

HUMANITIES TENNESSEE

FINANICAL STATEMENTS

December 31, 2011 and 2010

HUMANITIES TENNESSEE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Humanities Tennessee
Nashville, Tennessee

We have audited the accompanying statements of financial position of Humanities Tennessee (the "Organization"), a Tennessee not-for-profit corporation, as of December 31, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years 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 audits.

We conducted our audits 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 27, 2012 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits were conducted for the purpose of forming an opinion on the financial statements 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 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 schedule of expenditures of federal and other awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

Frasier, Dean & Howard, PLLC

Nashville, Tennessee

June 27, 2012

HUMANITIES TENNESSEE
STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 153,602	\$ 129,909
Investments	78,679	97,284
Federal grants receivable	-	71,346
Other grants receivable	-	4,300
Other receivables	-	5,089
Merchandise inventory	2,806	3,669
Prepaid expenses	26,469	8,383
Furniture and equipment, net of accumulated depreciation of \$42,152 and \$44,738, respectively	3,051	6,528
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	11,244	11,566
	<u>11,244</u>	<u>11,566</u>
Total assets	<u>\$ 275,851</u>	<u>\$ 338,074</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 27,876	\$ 28,299
Regrants payable	50,880	62,323
Accrued leave	98,493	91,908
Deferred federal grant revenue	823	-
	<u>823</u>	<u>-</u>
Total liabilities	<u>178,072</u>	<u>182,530</u>
Net assets:		
Unrestricted:		
Undesignated	20,499	58,951
Furniture and equipment	3,051	6,528
Designated for beneficial interest in agency endowment fund	11,244	11,566
	<u>11,244</u>	<u>11,566</u>
Total unrestricted	34,794	77,045
Temporarily restricted	47,985	63,499
Permanently restricted	15,000	15,000
	<u>15,000</u>	<u>15,000</u>
Total net assets	<u>97,779</u>	<u>155,544</u>
Total liabilities and net assets	<u>\$ 275,851</u>	<u>\$ 338,074</u>

See accompanying notes.

HUMANITIES TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Public support:				
Grants - NEH and other governmental	\$ 868,899	\$ -	\$ -	\$ 868,899
Contributions and private grants	152,192	-	-	152,192
Sales of books, t-shirts and miscellaneous	72,157	-	-	72,157
Author in the Round special event	32,400	-	-	32,400
Programs	33,435	-	-	33,435
Less: costs of direct benefits to donors	(38,451)	-	-	(38,451)
Donated services	158,834	-	-	158,834
Donated goods and facilities	163,330	-	-	163,330
Investment loss	(2,059)	-	-	(2,059)
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(322)	-	-	(322)
Net assets released in satisfaction of purpose restrictions	15,514	(15,514)	-	-
Total public support and revenue	<u>1,455,929</u>	<u>(15,514)</u>	<u>-</u>	<u>1,440,415</u>
Expenses:				
Program services	1,332,354	-	-	1,332,354
Supporting services	165,826	-	-	165,826
Total expenses	<u>1,498,180</u>	<u>-</u>	<u>-</u>	<u>1,498,180</u>
Change in net assets	(42,251)	(15,514)	-	(57,765)
Net assets - beginning of year	<u>77,045</u>	<u>63,499</u>	<u>15,000</u>	<u>155,544</u>
Net assets - end of year	<u><u>\$ 34,794</u></u>	<u><u>\$ 47,985</u></u>	<u><u>\$ 15,000</u></u>	<u><u>\$ 97,779</u></u>

See accompanying notes.

HUMANITIES TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Public support:				
Grants - NEH and other governmental	\$ 870,043	\$ -	\$ -	\$ 870,043
Contributions and private grants	138,382	-	-	138,382
Sales of books, t-shirts and miscellaneous	68,800	-	-	68,800
Author in the Round special event	47,765	-	-	47,765
Programs	41,614	-	-	41,614
Less: costs of direct benefits to donors	(40,820)	-	-	(40,820)
Donated services	121,418	-	-	121,418
Donated goods and facilities	105,734	-	-	105,734
Investment income	9,262	-	-	9,262
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	1,266	-	-	1,266
Miscellaneous income	775	-	-	775
Net assets released in satisfaction of purpose restrictions	7,044	(7,044)	-	-
Total public support and revenue	<u>1,371,283</u>	<u>(7,044)</u>	<u>-</u>	<u>1,364,239</u>
Expenses:				
Program services	1,242,950	-	-	1,242,950
Supporting services	170,336	-	-	170,336
Total expenses	<u>1,413,286</u>	<u>-</u>	<u>-</u>	<u>1,413,286</u>
Change in net assets	(42,003)	(7,044)	-	(49,047)
Net assets - beginning of year	<u>119,048</u>	<u>70,543</u>	<u>15,000</u>	<u>204,591</u>
Net assets - end of year	<u>\$ 77,045</u>	<u>\$ 63,499</u>	<u>\$ 15,000</u>	<u>\$ 155,544</u>

See accompanying notes.

HUMANITIES TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2011

	Program Services				Supporting Services			Total Expenses
	Grants and Awards	Community History	Language and Literature	Total	Administrative	Fundraising	Total	
Salaries	\$ 47,982	\$ 153,517	\$ 168,268	\$ 369,767	\$ 35,733	\$ -	\$ 35,733	\$ 405,500
Travel	2,909	13,801	165,257	181,967	12,652	-	12,652	194,619
Consultants	-	70,980	68,119	139,099	-	40,000	40,000	179,099
Fees/honorarium writers/others	-	28,309	148,310	176,619	-	-	-	176,619
Employee benefits	10,374	31,955	31,523	73,852	13,856	-	13,856	87,708
Regrants	76,467	-	-	76,467	-	-	-	76,467
Cost of books sold	-	-	60,453	60,453	-	-	-	60,453
Rent	4,449	13,688	18,390	36,527	4,975	-	4,975	41,502
Community history fund awards	-	36,410	-	36,410	-	-	-	36,410
Employer taxes	3,670	11,744	12,873	28,287	3,553	-	3,553	31,840
Printing	49	1,550	28,151	29,750	45	-	45	29,795
Accounting and bookkeeping services	-	-	-	-	26,176	-	26,176	26,176
Supplies	316	1,009	16,172	17,497	292	-	292	17,789
Tents	-	-	17,299	17,299	-	-	-	17,299
Other expenses	60	441	7,856	8,357	8,338	-	8,338	16,695
Food and beverage	-	78	15,643	15,721	-	-	-	15,721
National Federation of State Humanities Councils	-	-	-	-	13,459	-	13,459	13,459
Exhibits and displays	-	6,000	6,517	12,517	-	-	-	12,517
Scholarships	5,000	6,744	-	11,744	-	-	-	11,744
Security	-	-	10,974	10,974	-	-	-	10,974
Computer and equipment costs	516	6,416	1,388	8,320	1,532	-	1,532	9,852
Cost of t-shirts and sweatshirts sold	-	-	5,924	5,924	863	-	863	6,787
Telephone	580	1,783	1,560	3,923	535	-	535	4,458
Depreciation	-	-	-	-	3,477	-	3,477	3,477
Utilities	-	-	3,402	3,402	-	-	-	3,402
Contracted services	-	-	3,368	3,368	-	-	-	3,368
Postage	348	1,071	1,195	2,614	340	-	340	2,954
Insurance	-	-	1,496	1,496	-	-	-	1,496
	<u>\$ 152,720</u>	<u>\$ 385,496</u>	<u>\$ 794,138</u>	<u>\$ 1,332,354</u>	<u>\$ 125,826</u>	<u>\$ 40,000</u>	<u>\$ 165,826</u>	<u>\$ 1,498,180</u>

See accompanying notes.

HUMANITIES TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2010

	Program Services				Supporting Services			
	Grants and Awards	Community History	Language and Literature	Total	Administrative	Fundraising	Total	Total Expenses
Salaries	\$ 47,690	\$ 152,600	\$ 167,160	\$ 367,450	\$ 35,550	\$ -	\$ 35,550	\$ 403,000
Fees/honorarium writers/others	-	26,048	158,332	184,380	37	-	37	184,417
Travel	3,536	12,320	136,541	152,397	16,041	-	16,041	168,438
Consultants	-	-	101,350	101,350	-	34,750	34,750	136,100
Employee benefits	9,661	29,912	29,531	69,104	18,120	-	18,120	87,224
Regrants	86,638	-	-	86,638	-	-	-	86,638
Cost of books sold	-	-	66,787	66,787	-	-	-	66,787
Rent	4,281	13,173	23,764	41,218	7,241	-	7,241	48,459
Community history fund awards	-	31,650	-	31,650	-	-	-	31,650
Employer taxes	3,648	11,674	12,788	28,110	3,539	-	3,539	31,649
Supplies	752	2,314	26,108	29,174	792	-	792	29,966
Other expenses	56	614	13,490	14,160	12,649	-	12,649	26,809
Accounting and bookkeeping services	-	-	-	-	25,236	-	25,236	25,236
Food and beverage	266	136	14,007	14,409	-	-	-	14,409
Exhibits and displays	-	10,000	-	10,000	-	-	-	10,000
National Federation of State Humanities Councils	-	-	-	-	8,820	-	8,820	8,820
TAM Scholarships	-	8,332	-	8,332	-	-	-	8,332
Printing	168	1,857	5,594	7,619	154	-	154	7,773
Computer and equipment costs	694	2,159	2,022	4,875	937	-	937	5,812
Tents	-	-	5,725	5,725	-	-	-	5,725
Depreciation	-	-	-	-	5,602	-	5,602	5,602
Contracted services	-	-	4,635	4,635	-	-	-	4,635
Telephone	558	1,715	1,761	4,034	515	-	515	4,549
Postage	374	1,151	1,716	3,241	353	-	353	3,594
Cost of t-shirts and sweatshirts sold	-	-	3,460	3,460	-	-	-	3,460
Utilities	-	-	2,373	2,373	-	-	-	2,373
Insurance	-	-	1,409	1,409	-	-	-	1,409
Security	-	-	420	420	-	-	-	420
	<u>\$ 158,322</u>	<u>\$ 305,655</u>	<u>\$ 778,973</u>	<u>\$ 1,242,950</u>	<u>\$ 135,586</u>	<u>\$ 34,750</u>	<u>\$ 170,336</u>	<u>\$ 1,413,286</u>

See accompanying notes.

HUMANITIES TENNESSEE
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ (57,765)	\$ (49,047)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	3,477	5,602
Realized and unrealized loss (gain) on investments	3,193	(9,028)
Change in value of beneficial interest in agency endowment fund held by Community Foundation of Middle Tennessee	322	(1,266)
Changes in operating assets and liabilities:		
Federal grants receivable	71,346	(29,503)
Other grants receivable	4,300	7,120
Other receivables	5,089	(5,089)
Merchandise inventory	863	(153)
Prepaid expenses	(18,086)	(1,175)
Accounts payable and accrued expenses	(423)	(8,655)
Regrants payable	(11,443)	10,587
Accrued leave	6,585	8,816
Deferred federal grant revenue	823	-
Net cash provided by (used in) operating activities	<u>8,281</u>	<u>(71,791)</u>
Cash flows from investing activities:		
Purchase of investments	(500)	(11,712)
Sale of investments	15,912	24,725
Purchases of equipment	-	(2,056)
Net cash provided by investing activities	<u>15,412</u>	<u>10,957</u>
Increase (decrease) in cash and cash equivalents	23,693	(60,834)
Cash and cash equivalents - beginning of year	<u>129,909</u>	<u>190,743</u>
Cash and cash equivalents - end of year	<u><u>\$ 153,602</u></u>	<u><u>\$ 129,909</u></u>

See accompanying notes.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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 76% and 75% of the Organization’s public support (excluding donated goods and services) came from the federal government through NEH in 2011 and 2010, 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 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 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.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$34,479 and \$25,033 as of December 31, 2011 and 2010, 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 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.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

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 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.

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 2011 and 2010, board members spent approximately 620 and 590 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 2011 and 2010 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 2011 or 2010.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program and Supporting Services (Continued)

Program services (Continued)

Community history – 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

Administrative – represents expenses related to the overall management of Organization 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.

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, 2011 and 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Organization follows Financial Accounting Standards Board Accounting Standards Codification (“FASB 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 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, 2008 through 2011.

Subsequent Events

The Organization evaluated subsequent events through June 27, 2012, 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 10 and consist of the following as of December 31:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 2,071	\$ 15,001
Certificates of deposit	10,000	10,000
Marketable securities	7,336	7,336
Mutual funds	<u>59,272</u>	<u>64,947</u>
	<u><u>\$ 78,679</u></u>	<u><u>\$ 97,284</u></u>

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

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 1,134	\$ 234
Realized and unrealized gains	<u>(3,193)</u>	<u>9,028</u>
	<u><u>\$ (2,059)</u></u>	<u><u>\$ 9,262</u></u>

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 4 – GRANTOR AWARDS AVAILABLE

Grantor awards currently available from the National Endowment for the Humanities to be drawn in future years consist of the following as of December 31, 2011:

<u>Grant Number</u>	<u>Operations</u>	<u>Special Projects</u>	<u>Total</u>
#SO-50446-11	\$ <u>950,100</u>	\$ <u>-</u>	\$ <u>950,100</u>

Grantor awards available from the National Endowment for the Humanities consisted of the following as of December 31, 2010:

<u>Grant Number</u>	<u>Operations</u>	<u>Special Projects</u>	<u>Total</u>
#SO-50227-08	\$ 178,160	\$ -	\$ 178,160
#SO-50446-11	150,000	-	150,000
#BC-50521-10	<u>-</u>	<u>127,280</u>	<u>127,280</u>
	\$ <u>328,160</u>	\$ <u>127,280</u>	\$ <u>455,440</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>2011</u>	<u>2010</u>
Regrants payable – beginning of year	\$ 62,323	\$ 51,736
Regrants awarded	76,467	86,638
Awards paid to recipients	<u>(87,910)</u>	<u>(76,051)</u>
Regrants payable – end of year	\$ <u>50,880</u>	\$ <u>62,323</u>

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, 2011 and 2010 amounted to \$40,550 and \$40,300, respectively, and are included in employee benefits expense.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 7 – 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 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, 2011 and 2010 was \$33,301 and \$35,322, respectively. The Organization is also required to pay excess operating costs in addition to the scheduled minimum lease payments which cover 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, 2011 follows:

<u>Year Ending</u> <u>December 31,</u>	
2012	\$ 29,325
2013	29,862
2014	30,400
2015	<u>17,864</u>
	<u>\$ 107,451</u>

In addition, the Organization paid \$8,201 and \$13,137 in 2011 and 2010, 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 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. As of December 31, 2011 and 2010, all depositor accounts of the Organization were fully insured.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

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 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 year ended December 31:

	<u>2011</u>	<u>2010</u>
Balance – beginning of the year	\$ 11,566	\$ 10,300
Change in value of beneficial interest in agency endowment fund:		
Investment (loss) income	(232)	1,337
Administrative expenses	<u>(90)</u>	<u>(71)</u>
	<u>(322)</u>	<u>1,266</u>
Balance – end of the year	<u>\$ 11,244</u>	<u>\$ 11,566</u>

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.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)

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, 2011 and 2010.

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.

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.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2011 and 2010, segregated by the level of the valuation inputs within the fair value hierarchy:

December 31, 2011				
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Investments	\$ 78,679	\$ -	\$ -	\$ 78,679
Beneficial interest in agency endowment fund	<u>-</u>	<u>11,244</u>	<u>-</u>	<u>11,244</u>
	<u>\$ 78,679</u>	<u>\$ 11,244</u>	<u>\$ -</u>	<u>\$ 89,923</u>
December 31, 2010				
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Investments	\$ 97,284	\$ -	\$ -	\$ 97,284
Beneficial interest in agency endowment fund	<u>-</u>	<u>11,566</u>	<u>-</u>	<u>11,566</u>
	<u>\$ 97,284</u>	<u>\$ 11,566</u>	<u>\$ -</u>	<u>\$ 108,850</u>

NOTE 11 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets totaling \$47,985 and \$63,499 at December 31, 2011 and 2010, 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.

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 has adopted this guidance.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 11 – RESTRICTIONS ON NET ASSETS (Continued)

Permanently restricted net assets at December 31, 2011 and 2010 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, 2011 and 2010, 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, 2011 and 2010 were insignificant.

ADDITIONAL INFORMATION

HUMANITIES TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER AWARDS
For the Year Ended December 31, 2011

<u>Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Federal awards:		
National Endowment for the Humanities, National Foundation on the Arts and Humanities:		
Promotion of the Humanities - Federal/State Partnership	45.129 *	\$ 720,419
Promotion of the Humanities - We the People	45.168	<u>127,280</u>
Total Federal awards		<u>847,699</u>
Other awards - state and local governments:		
Metropolitan Nashville Arts Commission	N/A	<u>21,200</u>
Total other awards - state and local governments		<u>21,200</u>
Total grant revenue		<u><u>\$ 868,899</u></u>

* Indicates a 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*.



**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, 2011, and have issued our report thereon dated June 27, 2012. 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 2011-1, 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 27, 2012
Nashville, Tennessee



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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, 2011. 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, 2011.

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, Dean & Howard, PLLC

June 27, 2012
Nashville, Tennessee

HUMANITIES TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2011

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, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of major federal programs are reported in the Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs of Humanities Tennessee expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 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 Types A and B programs was \$300,000.
9. Humanities Tennessee was determined to be a low-risk auditee.

HUMANITIES TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended December 31, 2011

FINDINGS – FINANCIAL STATEMENT AUDIT

Significant Deficiency

2011-1 Significant Audit Adjustments

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

Criteria: Financial statements are to be issued in accordance with generally accepted accounting principles.

Effect of Condition: Financial statements could be issued that do not properly reflect the Organization's financial condition and results of operations.

Cause of Condition: Certain final closing entries have typically been made in conjunction with the audit process.

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 2012.

Material Weakness

None

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

None

**HUMANITIES TENNESSEE
CORRECTIVE ACTION PLAN
For the Year Ended December 31, 2011**

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

HUMANITIES TENNESSEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2011

2009-1 Significant Audit Adjustments

Statement of Condition:

Significant audit adjustments related to expenses and grants receivable were made to Humanities Tennessee's financial statements to conform to generally accepted accounting principles.

Auditor's Recommendation:

The Organization should consider making all adjusting entries prior to commencement of its year-end audit.

Current Status:

Similar findings were noted in the current year audit. Management of the Organization plans to implement this recommendation by making adjustments previously required as a result of the year-end audit process during 2012.