

HUMANITIES WASHINGTON

FINANCIAL REPORT

DECEMBER 31, 2015

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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 Directors
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, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Humanities Washington as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2016, on our consideration of Humanities Washington's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Humanities Washington's internal control over financial reporting and compliance.

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

May 19, 2016

HUMANITIES WASHINGTON

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

ASSETS	2015	2014
Current Assets		
Cash and cash equivalents	\$ 549,612	\$ 473,312
Investments	431,935	447,518
Current portion - pledges receivable	146,709	121,618
Grants and other receivables	4,303	2,104
Deposits and prepaid expenses	42,908	30,430
Total current assets	1,175,467	1,074,982
Furniture and Equipment, at cost	154,657	149,782
Tenant Improvements, at cost	71,147	71,147
Less Accumulated Depreciation	(133,300)	(107,461)
Net property and equipment	92,504	113,468
Endowment Investments	298,399	312,450
Pledges Receivable		100,000
Total assets	\$ 1,566,370	\$ 1,600,900
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 11,611	\$ 26,366
Accrued expenses	18,283	16,583
Grants payable	82,052	46,402
Total current liabilities	111,946	89,351
Deferred Rent	48,383	58,303
Total liabilities	160,329	147,654
Net Assets		
Unrestricted	770,173	761,153
Temporarily restricted	374,285	430,510
Permanently restricted	261,583	261,583
Total net assets	1,406,041	1,453,246
Total liabilities and net assets	\$ 1,566,370	\$ 1,600,900

See Notes to Financial Statements

HUMANITIES WASHINGTON

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue								
Grants	\$ 802,780	\$ 25,000	\$ -	\$ 827,780	\$ 709,280	\$ 20,938	\$ -	\$ 730,218
Gifts and contributions	86,131	427,670		513,801	97,135	535,817	24,837	657,789
Other income	2,775			2,775	3,272			3,272
Net assets released from restrictions	494,844	(494,844)			405,617	(405,617)		
Total support and revenue	1,386,530	(42,174)		1,344,356	1,215,304	151,138	24,837	1,391,279
Operating Expenses								
Program services								
Grants	177,125			177,125	153,635			153,635
Speakers Bureau	179,952			179,952	154,401			154,401
Family Reading	307,618			307,618	224,713			224,713
Think & Drink Conversation Programs	140,564			140,564	92,053			92,053
Traveling Exhibits					59,174			59,174
Other programs	197,740			197,740	144,649			144,649
Total program services	1,002,999			1,002,999	828,625			828,625
Support services								
General and administrative	115,242			115,242	123,699			123,699
Fundraising	247,614			247,614	241,969			241,969
Total support services	362,856			362,856	365,668			365,668
Total expenses	1,365,855			1,365,855	1,194,293			1,194,293
Change in net assets before investment income (loss)	20,675	(42,174)		(21,499)	21,011	151,138	24,837	196,986
Investment Income (Loss)	(11,655)	(14,051)		(25,706)	23,223	5,971		29,194
Change in net assets	9,020	(56,225)		(47,205)	44,234	157,109	24,837	226,180
Net assets, beginning of year	761,153	430,510	261,583	1,453,246	716,919	273,401	236,746	1,227,066
Net assets, end of year	<u>\$ 770,173</u>	<u>\$ 374,285</u>	<u>\$ 261,583</u>	<u>\$ 1,406,041</u>	<u>\$ 761,153</u>	<u>\$ 430,510</u>	<u>\$ 261,583</u>	<u>\$ 1,453,246</u>

See Notes to Financial Statements

HUMANITIES WASHINGTON

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2015

	Program Services					Support Services				Total
	Grants	Speakers Bureau	Family Reading	Think & Drink	Other Programs	Total Program Services	General and Administrative	Fundraising	Total Support Services	
Personnel	\$ 67,176	\$ 80,533	\$ 102,096	\$ 87,943	\$ 100,818	\$ 438,566	\$ 54,028	\$ 124,750	\$ 178,778	\$ 617,344
Projects/special events	45	78,744	172,640	28,005	32,210	311,644		68,183	68,183	379,827
Grants	88,566					88,566				88,566
Office rent	6,161	7,497	9,722	8,538	9,231	41,149	5,046	12,732	17,778	58,927
Dues and fees	7,736	4,465	4,786	4,526	15,125	36,638	6,184	7,975	14,159	50,797
Professional fees			288		6,009	6,297	18,063	18,295	36,358	42,655
Other travel	1,085	721	9,789	3,979	5,113	20,687	3,626	4,244	7,870	28,557
Depreciation and amortization	3,230	3,230	3,230	3,230	6,460	19,380	3,230	3,230	6,460	25,840
Printing and postage	179	511	875	498	12,868	14,931	125	2,711	2,836	17,767
Board travel and meetings					166	166	16,330	323	16,653	16,819
Miscellaneous operating	2,947	4,251	4,192	3,845	9,740	24,975	8,610	5,171	13,781	38,756
Total expenses	<u>\$ 177,125</u>	<u>\$ 179,952</u>	<u>\$ 307,618</u>	<u>\$ 140,564</u>	<u>\$ 197,740</u>	<u>\$ 1,002,999</u>	<u>\$ 115,242</u>	<u>\$ 247,614</u>	<u>\$ 362,856</u>	<u>\$ 1,365,855</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
Professional fees								18,098	10,205	28,303	28,303
Other travel	1,028	1,597	7,917	1,767	1,679	8,707	22,695	2,785	5,877	8,662	31,357
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
Printing and postage	245	5,189	898	487	1,573	13,701	22,093	248	4,708	4,956	27,049
Board travel and meetings		1,376				2,823	4,199	18,002	270	18,272	22,471
Miscellaneous operating	4,455	4,595	5,441	2,743	4,271	7,086	28,591	10,503	10,217	20,720	49,311
Total expenses	\$ 153,635	\$ 154,401	\$ 224,713	\$ 59,174	\$ 92,053	\$ 144,649	\$ 828,625	\$ 123,699	\$ 241,969	\$ 365,668	\$ 1,194,293

See Notes to Financial Statements

HUMANITIES WASHINGTON

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	\$ (47,205)	\$ 226,180
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	25,840	26,758
Realized gain on investments	(17,463)	(5,555)
Unrealized investment losses (gains)	59,564	(6,289)
Contributions to permanent endowment		(24,837)
Change in operating assets and liabilities		
Pledges, grants, and other receivables	72,710	(141,850)
Deposits and prepaid expenses	(12,478)	6,666
Accounts payable	(14,755)	20,186
Accrued expenses	1,700	952
Grants payable	35,650	1,355
Deferred rent	(9,920)	(8,082)
	93,643	95,484
Net cash flows from operating activities	93,643	95,484
Cash Flows Used by Investing Activities		
Purchases of property and equipment	(4,875)	(7,423)
Purchases of investments	(12,468)	(121,712)
Proceeds from sale of investments		14,927
	(17,343)	(114,208)
Net cash flows used by investing activities	(17,343)	(114,208)
Cash Flows from Financing Activity		
Cash receipts on permanent endowment contributions		100,000
		100,000
Net change in cash and cash equivalents	76,300	81,276
Cash and cash equivalents, beginning of year	473,312	392,036
Cash and cash equivalents, end of year	\$ 549,612	\$ 473,312

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

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 children in elementary school, typically from low-income communities.

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

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.

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, 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 private individuals. At December 31, 2015, 85% of pledges receivable were due from two donors. At December 31, 2014, 91% of pledges receivable were due from one donor.

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, 2015 or 2014.

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% of grant revenue for both 2015 and 2014. One foundation accounted for 46% of total gifts and contributions for 2014. There were no significant concentrations of gifts and contributions during 2015.

HW received contributions of \$44,505 and \$21,900 from members of HW's Board of Directors during the years ended December 31, 2015 and 2014, respectively.

Grant Expense

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

Functional Allocation of Expenses

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

Use of Estimates

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

Income Taxes

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

Subsequent Events

HW has evaluated subsequent events through the date these financial statements were available to be issued, which was May 19, 2016.

Note 2. Investments

Investments consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Cash	\$ 3,257	\$ 4,422
Fixed Income Mutual Funds		
Intermediate-Term Bond	130,185	120,836
Corporate Bond	115,288	
Inflation-Protected Bond	65,479	35,059
World Bond	47,974	63,918
Emerging Markets Bond	23,000	18,346
Long-Term Bond		113,679
	<u>381,926</u>	<u>351,838</u>
Equity Mutual Funds		
Foreign Large Growth and Value	94,889	118,887
Large Value	76,792	101,763
Large Growth	76,601	90,819
Diversified Emerging Markets	34,149	19,730
Commodities Broad Basket	18,657	18,723
Large Blend	15,169	15,665
Small Growth	14,573	18,765
Small Value	14,321	19,356
	<u>345,151</u>	<u>403,708</u>
	<u>\$ 730,334</u>	<u>\$ 759,968</u>

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

	<u>2015</u>	<u>2014</u>
Unrestricted	\$ 431,935	\$ 447,518
Endowment	<u>298,399</u>	<u>312,450</u>
	<u>\$ 730,334</u>	<u>\$ 759,968</u>

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

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 16,395	\$ 17,350
Realized gains	17,463	5,555
Unrealized (losses) gains	<u>(59,564)</u>	<u>6,289</u>
	<u>\$ (25,706)</u>	<u>\$ 29,194</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 December 31, 2014, but was considered immaterial (and, therefore, was not recognized).

	<u>2015</u>	<u>2014</u>
Amounts due in:		
Less than one year	\$ 146,709	\$ 121,618
One to two years		<u>100,000</u>
	<u>146,709</u>	<u>221,618</u>
Less: Long-term portion		<u>100,000</u>
Current portion - pledges receivable	<u>\$ 146,709</u>	<u>\$ 121,618</u>

Note 4. Temporarily Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Time-restricted pledges	\$ 146,709	\$ 211,618
Family Reading program	69,189	99,399
Speakers Bureau program	59,998	45,938
Pulitzer Centennial	40,000	
Endowment fund earnings	36,816	50,867
Poet Laureate program	20,073	22,688
Other	<u>1,500</u>	
	<u>\$ 374,285</u>	<u>\$ 430,510</u>

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

Note 5. Permanently Restricted Net Assets

HW had \$261,583 of permanently restricted net assets at both December 31, 2015 and 2014. Two of HW's permanently restricted net assets place restrictions on their earnings. The income earned on the remaining general endowment balance is temporarily restricted until appropriated for expenditure by the Board of Trustees. The income earned on the Frank Family Endowment balance of \$40,000 at December 31, 2015 and 2014, is restricted to the annual Humanities Washington Award. The income earned on the Washington Stories Fund Endowment balance of \$100,000 at both December 31, 2015 and 2014, is restricted to the annual Washington Stories Fund grant. The restricted income was immaterial for both 2015 and 2014.

Note 6. Operating Lease

In March 2013, HW signed an operating lease for office space for the period from May 15, 2013, through May 31, 2019. Rent under the 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. Rent expense amounted to \$58,927 and \$54,276 for the years ended December 31, 2015 and 2014, respectively. Future minimum rental payments for the years ending December 31 are as follows:

2016	\$	44,682
2017		46,519
2018		48,357
2019		20,468
		<hr/>
	\$	160,026
		<hr/> <hr/>

Note 7. Contingencies

HW currently receives a substantial amount of its support and revenue from the NEH (60% in 2015 and 51% in 2014). 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, 2015 and 2014. Total expenses for the years ended December 31, 2015 and 2014, under this plan were \$28,186 and \$24,755, 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, 2015, HW received support and revenue from donated goods and services valued at \$45,984 (\$45,049 for the year ended December 31, 2014), which is included in gifts and contributions in the accompanying statements of activities. For the year ended December 31, 2015, HW received \$20,648 in donated services and \$25,336 in donated goods. For the year ended December 31, 2014, HW received \$15,598 in donated services and \$29,451 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, 2015 and 2014, HW held fundraising events that resulted in revenue of \$161,484 and \$153,326, respectively, and had expenses of \$63,028 and \$56,464, respectively. The revenues are included in gifts and contributions and the expenses are included in fundraising expense.

Note 11. Endowment

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

Interpretation of Relevant Law

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

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

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

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

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>

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

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

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	<u>\$ -</u>	<u>\$ 50,867</u>	<u>\$ 261,583</u>	<u>\$ 312,450</u>

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, HW relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HW targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The target allocations are as follows:

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires HW to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2015 or 2014.

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
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, 2015, 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 19, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Peterson Sullivan LLP

May 19, 2016

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

To the Board of Directors
Humanities Washington
Seattle, Washington

Report on Compliance for Each Major Federal Program

We have audited Humanities Washington's ("HW") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of HW's major federal programs for the year ended December 31, 2015. HW's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, HW complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control Over Compliance

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

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

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

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

Peterson Sullivan LLP

May 19, 2016

HUMANITIES WASHINGTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2015

<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	34,071
Promotion of the Humanities - Federal/State Partnership*	45.129	SO-226610-15	771,801
Total National Endowment for the Humanities			805,872
			<u>\$ 815,872</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, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("the Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of HW, it is not intended to and does not present the financial position, changes in net assets, or cash flows of HW.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Expenditures reported on the Schedule are recognized following the cost principles contained in the Uniform Guidance. Certain expenditures under award numbers SO-226610-15 and SO-50510-12 amounting to \$152,000 and \$34,071, respectively, 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, as these funds were granted prior to December 26, 2014.

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

HUMANITIES WASHINGTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2015

A. Summary of Audit Results

Financial Statements:

Type of auditors' report issued: Unmodified

Internal Control Over Financial Reporting:

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

Federal Awards:

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee: Yes

B. Findings - Financial Statement Audit None

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