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HUMANITIES TENNESSEE
FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS
DECEMBER 31, 2008

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Humanities Tennessee
Nashville, Tennessee

We have audited the accompanying statement of financial position of Humanities Tennessee (the "Organization"), a Tennessee not-for-profit corporation, as of December 31, 2008, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2009 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Humanities Tennessee taken as a whole. The accompanying schedule of expenditures of Federal and other awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KraftCPAs PLLC

Nashville, Tennessee
August 6, 2009

HUMANITIES TENNESSEE

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2008

ASSETS

Cash and cash equivalents	\$ 87,442
Investments - Note 3 and 10	95,518
Federal grants receivable	161,274
Other grants receivable	6,986
Other receivables	2,128
Merchandise inventory	3,152
Prepaid expenses	142
Furniture and equipment - at cost, net of accumulated depreciation of \$45,736	17,165
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 9 and 10	<u>8,621</u>
TOTAL ASSETS	<u>\$ 382,428</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Regrants payable - Note 5	\$ 32,124
Accounts payable and accrued expenses	38,497
Accrued leave	<u>73,021</u>

TOTAL LIABILITIES	<u>143,642</u>
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COMMITMENTS AND CONTINGENCIES - Note 7

NET ASSETS

Unrestricted:

Undesignated	123,078
Furniture and equipment	17,165
Designated for beneficial interest in agency endowment fund - Note 9	<u>8,621</u>

Total unrestricted	148,864
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Temporarily restricted	74,922
Permanently restricted	<u>15,000</u>

TOTAL NET ASSETS	<u>238,786</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 382,428</u>
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The accompanying notes are an integral part of the financial statements.

HUMANITIES TENNESSEE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2008

	<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	\$ 754,760	\$ -	\$ -	\$ 754,760
Contributions and private grants	130,163	-	-	130,163
Programs	39,750	-	-	39,750
Sales of books, t-shirts and miscellaneous	65,391	-	-	65,391
Author in the Round special event	58,800	-	-	58,800
Less: costs of direct benefits to donors	(48,934)	-	-	(48,934)
Investment income (loss) - Note 3	(46,397)	-	-	(46,397)
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 9	(3,485)	-	-	(3,485)
Donated services	146,500	-	-	146,500
Donated goods and facilities	155,709	-	-	155,709
Net assets released in satisfaction of purpose restrictions	<u>23,014</u>	<u>(23,014)</u>	<u>-</u>	<u>-</u>
 TOTAL PUBLIC SUPPORT AND REVENUE	 <u>1,275,271</u>	 <u>(23,014)</u>	 <u>-</u>	 <u>1,252,257</u>
 EXPENSES				
Program services	1,131,081	-	-	1,131,081
Supporting services	<u>145,586</u>	<u>-</u>	<u>-</u>	<u>145,586</u>
 TOTAL EXPENSES	 <u>1,276,667</u>	 <u>-</u>	 <u>-</u>	 <u>1,276,667</u>
 CHANGE IN NET ASSETS	 (1,396)	 (23,014)	 -	 (24,410)
 NET ASSETS - BEGINNING OF YEAR	 <u>150,260</u>	 <u>97,936</u>	 <u>15,000</u>	 <u>263,196</u>
 NET ASSETS - END OF YEAR	 <u>\$ 148,864</u>	 <u>\$ 74,922</u>	 <u>\$ 15,000</u>	 <u>\$ 238,786</u>

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

HUMANITIES TENNESSEE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (24,410)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	7,766
Realized and unrealized losses on investments	50,034
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 9	3,485
(Increase) decrease in:	
Federal grants receivable	(60,499)
Other grants receivable	(1,678)
Other receivables	(2,128)
Merchandise inventory	2,807
Prepaid expenses	5,858
Increase (decrease) in:	
Regrants payable	(35,669)
Accounts payable and accrued expenses	18,164
Accrued leave	750
	<hr/>
TOTAL ADJUSTMENTS	(11,110)
	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	(35,520)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(31,665)
Sale of investments	56,231
Purchases of equipment	(2,089)
	<hr/>
NET CASH PROVIDED BY INVESTING ACTIVITIES	22,477
	<hr/>
DECREASE IN CASH	(13,043)
	<hr/>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	100,485
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CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 87,442

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

HUMANITIES TENNESSEE

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Program Services</u>				<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Grants and Awards</u>	<u>Community History</u>	<u>Language & Literature</u>	<u>Total</u>	<u>Fundraising</u>	<u>Administrative</u>	<u>Total</u>	
Regrants:								
Teachers awards	\$ 15,500	\$ -	\$ -	\$ 15,500	\$ -	\$ -	\$ -	\$ 15,500
Other	18,142	-	-	18,142	-	-	-	18,142
Salaries	45,790	146,200	136,515	328,505	-	37,700	37,700	366,205
Employee benefits	9,500	29,571	20,894	59,965	-	7,501	7,501	67,466
Employer taxes	3,503	11,185	10,443	25,131	-	3,167	3,167	28,298
Rent	4,365	13,431	22,433	40,229	-	3,964	3,964	44,193
Utilities	-	-	4,313	4,313	-	-	-	4,313
Supplies	818	2,194	32,972	35,984	-	810	810	36,794
Insurance	109	336	1,555	2,000	-	101	101	2,101
Telephone	698	2,148	1,990	4,836	-	653	653	5,489
Postage	634	1,969	2,162	4,765	-	632	632	5,397
Printing	111	343	24,079	24,533	-	138	138	24,671
Travel:								
Committee	-	-	76	76	-	8,268	8,268	8,344
Staff	90	6,378	6,024	12,492	-	2,470	2,470	14,962
Writers/Speakers/Others	-	1,959	124,393	126,352	-	-	-	126,352
Contracted services	-	-	2,608	2,608	-	-	-	2,608
Accounting and bookkeeping services	-	-	-	-	-	39,186	39,186	39,186
National Federation of State Humanities Councils	-	-	-	-	-	11,957	11,957	11,957

(Continued on next page)

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

HUMANITIES TENNESSEE

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Program Services</u>				<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Grants and Awards</u>	<u>Community History</u>	<u>Language & Literature</u>	<u>Total</u>	<u>Fundraising</u>	<u>Administrative</u>	<u>Total</u>	
Depreciation	-	-	-	-	-	7,766	7,766	7,766
Fees/honorarium writers/others	-	2,000	157,950	159,950	-	-	-	159,950
Computer and equipment costs	795	6,030	2,266	9,091	-	1,133	1,133	10,224
Cost of t-shirts and sweatshirts sold	-	-	6,690	6,690	-	-	-	6,690
Consultants	6	1,888	85,139	87,033	13,370	5	13,375	100,408
Tents	-	-	13,600	13,600	-	-	-	13,600
Security	-	-	6,470	6,470	-	-	-	6,470
Food and beverage	-	-	19,619	19,619	-	-	-	19,619
Cost of books sold	-	-	65,530	65,530	-	-	-	65,530
Exhibits and displays	-	9,000	-	9,000	-	-	-	9,000
Community history fund awards	-	28,656	-	28,656	-	-	-	28,656
TAM Scholarships	-	5,796	-	5,796	-	-	-	5,796
Other expenses	53	320	13,842	14,215	-	6,765	6,765	20,980
	<u>\$ 100,114</u>	<u>\$ 269,404</u>	<u>\$ 761,563</u>	<u>\$ 1,131,081</u>	<u>\$ 13,370</u>	<u>\$ 132,216</u>	<u>\$ 145,586</u>	<u>\$ 1,276,667</u>

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

HUMANITIES TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

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 75% of the Organization's public support (excluding donated goods and services) came from the Federal Government through NEH in 2008. Support also comes from state and local government and corporate and foundation grants, from private contributions and from 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 statement 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.

HUMANITIES TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 \$24,996 as of December 31, 2008.

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 statement 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 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.

HUMANITIES TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (continued)

Temporarily restricted - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or passage of time.

Permanently restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Contributions 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 revenues 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 revenues.

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 2008, board members spent approximately 628 hours attending meetings, training, and other seminars in support of the Organization. Additionally, volunteers and committee members contributed approximately 1,882 hours in support of the Organization's Southern Festival of Books that is held each fall. These amounts are not reflected in donated services, but are significant contributions to the Organization. Donated professional services, use of facilities, materials and other assets received as donations are reflected in the accompanying financial statements at their estimated fair value in the period received.

HUMANITIES TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

The following program and supporting service classifications are included in the accompanying financial statements:

Program services

Grants and Awards - includes a community initiated grants and sponsorships program supporting humanities programs of other organizations, a teachers award program that recognizes and rewards Tennessee's outstanding teachers of the humanities in grades K-12, and contributions to the Southern Humanities Media Fund which makes grants for film, video, and radio programs on southern history and culture. No contributions were made to the Southern Humanities Media Fund in 2008.

Community History Programs - 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 & 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

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

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

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.

HUMANITIES TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Accordingly, income taxes are not provided.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*. FIN 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. The cumulative effect of changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of net assets in the period of adoption. In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Organization has elected this deferral and, accordingly, will be required to adopt FIN 48 in its December 31, 2009 annual financial statements. Prior to adopting FIN 48, the Organization will continue to evaluate uncertain tax positions and related income tax contingencies under Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies*. SFAS No. 5 requires annual accrual for losses that are considered probable and can be reasonably estimated, or disclosure for losses that are considered reasonably possible and/or cannot be reasonably estimated.

The Organization is currently evaluating the impact, if any, of the adoption of this pronouncement on the financial statements.

HUMANITIES TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

NOTE 3 - INVESTMENTS

Investments consist of the following as of December 31, 2008:

Cash and cash equivalents	\$ 1,775
Certificates of deposit	10,000
Corporate bonds	13,206
Government securities	12,008
Mutual funds	<u>58,529</u>
	<u>\$ 95,518</u>

The following schedule summarizes investment income (loss) for the year ended December 31, 2008:

Interest and dividends	\$ 3,637
Realized and unrealized losses	<u>(50,034)</u>
	<u>\$ (46,397)</u>

NOTE 4 - GRANTOR AWARDS AVAILABLE

Grantor awards available from the National Endowment for the Humanities consist of the following as of December 31, 2008:

<u>Grant Number</u>	<u>Operations</u>	<u>Special Projects</u>	<u>Total</u>
#SO-50227-08	\$ 324,708	\$ -	\$ 324,708
#BC-50338-06	-	38,705	38,705
#BC-50380-07	-	87,020	87,020
#BC-50281-08	-	<u>109,780</u>	<u>109,780</u>
	<u>\$ 324,708</u>	<u>\$ 235,505</u>	<u>\$ 560,213</u>

HUMANITIES TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

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 for the year ended December 31, 2008, follows:

Regrants payable - beginning of year	\$ 67,793
Regrants awarded during 2008	51,658
Awards paid to recipients	<u>(87,327)</u>
Regrants payable - end of year	<u>\$ 32,124</u>

Regrants expense on the statement of functional expenses is shown net of \$18,016 of grant repayments from recipients who had previously received funding but did not complete all the grant requirements.

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 year ended December 31, 2008, amounted to \$36,621 and are included in employee benefits expense.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

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 year ended December 31, 2008, was \$31,105. The Organization is also required to pay excess operating costs in addition to the scheduled minimum lease payments, which covers taxes, insurance, certain utilities, general maintenance repairs, and other miscellaneous expenses.

HUMANITIES TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

NOTE 7 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Lease (Continued)

A schedule of the aggregate future minimum lease commitment for office space as of December 31, 2008, follows:

Year Ending December 31,

2009	\$ 27,668
2010	28,206
2011	28,743
2012	29,280
2013	29,817
Thereafter	<u>50,771</u>
	<u>\$ 194,485</u>

In addition, the Organization paid \$10,015 in 2008 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.

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.

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. The Emergency Economic Stabilization Act of 2008 temporarily increased the FDIC coverage from \$100,000 to \$250,000 per depositor, effective October 3, 2008 through December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase in FDIC coverage through December 31, 2013. As of December 31, 2008, all depositor accounts of the Organization were fully insured.

HUMANITIES TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

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 Organization has granted variance power to the Community Foundation, and the Community Foundation has the ultimate authority and control over the Fund and the income derived therefrom. The Fund is charged a .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 for the year ended December 31, 2008, follows:

Balance - beginning of the year	<u>\$ 12,106</u>
Change in value of beneficial interest in agency endowment fund:	
Investment income (loss)	(3,416)
Administrative expenses	<u>(69)</u>
	<u>(3,485)</u>
Balance - end of the year	<u>\$ 8,621</u>

NOTE 10 - FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Organization adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157), for financial assets and financial liabilities. In accordance with Financial Accounting Standards Board Staff Position (FSP) No. SFAS 157-2, *Effective Date of FASB Statement No. 157*, the Organization will delay application of SFAS No. 157 for non-financial assets and non-financial liabilities, until January 1, 2009. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. The application of SFAS No. 157 in situations where the market for a financial asset is not active was clarified by the issuance of FSP No. SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, in October 2008. FSP No. SFAS 157-3 became effective immediately and did not significantly affect the methods by which the Organization determines the fair values of its financial assets.

HUMANITIES TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

NOTE 10 - FAIR VALUE MEASUREMENTS (CONTINUED)

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is not adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

SFAS No. 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability, developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. In that regard, SFAS No. 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

HUMANITIES TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

NOTE 10 - FAIR VALUE MEASUREMENTS (CONTINUED)

A description of the valuation methodologies used for instruments measured at fair value as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Organization's financial assets and financial liabilities carried at fair value effective January 1, 2008. In general, fair value is based on quoted market prices, where available. If such quoted market prices are not available, fair value is based on internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Organization's creditworthiness among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Organization's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the valuation methodologies 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 estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates and, therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Financial assets measured at fair value on a recurring basis include the following:

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.

HUMANITIES TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

NOTE 10 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	<u>Level 1</u> <u>Inputs</u>	<u>Level 2</u> <u>Inputs</u>	<u>Level 3</u> <u>Inputs</u>	<u>Total</u>
Investments	\$ 95,518	\$ -	\$ -	\$ 95,518
Beneficial interest in agency endowment fund	-	8,621	-	8,621
	<u>\$ 95,518</u>	<u>\$ 8,621</u>	<u>\$ -</u>	<u>\$ 104,139</u>

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The Organization has no financial assets or liabilities that are measured on a non-recurring basis.

NOTE 11 - RESTRICTIONS ON NET ASSETS

In August 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP No. FAS 117-1). FSP No. FAS 117-1 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"). FSP No. FAS 117-1 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 FSP No. FAS 117-1 for the year ended December 31, 2008.

HUMANITIES TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

NOTE 11 - RESTRICTIONS ON NET ASSETS (CONTINUED)

Permanently restricted net assets at December 31, 2008 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 inviolate. Income from the fund is classified with 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 corporate bonds, government bonds, and mutual funds. At December 31, 2008, the endowment fund in the amount of \$15,000 is classified as permanently restricted net assets. Changes in endowment net assets for the year ended December 31, 2008 were insignificant.

ADDITIONAL INFORMATION

HUMANITIES TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2008

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Revenue Recognized/ Expenditures</u>
FEDERAL AWARDS		
National Endowment for the Humanities, National Foundation on the Arts and the Humanities		
Promotion of the Humanities - Federal/State Partnership	45.129	* \$ 682,144
Promotion of the Humanities - We the People	45.168	<u>25,645</u>
Total National Endowment for the Humanities, National Foundation on the Arts and the Humanities		<u>707,789</u>
TOTAL FEDERAL AWARDS		<u>707,789</u>
OTHER AWARDS - STATE AND LOCAL GOVERNMENTS		
"Southern Festival of Books" State of Tennessee, Tennessee Arts Commission	N/A	15,000
Metropolitan Nashville Arts Commission	N/A	<u>31,971</u>
TOTAL OTHER AWARDS - STATE AND LOCAL GOVERNMENTS		<u>46,971</u>
TOTAL GRANT REVENUE		<u>\$ 754,760</u>

*Designates major program.

BASIS OF PRESENTATION

This schedule includes the federal 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*.

OTHER REPORTS

INDEPENDENT AUDITORS' 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

Board of Directors
Humanities Tennessee
Nashville, Tennessee

We have audited the financial statements of Humanities Tennessee (the "Organization") as of and for the year ended December 31, 2008, and have issued our report thereon dated August 6, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Humanities Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely effects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, and identified as items 2006-1 and 2006-2, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2006-1 and 2006-2 to be material weaknesses.

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*.

We noted certain other matters that we reported to management of Humanities Tennessee in a separate letter dated August 6, 2009.

Humanities Tennessee's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kraft CPA PLLC". The signature is written in a cursive, stylized font.

Nashville, Tennessee
August 6, 2009

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Humanities Tennessee
Nashville, Tennessee

Compliance

We have audited the compliance of Humanities Tennessee (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that are applicable to each of its major federal programs for the year ended December 31, 2008. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of Humanities Tennessee is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kraft CPA PLLC". The signature is written in a cursive, stylized font.

Nashville, Tennessee
August 6, 2009

HUMANITIES TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2008

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? x yes no
- Significant deficiency(s) identified that are not considered to be material weaknesses? yes x none reported

Noncompliance material to financial statements noted?

 yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes x no
- Significant deficiency(s) identified that are not considered to be material weaknesses? yes x none reported

Type of auditors’ report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

 yes x no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
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45.129	Promotion of the Humanities - Federal/State Partnership
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Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 yes x no

HUMANITIES TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2008

Section II - Financial Statement Findings

PRIOR YEAR

2006-1 - Internal control over year-end closing

Criteria:

Management is responsible for internal control over the proper recording of transactions in the books and records of the Organization for financial reporting purposes so that the financial statements are fairly presented in accordance with generally accepted accounting principles.

Condition:

The Organization did not have proper processes in place for adjusting and closing its books at year end. As a result, there were many audit adjustments recommended during the audit as necessary for the financial statements to be presented in accordance with generally accepted accounting principles. Collectively, the recommended audit adjustments were material to the financial statements. All audit adjustments proposed during our audit process were approved and accepted by management.

Cause:

The Organization does not possess the accounting expertise on staff to make the necessary adjustments to properly close the books at year end. Our understanding is that the Organization relies on the auditors to propose such adjustments.

Effect:

There were several balance sheet accounts that were not adjusted to supporting documentation or accrued as liabilities prior to the audit, including updating the market value of investments and related investment gain or loss, capitalization of property and equipment, recording of depreciation expense for the year, recording prepaid expenses, recording accounts payable for liabilities incurred prior to year end, and updating accrued leave liability at year end. These entries are required in order to calculate the grant revenue and related receivable for amounts due to the Organization.

HUMANITIES TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2008

Section II - Financial Statement Findings (continued)

2006-1 - Internal control over year-end closing (continued)

Recommendation:

We continue to recommend that the Organization implement a year-end closing process that includes a review of the accounting books and records for completeness and accuracy prior to the audit. This process should include the development of a year-end closing checklist of the accounts that need to be adjusted and the documentation required to make the entries. This process could include the use of other staff affiliated with the Organization, external accounting consultants or other experts.

Management's Response:

We shall design and implement this year-end closing process.

2006-2 - Internal control over financial reporting

Criteria:

Management is responsible for establishing and maintaining effective internal control over financial reporting, including relevant disclosures, in accordance with generally accepted accounting principles. Under current professional standards, the auditors cannot function as the Organization's internal control over financial reporting.

Condition:

The Organization's management does not have sufficient resources of time, accounting knowledge, skill and experience to prepare its own financial statements and related disclosures, necessary to prevent, detect or correct a material misstatement.

Cause:

The Organization has limited financial resources to maintain qualified accounting expertise on staff.

Effect:

The financial statements and related disclosures were prepared by the auditors. Management oversees this process, and reviews and accepts responsibility for the financial statements.

HUMANITIES TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2008

Section II - Financial Statement Findings (continued)

2006-2 - Internal control over financial reporting (continued)

Recommendation:

We continue to recommend that management consider the cost effectiveness of obtaining the services of someone who has the skills and competencies necessary to prepare its financial statements and related disclosures outside of the CPA firm as part of the annual audit.

Management's Response:

Our auditors, both current and past, have always, as part of the audit, proposed adjustments to our trial balance to record in-kind contributions and expenses, to capitalize rather than expense fixed assets, to dispose of fixed assets no longer in use, to record depreciation expense and to adjust other balance sheet items to full accrual basis of accounting, and the audits have been without findings. We believe the personnel we have possess the skills and competencies necessary to prepare our financial statements and related disclosures, and we shall prepare these statements ourselves prior to the audit.

CURRENT YEAR

No new findings.

HUMANITIES TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2008

Section III - Federal Award Findings and Questioned Costs

None