

# Preliminary Draft

**HUMANITIES TENNESSEE**

**FINANICAL STATEMENTS**

**December 31, 2015 and 2014**

# Preliminary Draft

## HUMANITIES TENNESSEE

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## INDEPENDENT AUDITOR'S REPORT

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 statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years 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 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 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.

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## ***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, 2015 and 2014, and the changes in its net assets and its cash flows for the years 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 April 14, 2016, 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 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* in considering Humanities Tennessee's internal control over financial reporting and compliance.

Nashville, Tennessee  
April 14, 2016

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## HUMANITIES TENNESSEE STATEMENTS OF FINANCIAL POSITION December 31, 2015 and 2014

	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 153,777	\$ 156,060
Investments	95,536	95,400
Accounts receivable	2,741	-
Other grants receivable	39,214	30,000
Merchandise inventory	2,851	769
Other assets	10,952	-
Furniture and equipment, net of accumulated depreciation of \$25,730 and \$23,623, respectively	2,090	4,197
Construction in progress	27,230	-
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	14,979	15,396
<b>Total assets</b>	<b>\$ 349,370</b>	<b>\$ 301,822</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 24,215	\$ 16,557
Regrants payable	80,182	50,499
Accrued leave	69,501	79,387
Deferred federal grant revenue	67,601	37,710
<b>Total liabilities</b>	<b>241,499</b>	<b>184,153</b>
<b>Net assets:</b>		
Unrestricted:		
Undesignated	23,776	50,571
Furniture and equipment	29,320	4,197
Designated for beneficial interest in agency endowment fund	14,979	15,396
<b>Total unrestricted</b>	<b>68,075</b>	<b>70,164</b>
Temporarily restricted	24,796	32,505
Permanently restricted	15,000	15,000
<b>Total net assets</b>	<b>107,871</b>	<b>117,669</b>
<b>Total liabilities and net assets</b>	<b>\$ 349,370</b>	<b>\$ 301,822</b>

See accompanying notes.

**HUMANITIES TENNESSEE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2015**

	<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	\$ 842,167	\$ -	\$ -	\$ 842,167
Contributions and private grants	243,426	-	-	243,426
Author in the Round special event	60,300	-	-	60,300
Programs	53,230	-	-	53,230
Sales of books, t-shirts and miscellaneous	21,668	-	-	21,668
Less: costs of direct benefits to donors	(63,890)	-	-	(63,890)
Donated goods and facilities	115,596	-	-	115,596
Donated services	54,500	-	-	54,500
Investment income	900	-	-	900
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(417)	-	-	(417)
Net assets released in satisfaction of purpose restrictions	7,709	(7,709)	-	-
Total public support and revenue	<u>1,335,189</u>	<u>(7,709)</u>	<u>-</u>	<u>1,327,480</u>
Expenses:				
Program services	1,132,387	-	-	1,132,387
Supporting services	204,891	-	-	204,891
Total expenses	<u>1,337,278</u>	<u>-</u>	<u>-</u>	<u>1,337,278</u>
Change in net assets	(2,089)	(7,709)	-	(9,798)
Net assets - beginning of year	70,164	32,505	15,000	117,669
Net assets - end of year	<u>\$ 68,075</u>	<u>\$ 24,796</u>	<u>\$ 15,000</u>	<u>\$ 107,871</u>

See accompanying notes.

**HUMANITIES TENNESSEE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2014**

	<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	\$ 801,869	\$ -	\$ -	\$ 801,869
Contributions and private grants	207,980	-	-	207,980
Author in the Round special event	63,000	-	-	63,000
Programs	41,150	-	-	41,150
Sales of books, t-shirts and miscellaneous	25,329	-	-	25,329
Less: costs of direct benefits to donors	(63,385)	-	-	(63,385)
Donated goods and facilities	118,244	-	-	118,244
Donated services	58,355	-	-	58,355
Investment income	4,932	-	-	4,932
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	2,460	-	-	2,460
Net assets released in satisfaction of purpose restrictions	6,405	(6,405)	-	-
Total public support and revenue	<u>1,266,339</u>	<u>(6,405)</u>	<u>-</u>	<u>1,259,934</u>
Expenses:				
Program services	1,059,370	-	-	1,059,370
Supporting services	200,236	-	-	200,236
Total expenses	<u>1,259,606</u>	<u>-</u>	<u>-</u>	<u>1,259,606</u>
Change in net assets	6,733	(6,405)	-	328
Net assets - beginning of year	<u>63,431</u>	<u>38,910</u>	<u>15,000</u>	<u>117,341</u>
Net assets - end of year	<u>\$ 70,164</u>	<u>\$ 32,505</u>	<u>\$ 15,000</u>	<u>\$ 117,669</u>

See accompanying notes.

**HUMANITIES TENNESSEE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2015**

	Program Services				Supporting Services			Total Expenses
	Grants and Awards	Community History	Language and Literature	Total	Administrative	Fundraising	Total	
Salaries	\$ 38,967	\$ 108,843	\$ 138,268	\$ 286,078	\$ 37,658	\$ 41,000	\$ 78,658	\$ 364,736
Consultants	104	54,530	48,163	102,797	599	43,080	43,679	146,476
Regrants and other awards	131,248	4,290	425	135,963	-	-	-	135,963
Travel	781	3,936	111,822	116,539	16,573	2	16,575	133,114
Fees/honorarium writers/others	-	31,485	93,544	125,029	274	-	274	125,303
Employee benefits	10,061	27,676	35,085	72,822	(9,391)	10,253	862	73,684
Rent	5,177	11,947	45,126	62,250	2,911	3,982	6,893	69,143
Accounting and bookkeeping services	3,229	7,451	8,692	19,372	15,226	2,484	17,710	37,082
Printing	392	2,164	28,840	31,396	461	302	763	32,159
Supplies	433	1,005	26,807	28,245	3,094	333	3,427	31,672
Employer taxes	2,986	8,338	10,601	21,925	3,690	3,145	6,835	28,760
Cost of books sold	-	370	25,799	26,169	-	-	-	26,169
Food and beverage	216	-	22,672	22,888	1,414	-	1,414	24,302
Tents	-	-	18,851	18,851	-	-	-	18,851
National Federation of State Humanities Councils	1,167	2,692	3,141	7,000	7,133	697	7,830	14,830
Other expenses	784	4	7,639	8,427	4,355	402	4,757	13,184
Exhibits and displays	-	3,000	7,645	10,645	-	-	-	10,645
Insurance	-	-	3,636	3,636	6,431	-	6,431	10,067
Computer and equipment costs	635	1,737	3,131	5,503	2,969	858	3,827	9,330
Cost of t-shirts and sweatshirts sold	-	-	8,235	8,235	-	-	-	8,235
Postage	676	2,266	1,813	4,755	506	487	993	5,748
Contracted services	-	-	5,025	5,025	-	-	-	5,025
Utilities	-	-	3,437	3,437	952	-	952	4,389
Telephone	534	1,232	1,594	3,360	493	411	904	4,264
Depreciation	-	-	-	-	2,107	-	2,107	2,107
Security	-	-	2,040	2,040	-	-	-	2,040
	<u>\$ 197,390</u>	<u>\$ 272,966</u>	<u>\$ 662,031</u>	<u>\$ 1,132,387</u>	<u>\$ 97,455</u>	<u>\$ 107,436</u>	<u>\$ 204,891</u>	<u>\$ 1,337,278</u>

See accompanying notes.



**HUMANITIES TENNESSEE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2014**

	Program Services				Supporting Services			Total Expenses
	Grants and Awards	Community History	Language and Literature	Total	Administrative	Fundraising	Total	
Salaries	\$ 40,787	\$ 113,105	\$ 152,092	\$ 305,984	\$ 39,014	\$ 42,665	\$ 81,679	\$ 387,663
Travel	2,334	2,639	108,311	113,284	24,849	432	25,281	138,565
Consultants	89	53,646	48,590	102,325	82	25,069	25,151	127,476
Fees/honorarium writers/others	1,000	28,150	95,969	125,119	204	-	204	125,323
Regrants and other awards	80,459	2,337	525	83,321	-	-	-	83,321
Employee benefits	8,061	21,813	30,166	60,040	1,639	8,716	10,355	70,395
Rent	4,789	11,051	44,193	60,033	1,888	3,684	5,572	65,605
Accounting and bookkeeping services	3,325	7,674	8,953	19,952	13,890	2,558	16,448	36,400
Employer taxes	3,152	8,723	11,927	23,802	3,344	3,277	6,621	30,423
Printing	351	811	23,984	25,146	2,369	364	2,733	27,879
National Federation of State Humanities Councils	2,462	6,280	6,628	15,370	4,272	1,096	5,368	20,738
Supplies	455	1,050	16,033	17,538	872	474	1,346	18,884
Tents	-	-	15,460	15,460	-	-	-	15,460
Food and beverage	-	-	14,832	14,832	122	-	122	14,954
Computer and equipment costs	532	1,776	7,463	9,771	2,496	1,393	3,889	13,660
Cost of books sold	-	413	12,672	13,085	-	-	-	13,085
Exhibits and displays	-	4,500	7,580	12,080	-	-	-	12,080
Security	-	-	11,645	11,645	-	-	-	11,645
Other expenses	415	200	3,989	4,604	5,902	833	6,735	11,339
Cost of t-shirts and sweatshirts sold	-	-	6,330	6,330	2,072	-	2,072	8,402
Postage	770	1,953	2,267	4,990	692	535	1,227	6,217
Insurance	-	-	1,418	1,418	4,623	-	4,623	6,041
Telephone	535	1,353	2,097	3,985	500	310	810	4,795
Utilities	-	-	4,209	4,209	-	-	-	4,209
Contracted services	-	-	2,958	2,958	-	-	-	2,958
Depreciation	-	-	2,089	2,089	-	-	-	2,089
	<u>\$ 149,516</u>	<u>\$ 267,474</u>	<u>\$ 642,380</u>	<u>\$ 1,059,370</u>	<u>\$ 108,830</u>	<u>\$ 91,406</u>	<u>\$ 200,236</u>	<u>\$ 1,259,606</u>

See accompanying notes.

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## HUMANITIES TENNESSEE STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (9,798)	\$ 328
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	2,107	2,089
Realized and unrealized gain on investments	(436)	(4,466)
Change in value of beneficial interest in agency endowment fund held by Community Foundation of Middle Tennessee	417	(2,711)
Changes in operating assets and liabilities:		
Federal grants receivable	-	26,628
Accounts receivable	(2,741)	-
Other grants receivable	(9,214)	(30,000)
Merchandise inventory	(2,082)	2,070
Other assets	(10,952)	9,139
Accounts payable and accrued expenses	7,658	(11,313)
Regrants payable	29,683	5,934
Accrued leave	(9,886)	(8,636)
Deferred federal grant revenue	29,891	37,710
Net cash provided by operating activities	<u>24,647</u>	<u>26,772</u>
Cash flows from investing activities:		
Purchase of investments	-	(467)
Sale of investments	300	6,634
Payments for construction in progress	(27,230)	(1,899)
Net cash (used in) provided by investing activities	<u>(26,930)</u>	<u>4,268</u>
(Decrease) increase in cash and cash equivalents	(2,283)	31,040
Cash and cash equivalents - beginning of year	<u>156,060</u>	<u>125,020</u>
Cash and cash equivalents - end of year	<u><u>\$ 153,777</u></u>	<u><u>\$ 156,060</u></u>

See accompanying notes.

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## **HUMANITIES TENNESSEE NOTES TO FINANCIAL STATEMENTS December 31, 2015 and 2014**

### **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 65% and 68% of the Organization’s public support (excluding donated goods and services) came from the federal government through NEH in 2015 and 2014, 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.

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## HUMANITIES TENNESSEE NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2015 and 2014

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Furniture and Equipment and Construction in Progress**

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 \$21,612 and \$18,609 as of December 31, 2015 and 2014, respectively. Construction in progress represents buildout of the Organization's new office facility.

#### **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.

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## HUMANITIES TENNESSEE NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2015 and 2014

### 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 2015 and 2014, board members spent approximately 467 and 342 hours, respectively, attending meetings, training, and other seminars in support of the Organization. Additionally, volunteers and committee members contributed approximately 3,088 and 1,720 hours in support of the Organization's 2015 and 2014 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 2015 or 2014.

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## HUMANITIES TENNESSEE NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2015 and 2014

### 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 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.

#### **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.

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## HUMANITIES TENNESSEE NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2015 and 2014

### 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, 2012 through 2015.

#### Subsequent Events

The Organization evaluated subsequent events through April 14, 2016, when these financial statements were available to be issued. Except as discussed in Note 4, 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>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 8,473	\$ 8,633
Certificates of deposit	10,000	10,000
Marketable securities	14,613	14,613
Mutual funds	<u>62,450</u>	<u>62,154</u>
	<u>\$ 95,536</u>	<u>\$ 95,400</u>

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

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 464	\$ 466
Realized and unrealized gains	<u>436</u>	<u>4,466</u>
	<u>\$ 900</u>	<u>\$ 4,932</u>

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## HUMANITIES TENNESSEE NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2015 and 2014

### NOTE 4 – 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, 2015:

<u>Grant Number</u>	<u>Operations</u>	<u>Special Projects</u>	<u>Total</u>
#SO-50624-14	\$ <u>173,775</u>	\$ <u>-</u>	\$ <u>173,775</u>

Subsequent to December 31, 2015 and under terms of grant #SO-50624-14, the Organization received additional awards totaling \$639,580.

### 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 years ended December 31:

	<u>2015</u>	<u>2014</u>
Regrants payable – beginning of year	\$ 50,499	\$ 44,565
Regrants awarded	80,145	69,919
Awards paid to recipients	<u>(50,462)</u>	<u>(63,985)</u>
Regrants payable – end of year	<u>\$ 80,182</u>	<u>\$ 50,499</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, 2015 and 2014 amounted to \$36,199 and \$37,828, respectively, and are included in employee benefits expense.

### 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.



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## HUMANITIES TENNESSEE NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2015 and 2014

### NOTE 7 – COMMITMENTS AND CONTINGENCIES (Continued)

#### Operating Lease

The Organization rents office space under a non-cancelable operating lease that expired in July 2015 at which time it was renewed on a month-to-month basis. The lease provided 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, 2015 and 2014 was \$37,955 and \$36,836, 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. Subsequent to December 31, 2015, the Organization to office space at a new location. Under terms of the related lease agreement, the Organization is required to make monthly payments of \$2,740 to \$3,460 through 2026.

In addition, the Organization paid \$31,188 and \$31,301 in 2015 and 2014, 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, 2015 and 2014, all depositor accounts of the Organization were fully insured.

### NOTE 9 – AGENCY ENDOWMENT FUND

The Organization has a beneficial interest in the Humanities Tennessee Endowment Fund (the “Fund”), an agency endowment fund held by the Community Foundation of Middle Tennessee (the “Community Foundation”). Earnings on this fund are used to benefit various programs for the humanities. The 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:

	<u>2015</u>	<u>2014</u>
Balance – beginning of the year	\$ 15,396	\$ 12,685
Contributions	-	251

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## HUMANITIES TENNESSEE NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2015 and 2014

### NOTE 9 – AGENCY ENDOWMENT FUND (Continued)

Change in value of beneficial interest in agency  
endowment fund:

Investment income (loss)	(303)	2,684
Administrative expenses	<u>(114)</u>	<u>(224)</u>
	<u>(417)</u>	<u>2,460</u>

Balance – end of the year	<u>\$ 14,979</u>	<u>\$ 15,396</u>
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### 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 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.

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, 2015 and 2014.

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## HUMANITIES TENNESSEE NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2015 and 2014

### NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)

*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.

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2015 and 2014, segregated by the level of the valuation inputs within the fair value hierarchy:

	December 31, 2015			
	Level 1	Level 2	Level 3	
	Inputs	Inputs	Inputs	Total
Investments	\$ 95,536	\$ -	\$ -	\$ 95,536
Beneficial interest in agency endowment fund	<u>-</u>	<u>14,979</u>	<u>-</u>	<u>14,979</u>
	<u>\$ 95,536</u>	<u>\$ 14,979</u>	<u>\$ -</u>	<u>\$ 110,515</u>

	December 31, 2014			
	Level 1	Level 2	Level 3	
	Inputs	Inputs	Inputs	Total
Investments	\$ 95,400	\$ -	\$ -	\$ 95,400
Beneficial interest in agency endowment fund	<u>-</u>	<u>15,396</u>	<u>-</u>	<u>15,396</u>
	<u>\$ 95,400</u>	<u>\$ 15,396</u>	<u>\$ -</u>	<u>\$ 110,796</u>

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## **HUMANITIES TENNESSEE NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2015 and 2014**

### **NOTE 11 – RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets totaling \$24,796 and \$32,505 at December 31, 2015 and 2014, 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.

Permanently restricted net assets at December 31, 2015 and 2014 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, 2015 and 2014, 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, 2015 and 2014 were insignificant.

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## **ADDITIONAL INFORMATION**

# Preliminary Draft

**HUMANITIES TENNESSEE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER AWARDS**  
**For the Year Ended December 31, 2015**

<u>Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>	<u>Expenditures to Subrecipients</u>
Federal awards:			
National Endowment for the Humanities, National Foundation on the Arts and Humanities: Humanities Promotion of the Humanities - Federal/State Partnership	45.129	* \$ 749,367	\$ 80,145
National Endowment for the Arts	45.024	40,000	-
Total Federal awards		789,367	80,145
Other awards - state and local governments:			
State of Tennessee Arts Commission	N/A	22,800	-
Metropolitan Nashville Arts Commission	N/A	30,000	-
Total other awards - state and local governments		52,800	-
Total grant revenue		\$ 842,167	\$ 80,145

\* 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 the Uniform Guidance.

# Preliminary Draft

## **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, 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, 2015, 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 April 14, 2016.

### **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 Organization'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.

# Preliminary Draft

## **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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nashville, Tennessee  
April 14, 2016



# Preliminary Draft

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR 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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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.

# Preliminary Draft

## ***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, 2015.

## **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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Nashville, Tennessee  
April 14, 2016

# Preliminary Draft

## HUMANITIES TENNESSEE SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2015

### SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Humanities Tennessee.
2. No significant deficiencies relating to the audit of the financial statements are 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*.
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 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 unqualified 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 Types A and B programs was \$750,000.
9. Humanities Tennessee was determined to be a low-risk auditee.

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**HUMANITIES TENNESSEE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**For the Year Ended December 31, 2015**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

None

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

None

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**HUMANITIES TENNESSEE**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**For the Year Ended December 31, 2015**

None