

HUMANITIES WASHINGTON

FINANCIAL REPORT

DECEMBER 31, 2013

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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, 2013 and 2012, 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.

Auditors' 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, 2013 and 2012, 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 - Schedule of Expenditures of Federal Awards

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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards 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 22, 2014, 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 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 Sullin LLP". The signature is written in a cursive, flowing style.

May 22, 2014

HUMANITIES WASHINGTON

STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and cash equivalents	\$ 392,036	\$ 324,087
Investments	442,023	460,776
Current portion - pledges receivable	62,695	18,426
Grants and other receivables	9,117	14,138
Deposits and prepaid expenses	<u>37,096</u>	<u>24,932</u>
Total current assets	942,967	842,359
Furniture and Equipment, at cost	147,403	119,794
Tenant Improvements, at cost	71,147	39,696
Less Accumulated Depreciation	<u>(85,747)</u>	<u>(97,556)</u>
Net property and equipment	132,803	61,934
Endowment Investments	206,479	165,543
Pledges Receivable	10,060	
Pledges Receivable Restricted for the Endowment	<u>68,000</u>	
Total assets	<u>\$ 1,360,309</u>	<u>\$ 1,069,836</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 6,180	\$ 12,584
Accrued expenses	15,631	20,077
Grants payable	<u>45,047</u>	<u>105,003</u>
Total current liabilities	66,858	137,664
Deferred Rent	<u>66,385</u>	<u>4,967</u>
Total liabilities	133,243	142,631
Net Assets		
Unrestricted	716,919	657,671
Temporarily restricted	273,401	127,951
Permanently restricted	<u>236,746</u>	<u>141,583</u>
Total net assets	<u>1,227,066</u>	<u>927,205</u>
Total liabilities and net assets	<u>\$ 1,360,309</u>	<u>\$ 1,069,836</u>

See Notes to Financial Statements

HUMANITIES WASHINGTON

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2013 and 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue								
Grants	\$ 786,750	\$ 59,360	\$ -	\$ 846,110	\$ 795,221	\$ 22,938	\$ -	\$ 818,159
Gifts and contributions	190,948	278,430	95,163	564,541	156,921	212,870		369,791
Other income	5,756			5,756	15,401			15,401
Net assets released from restrictions	213,276	(213,276)			216,236	(212,856)	(3,380)	
Total support and revenue	1,196,730	124,514	95,163	1,416,407	1,183,779	22,952	(3,380)	1,203,351
Operating Expenses								
Program services								
Grants	185,873			185,873	189,349			189,349
Speakers Bureau	160,681			160,681	157,580			157,580
Family Reading	135,411			135,411	134,239			134,239
Traveling Exhibits	91,508			91,508	89,000			89,000
Think & Drink Conversation Program	98,503			98,503	85,944			85,944
Other programs	159,979			159,979	168,475			168,475
Total program services	831,955			831,955	824,587			824,587
Support services								
General and administrative	105,189			105,189	98,249			98,249
Fundraising	236,770			236,770	222,550			222,550
Total support services	341,959			341,959	320,799			320,799
Total expenses	1,173,914			1,173,914	1,145,386			1,145,386
Change in net assets before investment income	22,816	124,514	95,163	242,493	38,393	22,952	(3,380)	57,965
Investment income	36,432	20,936		57,368	47,951	18,091		66,042
Change in net assets	59,248	145,450	95,163	299,861	86,344	41,043	(3,380)	124,007
Net assets, beginning of year	657,671	127,951	141,583	927,205	571,327	86,908	144,963	803,198
Net assets, end of year	<u>\$ 716,919</u>	<u>\$ 273,401</u>	<u>\$ 236,746</u>	<u>\$ 1,227,066</u>	<u>\$ 657,671</u>	<u>\$ 127,951</u>	<u>\$ 141,583</u>	<u>\$ 927,205</u>

See Notes to Financial Statements

HUMANITIES WASHINGTON

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2013

	Program Services						Support Services				Total
	Grants	Speakers Bureau	Family Reading	Traveling Exhibits	Think & Drink	Other Programs	Total Program Services	General and Administrative	Fundraising	Total Support Services	
Personnel	\$ 65,850	\$ 65,933	\$ 66,625	\$ 58,214	\$ 62,367	\$ 81,712	\$ 400,701	\$ 44,458	\$ 117,203	\$ 161,661	\$ 562,362
Projects/special events		68,091	43,540	10,955	13,408	17,670	153,664		60,243	60,243	213,907
Grants	96,770						96,770				96,770
Office rent	7,349	7,370	7,428	6,616	6,890	8,855	44,508	4,666	12,441	17,107	61,615
Dues and fees	7,506	5,246	5,008	4,789	4,751	9,686	36,986	3,112	10,480	13,592	50,578
Professional fees	710	716	582	650	510	8,498	11,666	21,189	10,370	31,559	43,225
Depreciation and amortization	4,077	4,077	4,077	4,077	4,077	8,151	28,536	4,077	4,077	8,154	36,690
Miscellaneous operating	3,024	2,921	2,913	2,580	2,784	7,453	21,675	7,322	5,484	12,806	34,481
Printing and postage	412	5,058	1,019	1,856	616	10,410	19,371	370	8,938	9,308	28,679
Other travel	175	1,269	4,219	1,579	3,100	6,109	16,451	3,528	7,053	10,581	27,032
Board travel and meetings				192		1,435	1,627	16,467	481	16,948	18,575
Total expenses	\$ 185,873	\$ 160,681	\$ 135,411	\$ 91,508	\$ 98,503	\$ 159,979	\$ 831,955	\$ 105,189	\$ 236,770	\$ 341,959	\$ 1,173,914

See Notes to Financial Statements

HUMANITIES WASHINGTON

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2012

	Program Services						Support Services				Total
	Grants	Speakers Bureau	Family Reading	Traveling Exhibits	Think & Drink	Other Programs	Total Program Services	General and Administrative	Fundraising	Total Support Services	
Personnel	\$ 68,373	\$ 75,958	\$ 60,712	\$ 56,642	\$ 55,245	\$ 91,892	\$ 408,822	\$ 44,107	\$ 92,250	\$ 136,357	\$ 545,179
Projects/special events		54,129	51,008	15,934	9,253	17,390	147,714		63,562	63,562	211,276
Grants	100,069						100,069				100,069
Office rent	5,873	6,816	5,325	4,027	4,878	8,403	35,322	4,043	8,348	12,391	47,713
Dues and fees	7,283	4,883	4,773	4,408	4,336	11,600	37,283	2,652	9,585	12,237	49,520
Professional fees	111	480	90	140	87	682	1,590	19,366	17,055	36,421	38,011
Depreciation and amortization	2,835	2,835	2,835	2,835	2,835	5,671	19,846	2,835	2,835	5,670	25,516
Miscellaneous operating	3,529	4,022	2,849	2,787	2,947	18,107	34,241	7,309	5,369	12,678	46,919
Printing and postage	467	4,669	588	406	2,945	6,363	15,438	274	14,529	14,803	30,241
Other travel	809	2,064	6,059	1,821	2,938	6,965	20,656	4,116	8,807	12,923	33,579
Board travel and meetings		1,724			480	1,402	3,606	13,547	210	13,757	17,363
Total expenses	\$ 189,349	\$ 157,580	\$ 134,239	\$ 89,000	\$ 85,944	\$ 168,475	\$ 824,587	\$ 98,249	\$ 222,550	\$ 320,799	\$ 1,145,386

See Notes to Financial Statements

HUMANITIES WASHINGTON

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ 299,861	\$ 124,007
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	36,690	25,516
Realized gain on investments	(12,930)	(5,019)
Unrealized investment gain	(28,727)	(44,543)
Contributions to permanent endowment	(20,000)	
Change in operating assets and liabilities		
Pledges, grants, and other receivables	(117,308)	(24,755)
Deposits and prepaid expenses	(12,164)	(430)
Accounts payable	(6,404)	6,823
Accrued expenses	(4,446)	(1,481)
Grants payable	(59,956)	45,040
Deferred rent	168	(8,288)
	74,784	116,870
Net cash flows from operating activities	74,784	116,870
Cash Flows Used for Investing Activities		
Purchases of property and equipment	(46,309)	(35,690)
Purchases of investments	(75,112)	(58,364)
Proceeds from sale of investments	94,586	36,520
	(26,835)	(57,534)
Net cash flows used for investing activities	(26,835)	(57,534)
Cash Flows from Financing Activity		
Cash receipts on permanent endowment contributions	20,000	
	20,000	
Net change in cash and cash equivalents	67,949	59,336
Cash and cash equivalents, beginning of year	324,087	264,751
Cash and cash equivalents, end of year	\$ 392,036	\$ 324,087
Non Cash Investing Activity		
Leasehold improvements funded by landlord	\$ 61,250	\$ -

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 its 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 work 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 programs of HW are:

Grants – Through a small re-grants program, HW awards NEH funds to support programs across the state which use the humanities as a launchpoint 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.

Speakers Bureau – Speakers travel the state to present lectures and lead discussions on subjects including popular culture, photojournalism, poetry, architecture, literature, and history. Speakers are carefully selected based on their expertise and ability to deliver fascinating content and insight, appealing to and inspiring audiences of all ages and backgrounds. During the years ended December 31, 2013 and 2012, HW sponsored 233 and 165 Speakers Bureau programs, respectively.

Family Reading – HW's family reading program nurtures reading skills, creates a pre-disposition 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, typically from low-income communities.

Traveling Exhibits – HW brings exhibits from regional and national museums, including the Smithsonian, to unlikely places in Washington State, ranging from small, rural communities to urban shopping malls. The exhibits, which are complemented by local programming that encourages dialogue and discussion about the themes presented, expose new audiences to local, state, and national history, and serve to enhance the vitality of local cultural organizations.

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

Other Programs – HW sponsors the Washington State Poet Laureate in partnership with ArtsWA, formerly known as the Washington State Arts Commission. The poet laureate serves a two-year term and builds awareness and appreciation of 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, to an individual or organization for exemplary contributions to the public humanities.

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 measured 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.

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

Concentrations of Credit Risk

Financial instruments which potentially subject HW to concentrations of credit risk consist of cash, investments, and pledges, grants, and other receivables. Receivables are principally from federal and state governments, as well as private individuals. At December 31, 2013, 71% of pledges receivable are due from two donors. There was no similar concentration in 2012.

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, 2013 or 2012.

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 93% and 97% of grant revenue for 2013 and 2012, respectively. One foundation accounted for 17% of total gifts and contributions for 2013. There was no similar concentration in 2012.

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. Tax years that remain subject to examination by federal authorities are the years ended 2010 through 2013.

Subsequent Events

HW has evaluated subsequent events through the date these financial statements were available to be issued, which was the same date as the independent auditors' report.

Reclassifications

Certain balances have been reclassified in the prior year financial statements in order to conform to current year presentation.

Note 2. Investments

Investments consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Money Market	\$ 3,702	\$ 1,990
Exchange Traded Funds		
Foreign Large Growth and Value	111,826	103,489
Intermediate-Term Bond	96,781	116,550
Long-Term Bond	91,057	80,096
Large Value	84,180	78,829
Large Growth	76,766	69,614
World Bond	55,377	70,952
Inflation-Protected Bond	28,464	27,196
Commodities Broad Basket	19,331	18,317
Diversified Emerging Markets	18,636	17,545
Small Growth	16,511	14,779
Small Value	16,358	14,893
Emerging Markets Bond	16,245	
Large Blend	13,268	12,069
	<u>\$ 648,502</u>	<u>\$ 626,319</u>

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

	2013	2012
Unrestricted	\$ 442,023	\$ 460,776
Endowment	206,479	165,543
	<u>\$ 648,502</u>	<u>\$ 626,319</u>

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

	2013	2012
Interest and dividends	\$ 15,711	\$ 16,480
Realized gains	12,930	5,019
Unrealized gains	28,727	44,543
	<u>\$ 57,368</u>	<u>\$ 66,042</u>

Note 3. Temporarily Restricted Net Assets

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

	2013	2012
Family Reading program	\$ 139,535	\$ 32,608
Endowment funds	44,896	23,960
Speakers Bureau program	35,000	45,884
Poet Laureate program	28,715	
Time-restricted pledges	22,755	18,426
Other	2,500	7,073
	<u>\$ 273,401</u>	<u>\$ 127,951</u>

Included in the Family Reading program restrictions at December 31, 2013, are \$50,000 that are also time restricted for use in 2014 and 2015.

Note 4. Permanently Restricted Net Assets

At December 31, 2013 and 2012, HW had \$236,746 and \$141,583 of permanently restricted net assets, respectively. The income earned on the Frank Family Endowment balance of \$40,000 at December 31, 2013 and \$20,000 at December 31, 2012, is restricted to the annual Humanities Washington Award. The income earned on the Washington Stories Fund Endowment balance of \$75,163 at December 31, 2013 and nil at December 31, 2012, is restricted to the annual Washington Stories Fund grant. The restricted income was immaterial for both 2013 and 2012. The income earned on the remaining general endowment balance is temporarily restricted until appropriated for expenditure by the Board of Trustees. During 2012, HW obtained donor approval to release \$3,380 from permanently restricted net assets for use on the poet laureate program.

Note 5. Operating Lease

In March 2013, HW signed an operating lease for new office space for the period from May 15, 2013 through May 31, 2019. Rent under the new lease is included in the future minimum rental payment schedule below. HW records rent expense on a straight-line basis over the term of the lease. Lease payments escalate over the term of the lease, which creates a liability called "deferred rent." Rental expense amounted to \$61,615 and \$47,713 for the years ended December 31, 2013 and 2012, respectively. Future minimum rental payments for the years ended December 31 are as follows:

2014	\$	41,007
2015		42,844
2016		44,682
2017		46,519
2018		48,357
Thereafter		<u>20,468</u>
	\$	<u><u>243,877</u></u>

Note 6. Contingencies

HW currently receives a substantial amount of its support and revenue from the NEH (56% in 2013 and 66% in 2012). 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 7. 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, 2013 and 2012. Total expenses for the years ended December 31, 2013 and 2012, under this plan were \$26,206 and \$23,916, respectively.

Note 8. 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, 2013, HW received support and revenue from donated goods and services valued at \$43,900 (\$52,099 for the year ended December 31, 2012), which is included in gifts and contributions in the accompanying statements of activities. For the year ended December 31, 2013, HW received \$17,689 in donated services and \$26,211 in donated goods. For the year ended December 31, 2012, HW received \$15,026 in donated services and \$37,073 in donated goods. These items consist primarily of donated professional services, software licenses, and shipping services.

Note 9. Special Events

During the years ended December 31, 2013 and 2012, HW had fundraising events that resulted in revenue of \$174,283 and \$180,563, and had expenses of \$67,688 and \$81,559, respectively. The revenues are included in gifts and contributions and the expenses are included in fundraising expense.

Note 10. 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
- The investment policies of HW

As of December 31, 2013, 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	\$ -	\$ 44,896	\$ 161,583	\$ 206,479

As of December 31, 2012, 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	\$ -	\$ 23,960	\$ 141,583	\$ 165,543

Changes to endowment net assets for the year ended December 31, 2013, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2012	\$ -	\$ 23,960	\$ 141,583	\$ 165,543
Endowment investment return				
Interest and dividends		4,259		4,259
Realized and unrealized gains		16,677		16,677
Total endowment investment return		20,936		20,936
Contributions			20,000	20,000
Endowment net assets, December 31, 2013	\$ -	\$ 44,896	\$ 161,583	\$ 206,479

Changes to endowment net assets for the year ended December 31, 2012, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2011	\$ -	\$ 5,869	\$ 144,963	\$ 150,832
Endowment investment return				
Interest and dividends		3,976		3,976
Realized and unrealized gains		14,115		14,115
Total endowment investment return		18,091		18,091
Release of donor restrictions on permanently restricted endowment funds			(3,380)	(3,380)
Endowment net assets, December 31, 2012	\$ -	\$ 23,960	\$ 141,583	\$ 165,543

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 10% 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	50%
Fixed income	45%
Short-term reserves	5%

Spending Policy and How the Investment Objectives Relate to Spending Policy

HW periodically appropriates 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 5% 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, 2013 or 2012.

Note 11. 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. A discount was calculated at December 31, 2013, but was considered immaterial (and, therefore, was not recognized).

	<u>2013</u>	<u>2012</u>
Amounts due in:		
Less than one year	\$ 130,695	\$ 18,426
One to two years	<u>10,060</u>	
	140,755	<u>18,426</u>
Less: Long-term portion	10,060	
Less: Pledges receivable restricted for endowment	<u>68,000</u>	
Current portion - pledges receivable	<u><u>\$ 62,695</u></u>	<u><u>\$ 18,426</u></u>

S U P P L E M E N T A R Y R E P O R T S A N D
S C H E D U L E S I N A C C O R D A N C E W I T H
G O V E R N M E N T A U D I T I N G S T A N D A R D S
A N D O M B C I R C U L A R A - 1 3 3

**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, 2013, 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 22, 2014.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of HW'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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Petersen Sullivan LLP.

May 22, 2014

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

To the Board of Trustees
Humanities Washington
Seattle, Washington

We have audited Humanities Washington's ("HW") compliance 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 HW's major federal programs for the year ended December 31, 2013. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 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 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 the 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, 2013.

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 OMB Circular A-133, 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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Peterson Sullin LLP

May 22, 2014

HUMANITIES WASHINGTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

<u>Federal Assistance Description</u>	<u>CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditures</u>
National Endowment for the Arts			
<i>Passthrough from Washington State Arts Commission</i>			
Promotion of the Arts - Partnership Agreements	45.025	13-6100-2025	\$ 7,000
Total National Endowment for the Arts			7,000
National Endowment for the Humanities			
Promotion of the Humanities - Federal/State Partnership*	45.129	SO-50510-12	777,530
<i>Passthrough from Louisiana Endowment for the Humanities</i>			
Promotion of the Humanities - Public Program	45.164		19,899
Total National Endowment for the Humanities			797,429
			<u>\$ 804,429</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, 2013. 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*. 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. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Pass through entity identifying numbers are presented where available.

Note 3. Subrecipients

Included in the accompanying schedule are the following amounts passed through by HW to subrecipients:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided</u>
45.129	Promotion of the Humanities – Federal/State Partnership	\$ 155,504

HUMANITIES WASHINGTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2013

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: \$ 300,000

Auditee qualified as low-risk auditee: Yes

B. Findings - Financial Statement Audit: None

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