

**HUMANITIES WASHINGTON**

FINANCIAL REPORT

DECEMBER 31, 2014

**C O N T E N T S**

	<b>Page</b>
<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>1 and 2</b>
<b>FINANCIAL STATEMENTS</b>	
STATEMENTS OF FINANCIAL POSITION .....	3
STATEMENTS OF ACTIVITIES.....	4
STATEMENT OF FUNCTIONAL EXPENSES - 2014 .....	5
STATEMENT OF FUNCTIONAL EXPENSES - 2013 .....	6
STATEMENTS OF CASH FLOWS.....	7
NOTES TO FINANCIAL STATEMENTS .....	8 - 17
<b>SUPPLEMENTARY REPORTS AND SCHEDULES IN ACCORDANCE WITH <i>GOVERNMENT</i></b>	
<b><i>AUDITING STANDARDS AND OMB CIRCULAR A-133</i></b>	
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL</b>	
<b>REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF</b>	
<b>FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i></b>	
<b><i>AUDITING STANDARDS</i> .....</b>	<b>19 and 20</b>
<b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL</b>	
<b>PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB</b>	
<b>CIRCULAR A-133 .....</b>	<b>21 and 22</b>
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	23
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	24
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	25

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, 2014 and 2013, 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, 2014 and 2013, 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 2014 audit was 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 Non-profit 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 21, 2015, 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.

*Peterson Sullin LLP.*

May 21, 2015

## HUMANITIES WASHINGTON

### STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and cash equivalents	\$ 473,312	\$ 392,036
Investments	447,518	442,023
Current portion - pledges receivable	121,618	62,695
Grants and other receivables	2,104	9,117
Deposits and prepaid expenses	<u>30,430</u>	<u>37,096</u>
Total current assets	1,074,982	942,967
Furniture and Equipment, at cost	149,782	147,403
Tenant Improvements, at cost	71,147	71,147
Less Accumulated Depreciation	<u>(107,461)</u>	<u>(85,747)</u>
Net property and equipment	113,468	132,803
Endowment Investments	312,450	206,479
Pledges Receivable	100,000	10,060
Pledges Receivable Restricted for the Endowment	<u>        </u>	<u>68,000</u>
Total assets	<u>\$ 1,600,900</u>	<u>\$ 1,360,309</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 26,366	\$ 6,180
Accrued expenses	16,583	15,631
Grants payable	<u>46,402</u>	<u>45,047</u>
Total current liabilities	89,351	66,858
Deferred Rent	<u>58,303</u>	<u>66,385</u>
Total liabilities	147,654	133,243
Net Assets		
Unrestricted	761,153	716,919
Temporarily restricted	430,510	273,401
Permanently restricted	<u>261,583</u>	<u>236,746</u>
Total net assets	<u>1,453,246</u>	<u>1,227,066</u>
Total liabilities and net assets	<u>\$ 1,600,900</u>	<u>\$ 1,360,309</u>

See Notes to Financial Statements

## HUMANITIES WASHINGTON

### STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2014 and 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue								
Grants	\$ 709,280	\$ 20,938	\$ -	\$ 730,218	\$ 786,750	\$ 59,360	\$ -	\$ 846,110
Gifts and contributions	97,135	535,817	24,837	657,789	190,948	278,430	95,163	564,541
Other income	3,272			3,272	5,756			5,756
Net assets released from restrictions	405,617	(405,617)			213,276	(213,276)		
Total support and revenue	1,215,304	151,138	24,837	1,391,279	1,196,730	124,514	95,163	1,416,407
Operating Expenses								
Program services								
Grants	153,635			153,635	185,873			185,873
Speakers Bureau	154,401			154,401	160,681			160,681
Family Reading	224,713			224,713	135,411			135,411
Traveling Exhibits	59,174			59,174	91,508			91,508
Think & Drink Conversation Programs	92,053			92,053	98,503			98,503
Other programs	144,649			144,649	159,979			159,979
Total program services	828,625			828,625	831,955			831,955
Support services								
General and administrative	123,699			123,699	105,189			105,189
Fundraising	241,969			241,969	236,770			236,770
Total support services	365,668			365,668	341,959			341,959
Total expenses	1,194,293			1,194,293	1,173,914			1,173,914
Change in net assets before investment income	21,011	151,138	24,837	196,986	22,816	124,514	95,163	242,493
Investment income	23,223	5,971		29,194	36,432	20,936		57,368
<b>Change in net assets</b>	<b>44,234</b>	<b>157,109</b>	<b>24,837</b>	<b>226,180</b>	<b>59,248</b>	<b>145,450</b>	<b>95,163</b>	<b>299,861</b>
Net assets, beginning of year	716,919	273,401	236,746	1,227,066	657,671	127,951	141,583	927,205
Net assets, end of year	<u>\$ 761,153</u>	<u>\$ 430,510</u>	<u>\$ 261,583</u>	<u>\$ 1,453,246</u>	<u>\$ 716,919</u>	<u>\$ 273,401</u>	<u>\$ 236,746</u>	<u>\$ 1,227,066</u>

See Notes to Financial Statements

## HUMANITIES WASHINGTON

### STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2014

	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	\$ 57,905	\$ 63,241	\$ 76,198	\$ 39,403	\$ 59,525	\$ 58,235	\$ 354,507	\$ 62,273	\$ 134,234	\$ 196,507	\$ 551,014
Projects/special events	76	65,313	118,668	4,101	12,009	26,789	226,956		51,158	51,158	278,114
Grants	74,370						74,370				74,370
Office rent	5,593	5,958	7,676	3,966	5,933	5,782	34,908	6,358	13,010	19,368	54,276
Dues and fees	6,990	4,159	4,942	3,734	4,090	15,579	39,494	2,459	9,317	11,776	51,270
Miscellaneous operating	4,455	4,595	5,441	2,743	4,271	7,086	28,591	10,503	10,217	20,720	49,311
Other travel	1,028	1,597	7,917	1,767	1,679	8,707	22,695	2,785	5,877	8,662	31,357
Professional fees								18,098	10,205	28,303	28,303
Printing and postage	245	5,189	898	487	1,573	13,701	22,093	248	4,708	4,956	27,049
Depreciation and amortization	2,973	2,973	2,973	2,973	2,973	5,947	20,812	2,973	2,973	5,946	26,758
Board travel and meetings		1,376				2,823	4,199	18,002	270	18,272	22,471
<b>Total expenses</b>	<b>\$ 153,635</b>	<b>\$ 154,401</b>	<b>\$ 224,713</b>	<b>\$ 59,174</b>	<b>\$ 92,053</b>	<b>\$ 144,649</b>	<b>\$ 828,625</b>	<b>\$ 123,699</b>	<b>\$ 241,969</b>	<b>\$ 365,668</b>	<b>\$ 1,194,293</b>

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
Miscellaneous operating	3,024	2,921	2,913	2,580	2,784	7,453	21,675	7,322	5,484	12,806	34,481
Other travel	175	1,269	4,219	1,579	3,100	6,109	16,451	3,528	7,053	10,581	27,032
Professional fees	710	716	582	650	510	8,498	11,666	21,189	10,370	31,559	43,225
Printing and postage	412	5,058	1,019	1,856	616	10,410	19,371	370	8,938	9,308	28,679
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
Board travel and meetings				192		1,435	1,627	16,467	481	16,948	18,575
<b>Total expenses</b>	<b>\$ 185,873</b>	<b>\$ 160,681</b>	<b>\$ 135,411</b>	<b>\$ 91,508</b>	<b>\$ 98,503</b>	<b>\$ 159,979</b>	<b>\$ 831,955</b>	<b>\$ 105,189</b>	<b>\$ 236,770</b>	<b>\$ 341,959</b>	<b>\$ 1,173,914</b>

See Notes to Financial Statements



## HUMANITIES WASHINGTON

### STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ 226,180	\$ 299,861
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	26,758	36,690
Realized gain on investments	(5,555)	(12,930)
Unrealized investment gain	(6,289)	(28,727)
Contributions to permanent endowment	(24,837)	(20,000)
Change in operating assets and liabilities		
Pledges, grants, and other receivables	(141,850)	(117,308)
Deposits and prepaid expenses	6,666	(12,164)
Accounts payable	20,186	(6,404)
Accrued expenses	952	(4,446)
Grants payable	1,355	(59,956)
Deferred rent	(8,082)	168
	95,484	74,784
Net cash flows from operating activities	95,484	74,784
Cash Flows Used by Investing Activities		
Purchases of property and equipment	(7,423)	(46,309)
Purchases of investments	(121,712)	(75,112)
Proceeds from sale of investments	14,927	94,586
	(114,208)	(26,835)
Net cash flows used by investing activities	(114,208)	(26,835)
Cash Flows from Financing Activity		
Cash receipts on permanent endowment contributions	100,000	20,000
	100,000	20,000
<b>Net change in cash and cash equivalents</b>	<b>81,276</b>	<b>67,949</b>
Cash and cash equivalents, beginning of year	392,036	324,087
	392,036	324,087
Cash and cash equivalents, end of year	\$ 473,312	\$ 392,036
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 their residents, provides opportunities for people to gather and learn more about their unique pasts 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 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.

*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 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 elementary school-aged 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 storefronts in 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/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.

## **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.

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, and pledges, grants, and other receivables. HW monitors its FDIC insurance limits and seldom has cash above insured amounts. Investments are subject to SIPC insurance limits. Receivables are principally from federal and state governments, as well as private individuals. At December 31, 2014, 91% of pledges receivable were due from one donor. At December 31, 2013, 71% of pledges receivable 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, 2014 or 2013.

## **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 97% and 93% of grant revenue for 2014 and 2013, respectively. One foundation accounted for 46% and 17% of total gifts and contributions for 2014 and 2013, 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. Tax years that remain subject to examination by federal authorities are the years ended 2011 through 2014.

### **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:

	2014	2013
Money Market	\$ 4,422	\$ 3,702
Fixed Income		
Intermediate-Term Bond	120,836	96,781
Long-Term Bond	113,679	91,057
World Bond	63,918	55,377
Inflation-Protected Bond	35,059	28,464
	<u>333,492</u>	<u>271,679</u>
Equity		
Foreign Large Growth and Value	118,887	111,826
Large Value	101,763	84,180
Large Growth	90,819	76,766
Diversified Emerging Markets	19,730	18,636
Small Value	19,356	16,358
Small Growth	18,765	16,511
Commodities Broad Basket	18,723	19,331
Emerging Markets Bond	18,346	16,245
Large Blend	15,665	13,268
	<u>422,054</u>	<u>373,121</u>
	<u>\$ 759,968</u>	<u>\$ 648,502</u>

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

	2014	2013
Unrestricted	\$ 447,518	\$ 442,023
Endowment	312,450	206,479
	<u>\$ 759,968</u>	<u>\$ 648,502</u>

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

	2014	2013
Interest and dividends	\$ 17,350	\$ 15,711
Realized gains	5,555	12,930
Unrealized gains	6,289	28,727
	<u>\$ 29,194</u>	<u>\$ 57,368</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. A discount was calculated at both December 31, 2014 and 2013, but was considered immaterial (and, therefore, was not recognized).

	2014	2013
Amounts due in:		
Less than one year	\$ 121,618	\$ 130,695
One to two years	100,000	10,060
	<u>221,618</u>	<u>140,755</u>
Less: Long-term portion	100,000	10,060
Less: Pledges receivable restricted for endowment		68,000
Current portion - pledges receivable	<u>\$ 121,618</u>	<u>\$ 62,695</u>

### Note 4. Temporarily Restricted Net Assets

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

	2014	2013
Time-restricted pledges	\$ 211,618	\$ 22,755
Family Reading program	99,399	139,535
Endowment funds	50,867	44,896
Speakers Bureau program	45,938	35,000
Poet Laureate program	22,688	28,715
Other		2,500
	<u>\$ 430,510</u>	<u>\$ 273,401</u>

Included in the Family Reading program restrictions at December 31, 2014, is \$10,000 that is also time restricted for use in 2015.

### Note 5. Permanently Restricted Net Assets

At December 31, 2014 and 2013, HW had \$261,583 and \$236,746 of permanently restricted net assets, respectively. The income earned on the Frank Family Endowment balance of \$40,000 at December 31, 2014 and 2013, is restricted to the annual Humanities Washington Award. The income earned on the Washington Stories Fund Endowment balance of \$100,000 at December 31, 2014, and \$75,163 at December 31, 2013, is restricted to the annual Washington Stories Fund grant. The restricted income was immaterial for both 2014 and 2013. The income earned on the remaining general endowment balance is temporarily restricted until appropriated for expenditure by the Board of Trustees.

**Note 6. 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. Certain leasehold improvements were paid for by the landlord. In addition, lease payments escalate over the term of the lease. The funded tenant improvements and the escalating rent have created a liability called "deferred rent." This liability will be amortized against rent expense over the lease term. Rental expense amounted to \$54,276 and \$61,615 for the years ended December 31, 2014 and 2013, respectively. Future minimum rental payments for the years ending December 31 are as follows:

2015	\$	42,844
2016		44,682
2017		46,519
2018		48,357
2019		20,468
		<hr/>
	\$	<u>202,870</u>

**Note 7. Contingencies**

HW currently receives a substantial amount of its support and revenue from the NEH (51% in 2014 and 56% in 2013). 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, 2014 and 2013. Total expenses for the years ended December 31, 2014 and 2013, under this plan were \$24,755 and \$26,206, 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, 2014, HW received support and revenue from donated goods and services valued at \$45,049 (\$43,900 for the year ended December 31, 2013), which is included in gifts and contributions in the accompanying statements of activities. For the year ended December 31, 2014, HW received \$15,598 in donated services and \$29,451 in donated goods. For the year ended December 31, 2013, HW received \$17,689 in donated services and \$26,211 in donated goods. These items consist primarily of donated professional services, software licenses, and shipping services.



## Note 10. Special Events

During the years ended December 31, 2014 and 2013, respectively, HW held fundraising events that resulted in revenue of \$153,326 and \$174,283, and had expenses of \$56,464 and \$67,688. 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, 2014, 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	<u>\$ -</u>	<u>\$ 50,867</u>	<u>\$ 261,583</u>	<u>\$ 312,450</u>

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

Changes to endowment net assets for the year ended December 31, 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2013	\$ -	\$ 44,896	\$ 161,583	\$ 206,479
Endowment investment return				
Interest and dividends		6,178		6,178
Realized and unrealized gain (loss)		(207)		(207)
Total endowment investment return		5,971		5,971
Cash contributed/receivables collected			100,000	100,000
Endowment net assets, December 31, 2014	\$ -	\$ 50,867	\$ 261,583	\$ 312,450

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 gain (loss)		16,677		16,677
Total endowment investment return		20,936		20,936
Cash contributed/receivables collected			20,000	20,000
Endowment net assets, December 31, 2013	\$ -	\$ 44,896	\$ 161,583	\$ 206,479

### **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	50%
Fixed income	45%
Short-term reserves	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, 2014 or 2013.

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, 2014, 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 21, 2015.

**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.

*Peterson Sulli LLP*

May 21, 2015

**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, 2014. 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 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, 2014.

## 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 the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 Sullivan LLP.*

May 21, 2015



## HUMANITIES WASHINGTON

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2014

<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	\$ 10,000
Total National Endowment for the Arts			10,000
National Endowment for the Humanities			
Promotion of the Humanities - Federal/State Partnership*	45.129	SO-50510-12	716,862
Total National Endowment for the Humanities			716,862
			<u>\$ 726,862</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, 2014. 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	\$ 73,213

**HUMANITIES WASHINGTON**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended December 31, 2014

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