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INDEPENDENT AUDITORS’ REPORT

To the Board of Trustees of
Nevada Humanities, Inc.

We have audited the accompanying statement of financial position of Nevada Humanities, Inc. (a nonprofit organization) as of October 31, 2012, and the related statements of activities and cash flows 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. The prior year summarized comparative information has been derived from the Organization’s 2011 financial statements and, in our report dated January 23, 2012, we expressed an unqualified opinion on those financial statements.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and 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 Nevada Humanities, Inc. as of October 31, 2012, 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 January 28, 2013, 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, grant agreements and other matters. The purpose of that report is to disclose 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 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 financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal 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 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 financial statements as a whole.

Reno, Nevada
January 28, 2013

Kohn Colodny
NEVADA HUMANITIES, INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2012
(WITH COMPARATIVE TOTALS FOR OCTOBER 31, 2011)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2012</th>
<th>2011 (Memorandum Only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CURRENT ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$286,053</td>
<td>$237,970</td>
</tr>
<tr>
<td>Investments</td>
<td>250,488</td>
<td>229,776</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>354</td>
<td>3,186</td>
</tr>
<tr>
<td>Grants receivable</td>
<td>18,294</td>
<td>24,910</td>
</tr>
<tr>
<td>Inventory</td>
<td>11,332</td>
<td>12,507</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>12,174</td>
<td>13,067</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>578,695</td>
<td>521,416</td>
</tr>
<tr>
<td>PROPERTY AND EQUIPMENT</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>22,172</td>
<td>8,604</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$600,867</td>
<td>$530,020</td>
</tr>
</tbody>
</table>

| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $16,884 | $14,823 |
| Accrued wages and leave benefits | 80,132 | 43,221 |
| Re-grants payable | 40,678 | 36,427 |
| Deferred revenue | 36,012 | 23,195 |
| **Total current liabilities/total liabilities** | 173,706 | 117,666 |
| NET ASSETS | | |
| Unrestricted | | |
| Board designated endowment funds | 160,778 | 145,536 |
| Undesignated | 235,048 | 229,728 |
| **Total net assets** | 395,826 | 375,264 |
| Temporarily restricted | 31,335 | 37,090 |
| **Total net assets** | 427,161 | 412,354 |
| **Total liabilities and net assets** | $600,867 | $530,020 |

See accompanying notes


<table>
<thead>
<tr>
<th>Revenue, and Reclassifications</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public and governmental support</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Endowment for the Humanities</td>
<td>$604,579</td>
<td>-</td>
</tr>
<tr>
<td>State of Nevada</td>
<td>36,528</td>
<td>-</td>
</tr>
<tr>
<td>U.S. Department of Education</td>
<td>34,035</td>
<td>-</td>
</tr>
<tr>
<td>Other grant revenue</td>
<td>26,587</td>
<td>-</td>
</tr>
<tr>
<td>Contributions</td>
<td>12,581</td>
<td>-</td>
</tr>
<tr>
<td>In-kind contributions</td>
<td>89,690</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total public and governmental support</strong></td>
<td>$804,000</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income</td>
<td>23,730</td>
<td>-</td>
</tr>
<tr>
<td>Program income</td>
<td>40,806</td>
<td>5,928</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>$64,536</td>
<td>5,928</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net assets released due to satisfaction of purpose restriction</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total public and governmental support, revenue, and reclassifications</strong></td>
<td>$880,219</td>
<td>(5,755)</td>
</tr>
</tbody>
</table>

**EXPENSES**

<table>
<thead>
<tr>
<th>Program services</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public humanities programs</td>
<td>360,662</td>
<td>-</td>
</tr>
<tr>
<td>Grant program</td>
<td>123,201</td>
<td>-</td>
</tr>
<tr>
<td>Program development</td>
<td>81,720</td>
<td>-</td>
</tr>
<tr>
<td>Communication and outreach</td>
<td>15,096</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total program services</strong></td>
<td>$580,679</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Supporting services</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Management and general</td>
<td>260,713</td>
<td>-</td>
</tr>
<tr>
<td>Resource development</td>
<td>18,265</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total supporting services</strong></td>
<td>$278,978</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>$859,657</td>
<td>-</td>
</tr>
</tbody>
</table>

**CHANGE IN NET ASSETS**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net assets, beginning of year</strong></td>
<td>$375,264</td>
<td>37,090</td>
</tr>
<tr>
<td><strong>Net assets, end of year</strong></td>
<td>$395,826</td>
<td>$31,335</td>
</tr>
</tbody>
</table>

See accompanying notes
NEVADA HUMANITIES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED OCTOBER 31, 2011)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011 (Memorandum Only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH FLOWS FROM OPERATING ACTIVITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$14,807</td>
<td>$6,066</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash flows from operating activities</td>
<td>(16,820)</td>
<td>6,610</td>
</tr>
<tr>
<td>Net realized and unrealized (gain) loss on investments</td>
<td>(6,441)</td>
<td>(7,338)</td>
</tr>
<tr>
<td>Reinvested interest income, net</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in certain components of working capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase) decrease in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,832</td>
<td>6,178</td>
</tr>
<tr>
<td>Grants receivable</td>
<td>6,616</td>
<td>11,056</td>
</tr>
<tr>
<td>Inventory</td>
<td>1,175</td>
<td>5,031</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>893</td>
<td>(2,676)</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>2,061</td>
<td>(1,087)</td>
</tr>
<tr>
<td>Accrued wages and leave benefits</td>
<td>36,911</td>
<td>14,128</td>
</tr>
<tr>
<td>Re-grants payable</td>
<td>4,251</td>
<td>(796)</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>12,817</td>
<td>(17,296)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>59,102</td>
<td>19,876</td>
</tr>
</tbody>
</table>

CASH FLOWS FROM INVESTING ACTIVITIES

| Proceeds from sale of investments      | 2,549         | 105,699                |
| Purchase of investments                |               | (86,500)               |
| Purchase of property                   | (13,568)      | (8,604)                |

Net cash provided (used) by investing activities | (11,019) | 10,595|

NET INCREASE IN CASH AND CASH EQUIVALENTS

| 48,083                                   | 30,471        |

CASH AND CASH EQUIVALENTS, beginning of year | 237,970 | 207,499|

CASH AND CASH EQUIVALENTS, end of year

| $286,053                                  | $237,970      |

SUPPLEMENTAL CASH FLOW DATA

None

See accompanying notes
NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Nevada Humanities, Inc. (the Organization) is a Nevada nonprofit organization and is funded principally by grants from the National Endowment for the Humanities. The Organization is responsible for administering grants awarded to re-grantees (subrecipients) for cultural and educational purposes, and to foster an environment in which the humanities can thrive.

Each year Nevada Humanities, Inc. carries out programs that promote the humanities. The following are the main events and programs which the Organization sponsored in 2012:

- Nevada Humanities Chautauqua
- Young Chautauqua
- Online Nevada Encyclopedia
- Humanities on the Road
- Vegas Valley Book Festival
- Literature & Medicine
- The Salon
- Nevada Humanities Grant Program

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, based on the existence or absence of donor imposed restrictions.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports restricted contributions whose restrictions are met in the same reporting period in which contributions are received as unrestricted support.

Cash and Cash Equivalents

Cash and cash equivalents include a general checking account and cash invested in money market funds. For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Investments

Investments consist of time certificate of deposits and pooled investment funds which are stated at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.
NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Accounts Receivable and Grants Receivable

Accounts receivable consists of amounts due from contracting agencies, recipient agencies and miscellaneous other sources. Grants and accounts receivables represent amounts receivable for expenditures incurred or services provided prior to year-end. All receivables are considered fully collectible by management. Therefore, no allowance for doubtful accounts is provided.

Inventory

Inventory consists of books held for sale and is stated at cost determined on the first-in, first-out method.

Property and Equipment

The Organization records furniture and equipment at cost. The Organization's policy is to capitalize assets where costs have exceeded $5,000. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations using the accelerated and straight-line basis over their estimated service lives. As of October 31, 2012, two Nevada Humanities’ websites were in development: onlinenevada.org and nevadahumanities.org. They were still in development, therefore, there is no current year amortization expense. The site nevadahumanities.org was completed and launched in November 2012.

Re-grants Payable

Re-grants payable are approved grants payable to re-grantees for funding as of October 31, 2012, but not disbursed as of that date.

Contributed Facilities and Services

The Organization is required to recognize the contributions of services if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Services requiring specialized skills are those provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers and other professionals and craftsmen.

Additionally, the Organization receives a significant amount of contributed services, which do not meet the two recognition criteria above. Accordingly, the value of the contributed services has not been determined and is not reflected in the accompanying financial statements. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs, resource development activities, and other activities. For the year ended October 31, 2012, more than 400 hours were donated to the Organization. No amounts have been reflected in the financial statements for these volunteer services.

The National Endowment for the Humanities requires that all expenditures of its grant funds by Nevada Humanities, Inc. be matched in-kind or with cash contributions. Consequently, the Organization requires that all of its subrecipients match all awards on the same basis. In-kind contributions for matching purposes are the fair value of salaries, administrative assistance, equipment, travel, etc., and other volunteer services that may not be reflected in the financial statements, but are essential to the completion of funded programs donated by sponsors or other supporters. The Organization reported $1,176,299 in matching funds for the year ended October 31, 2012, of which $89,690 was reflected in the accompanying financial statements. In accordance with generally accepted accounting principles, $1,086,609 of the in-kind contributions are not reflected in the financial statements because they are incurred by re-grantees or do not meet the criteria for recognition.
NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon the employees’ time spent in each activity.

Advertising Cost

Advertising costs are expensed as incurred. Advertising costs total $7,322 for the year ended October 31, 2012.

Income Taxes

The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been made. Tax positions to consider include but are not limited to:

- Classification of program services, administrative and fund raising
- Characterization of its activities as related or unrelated to its tax exempt purpose

It is the Organization’s tax position that it has not engaged in activities that would jeopardize its exempt status nor has it engaged in activities that would result in unrelated business income tax.

Although the Organization has not been notified of any pending Internal Revenue Service (IRS) examinations, its returns are subject to examination within a three year statute of limitations. At October 31, 2012, the 2008 through the current period returns are subject to examination by the IRS.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

Memorandum Only – Total Columns

Total columns in the financial statements are captioned “memorandum only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, changes in net assets or cash flows in conformity with generally accepted accounting principles.
NOTE 2 – CASH AND CASH EQUIVALENTS

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Organization (FDIC) up to $250,000. At October 31, 2012, the Organization had approximately $1,132 in excess of FDIC insured limits. The Organization has not experienced any losses in such accounts.

NOTE 3 – INVESTMENTS AND FAIR VALUE

The fair value of investments at October 31, 2012 is as follows:

<table>
<thead>
<tr>
<th>Investments</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual funds</td>
<td>$83,199</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>6,511</td>
</tr>
<tr>
<td>Pooled investments</td>
<td>160,778</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$250,488</strong></td>
</tr>
</tbody>
</table>

Investment return for the year ended October 31, 2012 is:

<table>
<thead>
<tr>
<th>Source</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividends</td>
<td>$6,442</td>
</tr>
<tr>
<td>Realized and unrealized gain</td>
<td>16,820</td>
</tr>
<tr>
<td>Fees</td>
<td>(2,549)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$20,713</strong></td>
</tr>
</tbody>
</table>

Generally accepted accounting principles require disclosures regarding fair value measurements which establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority.

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual funds</td>
<td>$83,199</td>
<td>-</td>
<td>-</td>
<td>$83,199</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>-</td>
<td>$6,511</td>
<td>-</td>
<td>$6,511</td>
</tr>
<tr>
<td>Pooled investments</td>
<td>-</td>
<td>-</td>
<td>$160,778</td>
<td>$160,778</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$83,199</td>
<td>$6,511</td>
<td>$160,778</td>
<td><strong>$250,488</strong></td>
</tr>
</tbody>
</table>

*Level 1 Fair Value Measurements* - The fair value of mutual funds is based on quoted market prices.

*Level 2 Fair Value Measurements* - The fair value of certificates of deposit for which quoted market prices are not available is valued based on stated interest rates and accrued interest based on broker estimates.

*Level 3 Fair Value Measurements* - The fair value of pooled investments is available and is provided by the investment manager in quarterly statements. Detailed investment holdings are not provided. The fair value of Level 3 investments totals $160,778 at October 31, 2012.
NOTE 3 – INVESTMENTS AND FAIR VALUE (Continued)

Following is a summary of the changes in Level 3 investments for the year ended October 31, 2012:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance</td>
<td>$145,537</td>
</tr>
<tr>
<td>Investment income</td>
<td>2,884</td>
</tr>
<tr>
<td>Net realized and unrealized gains</td>
<td>14,906</td>
</tr>
<tr>
<td>Contributions</td>
<td>-</td>
</tr>
<tr>
<td>Expenses</td>
<td>(2,549)</td>
</tr>
<tr>
<td>Ending balance</td>
<td>$160,778</td>
</tr>
</tbody>
</table>

Gains and losses (realized and unrealized), interest and dividend income, and investment fees are reported net as investment income (loss) in the statement of activities.

NOTE 4 – ENDOWMENT FUNDS

The Organization has an unrestricted endowment fund established to support the mission of Nevada Humanities, Inc. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported as unrestricted, temporarily restricted and permanently restricted net assets based solely on the existence or absence of donor-imposed restrictions.

The unrestricted endowment fund consists of investments totaling $160,778 at October 31, 2012. The Organization does not have any endowment funds that are considered temporarily or permanently restricted at October 31, 2012.

Interpretation of Relevant Law

In the absence of explicit donor stipulations to the contrary, Nevada Humanities, Inc. has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as set forth in Chapter 164 of the Nevada Revised Statutes as requiring the preservation of the fair value of the gift as of the gift date for permanently restricted net assets. Nevada Humanities, Inc.'s endowment fund is classified as unrestricted based upon the Board designation requirements until such time as funds are re-designated for expenditure by Nevada Humanities, Inc. in a manner consistent with the Board designation requirements and the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Nevada Humanities, Inc. considers the following factors in making a determination to appropriate or accumulate Board designated endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the Board designated endowment funds
- General economic conditions, including the possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization

Return Objectives and Risk Parameters

The Organization has adopted an investment policy that requires operating funds to be invested in cash and cash equivalents and reserve funds to emphasize capital appreciation. The Finance committee oversees the investment of all monies that qualify for reserve funds. The Committee is expected to use the care, skill, and diligence of a prudent investor and to exercise its discretion...
NOTE 4 – ENDOWMENT FUNDS (Continued)

in consideration of controversial implications, confining call, or redemption provisions, and potential problems of concentration or diversity of investments. In particular:

- The Committee or appointed investment advisor shall be directed to prudently manage all gifts of stock or other investments, allowing for any wishes of the donor.
- No investment shall be made in private placements, options, short sales, derivatives, warrants, futures, commodities, or other speculative securities.
- The asset allocation guidelines shall be:
  - Cash and cash equivalents: 0% to 45%
  - Equities: 10% to 40%
  - Fixed income/bonds: 10% to 40%

The endowment funds are held by the University of Nevada, Reno or the Community Foundation of Western Nevada, and the Organization plays no direct role in the investments.

Funds with Deficiencies

From time to time, the fair value of assets associated with the funds may fall below the level that the board or UPMIFA requires to be retained as perpetual funds. Such deficiencies are reflected as decreases in unrestricted net assets for the period.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends.) The Finance Committee of the Board of Trustees reviews this plan at least annually with its investment advisors and the Board of Trustees.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The designated funds have been set aside for the support of the Organization and will be spent at a time the Board deems necessary for the purpose as originally designated.

Following is a summary of the changes in the Board designated endowment fund net assets for the year ended October 31, 2012:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets, beginning of year</td>
<td>$145,537</td>
</tr>
<tr>
<td>Investment income</td>
<td>2,884</td>
</tr>
<tr>
<td>Net realized and unrealized gains</td>
<td>14,906</td>
</tr>
<tr>
<td>Contributions</td>
<td>-</td>
</tr>
<tr>
<td>Appropriation of assets for expenditures</td>
<td>(2,549)</td>
</tr>
<tr>
<td>Total funds</td>
<td>$160,778</td>
</tr>
</tbody>
</table>

Other Endowments

In addition, the Organization set up the Wilbur Stanley Shepperson Annual Humanities Book Award endowment held at the University of Nevada, Reno Foundation, whereby Nevada Humanities, Inc. and the University of Nevada Press bestow the Wilbur Stanley Shepperson Annual Humanities Book Award for a University of Nevada Press manuscript. The Organization has also set up the Marilyn R. Melton Endowment Fund for the Humanities held at the
NOTE 4 – ENDOWMENT FUNDS (Continued)

Community Foundation of Western Nevada to support the mission of Nevada Humanities, Inc. Both of these endowments are properly not included in the Organization’s financial statements.

NOTE 5 – IN-KIND CONTRIBUTIONS

The Organization has office space in Reno, Nevada and Las Vegas, Nevada. The University of Nevada, Reno and the University of Nevada, Las Vegas are providing both of these offices at no cost to the Organization. The fair market value of the monthly rent is $1,792 for both offices. In addition, the Organization has received as in-kind contributions various equipment, media and professional services. In-kind contributions of $89,690 have been recorded for the year ending October 31, 2012.

NOTE 6 – PENSION PLAN

The Organization has a contractual arrangement with the University of Nevada, Reno, whereby the employees may participate in either the Public Employees Retirement System of the State of Nevada (PERS) or an Internal Revenue Service Code Section 403(b) plan. Nevada Humanities, Inc. makes contributions to one of two pension plans for eligible employees. The Organization matches employee contributions up to 12.25% for both plans.

If the employee selects the 403(b) plan, his/her options are the Teachers’ Insurance and Annuity Association and the College Retirement Equities Fund, The American Century Family of Funds, VALIC, and Fidelity Investment, which are defined contribution plans recognized by the Internal Revenue Service under Code Section 403(b). Defined contribution plan contributions for the 403(b) plan totaled $16,650 for the year ended October 31, 2012.

If the employee selects the PERS plan, the information relating to that plan option is as follows:

**Plan Description.** The Organization contributes to the Public Employees' Retirement System of the State of Nevada (PERS), a cost sharing, multiple employer, defined benefit plan administered by the Public Employees' Retirement System of the State of Nevada. PERS provides retirement benefits, disability benefits, and death benefits, including annual cost of living adjustments, to plan members and their beneficiaries. Chapter 286 of the Nevada Revised Statutes establishes the benefit provisions provided to the participants of PERS. These benefit provisions may only be amended through legislation. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employees' Retirement System of the State of Nevada 693 West Nye Lane, Carson City, Nevada 89703-1599 or by calling (775) 687-4200.

**Funding Policy.** Plan members' benefits are funded under both the employee/employer paid contribution plan and the employer paid contribution plan. Under the employee/employer plan, the Organization and its employees are required to share equally all amounts due under the plan. The Organization’s contribution rate for this plan was 12.25% for each of the years ended October 31, 2012 and 2011. The Organization contributed 11.25% for the year ended October 31, 2010. Under the employer paid plan, the Organization pays all contributions. The Organization’s contribution rate was 23.75% for the year ended October 31, 2012 and 21.5% for each of the years ended October 31, 2011 and 2010. The Organization contributed $16,610, $24,406 and $23,960 for the PERS plan for the years ended October 31, 2012, 2011, and 2010, respectively.
SUPPLEMENTARY INFORMATION
<table>
<thead>
<tr>
<th>Program Services</th>
<th>2012</th>
<th>Supporting Services</th>
<th>2011</th>
<th>Total (Memorandum Only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Humanities Program</td>
<td>Salaries $ 81,830</td>
<td>Grant Program $ 10,237</td>
<td>Program Development $ 24,348</td>
<td>Communication and Outreach $ 7,292</td>
</tr>
<tr>
<td>Employee taxes, benefits and other costs</td>
<td>23,860</td>
<td>2,929</td>
<td>9,100</td>
<td>2,158</td>
</tr>
<tr>
<td>Total personnel costs</td>
<td>105,690</td>
<td>13,166</td>
<td>33,448</td>
<td>9,450</td>
</tr>
<tr>
<td>Advertising</td>
<td>6,692</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Catering</td>
<td>9,245</td>
<td>135</td>
<td>838</td>
<td>182</td>
</tr>
<tr>
<td>Equipment costs</td>
<td>5,042</td>
<td>58</td>
<td>4,332</td>
<td>44</td>
</tr>
<tr>
<td>Financial service fees</td>
<td>2,727</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Janitorial services</td>
<td>344</td>
<td>46</td>
<td>103</td>
<td>34</td>
</tr>
<tr>
<td>Memberships and dues</td>
<td>384</td>
<td>19</td>
<td>194</td>
<td>15</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>6,041</td>
<td>-</td>
<td>1,396</td>
<td>-</td>
</tr>
<tr>
<td>Office supplies</td>
<td>6,658</td>
<td>185</td>
<td>965</td>
<td>650</td>
</tr>
<tr>
<td>Photocopying and printing</td>
<td>8,280</td>
<td>2</td>
<td>110</td>
<td>244</td>
</tr>
<tr>
<td>Postage and shipping</td>
<td>1,191</td>
<td>47</td>
<td>244</td>
<td>232</td>
</tr>
<tr>
<td>Professional fees</td>
<td>151,696</td>
<td>1,920</td>
<td>16,534</td>
<td>-</td>
</tr>
<tr>
<td>Registration fees</td>
<td>5,541</td>
<td>-</td>
<td>1,150</td>
<td>65</td>
</tr>
<tr>
<td>Re-grant expenses</td>
<td>-</td>
<td>106,162</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Rent</td>
<td>23,372</td>
<td>549</td>
<td>10,044</td>
<td>378</td>
</tr>
<tr>
<td>Telephone</td>
<td>3,238</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Technical services</td>
<td>425</td>
<td>90</td>
<td>512</td>
<td>79</td>
</tr>
<tr>
<td>Travel</td>
<td>21,446</td>
<td>683</td>
<td>11,538</td>
<td>-</td>
</tr>
<tr>
<td>Utilities</td>
<td>934</td>
<td>125</td>
<td>280</td>
<td>93</td>
</tr>
<tr>
<td>Web and internet</td>
<td>1,716</td>
<td>14</td>
<td>32</td>
<td>3,000</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$ 360,662</td>
<td>$ 123,201</td>
<td>$ 81,720</td>
<td>$ 15,096</td>
</tr>
</tbody>
</table>

See accompanying notes
<table>
<thead>
<tr>
<th>Federal Grantor/Pass Through Grantor</th>
<th>Identifying Number</th>
<th>Grant Period</th>
<th>CFDA Number</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Endowment for the Humanities</td>
<td>SO-50261-11</td>
<td>11/1/10-10/31/15</td>
<td>45.129</td>
<td>$530,089</td>
</tr>
<tr>
<td>Promotion of the Humanities, Federal/State Partnership</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promotion of the Humanities, We the People</td>
<td>BC-50500-09</td>
<td>9/1/09-2/28/11</td>
<td>45.168</td>
<td>36,291</td>
</tr>
<tr>
<td></td>
<td>BC-50563-10</td>
<td>9/1/10-2/28/13</td>
<td>45.168</td>
<td>38,199</td>
</tr>
<tr>
<td>Subtotal - CFDA 45.168</td>
<td></td>
<td></td>
<td></td>
<td>74,490</td>
</tr>
<tr>
<td>Total National Endowment for the Humanities</td>
<td></td>
<td></td>
<td></td>
<td>604,579</td>
</tr>
<tr>
<td>United States Department of Education Fund for the Improvement of Education</td>
<td>U215K090337</td>
<td>1/1/10-2/28/11</td>
<td>84.215K</td>
<td>34,035</td>
</tr>
<tr>
<td>National Endowment for the Arts Passed through Nevada Arts Council Promotion of the Arts - Partnership Agreements</td>
<td>PRJ13:0:04</td>
<td>7/1/12-6/30/10</td>
<td>45.025</td>
<td>500</td>
</tr>
<tr>
<td>Total federal expenditures</td>
<td></td>
<td></td>
<td></td>
<td>$639,114</td>
</tr>
</tbody>
</table>

* denotes major program

See accompanying notes to this schedule
NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Nevada Humanities, Inc. 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2 – SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the Organization provided federal awards to subrecipients as follows:

<table>
<thead>
<tr>
<th>Program Title</th>
<th>Federal CFDA Number</th>
<th>Amount Provided to Subrecipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotion of the Humanities, Federal/State Partnership</td>
<td>45.129</td>
<td>$85,204</td>
</tr>
<tr>
<td>Promotion of the Humanities, We the People</td>
<td>45.168</td>
<td>20,958</td>
</tr>
</tbody>
</table>
REPORTS ON COMPLIANCE AND INTERNAL CONTROL
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

To the Board of Trustees of Nevada Humanities, Inc.

We have audited the financial statements of Nevada Humanities, Inc. (a nonprofit organization) as of and for the year ended October 31, 2012, and have issued our report thereon dated January 28, 2013. 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 Nevada Humanities, Inc.'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 Nevada Humanities, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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 Organization's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nevada Humanities, Inc.'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 of 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 matters that we reported to management of Nevada Humanities, Inc. in a separate letter dated January 28, 2013.

This report is intended solely for the information and use of management, Board of Trustees, and 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.

Reno, Nevada
January 28, 2013

[Signature]
INDEPENDENT AUDITORS’ REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of Nevada Humanities, Inc.

Compliance

We have audited the compliance of Nevada Humanities, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2012. Nevada Humanities, Inc.'s major federal program is 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 Nevada Humanities, Inc.'s management. Our responsibility is to express an opinion on Nevada Humanities, Inc.'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 Nevada Humanities, Inc.'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 Nevada Humanities, Inc.'s compliance with those requirements.

In our opinion, Nevada Humanities, Inc. 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 October 31, 2012.

Internal Control Over Compliance

Management of Nevada Humanities, Inc. 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 Nevada Humanities, Inc.'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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Nevada Humanities, Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a material weakness.

Nevada Humanities, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Nevada Humanities, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Trustees, and 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.

Reno, Nevada
January 28, 2013
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weaknesses? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weaknesses? yes no

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 no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster
45.129 Promotion of the Humanities, Federal/State Partnership

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee Qualified As Low-Risk Auditee? yes no
SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2012-1

Federal Programs:

Promotion of the Humanities, Federal/State Partnerships – CFDA No. 45.129 and Promotion of the Humanities, We the People – CFDA No 45.168.

Criteria:

The Organization is required to monitor the re-grantees in accordance with OMB Circular A-133.

Condition:

The Organization has a procedure in place to ensure monitoring of all its re-grantees within a three year cycle and complete a documented risk assessment on all re-grantees. During the year ending October 31, 2012, this procedure was not followed. However, it is important to note that the Organization did do normal monitoring procedures on re-grantees; there was just no verification that all re-grantees had been reviewed within the three year cycle as required by policy.

Questioned Costs:

None.

Effect:

The Organization was not complying with its internal policy for re-grantee monitoring.

Cause:

Monitoring was performed on subrecipients randomly selected throughout the year; however, the time to complete the full risk assessment was not taken.

Recommendation:

We recommend that the Organization follow the procedure in place to assure proper selection of re-grantees within a three year cycle.

Management Response:

Management agrees with the recommendation. The Organization's fiscal officer is currently following the established procedure for desk audits on re-grant monitoring. Other practiced procedures for re-grant monitoring are being formalized and will be included with the current internal monitoring procedure.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN
NEVADA HUMANITIES, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED OCTOBER 31, 2012

Prior Audit Findings

There were no prior year audit findings.

Corrective Action Plan

Oversight Agency:  National Endowment for the Humanities

Nevada Humanities, Inc. respectfully submits the following corrective action plan for the year ended October 31, 2012:

Name and address of independent public accounting firm:

Kohn Colodny LLP
5310 Kietzke Lane, Suite 101
Reno, Nevada 89511

Audit period:  Year ended October 31, 2012

We are implementing corrective action as noted in the management responses included with the audit findings.

Name of person responsible for corrective action plan:

Christina Barr, Executive Director

Anticipated completion date for corrective action plan:

August 31, 2013