HUMANITIES TENNESSEE

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

As of June 30, 2019 and for the Eighteen-Month Period Ended June 30, 2019

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Directors
Humanities Tennessee
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Humanities Tennessee (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the eighteen-month period ended June 30, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Humanities Tennessee as of June 30, 2019, and the changes in its net assets and its cash flows for the eighteen-month period ended June 30, 2019, 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 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 January 17, 2020, on our consideration of Humanities Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Humanities Tennessee's internal control over financial reporting and compliance.

Changes in Financial Statement Presentation

As discussed in Note 2, Humanities Tennessee adopted Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities.* Humanities Tennessee has adopted this new accounting requirement retrospectively to all period presented in the financial statements. Our opinion is not modified with respect to this matter.

Cherry Bekaert LLP

Nashville, Tennessee
January 17, 2020

HUMANITIES TENNESSEE
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

ASSETS		
Cash and cash equivalents	$	163,594
Investments		109,373
Federal grants receivable		160,863
Merchandise inventory		3,374
Other assets		10,954
Property and equipment, net of accumulated depreciation of $86,671		125,049
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee		18,077
Total Assets	$	591,284
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$	45,666
Regrants payable		96,492
Accrued leave		102,209
Deferred lease incentive		87,750
Total Liabilities		332,117
Net Assets:		
Without donor restrictions		244,167
With donor restrictions		15,000
Total Net Assets		259,167
Total Liabilities and Net Assets	$	591,284

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

HUMANITIES TENNESSEE
STATEMENT OF ACTIVITIES

EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Public Support:			
Grants - NEH and other governmental	$ 1,576,801	$ -	$ 1,576,801
Contributions and private grants	298,431	-	298,431
Author in the Round special event	46,945	-	46,945
Programs	75,104	-	75,104
Sales of books, t-shirts, and miscellaneous	27,931	-	27,931
Less costs of direct benefits to donors	(70,274)	-	(70,274)
Donated goods and facilities	107,555	-	107,555
Donated services	47,242	-	47,242
Investment income	136	-	136
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	144	-	144
Other income	5,732	-	5,732
Net assets released in satisfaction of purpose restrictions	3,975	(3,975)	-
Total Public Support and Revenue	2,119,722	(3,975)	2,115,747
Expenses:			
Program services	1,584,091	-	1,584,091
Supporting services	498,014	-	498,014
Total Expenses	2,082,105	-	2,082,105
Change in net assets	37,617	(3,975)	33,642
Net assets, beginning of year	206,550	18,975	225,525
Net assets, end of year	$ 244,167	$ 15,000	$ 259,167

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

HUMANITIES TENNESSEE

STATEMENT OF FUNCTIONAL EXPENSES

EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2019

	Program Services				Supporting Services			
	Grants and Awards	Community History	Language and Literature	Total	Administrative	Fundraising	Total	Total Expenses
Salaries	$ 64,101	$ 150,601	$ 249,671	$ 464,373	$ 65,661	$ 74,207	139,868	$ 604,241
Regrants and other awards	231,622	29,717	1,075	262,414	-	-	-	262,414
Consultants	1,158	2,226	130,993	134,377	23,984	45,892	69,876	204,253
Fees/honoraria writers/others	-	3,350	121,496	124,846	46,742	-	46,742	171,588
Travel	2,519	9,548	111,915	123,982	46,589	619	47,208	171,190
Employee benefits	12,423	29,187	48,387	89,997	12,725	14,382	27,107	117,104
Rent	10,407	20,014	49,984	80,405	9,602	8,005	17,607	98,012
Accounting and bookkeeping services	4,794	9,220	14,752	28,766	20,226	3,688	23,914	52,680
Other expenses	1,942	3,753	31,537	37,232	13,551	1,606	15,157	52,389
Employer taxes	4,892	11,492	19,034	35,418	5,003	5,656	10,659	46,077
Food and beverage	149	170	27,273	27,592	3,849	97	3,946	31,538
Supplies	767	1,474	24,883	27,124	3,614	792	4,406	31,530
National Federation of State Humanities Councils	-	-	-	-	28,099	-	28,099	28,099
Depreciation	-	-	-	-	27,948	-	27,948	27,948
Computer and equipment costs	1,596	3,092	9,398	14,086	12,190	1,454	13,644	27,730
Insurance	1,313	604	3,798	5,715	15,380	241	15,621	21,336
Costs of t-shirts and sweatshirts sold	-	-	19,848	19,848	-	-	-	19,848
Costs of books sold	-	-	19,389	19,389	-	-	-	19,389
Utilities	933	1,795	13,138	15,866	861	718	1,579	17,445
Security	-	-	17,095	17,095	-	-	-	17,095
Tents	-	-	16,310	16,310	-	-	-	16,310
Exhibits and displays	-	2,269	12,327	14,596	-	-	-	14,596
Telephone	1,322	2,605	4,067	7,994	1,220	1,017	2,237	10,231
Printing	707	1,347	6,555	8,609	668	566	1,234	9,843
Postage	648	1,507	1,945	4,100	687	475	1,162	5,262
Contracted services	-	-	3,957	3,957	-	-	-	3,957
	$ 341,293	$ 283,971	$ 958,827	$ 1,584,091	$ 338,599	$ 159,415	$ 498,014	$ 2,082,105

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

HUMANITIES TENNESSEE

STATEMENT OF CASH FLOWS

EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2019

Cash flows from operating activities:		
Change in net assets	$	33,642
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation		27,948
Realized and unrealized losses on investments		4,912
Change in value of beneficial interest in agency endowment fund held by Community Foundation of Middle Tennessee		(144)
Changes in operating assets and liabilities:		
Federal grants receivable		(64,968)
Other grants receivable		20,000
Merchandise inventory		9,522
Other assets		(1)
Accounts payable and accrued expenses		14,089
Regrants payable		4,257
Deferred lease incentive		(19,500)
Net cash flows from operating activities		29,757
Cash flows from investing activities:		
Purchase of property and equipment		(3,001)
Purchases of investments		(4,715)
Sales of investments		600
Net cash flows from investing activities		(7,116)
Net change in cash and cash equivalents		22,641
Cash and cash equivalents, beginning of year		140,953
Cash and cash equivalents, end of year	$	163,594

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 73% of the Organization's public support (excluding donated goods and services) came from the federal government through NEH in the eighteen-month period ended June 30, 2019. 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 ("U.S. GAAP").

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 June 30, 2019, cash and cash equivalents consisted primarily of cash held in checking and money market accounts.

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

All gains and losses on investments are reported in the statement of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Dividends, interest and other investment income are reported in the period earned as increases in net assets without donor restrictions unless the use of the assets received is limited by donor-imposed restrictions.

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

Property and Equipment and Construction in Progress – Property and equipment are reported at cost, less accumulated depreciation. The Organization has no formalized capitalization policy. Items are capitalized based on their cost and estimated useful life. Insignificant amounts are expensed. Property and equipment are being depreciated over estimated useful lives of five to ten years using the straight-line method. Property and equipment purchased with NEH grant funds are owned by the Organization with the understanding that the equipment will be used for the project for which it was obtained. Fully depreciated assets had original costs totaling $25,921 as of June 30, 2019.

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

Agency Endowment Fund – The Organization's beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee (the "Community Foundation") 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 11.)

Note 2—Summary of significant accounting policies (continued)

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

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

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and Board of Directors.

Net Assets With Donor Restrictions - Net assets subject to stipulations imposed by donors or grantors. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of the Organization and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Contributions, Support and Revenue Recognition – Cash contributions are recognized as revenue when received. Unconditional promises to give are recorded at their net realizable value. Conditional promises to give are not included as support until such time as the conditions are substantially met.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increases to net assets with donor restrictions. However, if the restriction is fulfilled in the same reporting period in which the contribution is received, the Organization reports the support without donor restrictions.

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

Donated Services, Goods, and Facilities – A number of volunteers donate their time to the Organization's programs during the period which are not reflected in the financial statements since they do not require specialized skills. During the eighteen-month period ended June 30, 2019, board members spent approximately 448 hours attending meetings, training, and other seminars in support of the Organization. Additionally, volunteers and committee members contributed approximately 251 hours in support of the Organization's 2019 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.

Note 2—Summary of significant accounting policies (continued)

Program and Supporting Services – The following program and supporting service classifications are included in the accompanying financial statements:

Program Services:

Grants and Awards – Includes a community initiated grants and sponsorships program supporting humanities programs of other organizations, a teacher's 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 during the eighteen-month period ended June 30, 2019.

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 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. Expenses that relate to more than one function are allocated among applicable functions on the basis of objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management. Expenses that were allocated consist primarily of salary and related expenses which have been allocated based on time and effort.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP 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.

Note 2—Summary of significant accounting policies (continued)

The Organization follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") guidance related to unrecognized tax benefits which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements.

Change in Accounting Principle – In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented.

Accounting Policies for Future Pronouncements – In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*, requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard will be effective for the Organization for the year ending June 30, 2020. The Organization is currently evaluating the effect of implementing this new standard.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Organization for the year ending June 30, 2020. The Organization is currently evaluating the effect of implementing this new standard.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard is currently scheduled to be effective for the year ending June 30, 2021. The Organization is currently evaluating the effect of implementing this new standard.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The standard provides guidance on determining whether a transaction should be accounted for as contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The standard will be effective for the year ending June 30, 2020. The Organization is currently evaluating the effect of implementing this new standard.

Note 2—Summary of significant accounting policies (continued)

Subsequent Events – The Organization evaluated subsequent events through January 17, 2020, 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—Liquidity and availability

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of providing programs and services, as well as conduct of services undertaken to support those activities to be general expenditures.

As a part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2019:

Financial assets at year-end:	
Cash and cash equivalents	$ 163,594
Investments	109,373
Federal grants receivable	160,863
Total financial assets	433,830
Less amounts not available to be used for general expenditures within one year:	
Net assets held in perpetuity	(15,000)
Financial assets available to meet cash needed for general expenditures within one year	$ 418,830

Note 4—Investments

All investments are reported at fair value as described in Note 12 and consist of the following as of June 30, 2019:

Cash and cash equivalents	$ 8,715
Certificates of deposit	10,000
Marketable securities	4,031
Mutual funds	86,627
	$ 109,373

The following schedule summarizes investment income for the eighteen-month period ended June 30, 2019:

Interest and dividends	$ 5,048
Realized and unrealized losses	(4,912)
	$ 136

Note 5—Property and equipment

Property and equipment consists of the following as of June 30, 2019:

Furniture and equipment	$	31,440
Leasehold improvements		180,280
		211,720
Less accumulated depreciation		(86,671)
	$	125,049

Note 6—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 June 30, 2019:

Grant Number	Operations	Special Projects	Total
#SO-5624-14	$ 3,655	$ -	$ 3,655
#SO-253193-17	333,736	-	333,736
	$ 337,391	$ -	$ 337,391

Note 7—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 eighteen-month period ended June 30, 2019:

Regrants payable, beginning of year	$	92,235
Regrants awarded		74,602
Awards paid to recipients		(70,345)
Regrants payable, end of year	$	96,492

Note 8—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 eighteen-month period ended June 30, 2019 amounted to $55,766 and is included in employee benefits expense.

Note 9—Commitments and contingencies

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

Operating Lease – The Organization leases office space under a noncancelable operating lease that expires in March 2026. Under terms of the lease agreement, the Organization is required to make minimum monthly payments ranging from $3,404 to $4,124. Total rent expense recognized under this arrangement for the eighteen-month period ended June 30, 2019 was $60,552. In consideration for entering into the lease, the Organization was granted an allowance totaling $130,000 for tenant improvements. This allowance has been recorded in the statement of financial position as deferred lease incentive and is being credited to lease expense over the term of the lease.

Future minimum lease payments required under the Organization's current lease as of June 30, 2019 are as follows:

Years Ending June 30,		
2020	$	43,281
2021		44,361
2022		45,441
2023		46,521
2024		47,601
Thereafter		85,799
	$	313,004

In addition, the Organization paid $34,364 during the eighteen-month period ended June 30, 2019 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 10—Concentration of credit risk

The Organization maintains cash accounts at a financial institution whose accounts are insured by the Federal Deposit Insurance Corporation up to statutory limits. As of June 30, 2019, all depositor accounts of the Organization were fully insured.

Note 11—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. 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.

Note 11—Agency endowment fund (continued)

A schedule of changes in the Organization's beneficial interest in this Fund follows for the eighteen-month period ended January 1, 2018 through June 30, 2019:

Balance, beginning of period	$ 17,933
Change in value of beneficial interest in agency endowment fund:	
Investment income	319
Administrative expenses	(175)
	144
Balance, end of period	$ 18,077

Note 12—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 U.S. GAAP 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 June 30, 2019.

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.

Note 12—Fair value measurements (continued)

Beneficial Interest in Agency Endowment Fund held by the Community Foundation – The carrying amount is based on information received from the Community Foundation indicating the financial performance of the endowment fund. The Organization reflects this asset within Level 3 of the valuation hierarchy.

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

The following table summarizes financial assets measured at fair value on a recurring basis as of June 30, 2019, segregated by the level of the valuation inputs within the fair value hierarchy:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Investments	109,373	$ -	$ -	$ 109,373
Beneficial interest in agency endowment fund	-	-	18,077	18,077
	$ 109,373	$ -	$ 18,077	$ 127,450

Note 13—Net assets with donor restrictions

The FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). UPMIFA also requires additional disclosures about an organization's endowment funds whether or not the organization is subject to UPMIFA. The state of Tennessee enacted UPMIFA effective July 1, 2007, the provisions of which apply to endowment funds existing on or established after that date. The Organization is subject to the provisions of UPMIFA.

Net assets with donor restrictions at June 30, 2019 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 UPMIFA. Based on the Organization's interpretation of UPMIFA, and in accordance with donor restrictions, contributions to the endowment fund are classified as net assets with donor restrictions. The original gift must be maintained in perpetuity. Income from the fund is classified as net assets with donor restrictions until the purpose restriction is satisfied, at which time the net assets are reclassified to net assets without donor restrictions. However, if the restriction is fulfilled in the same reporting period in which the income is earned, the income is reported as without donor restriction.

The Organization's endowment fund is invested with the unrestricted funds in mutual funds. At June 30, 2019, the endowment fund in the amount of $15,000 is classified as net assets with donor restrictions. Changes in endowment net assets for the eighteen-month period ended June 30, 2019 were insignificant.

ADDITIONAL INFORMATION

HUMANITIES TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER AWARDS

EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2019

Grantor / Program Title	CFDA Number	Expenditures	Expenditures to Subrecipients
Federal awards:			
National Endowment for the Humanities:			
Promotion of the Humanities - Federal/State Partnership	45.129	$ 1,434,581	$ 74,602
Total Federal awards		1,434,581	74,602
Other awards - state and local governments:			
State of Tennessee Arts Commission	N/A	42,680	-
Metropolitan Nashville Arts Commission	N/A	99,540	-
Total Other Awards - State and Local Governments		142,220	-
Total grant revenue		$ 1,576,801	$ 74,602

See notes to schedule to the schedule of expenditures of federal and other awards.

Note 1—Basis of accounting

This schedule includes the federal and other grant activity of Humanities Tennessee and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2, *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because this schedule presents only a selected portion of the operations of Humanities Tennessee, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Humanities Tennessee.

Note 2—Indirect cost allocation

Humanities Tennessee did not elect to use the 10% de minimis indirect cost rate; however, no indirect costs were allocated to the awards during the eighteen-month period ended June 30, 2019.

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
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 June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the eighteen-month period ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated January 17, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Humanities Tennessee's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Humanities Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of the Humanities Tennessee's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Humanities Tennessee's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Humanities Tennessee's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Nashville, Tennessee
January 17, 2020

Cherry Bekaert LLP
CPAs & Advisors

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

To the Board of Directors
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 eighteen-month period ended June 30, 2019. Humanities Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Humanities Tennessee's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Humanities Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Humanities Tennessee complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the eighteen-month period ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of Humanities Tennessee is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Humanities Tennessee's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Humanities Tennessee's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

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

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

Cherry Bekaert LLP

Nashville, Tennessee
January 17, 2020

Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of Humanities Tennessee.

2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of Humanities Tennessee, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. One significant deficiency relating to the audit of major federal programs is reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.

5. The auditor's report on compliance for the major federal award programs of Humanities Tennessee expresses an unmodified opinion on all major federal programs.

6. Audit findings that are required to be reported in accordance with the Uniform Guidance are reported in this Schedule.

7. The program tested as major programs included:

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

8. The threshold for distinguishing Type A and B programs was $750,000.

9. Humanities Tennessee was determined to be a low-risk auditee.

Findings – Financial Statement Audit

None

Findings and Questioned Costs – Major Federal Awards Programs Audit

Item #2019-001
Promotion of the Humanities – Federal/State Partnership
CFDA No. 45.129

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

Condition and Context
The SF-425 reports submitted for grants #SO-253193-17 and #SO-5624-14 were not submitted within the required 90 days after the end of each respective grant year.

Questioned Cost
None

Cause
The Organization's management submitted amended reports, and original reports submitted within the reporting deadline were not able to be obtained.

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

Recommendation
We recommend the Organization's management familiarize themselves with the requirements of the Federal Financial Report and modify their internal controls to ensure future reports are submitted on a timely basis in accordance with the Form instructions.

Views of Responsible Officials and Planned Corrective Actions
The Organization agrees with the finding and the recommended procedures will be implemented.

Findings and Questioned Costs – Major Federal Awards Programs Audit

Item #2017-001
Promotion of the Humanities – Federal/State Partnership
CFDA No. 45.129

Condition and Context
The information contained in SF-425 prepared for grant #SO-253193-17 included information corresponding to the Organization’s fiscal year ended December 31, 2017 rather than the grant year ended October 31, 2017. Additionally, the information included only financial information for the single year rather than cumulative figures since the inception of the grant as required by the form instructions.

Recommendation
It was recommended that the Organization’s management familiarize themselves with the requirements of the Federal Financial Report and modify their internal controls to ensure future reports are prepared in accordance with the Form instructions.

Current Status
The recommendation was adopted. No similar findings were noted during the 2019 audit.

Humanities Tennessee
Our Stories. Our State.

January 28, 2020

Management's Corrective Action Plan

Humanities Tennessee respectfully submits the following corrective action plan for the eighteen-month period ended June 30, 2019.

Item #2019-001
Promotion of the Humanities – Federal/State Partnership
CFDA No. 45.129

Criteria

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

Condition and Context

The SF-425 reports submitted for grants #SO-253193-17 and #SO-5624-14 were not submitted within the required 90 days after the end of each respective grant year.

Questioned Cost

None

Cause

The Organization's management submitted amended reports, and original reports submitted within the reporting deadline were not able to be obtained.

Effect

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

Auditor's Recommendation

We recommend the Organization's management familiarize themselves with the requirements of the Federal Financial Report and modify their internal controls to ensure future reports are prepared on a timely basis.

Management's Response

Management will review current Federal Financial Report instructions and ensure that future reports are prepared in accordance with SF-425 instructions by the Operations Administrator.

Persons Responsible

Tim Henderson, Executive Director
Alexis Stevens, Operations Administrator

Completion Date

January 31, 2020

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