

HUMANITIES WASHINGTON

FINANCIAL REPORT

DECEMBER 31, 2016

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Note: There were no findings or questioned costs in the prior year. Accordingly, no summary schedule of prior audit findings is included.

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Humanities Washington
Seattle, Washington

We have audited the accompanying financial statements of Humanities Washington, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Humanities Washington as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2017, on our consideration of Humanities Washington's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Humanities Washington's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Peterson Sullivan LLP". The signature is written in a cursive, flowing style.

May 18, 2017

HUMANITIES WASHINGTON

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 519,108	\$ 549,612
Investments	457,632	431,935
Pledges receivable	53,478	146,709
Grants and other receivables	4,439	4,303
Deposits and prepaid expenses	<u>47,956</u>	<u>42,908</u>
Total current assets	1,082,613	1,175,467
Furniture and Equipment, at cost	138,988	154,657
Tenant Improvements, at cost	23,706	71,147
Less: Accumulated Depreciation	<u>(85,328)</u>	<u>(133,300)</u>
Net property and equipment	77,366	92,504
Endowment Investments	<u>317,967</u>	<u>298,399</u>
Total assets	<u><u>\$ 1,477,946</u></u>	<u><u>\$ 1,566,370</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 21,887	\$ 11,611
Accrued expenses	22,872	18,283
Grants payable	<u>50,345</u>	<u>82,052</u>
Total current liabilities	95,104	111,946
Deferred Rent	<u>4,136</u>	<u>48,383</u>
Total liabilities	99,240	160,329
Net Assets		
Unrestricted	781,858	770,173
Temporarily restricted	335,265	374,285
Permanently restricted	<u>261,583</u>	<u>261,583</u>
Total net assets	<u>1,378,706</u>	<u>1,406,041</u>
Total liabilities and net assets	<u><u>\$ 1,477,946</u></u>	<u><u>\$ 1,566,370</u></u>

See Notes to Financial Statements

HUMANITIES WASHINGTON

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue								
Grants	\$ 825,000	\$ 10,938	\$ -	\$ 835,938	\$ 802,780	\$ 25,000	\$ -	\$ 827,780
Gifts and contributions	114,815	386,856		501,671	86,131	427,670		513,801
Other income	2,692			2,692	2,775			2,775
Net assets released from restrictions	456,382	(456,382)			494,844	(494,844)		
Total support and revenue	1,398,889	(58,588)		1,340,301	1,386,530	(42,174)		1,344,356
Operating Expenses								
Program services								
Grants	174,632			174,632	177,125			177,125
Speakers Bureau	212,739			212,739	179,952			179,952
Family Reading	275,413			275,413	307,618			307,618
Think & Drink Conversation Programs	123,371			123,371	140,564			140,564
Other programs	258,600			258,600	197,740			197,740
Total program services	1,044,755			1,044,755	1,002,999			1,002,999
Support services								
General and administrative	112,974			112,974	115,242			115,242
Fundraising	227,357			227,357	247,614			247,614
Total support services	340,331			340,331	362,856			362,856
Total expenses	1,385,086			1,385,086	1,365,855			1,365,855
Change in net assets before investment income (loss) and loss on disposal of leasehold improvements	13,803	(58,588)		(44,785)	20,675	(42,174)		(21,499)
Investment Income (Loss)	32,297	19,568		51,865	(11,655)	(14,051)		(25,706)
Loss on Disposal of Leasehold Improvements	(34,415)			(34,415)				
Change in net assets	11,685	(39,020)		(27,335)	9,020	(56,225)		(47,205)
Net Assets, beginning of year	770,173	374,285	261,583	1,406,041	761,153	430,510	261,583	1,453,246
Net Assets, end of year	<u>\$ 781,858</u>	<u>\$ 335,265</u>	<u>\$ 261,583</u>	<u>\$ 1,378,706</u>	<u>\$ 770,173</u>	<u>\$ 374,285</u>	<u>\$ 261,583</u>	<u>\$ 1,406,041</u>

See Notes to Financial Statements

HUMANITIES WASHINGTON

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

	Program Services					Support Services				Total
	Grants	Speakers Bureau	Family Reading	Think & Drink	Other Programs	Total Program Services	General and Administrative	Fundraising	Total Support Services	
Personnel	\$ 72,882	\$ 100,669	\$ 101,960	\$ 83,417	\$ 125,603	\$ 484,531	\$ 50,375	\$ 105,430	\$ 155,805	\$ 640,336
Projects/special events	71	85,972	144,730	20,402	76,704	327,879		62,495	62,495	390,374
Grants	84,192					84,192				84,192
Dues and fees	7,894	5,353	5,583	5,155	15,524	39,509	4,704	10,155	14,859	54,368
Professional fees							18,453	29,330	47,783	47,783
Other travel	1,273	1,694	9,247	3,191	14,504	29,909	6,952	3,527	10,479	40,388
Depreciation and amortization	3,665	3,665	3,665	3,665	7,329	21,989	3,663	3,665	7,328	29,317
Printing and postage	291	7,005	3,045	600	7,881	18,822	197	4,152	4,349	23,171
Board travel and meetings		1,653			1,509	3,162	18,580	261	18,841	22,003
Office rent	1,464	3,090	3,494	3,536	2,815	14,399	1,830	3,977	5,807	20,206
Miscellaneous operating	2,900	3,638	3,689	3,405	6,731	20,363	8,220	4,365	12,585	32,948
Total expenses	\$ 174,632	\$ 212,739	\$ 275,413	\$ 123,371	\$ 258,600	\$ 1,044,755	\$ 112,974	\$ 227,357	\$ 340,331	\$ 1,385,086

See Notes to Financial Statements

HUMANITIES WASHINGTON

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2015

	Program Services					Support Services				Total
	Grants	Speakers Bureau	Family Reading	Think & Drink	Other Programs	Total Program Services	General and Administrative	Fundraising	Total Support Services	
Personnel	\$ 67,176	\$ 80,533	\$ 102,096	\$ 87,943	\$ 100,818	\$ 438,566	\$ 54,028	\$ 124,750	\$ 178,778	\$ 617,344
Projects/special events	45	78,744	172,640	28,005	32,210	311,644		68,183	68,183	379,827
Grants	88,566					88,566				88,566
Dues and fees	7,736	4,465	4,786	4,526	15,125	36,638	6,184	7,975	14,159	50,797
Professional fees			288		6,009	6,297	18,063	18,295	36,358	42,655
Other travel	1,085	721	9,789	3,979	5,113	20,687	3,626	4,244	7,870	28,557
Depreciation and amortization	3,230	3,230	3,230	3,230	6,460	19,380	3,230	3,230	6,460	25,840
Printing and postage	179	511	875	498	12,868	14,931	125	2,711	2,836	17,767
Board travel and meetings					166	166	16,330	323	16,653	16,819
Office rent	6,161	7,497	9,722	8,538	9,231	41,149	5,046	12,732	17,778	58,927
Miscellaneous operating	2,947	4,251	4,192	3,845	9,740	24,975	8,610	5,171	13,781	38,756
Total expenses	\$ 177,125	\$ 179,952	\$ 307,618	\$ 140,564	\$ 197,740	\$ 1,002,999	\$ 115,242	\$ 247,614	\$ 362,856	\$ 1,365,855

See Notes to Financial Statements

HUMANITIES WASHINGTON

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ (27,335)	\$ (47,205)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	29,317	25,840
Loss on disposal of leasehold improvements	34,415	
Realized gains on investments	(33,672)	(17,463)
Unrealized investment losses	2,608	59,564
Changes in operating assets and liabilities		
Pledges, grants, and other receivables	93,095	72,710
Deposits and prepaid expenses	(5,048)	(12,478)
Accounts payable	10,276	(14,755)
Accrued expenses	4,589	1,700
Grants payable	(31,707)	35,650
Deferred rent	(44,247)	(9,920)
	32,291	93,643
Net cash flows from operating activities	32,291	93,643
Cash Flows from Investing Activities		
Purchases of property and equipment	(48,594)	(4,875)
Purchases of investments	(14,201)	(12,468)
	(62,795)	(17,343)
Net cash flows from investing activities	(62,795)	(17,343)
Net change in cash and cash equivalents	(30,504)	76,300
Cash and Cash Equivalents, beginning of year	549,612	473,312
Cash and Cash Equivalents, end of year	\$ 519,108	\$ 549,612

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Organization and Summary of Significant Accounting Policies

Operations

Humanities Washington ("HW") is an independent, not-for-profit organization and public foundation incorporated in 1973 that exists to provide public programs in the humanities. Its mission is to spark conversation and critical thinking using story as a catalyst, nurturing informed and engaged communities across Washington State. Through the programs noted below, HW promotes awareness of the history of local communities and their residents, provides opportunities for people to gather and learn more about their unique past and shared present, and nurtures relationships that enable communities to move forward towards a more prosperous future. HW acts as a catalyst and facilitator, supporting and partnering with a wide network of communities, organizations, and individuals across the state by creating, inspiring, supporting, and enhancing high quality humanities-related programming; providing organizational and technical support to community organizations across the state; and promoting public awareness of the power of the humanities and the value it provides individuals, organizations, and communities statewide.

HW is one of 56 state and territorial humanities councils whose work is funded, in part, by the National Endowment for the Humanities ("the NEH"). NEH funding is a combination of outright grants and matching funds. As a recipient of federal funds, HW is affected by the specific legislative authority of the NEH, which provides that only activities that are within the humanities, as defined by Congress, can be supported by federal funds. HW has been determined by the IRS to be exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Contributions from individuals, corporations, and foundations provide HW with the ability to reach more broadly across the state and meet important needs in rural and urban communities.

The current primary programs of HW are:

Speakers Bureau – Speakers travel the state to deliver free presentations and lead discussions on diverse subjects including popular culture, photography, architecture, literature, food, film, and history. Speakers are carefully selected based on their expertise and ability to offer fascinating content and insight that inspires discussion with audiences of all ages and backgrounds.

Family Reading – HW's family reading program nurtures reading skills, creates a predisposition for future learning, and builds critical thinking skills and family bonds through group discussions about the themes presented in children's literature. The program focuses on academically at-risk children in elementary school, typically from low-income communities.

Think & Drink Conversation Program – HW's Think & Drink program brings hosted conversations on provocative topics and new ideas to pubs and tasting rooms across the state, sparking lively conversation on ethics, morality, religion, history, and politics.

Grants – Through a small grants program, HW supports projects across the state that use the humanities as a launch point for community dialogue and discussion about contemporary issues. The primary goal of this support is to encourage a critical examination of ideas, provide context for current issues, and build bridges between public issues and research. During 2014, with generous seed funding from the Lenore and Charles Hale Family Fund that was matched by gifts from other private individuals and foundations, a new grant-making program, The Washington Stories Fund, was established as a tool to dismantle barriers and enhance cultural understanding. Funded projects highlight the little-known stories of people or groups whose contributions add to the cultural richness and health of Washington State.

Other Programs – HW sponsors the Washington State Poet Laureate in partnership with ArtsWA/Washington State Arts Commission. The poet laureate serves a two-year term and builds awareness of and appreciation for poetry through public readings, workshops, lectures, and presentations in communities, schools, colleges, universities, and other public settings in geographically diverse areas of the state. In addition, HW presents the annual Humanities Washington Award, given in memory of Heather C. Frank of Yakima. The Humanities Washington Award recognizes outstanding achievement in the public humanities in two categories: "Philanthropy and Leadership" and "Scholarship and Service." These awards are presented annually to two individuals or organizations whose time and talents enlarge the meaning of the humanities in our lives and whose work reflects the spirit and programs of HW. Lastly, on an ongoing basis, HW is also involved in humanities-related special initiatives and ad-hoc projects.

Basis of Presentation

HW reports information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions of HW and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by HW.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as transfers between the applicable classes of net assets.

Cash and Cash Equivalents

HW considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. On occasion, HW maintains cash balances in excess of federal insurance limits.

Investments

All investments are presented at fair value. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value of investments was determined using Level 1 observable market inputs, within the fair value hierarchy, consisting of quoted prices in active markets (such as national exchanges) for identical assets. Cash included in the endowment account is classified as an investment.

Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Concentrations of Credit Risk

Financial instruments that potentially subject HW to concentrations of credit risk consist of cash, investments, pledges, grants, and other receivables. Investments are subject to SIPC insurance limits. Receivables are principally from private individuals. At December 31, 2016, 78% of receivables were due from two donors. At December 31, 2015, 83% of receivables were due from two donors.

Property and Equipment

Additions and improvements are capitalized at cost and depreciated or amortized. Repairs and maintenance of equipment are expensed as incurred. Depreciation is computed using the straight-line method and the half-year convention over estimated useful lives of three to ten years. Leasehold improvements are amortized over the shorter of the term of the lease or useful life. HW capitalizes all fixed asset purchases with an estimated useful life of more than one year and a total cost greater than \$1,500.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Management may provide for probable uncollectible amounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off against the valuation allowance. No such allowance was deemed necessary at December 31, 2016 or 2015.

Revenue Recognition

HW's grant income is generally from grants funded on a reimbursement basis. HW recognizes grant revenue when amounts allowed for reimbursement have been expended. Gifts and contributions are recognized as revenue when the pledge is made.

One governmental agency accounted for 61% and 60% of total support and revenue for 2016 and 2015, respectively.

Grant Expense

Grant expense and the related liability are recognized when grants are awarded by HW.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the various programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Income Taxes

HW is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Subsequent Events

HW has evaluated subsequent events through the date these financial statements were available to be issued, which was May 18, 2017.

Note 2. Investments

Investments consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Cash	\$ 3,156	\$ 3,257
Fixed Income Mutual Funds		
Intermediate-term bond	132,899	130,185
Corporate bond	115,266	115,288
Inflation-protected bond	67,563	65,479
World bond	46,257	47,974
Emerging markets bond	24,115	23,000
	<u>386,100</u>	<u>381,926</u>
Equity Mutual Funds		
Foreign large growth and value	103,828	94,889
Large value	85,476	76,792
Large growth	84,836	76,601
Diversified emerging markets	37,354	34,149
Commodities broad basket	24,012	18,657
Large blend	15,281	15,169
Small growth	17,043	14,573
Small value	18,513	14,321
	<u>386,343</u>	<u>345,151</u>
	<u>\$ 775,599</u>	<u>\$ 730,334</u>

Investments are presented in the statements of financial position as follows as of December 31:

	<u>2016</u>	<u>2015</u>
Unrestricted	\$ 457,632	\$ 431,935
Endowment	317,967	298,399
	<u>\$ 775,599</u>	<u>\$ 730,334</u>

Investment income (loss) consists of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 20,801	\$ 16,395
Realized gains	33,672	17,463
Unrealized losses	(2,608)	(59,564)
	<u>\$ 51,865</u>	<u>\$ (25,706)</u>

Note 3. Pledges Receivable

Pledges receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at fair value, which is measured at present value of the future cash flows. The discounts (if any) on those amounts are computed using risk-adjusted interest rates applicable to the years in which the pledges are received. Amortization of the discounts is included in the gifts and contributions revenue in the statements of activities.

All pledges receivable were expected to be collected within one year at December 31, 2016.

Note 4. Temporarily Restricted Net Assets

HW's temporarily restricted net assets consist of the following at December 31:

	2016	2015
Time-restricted pledges	\$ 53,478	\$ 146,709
Family Reading program	150,168	69,189
Endowment fund earnings	56,384	36,816
Speakers Bureau program	30,939	59,998
Center for Washington Cultural Traditions	26,836	
Poet Laureate program	17,460	20,073
Pulitzer Centennial		40,000
Other		1,500
	<u>\$ 335,265</u>	<u>\$ 374,285</u>

Note 5. Permanently Restricted Net Assets

HW had \$261,583 of permanently restricted net assets at both December 31, 2016 and 2015. Two of HW's permanently restricted net assets place restrictions on their earnings. The income earned on the remaining general endowment balance is temporarily restricted until appropriated for expenditure by the Board of Trustees. The income earned on the Frank Family Endowment balance of \$40,000 at December 31, 2016 and 2015, is restricted to the annual Humanities Washington Award. The income earned on the Washington Stories Fund Endowment balance of \$100,000 at both December 31, 2016 and 2015, is restricted to the annual Washington Stories Fund grant. The restricted income was immaterial for both 2016 and 2015.

Note 6. Operating Lease

HW leases office space under a noncancelable lease that expires on November 30, 2021. Rent payments escalate over the term of the lease and are included in the future minimum rental payment schedule below.

HW leased office space under a different lease that was terminated on November 1, 2016. This lease included incentives to HW for tenant improvement allowances. HW recorded all incentives received as deferred lease incentives. Upon termination of the old lease, HW wrote off the remaining deferred lease incentives. Deferred rent expense of \$12,654 and deferred lease incentives of \$35,729 were netted against rent expense on the statement of activities.

Rent expense amounted to \$20,206 and \$58,927 for the years ended December 31, 2016 and 2015, respectively.

Future minimum rental payments are as follows for the years ending December 31:

2017	\$	45,694
2018		47,064
2019		48,477
2020		49,932
2021		47,026
		<hr/>
	\$	238,193
		<hr/> <hr/>

Note 7. Contingencies

HW currently receives a substantial amount of its support and revenue from the NEH (61% in 2016 and 60% in 2015). A significant reduction in the level of this support, if this were to occur, may have a significant adverse effect on HW's programs. The grants from the NEH require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of funds to the NEH.

Note 8. Employee Benefit Plan

HW offers a deferred compensation plan under Section 403(b) of the Internal Revenue Code to all full-time employees. HW made contributions to the plan of up to 6% of each full-time employee's gross annual income for the years ended December 31, 2016 and 2015. Total expenses for the years ended December 31, 2016 and 2015, under this plan were \$27,664 and \$28,186, respectively.

Note 9. Donated Goods and Services

Revenue and expenses are recognized for the estimated fair value of goods and services contributed by donors in support of HW. For the year ended December 31, 2016, HW received support and revenue from donated goods and services valued at \$39,021 (\$45,984 for the year ended December 31, 2015), which is included in gifts and contributions in the accompanying statements of activities. For the year ended December 31, 2016, HW received \$11,682 in donated services and \$27,339 in donated goods. For the year ended December 31, 2015, HW received \$20,648 in donated services and \$25,336 in donated goods. These items consist primarily of donated professional services, software licenses, and travel expenses.

Note 10. Special Events

During the years ended December 31, 2016 and 2015, HW held fundraising events that resulted in revenue of \$178,206 and \$161,484, respectively, and incurred expenses of \$67,359 and \$63,028, respectively. The revenues are included in gifts and contributions and the expenses are included in fundraising expense.

Note 11. Endowment

HW's endowment consists of various funds established for the purpose of providing long-term stability for HW. The endowment is comprised of donor-restricted endowment funds. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of HW has interpreted the State of Washington Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, HW classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, plus (b) the original value of subsequent gifts to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets (if any) is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by HW in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, HW considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the endowment fund,
- The purposes of HW and the donor-restricted endowment fund,
- General economic conditions,
- The possible effects of inflation or deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of HW, and
- The investment policies of HW.

As of December 31, 2016, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 56,384	\$ 261,583	\$ 317,967

As of December 31, 2015, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 36,816	\$ 261,583	\$ 298,399

Changes to endowment net assets for the year ended December 31, 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2015	\$ -	\$ 36,816	\$ 261,583	\$ 298,399
Endowment investment return				
Realized and unrealized gain		19,568		19,568
Total endowment investment return		19,568		19,568
Endowment net assets, December 31, 2016	\$ -	\$ 56,384	\$ 261,583	\$ 317,967

Changes to endowment net assets for the year ended December 31, 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2014	\$ -	\$ 50,867	\$ 261,583	\$ 312,450
Endowment investment return				
Realized and unrealized loss		(14,051)		(14,051)
Total endowment investment return		(14,051)		(14,051)
Endowment net assets, December 31, 2015	\$ -	\$ 36,816	\$ 261,583	\$ 298,399

Return Objectives and Risk Parameters

HW has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that HW must hold in perpetuity or for donor-specified periods, as well as board-designated funds. HW expects its endowment funds, over time, to provide an average rate of return of approximately 8% annually based upon a three-year rolling average. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, HW 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). HW targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The target allocations are as follows:

Equities	45% - 65%
Fixed income	35% - 55%
Short-term reserves	0% - 10%
Alternative investments	0% - 5%

Spending Policy and How the Investment Objectives Relate to Spending Policy

HW may appropriate for distribution up to 5% of the rolling average of the fair value of endowment funds for the preceding 16 quarters depending on forecasted annual spending requirements. When setting this maximum annual appropriation, HW considered the long-term expected return on its endowment. Accordingly, over the long term, HW expects the current spending plan to allow its endowment to grow at an average of 3% annually. This is consistent with HW's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires HW to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2016 or 2015.

SUPPLEMENTARY REPORTS AND
SCHEDULES IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
AND THE UNIFORM GUIDANCE

**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
Humanities Washington
Seattle, Washington

We have audited in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Humanities Washington ("HW"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 18, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Peterson Sullivan LLP

May 18, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees
Humanities Washington
Seattle, Washington

Report on Compliance for Each Major Federal Program

We have audited Humanities Washington's ("HW") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of HW's major federal programs for the year ended December 31, 2016. HW's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, HW complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Peterson Sullivan LLP

May 18, 2017

HUMANITIES WASHINGTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2016

<u>Federal Assistance Description</u>	<u>CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditures</u>
National Endowment for the Humanities			
Promotion of the Humanities - Federal/State Partnership*	45.129	SO-226610-15	\$ 838,146
Total National Endowment for the Humanities			838,146
			<u>\$ 838,146</u>

* Denotes major program

See Notes to Schedule of Expenditures of Federal Awards

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of Humanities Washington ("HW") under programs of the federal government for the year ended December 31, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("the Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of HW, it is not intended to and does not present the financial position, changes in net assets, or cash flows of HW.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Expenditures reported on the Schedule are recognized following the cost principles contained in the Uniform Guidance.

Note 3. Indirect Cost Rate

HW has elected not to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance.

HUMANITIES WASHINGTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2016

A. Summary of Audit Results

Financial Statements:

Type of auditors' report issued: Unmodified

Internal Control Over Financial Reporting:

Material weaknesses identified: None
Significant deficiencies identified not considered to be material weaknesses: None reported
Noncompliance material to financial statements noted: None

Federal Awards:

Material weaknesses identified: None
Significant deficiencies identified not considered to be material weaknesses: None reported
Type of auditors' report issued on compliance for major programs: Unmodified
Any audit findings disclosed that are required to be reported: None

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
45.129	Promotion of the Humanities - Federal/State Partnership

Dollar threshold used to distinguish between Type A and B programs: \$ 750,000

Auditee qualified as low-risk auditee: Yes

B. Findings - Financial Statement Audit None

C. Findings and Questioned Costs - Major Federal Award Programs Audit None