	-	-	2,169
fund held by the Community Foundation of Middle Tennessee	12,573	(12,573)	-	-
Net assets released in satisfaction of purpose restrictions				
Total Public Support and Revenue	1,391,272	(12,573)	-	1,378,699
Expenses:				
Program services	1,130,822	-	-	1,130,822
Supporting services	264,093	-	-	264,093
Total Expenses	1,394,915	-	-	1,394,915
Change in net assets	(3,643)	(12,573)	-	(16,216)
Net assets, beginning of year	210,193	16,548	15,000	241,741
Net assets, end of year	\$ 206,550	\$ 3,975	\$ 15,000	\$ 225,525

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

HUMANITIES TENNESSEE

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue:				
Public support:				
Grants - NEH and other governmental	\$ 1,091,435	\$ -	\$ -	\$ 1,091,435
Contributions and private grants	192,489	-	-	192,489
Author in the Round special event	45,500	-	-	45,500
Programs	42,755	-	-	42,755
Sales of books, t-shirts and miscellaneous	25,969	-	-	25,969
Less costs of direct benefits to donors	(68,718)	-	-	(68,718)
Donated goods and facilities	140,463	-	-	140,463
Donated services	46,250	-	-	46,250
Investment income	3,246	-	-	3,246
Change in value of beneficial interest in agency endowment	785	-	-	785
fund held by the Community Foundation of Middle Tennessee	8,248	(8,248)	-	-
Net assets released in satisfaction of purpose restrictions				
Total Public Support and Revenue	1,528,422	(8,248)	-	1,520,174
Expenses:				
Program services	1,124,986	-	-	1,124,986
Supporting services	261,318	-	-	261,318
Total Expenses	1,386,304	-	-	1,386,304
Change in net assets	142,118	(8,248)	-	133,870
Net assets, beginning of year	68,075	24,796	15,000	107,871
Net assets, end of year	\$ 210,193	\$ 16,548	\$ 15,000	\$ 241,741

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

HUMANITIES TENNESSEE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services			Supporting Services		
	Grants and Awards	Community History	Language and Literature	Administrative	Fundraising	Total Expenses
Salaries	\$ 40,431	\$ 94,843	\$ 150,214	\$ 285,488	\$ 99,999	\$ 385,487
Regrants and other awards	113,754	33,107	600	147,461	-	147,461
Consultants	157	573	101,007	101,737	30,120	132,313
Travel	1,734	9,389	92,466	103,589	693	125,190
Fees/honorarium writers/others	-	4,400	97,747	102,147	-	102,147
Employee benefits	11,318	24,425	40,789	76,532	11,953	87,772
Rent	5,444	10,424	41,965	57,833	5,190	67,210
Accounting and bookkeeping services	3,217	6,188	10,300	19,705	2,075	37,900
Security	-	-	34,345	34,345	-	34,345
Printing	368	708	27,789	28,865	283	29,636
Employer taxes	3,096	7,262	11,759	22,117	3,416	28,537
Supplies	362	695	21,055	22,112	663	27,030
Other expenses	1,080	1,326	14,213	16,619	600	22,986
Food and beverage	279	591	19,288	20,158	1,330	22,313
Cost of books sold	-	-	21,242	21,242	-	21,242
Depreciation	-	-	-	18,418	-	18,418
National Federation of State Humanities Councils	-	-	-	16,848	-	16,848
Exhibits and displays	-	6,500	9,986	16,486	-	16,486
Tents	-	-	15,460	15,460	-	15,460
Insurance	-	-	2,718	2,718	-	2,718
Utilities	516	992	8,389	9,897	397	14,307
Computer and equipment costs	449	902	5,462	6,813	445	10,770
Cost of t-shirts and sweatshirts sold	-	-	6,298	6,298	-	6,298
Telephone	799	1,537	2,459	4,795	615	6,150
Contracted services	-	-	5,660	5,660	-	5,660
Postage	469	818	1,458	2,745	327	3,464
	<u>\$ 183,473</u>	<u>\$ 204,680</u>	<u>\$ 742,669</u>	<u>\$ 1,130,822</u>	<u>\$ 101,704</u>	<u>\$ 1,394,915</u>

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

HUMANITIES TENNESSEE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Program Services			Supporting Services		
	Grants and Awards	Community History	Language and Literature	Total	Administrative	Fundraising
Salaries	\$ 39,550	\$ 92,860	\$ 139,117	\$ 271,527	\$ 54,991	\$ 43,475
Consultants	235	1,778	115,566	117,579	6,467	30,167
Travel	2,976	7,386	115,113	125,475	15,247	1,336
Fees/honorarium writers/others	-	3,800	117,330	121,130	-	-
Regrants and other awards	88,765	26,000	896	115,661	-	-
Rent	5,682	10,927	58,215	74,824	5,840	4,371
Employee benefits	11,456	24,245	38,917	74,618	(4,793)	10,928
Accounting and bookkeeping services	2,958	5,688	9,700	18,346	15,461	1,675
Employer taxes	3,026	7,105	10,645	20,776	2,930	3,327
Food and beverage	119	-	26,259	26,378	141	-
Supplies	810	1,530	11,932	14,272	8,593	805
Printing	386	1,642	25,984	28,012	690	297
Other expenses	475	913	10,231	11,619	11,151	365
National Federation of State Humanities Councils	-	-	-	-	16,200	-
Cost of books sold	-	-	15,793	15,793	-	-
Tents	-	-	15,660	15,660	-	-
Computer and equipment costs	488	943	9,771	11,202	3,193	375
Depreciation	-	-	-	-	14,575	-
Telephone	1,663	3,198	4,961	9,822	2,735	1,279
Insurance	-	-	5,095	5,095	6,780	-
Security	-	-	11,301	11,301	-	-
Exhibits and displays	-	-	10,005	10,005	-	-
Cost of t-shirts and sweatshirts sold	-	-	9,137	9,137	-	-
Contracted services	-	-	6,596	6,596	1,766	1,766
Utilities	484	931	6,017	7,432	(295)	372
Postage	503	937	1,286	2,726	594	280
	<u>\$ 159,576</u>	<u>\$ 189,883</u>	<u>\$ 775,527</u>	<u>\$ 1,124,986</u>	<u>\$ 162,266</u>	<u>\$ 99,052</u>
					<u>\$ 261,318</u>	<u>\$ 1,386,304</u>

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

HUMANITIES TENNESSEE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (16,216)	\$ 133,870
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	18,418	14,575
Realized and unrealized gain on investments	(12,498)	(2,736)
Change in value of beneficial interest in agency endowment fund held by Community Foundation of Middle Tennessee	(2,169)	(785)
Changes in operating assets and liabilities:		
Federal grants receivable	(49,490)	(46,405)
Accounts receivable	-	2,741
Other grants receivable	30,000	(10,786)
Merchandise inventory	(5,944)	(4,101)
Other assets	4,055	(4,056)
Accounts payable and accrued expenses	10,919	(3,557)
Regrants payable	32,610	(20,557)
Accrued leave	16,012	16,696
Deferred lease incentive	(13,000)	120,250
Deferred federal grant revenue	-	(67,601)
Net cash flows from operating activities	<u>12,697</u>	<u>127,548</u>
Cash flows from investing activities:		
Purchase of property and equipment	-	(153,669)
Sale of investments	300	300
Net cash flows from investing activities	<u>300</u>	<u>(153,369)</u>
Net change in cash and cash equivalents	12,997	(25,821)
Cash and cash equivalents, beginning of year	127,956	153,777
Cash and cash equivalents, end of year	<u>\$ 140,953</u>	<u>\$ 127,956</u>

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

HUMANITIES TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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 77% and 78% of the Organization’s public support (excluding donated goods and services) came from the federal government through NEH in 2017 and 2016, respectively. Support also comes from state and local government, corporate and foundation grants, private contributions and 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

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 December 31, 2017 and 2016, 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 statements 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.

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.

Property and Equipment and Construction in Progress – Property 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. Property and equipment are being depreciated over estimated useful lives of five to ten years using the straight-line method. Property 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 \$25,921 as of December 31, 2017 and 2016.

Deferred Lease Incentive – Deferred lease incentive relates to leasehold improvements provided by the landlord for the office space. The deferred lease incentive is amortized on the straight-line method over the term of the office space lease.

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 10.)

HUMANITIES TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 2—Summary of significant accounting policies (continued)

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 per year 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.

Contributions, Support and Revenue Recognition – Cash contributions are recognized as revenue when received. Unconditional promises to give 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.

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.

Grant funds are earned and reported as revenue 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 grant revenue.

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 2017 and 2016, board members spent approximately 374 and 348 hours, respectively, attending meetings, training, and other seminars in support of the Organization. Additionally, volunteers and committee members contributed approximately 1,458 and 2,982 hours, respectively, in support of the Organization's 2017 and 2016 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.

HUMANITIES TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 2—Summary of significant accounting policies (continued)

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 2017 or 2016.

Community history – includes expenses for the Museums on Main Street program that tours educational exhibits throughout Tennessee and expenses 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:

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

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

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.

HUMANITIES TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 2—Summary of significant accounting policies (continued)

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.

The Organization follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) guidance related to unrecognized tax benefits which clarifies the accounting for uncertainty in income taxes recognized in an organization’s financial statements. This guidance 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 50% likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements.

Subsequent Events – The Organization evaluated subsequent events through July 9, 2018, when these financial statements were available to be issued. Management 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.

Note 3—Investments

All investments are reported at fair value as described in Note 11 and consist of the following as of December 31:

	2017	2016
Cash and cash equivalents	\$ 8,422	\$ 8,300
Certificates of deposit	10,000	10,000
Marketable securities	14,613	14,613
Mutual funds	77,135	65,059
	<u>\$ 110,170</u>	<u>\$ 97,972</u>

The following schedule summarizes investment income for the years ended December 31:

	2017	2016
Interest and dividends	\$ 419	\$ 510
Realized and unrealized gains	12,498	2,736
	<u>\$ 12,917</u>	<u>\$ 3,246</u>

HUMANITIES TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 4—Property and equipment

Property and equipment consists of the following as of December 31:

	2017	2016
Furniture and equipment	\$ 28,440	\$ 28,440
Leasehold improvements	180,279	180,279
	<u>208,719</u>	<u>208,719</u>
Less accumulated depreciation	(58,723)	(40,305)
	<u><u>\$ 149,996</u></u>	<u><u>\$ 168,414</u></u>

Note 5—Grantor awards available

Grantor awards available from the National Endowment for the Humanities to be drawn in future years consist of the following as of December 31, 2017:

Grant Number	Operations	Special Projects	Total
#SO-5624-14	\$ 3,655	\$ -	\$ 3,655
#SO-253193-17	76,510	-	76,510
	<u><u>\$ 80,165</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 80,165</u></u>

Note 6—Grants 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 years ended December 31:

	2017	2016
Regrants payable, beginning of year	\$ 59,625	\$ 80,182
Regrants awarded	42,130	36,470
Awards paid to recipients	(9,520)	(57,027)
Regrants payable, end of year	<u><u>\$ 92,235</u></u>	<u><u>\$ 59,625</u></u>

Note 7—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, 2017 and 2016, amounted to \$36,577 and \$35,927, respectively, and are included in employee benefits expense.

HUMANITIES TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 8—Commitments and contingencies

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.

Operating Lease

The Organization leases office space under a non-cancelable operating lease that expires in June 2026. Under terms of the lease agreement, the Organization is required to make minimum monthly payments ranging from \$3,404 to \$4,124. Total rent expense recognized under this arrangement and under the Organization's previous lease arrangement for the years ended December 31, 2017 and 2016, was \$41,993 and \$44,304, respectively. In consideration for entering into the lease, the Organization was granted an allowance totaling \$130,000 for tenant improvements. This allowance has been recorded in the statement of financial position as deferred lease incentive and is being credited to lease expense over the term of the lease.

Future minimum lease payments required under the Organization's current lease as of December 31, 2017, are as follows:

Years Ending December 31,

2018	\$ 41,661
2019	42,741
2020	43,821
2021	44,901
2022	45,981
Thereafter	156,796
	<u>\$ 375,901</u>

In addition, the Organization paid \$25,217 and \$40,731 in 2017 and 2016, 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.

Note 9—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. As of December 31, 2017 and 2016, all depositor accounts of the Organization were fully insured.

HUMANITIES TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 10—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 Fund is charged a 0.4% 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 years ended December 31:

	2017	2016
Balance, beginning of year	\$ 15,764	\$ 14,979
Change in value of beneficial interest in agency endowment fund:		
Investment income (loss)	2,278	906
Administrative expenses	(109)	(121)
	<u>2,169</u>	<u>785</u>
Balance, beginning of year	<u>\$ 17,933</u>	<u>\$ 15,764</u>

Note 11—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 accounting principles generally accepted in the United States of America 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.

HUMANITIES TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 11—Fair value measurements (continued)

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, 2017 and 2016.

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 3 of the valuation hierarchy.

The methods 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 methods are 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, 2017 and 2016, segregated by the level of the valuation inputs within the fair value hierarchy:

	December 31, 2017			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Investments	\$ 110,170	\$ -	\$ -	\$ 110,170
Beneficial interest in agency endowment fund	-	-	17,933	17,933
	<u>\$ 110,170</u>	<u>\$ -</u>	<u>\$ 17,933</u>	<u>\$ 128,103</u>
	December 31, 2016			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Investments	\$ 97,972	\$ -	\$ -	\$ 97,972
Beneficial interest in agency endowment fund	-	-	15,764	15,764
	<u>\$ 97,972</u>	<u>\$ -</u>	<u>\$ 15,764</u>	<u>\$ 113,736</u>

HUMANITIES TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 12—Restrictions on net assets

Temporarily restricted net assets totaling \$3,975 and \$16,548 at December 31, 2017 and 2016, 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"). UPMIFA also requires additional disclosures about an organization's endowment funds whether or not the organization is subject to UPMIFA. 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 is subject to the provisions of UPMIFA.

Permanently restricted net assets at December 31, 2017 and 2016, 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 purpose 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 mutual funds. At December 31, 2017 and 2016, 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, 2017 and 2016, were insignificant.

ADDITIONAL INFORMATION

HUMANITIES TENNESSEE**SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER AWARDS***YEAR ENDED DECEMBER 31, 2017*

<u>Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>	<u>Expenditures to Subrecipients</u>
Federal awards:			
National Endowment for the Humanities:			
Promotion of the Humanities - Federal/State Partnership	45.129	* \$ 896,322	\$ 42,130
Total Federal awards		896,322	42,130
Other awards - state and local governments:			
State of Tennessee Arts Commission	N/A	24,130	-
Metropolitan Nashville Arts Commission	N/A	75,600	-
Total other awards - state and local governments		99,730	-
Total grant revenue		\$ 996,052	\$ 42,130

* Indicates a major program

HUMANITIES TENNESSEE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER AWARDS

DECEMBER 31, 2017

Note 1—Basis of accounting

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 Title 2, *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because this schedule presents only a selected portion of the operations of Humanities Tennessee, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Humanities Tennessee.

Note 2—Indirect cost allocation

Humanities Tennessee did not elect to use the 10% de minimis indirect cost rate; however, no indirect costs were allocated to the awards during 2017.

**Report of Independent Auditor 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, 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 Humanities Tennessee (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 9, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Humanities Tennessee'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 Humanities Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of the Humanities Tennessee's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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 Humanities Tennessee'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 Humanities Tennessee's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cherry Beckett LLP". The signature is written in a cursive, flowing style.

Nashville, Tennessee
July 9, 2018

**Report of Independent Auditor on Compliance for Each Major
Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance**

To the Board of Directors of
Humanities Tennessee
Nashville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited Humanities Tennessee's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Humanities Tennessee's major federal programs for the year ended December 31, 2017. Humanities Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Humanities Tennessee's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 Humanities Tennessee'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Humanities Tennessee's compliance.

Opinion on Each Major Federal Program

In our opinion, Humanities Tennessee complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-01. Our opinion on each major federal program is not modified with respect to these matters.

Humanities Tennessee's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Humanities Tennessee's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

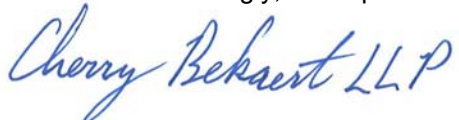
Management of Humanities Tennessee is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Humanities Tennessee's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Humanities Tennessee'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. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-01 that we consider to be a significant deficiency.

Humanities Tennessee's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Humanities Tennessee's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cherry Bekart LLP". The signature is written in a cursive, flowing style.

Nashville, Tennessee
July 9, 2018

HUMANITIES TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2017

Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of Humanities Tennessee.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of Humanities Tennessee, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One significant deficiency relating to the audit of major federal programs is reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs of Humanities Tennessee expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with the Uniform Guidance are reported in this Schedule.
7. The program tested as major programs included:

CFDA Number

45.129

Name of Federal Program or Cluster

Promotion of the Humanities – Federal/State Partnership

8. The threshold for distinguishing Type A and B programs was \$750,000.
9. Humanities Tennessee was determined to be a low-risk auditee.

Findings – Financial Statement Audit

None

HUMANITIES TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

Findings and Questioned Costs – Major Federal Awards Programs Audit

Item #2017-01
Promotion of the Humanities – Federal/State Partnership
CFDA No. 45.129

Criteria

Humanities Tennessee (the “Organization”) is required to submit SF-425, Federal Financial Report, on an annual basis in accordance with the form instructions.

Condition and Context

The information contained in SF-425 prepared for grant #SO-25319317 included information corresponding to the Organization’s fiscal year ended December 31, 2017 rather than the grant year ended October 31, 2017. Additionally, the information included only financial information for the single year rather than cumulative figures since the inception of the grant as required by the form instructions.

Questioned Cost

None.

Cause

The Organization’s management was not aware of the specific requirements of the Federal Financial Report.

Effect

The Organization was not in compliance with the reporting requirements of the grant.

Recommendation

We recommend Organization management familiarize themselves with the requirements of the Federal Financial Report and modify their internal controls to ensure future reports are prepared in accordance with the Form instructions.

Management’s Response

Management will review current Federal Financial Report instructions and ensure internal controls are modified so that future reports are prepared in accordance with SF-425 instructions.

HUMANITIES TENNESSEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2017

None