

HUMANITIES TENNESSEE

FINANICAL STATEMENTS

December 31, 2012 and 2011

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, 2012 and 2011, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Humanities Tennessee as of December 31, 2012 and 2011, 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, 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 June 28, 2013, 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.

Frasier, Dean + Howard, PLLC

June 28, 2013

HUMANITIES TENNESSEE
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and cash equivalents	\$ 94,456	\$ 153,602
Investments	84,809	78,679
Federal grants receivable	40,850	-
Merchandise inventory	4,329	2,806
Prepaid expenses	5,894	26,469
Furniture and equipment, net of accumulated depreciation of \$43,681 and \$42,152, respectively	1,522	3,051
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	12,685	11,244
	<u>12,685</u>	<u>11,244</u>
Total assets	<u>\$ 244,545</u>	<u>\$ 275,851</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 9,252	\$ 27,876
Regrants payable	41,227	50,880
Accrued leave	99,027	98,493
Deferred federal grant revenue	-	823
	<u>-</u>	<u>823</u>
Total liabilities	<u>149,506</u>	<u>178,072</u>
Net assets:		
Unrestricted:		
Undesignated	25,522	20,499
Furniture and equipment	1,522	3,051
Designated for beneficial interest in agency endowment fund	12,685	11,244
	<u>12,685</u>	<u>11,244</u>
Total unrestricted	39,729	34,794
Temporarily restricted	40,310	47,985
Permanently restricted	15,000	15,000
	<u>15,000</u>	<u>15,000</u>
Total net assets	<u>95,039</u>	<u>97,779</u>
Total liabilities and net assets	<u>\$ 244,545</u>	<u>\$ 275,851</u>

See accompanying notes.

HUMANITIES TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

	<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	\$ 875,573	\$ -	\$ -	\$ 875,573
Contributions and private grants	172,611	-	-	172,611
Author in the Round special event	63,385	-	-	63,385
Programs	46,435	-	-	46,435
Sales of books, t-shirts and miscellaneous	19,994	-	-	19,994
Less: costs of direct benefits to donors	(51,946)	-	-	(51,946)
Donated goods and facilities	158,232	-	-	158,232
Donated services	82,000	-	-	82,000
Investment income	6,982	-	-	6,982
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	1,441	-	-	1,441
Net assets released in satisfaction of purpose restrictions	7,675	(7,675)	-	-
Total public support and revenue	<u>1,382,382</u>	<u>(7,675)</u>	<u>-</u>	<u>1,374,707</u>
Expenses:				
Program services	1,199,191	-	-	1,199,191
Supporting services	178,256	-	-	178,256
Total expenses	<u>1,377,447</u>	<u>-</u>	<u>-</u>	<u>1,377,447</u>
Change in net assets	4,935	(7,675)	-	(2,740)
Net assets - beginning of year	<u>34,794</u>	<u>47,985</u>	<u>15,000</u>	<u>97,779</u>
Net assets - end of year	<u>\$ 39,729</u>	<u>\$ 40,310</u>	<u>\$ 15,000</u>	<u>\$ 95,039</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 goods and facilities	163,330	-	-	163,330
Donated services	158,834	-	-	158,834
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 FUNCTIONAL EXPENSES
For the Year Ended December 31, 2012

	Program Services				Supporting Services			
	Grants and Awards	Community History	Language and Literature	Total	Administrative	Fundraising	Total	Total Expenses
Salaries	\$ 49,600	\$ 158,900	\$ 174,350	\$ 382,850	\$ 37,150	\$ -	\$ 37,150	\$ 420,000
Travel	2,428	11,274	149,809	163,511	9,911	-	9,911	173,422
Consultants	-	60,480	53,050	113,530	11,683	42,625	54,308	167,838
Fees/honorarium writers/others	-	27,236	89,384	116,620	-	-	-	116,620
Employee benefits	10,500	31,821	31,630	73,951	5,930	-	5,930	79,881
Rent	4,972	15,300	23,731	44,003	8,465	-	8,465	52,468
Regrants	50,317	-	-	50,317	-	-	-	50,317
Supplies	263	832	46,740	47,835	420	-	420	48,255
Employer taxes	3,794	12,156	13,338	29,288	3,650	-	3,650	32,938
Accounting and bookkeeping services	-	-	-	-	28,108	-	28,108	28,108
Printing	59	603	23,390	24,052	55	-	55	24,107
Food and beverage	41	-	20,689	20,730	1,939	-	1,939	22,669
Cost of books sold	-	-	20,915	20,915	-	-	-	20,915
Community history fund awards	-	19,958	-	19,958	-	-	-	19,958
Scholarships	15,000	3,926	-	18,926	-	-	-	18,926
Computer and equipment costs	872	4,442	7,034	12,348	5,804	-	5,804	18,152
National Federation of State Humanities Councils	-	-	-	-	14,950	-	14,950	14,950
Tents	-	-	14,110	14,110	-	-	-	14,110
Other expenses	35	306	6,734	7,075	4,487	-	4,487	11,562
Security	-	-	9,586	9,586	-	-	-	9,586
Exhibits and displays	-	-	7,722	7,722	-	-	-	7,722
Postage	580	1,963	1,868	4,411	543	-	543	4,954
Telephone	549	1,690	1,479	3,718	1,007	-	1,007	4,725
Cost of t-shirts and sweatshirts sold	-	-	4,558	4,558	-	-	-	4,558
Contracted services	-	-	4,043	4,043	-	-	-	4,043
Utilities	-	-	3,716	3,716	-	-	-	3,716
Depreciation	-	-	-	-	1,529	-	1,529	1,529
Insurance	-	-	1,418	1,418	-	-	-	1,418
	<u>\$ 139,010</u>	<u>\$ 350,887</u>	<u>\$ 709,294</u>	<u>\$ 1,199,191</u>	<u>\$ 135,631</u>	<u>\$ 42,625</u>	<u>\$ 178,256</u>	<u>\$ 1,377,447</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
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (2,740)	\$ (57,765)
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities:		
Depreciation	1,529	3,477
Realized and unrealized (gain) loss on investments	(5,022)	3,193
Change in value of beneficial interest in agency endowment fund held by Community Foundation of Middle Tennessee	(1,441)	322
Changes in operating assets and liabilities:		
Federal grants receivable	(40,850)	71,346
Other grants receivable	-	4,300
Other receivables	-	5,089
Merchandise inventory	(1,523)	863
Prepaid expenses	20,575	(18,086)
Accounts payable and accrued expenses	(18,624)	(423)
Regrants payable	(9,653)	(11,443)
Accrued leave	534	6,585
Deferred federal grant revenue	(823)	823
Net cash (used in) provided by operating activities	<u>(58,038)</u>	<u>8,281</u>
Cash flows from investing activities:		
Purchase of investments	(1,408)	(500)
Sale of investments	300	15,912
Purchases of equipment	-	-
Net cash (used in) provided by investing activities	<u>(1,108)</u>	<u>15,412</u>
(Decrease) increase in cash and cash equivalents	(59,146)	23,693
Cash and cash equivalents - beginning of year	<u>153,602</u>	<u>129,909</u>
Cash and cash equivalents - end of year	<u><u>\$ 94,456</u></u>	<u><u>\$ 153,602</u></u>

See accompanying notes.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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 78% and 78% of the Organization’s public support (excluding donated goods and services) came from the federal government through NEH in 2012 and 2011, 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, 2012 and 2011

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 \$40,761 and \$34,479 as of December 31, 2012 and 2011, 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, 2012 and 2011

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 2012 and 2011, board members spent approximately 450 and 620 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 2012 and 2011 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 2012 or 2011.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

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 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.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

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, 2009 through 2012.

Subsequent Events

The Organization evaluated subsequent events through June 28, 2013, 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>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 1,732	\$ 2,071
Certificates of deposit	10,000	10,000
Marketable securities	7,336	7,336
Mutual funds	<u>65,741</u>	<u>59,272</u>
	<u><u>\$ 84,809</u></u>	<u><u>\$ 78,679</u></u>

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

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 1,960	\$ 1,134
Realized and unrealized gains (losses)	<u>5,022</u>	<u>(3,193)</u>
	<u><u>\$ 6,982</u></u>	<u><u>\$ (2,059)</u></u>

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

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, 2012:

<u>Grant Number</u>	<u>Operations</u>	<u>Special Projects</u>	<u>Total</u>
#SO-50446-11	\$ <u>334,600</u>	\$ <u>-</u>	\$ <u>334,600</u>

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>

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>2012</u>	<u>2011</u>
Regrants payable – beginning of year	\$ 50,880	\$ 62,323
Regrants awarded	50,317	76,467
Awards paid to recipients	<u>(59,970)</u>	<u>(87,910)</u>
Regrants payable – end of year	<u>\$ 41,227</u>	<u>\$ 50,880</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, 2012 and 2011 amounted to \$42,000 and \$40,550, respectively, and are included in employee benefits expense.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

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, 2012 and 2011 was \$36,793 and \$33,301, 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, 2012 follows:

<u>Year Ending</u> <u>December 31,</u>	
2013	\$ 29,862
2014	30,400
2015	<u>17,864</u>
	<u>\$ 78,126</u>

In addition, the Organization paid \$15,675 and \$8,201 in 2012 and 2011, 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, 2012 and 2011, all depositor accounts of the Organization were fully insured.

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

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>2012</u>	<u>2011</u>
Balance – beginning of the year	\$ 11,244	\$ 11,566
Change in value of beneficial interest in agency endowment fund:		
Investment (loss) income	1,531	(232)
Administrative expenses	<u>(90)</u>	<u>(90)</u>
	<u>1,441</u>	<u>(322)</u>
Balance – end of the year	<u>\$ 12,685</u>	<u>\$ 11,244</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, 2012 and 2011

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, 2012 and 2011.

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, 2012 and 2011

NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2012 and 2011, segregated by the level of the valuation inputs within the fair value hierarchy:

December 31, 2012				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>Inputs</u>	<u>Inputs</u>	<u>Inputs</u>	
Investments	\$ 84,809	\$ -	\$ -	\$ 84,809
Beneficial interest in agency endowment fund	<u>-</u>	<u>12,685</u>	<u>-</u>	<u>12,685</u>
	<u>\$ 84,809</u>	<u>\$ 12,685</u>	<u>\$ -</u>	<u>\$ 97,494</u>
December 31, 2011				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>Inputs</u>	<u>Inputs</u>	<u>Inputs</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>

NOTE 11 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets totaling \$40,310 and \$47,985 at December 31, 2012 and 2011, 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, 2012 and 2011

NOTE 11 – RESTRICTIONS ON NET ASSETS (Continued)

Permanently restricted net assets at December 31, 2012 and 2011 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, 2012 and 2011, 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, 2012 and 2011 were insignificant.

ADDITIONAL INFORMATION

HUMANITIES TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER AWARDS
For the Year Ended December 31, 2012

<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	* \$ <u>868,673</u>
Total Federal awards		<u>868,673</u>
Other awards - state and local governments:		
State of Tennessee Arts Commission	N/A	6,400
Metropolitan Nashville Arts Commission	N/A	<u>500</u>
Total other awards - state and local governments		<u>6,900</u>
Total grant revenue		<u><u>\$ 875,573</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, 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, 2012, 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 June 28, 2013.

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.

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.

Frasier, Dean + Howard, PLLC

June 28, 2013
Nashville, Tennessee



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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 Circular A-133 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, 2012. 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 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 Humanities Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Humanities Tennessee's compliance.

Opinion on Each Major Federal Program

In our opinion, Humanities Tennessee complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

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, 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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Frasier, Dean + Howard, PLLC

June 28, 2013
Nashville, Tennessee

HUMANITIES TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2012

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 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, 2012

FINDINGS – FINANCIAL STATEMENT AUDIT

None

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

None

HUMANITIES TENNESSEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2012

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 accounting principles generally accepted in the United States of America.

Auditor's Recommendation:

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

Current Status:

Significant audit adjustments were not made to Humanities Tennessee's financial statements for the year ended December 31, 2012.