

HUMANITIES WASHINGTON

DECEMBER 31, 2017 AND 2016
FINANCIAL STATEMENTS



Bader Martin, PS Certified Public Accountants + Business Advisors

HUMANITIES WASHINGTON

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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

Board of Trustees
Humanities Washington
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Humanities Washington (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 of America; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

Bader Martin, P.S. Certified Public Accountants + Business Advisors

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Board of Trustees
Humanities Washington
Seattle, Washington

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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our 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 Title 2 U.S. *Code of Federal Regulations* 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 of America. 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 17, 2018, 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 solely 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 effectiveness of Humanities Washington's 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.

Board of Trustees
Humanities Washington
Seattle, Washington

2016 Financial Statements

The financial statements of Humanities Washington as of December 31, 2016, were audited by other auditors whose report dated May 18, 2017, expressed an unmodified opinion on those statements.

BADER MARTIN, P.S.

May 17, 2018

HUMANITIES WASHINGTON

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 459,899	\$ 514,493
Investments	463,977	462,247
Pledges receivable	30,693	53,478
Grants and other receivables	15,439	4,439
Deposits and prepaid expenses	32,791	47,956
Total current assets	1,002,799	1,082,613
Property and equipment, net	60,867	77,366
Endowment investments	364,959	317,967
Total assets	\$ 1,428,625	\$ 1,477,946
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 22,985	\$ 21,887
Accrued expenses	20,283	22,872
Capital lease, current portion	1,044	
Grants payable	17,140	50,345
Total current liabilities	61,452	95,104
Capital lease, net of current portion	4,502	
Deferred rent	6,046	4,136
Total liabilities	72,000	99,240
Net assets:		
Unrestricted	824,040	781,858
Temporarily restricted	271,002	335,265
Permanently restricted	261,583	261,583
Total net assets	1,356,625	1,378,706
Total liabilities and net assets	\$ 1,428,625	\$ 1,477,946

See notes to financial statements

HUMANITIES WASHINGTON

STATEMENT OF ACTIVITIES

FOR YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Grants	\$ 845,000	\$ 15,000		\$ 860,000
Gifts and contributions	102,034	122,550		224,584
Special events, net of expenses of \$63,604	110,060			110,060
Other income	13,485			13,485
Investment income	48,589	46,992		95,581
Net assets released from restrictions	248,805	(248,805)		
Total support and revenue	1,367,973	(64,263)		1,303,710
Operating expenses:				
Program services:				
Grants	103,061			103,061
Speakers Bureau	196,223			196,223
Family Reading	255,075			255,075
Think & Drink Conversation Programs	134,098			134,098
Center for WA Cultural Traditions	144,579			144,579
Other programs	184,093			184,093
Total program services	1,017,129			1,017,129
Support services:				
General and administrative	128,850			128,850
Fundraising	179,812			179,812
Total support services	308,662			308,662
Total operating expenses	1,325,791			1,325,791
Change in net assets	42,182	(64,263)		(22,081)
Net assets, beginning of year	781,858	335,265	\$ 261,583	1,378,706
Net assets, end of year	\$ 824,040	\$ 271,002	\$ 261,583	\$ 1,356,625

See notes to financial statements

HUMANITIES WASHINGTON

STATEMENT OF ACTIVITIES

FOR YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Grants	\$ 825,000	\$ 10,938		\$ 835,938
Gifts and contributions	114,815	211,265		326,080
Special events, net of expenses of \$67,360	110,846			110,846
Other income	77			77
Investment income	32,297	19,568		51,865
Net assets released from restrictions	280,791	(280,791)		
Total support and revenue	1,363,826	(39,020)		1,324,806
Operating expenses:				
Program services:				
Grants	174,632			174,632
Speakers Bureau	212,739			212,739
Family Reading	275,413			275,413
Think & Drink Conversation Programs	123,371			123,371
Other programs	258,600			258,600
Total program services	1,044,755			1,044,755
Support services:				
General and administrative	112,974			112,974
Fundraising	159,997			159,997
Total support services	272,971			272,971
Total operating expenses	1,317,726			1,317,726
Change in net assets before non-operating expenses	46,100	(39,020)		7,080
Loss on disposal of leasehold improvements	(34,415)			(34,415)
Change in net assets	11,685	(39,020)		(27,335)
Net assets, beginning of year	770,173	374,285	\$ 261,583	1,406,041
Net assets, end of year	\$ 781,858	\$ 335,265	\$ 261,583	\$ 1,378,706

See notes to financial statements

HUMANITIES WASHINGTON

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Grants	Speakers Bureau	Family Reading	Think & Drink	Center for WA Cultural Traditions	Other Programs	Program Total	Management & General	Fundraising	Total
Grants and other assistance to domestic organizations	\$ 24,845						\$ 24,845			\$ 24,845
Officer compensation	16,389	\$ 23,030	\$ 26,041	\$ 21,357	\$ 27,647	\$ 35,083	149,547	\$ 44,177	\$ 26,840	220,564
Other salaries/wages	33,132	48,525	49,579	44,871	57,501	48,364	281,972	9,951	48,488	340,411
Retirement plan contributions	2,067	3,020	3,111	2,792	3,581	3,136	17,707	1,030	3,056	21,793
Other employee benefits	4,068	6,266	6,307	5,263	5,579	7,337	34,820	2,815	5,585	43,220
Payroll taxes	4,193	6,046	6,379	5,583	7,144	6,997	36,342	4,330	6,322	46,994
Management	588	588	588	588	588	1,177	4,117	588	588	5,293
Legal					380		380			380
Accounting								18,850		18,850
Lobbying								10,000		10,000
Professional fundraising services									64,895	64,895
Investment management fees								6,241		6,241
Advertising and promotion	167	3,838	437	309	358	9,505	14,614	507	1,496	16,617
Office expenses	1,001	1,642	1,674	1,484	1,919	1,882	9,602	894	1,718	12,214
Information technology	218	314	331	292	373	362	1,890	220	328	2,438
Occupancy	4,456	6,134	6,465	5,645	6,844	7,280	36,824	4,392	6,389	47,605
Travel	129	99	6,829	3,195	8,902	6,580	25,734	5,846	830	32,410
Conferences, conventions, meetings								10,569		10,569
Interest								303		303
Depreciation and amortization	2,576	2,576	2,576	2,576	2,576	5,155	18,035	2,576	2,576	23,187
Insurance	279	279	279	279	279	555	1,950	307	279	2,536
Repairs and maintenance	294	676	491	394	433	2,157	4,445	324	460	5,229
Direct program expenses		87,578	136,607	34,448	13,631	31,902	304,166			304,166
Direct fundraising expenses									906	906
Dues and fees	8,295	4,436	4,676	4,416	5,832	12,674	40,329	4,554	7,729	52,612
Postage	110	542	2,252	174	239	3,355	6,672	79	874	7,625
Miscellaneous	254	634	453	432	773	592	3,138	297	453	3,888
Total expenses	\$ 103,061	\$ 196,223	\$ 255,075	\$ 134,098	\$ 144,579	\$ 184,093	\$ 1,017,129	\$ 128,850	\$ 179,812	\$ 1,325,791

See notes to financial statements

HUMANITIES WASHINGTON

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Grants	Speakers Bureau	Family Reading	Think & Drink	Other Programs	Program Total	Management & General	Fundraising	Total
Grants and other assistance to domestic organizations	\$ 84,192					\$ 84,192			\$ 84,192
Officer compensation	22,286	\$ 26,577	\$ 27,723	\$ 24,467	\$ 48,243	149,296	\$ 36,435	\$ 23,602	209,333
Other salaries/wages	39,228	57,446	57,558	45,706	59,980	259,918	9,090	64,172	333,180
Retirement plan contributions	2,000	2,929	2,935	2,330	3,058	13,252	302	3,341	16,895
Other employee benefits	4,171	6,109	6,121	4,860	6,378	27,639	968	6,824	35,431
Payroll taxes	5,196	7,609	7,624	6,054	7,944	34,427	3,579	7,491	45,497
Accounting							18,500		18,500
Professional fundraising services								29,330	29,330
Investment management fees							6,101		6,101
Advertising and promotion	160	6,673	288	437	5,902	13,460	98	1,263	14,821
Office expenses	1,122	1,491	1,444	1,443	2,002	7,502	694	1,536	9,732
Information technology	438	571	592	471	718	2,790	296	544	3,630
Occupancy	1,464	3,090	3,494	3,536	2,814	14,398	1,830	3,977	20,205
Travel	1,273	3,347	9,247	3,191	16,013	33,071	10,871	800	44,742
Conferences, conventions, meetings							14,661		14,661
Depreciation and amortization	3,665	3,665	3,665	3,665	7,327	21,987	3,665	3,665	29,317
Insurance	341	341	341	341	683	2,047	426	341	2,814
Repairs and maintenance	763	959	1,004	901	2,635	6,262	514	1,569	8,345
Direct program expenses	71	85,972	144,730	20,402	76,704	327,879			327,879
Dues and fees	7,894	5,353	5,583	5,155	15,524	39,509	4,704	10,138	54,351
Postage	131	331	2,757	163	1,980	5,362	99	1,107	6,568
Miscellaneous	237	276	307	249	695	1,764	141	297	2,202
Total expenses	\$ 174,632	\$ 212,739	\$ 275,413	\$ 123,371	\$ 258,600	\$ 1,044,755	\$ 112,974	\$ 159,997	\$ 1,317,726

See notes to financial statements

HUMANITIES WASHINGTON

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (22,081)	\$ (27,335)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	23,187	29,317
Loss on disposal of leasehold improvements		34,415
Realized and unrealized gains on investments	(76,245)	(31,064)
Donated securities	(2,492)	
Changes in operating assets and liabilities:		
Pledges, grants, and other receivables	11,785	93,095
Deposits and prepaid expenses	15,165	(5,048)
Accounts payable	1,098	10,276
Accrued expenses	(2,589)	4,589
Grants payable	(33,205)	(31,707)
Deferred rent	1,910	(44,247)
Net cash provided by (used in) operating activities	(83,467)	32,291
Cash flows from investing activities:		
Purchase of property and equipment	(529)	(48,594)
Purchases of investments	(492,176)	(141,547)
Proceeds from sales of investments	522,191	122,731
Net cash provided by (used in) investing activities	29,486	(67,410)
Cash flows from financing activities:		
Payments on capital lease	(613)	
Net change in cash and cash equivalents	(54,594)	(35,119)
Cash and cash equivalents, beginning of year	514,493	549,612
Cash and cash equivalents, end of year	\$ 459,899	\$ 514,493
Supplemental cash flow disclosures:		
Equipment purchased with capital lease	\$ 6,159	

See notes to financial statements

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS

1. Organization and summary of significant accounting policies:

Organization:

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

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

The current primary programs of HW are:

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.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and summary of significant accounting policies (continued):

Organization (continued):

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

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

Think & Drink Conversation 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.

Center for Washington Cultural Traditions – HW's newest program, the Center for Washington Cultural Traditions, is Washington State's new folklife and traditional arts program, developed and run as a partnership between HW and ArtsWA/the Washington State Arts Commission. Folklife and traditional arts are activities and objects that are inseparable from a cultural community. They are expressions of people's heritage and help tell their story: foods, occupations, crafts, traditional medicine, storytelling, music, and more. The Center serves communities throughout Washington State by surveying, studying, and supporting cultural traditions and tradition bearers through research and a wide range of programming.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and summary of significant accounting policies (continued):

Organization (continued):

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

Basis of presentation:

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

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

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions of HW 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.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and summary of significant accounting policies (continued):

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. Unconditional promises to give and contributions are recorded at fair value as cash or receivables, and as revenues in the period received, in accordance with donor-imposed restrictions.

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 for identical assets. Cash and cash equivalents included in the investment balances are reported as investments due to the nature of their purpose and any amounts held at year end are for future investing activities.

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

Receivables:

Receivables are stated at the amount management expects to collect. Management provides for uncollectible amounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. Specific accounts are written off against the allowance after management has used all reasonable means to collect. No such allowance was deemed necessary at December 31, 2017 or 2016.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and summary of significant accounting policies (continued):

Property and equipment:

Property and equipment is stated at cost, except for donated items which are stated at their estimated fair value at the date of the gift. Repairs and maintenance of equipment are expensed as incurred. HW capitalizes all property and equipment purchases with an estimated useful life of more than one year and a total cost greater than \$1,500. 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.

The Organization has a capital lease agreement with a third party for a copier machine. Property and equipment includes \$6,159 and accumulated depreciation includes \$513 related to the asset held under the capital lease as of December 31, 2017.

Grant expense:

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

Functional expenses:

The accompanying statements of functional expenses include all direct costs of each program or supporting service. Costs that benefit more than one activity are allocated based on an analysis of personnel time for the related activities.

Concentrations of risks:

HW's assets are exposed to various risks such as interest rate, market, and credit risks. Due to the risk associated with certain assets, it is reasonably possible that changes in the values of the assets will occur in the near term and that such changes could materially affect the amounts reported in the financial statements. Receivables are principally from private individuals. At December 31, 2017, 65% of receivables were due from one donor. At December 31, 2016, 78% of receivables were due from two donors.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and summary of significant accounting policies (continued):

Concentrations of risks (continued):

A significant portion of the Organization's revenues consists of government grants. 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. The NEH grants accounted for 61% and 62% of total support and revenue for 2017 and 2016, respectively.

Use of estimates:

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

Income taxes:

HW is a nonprofit corporation as defined in Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code.

HW evaluates its uncertain tax positions and a loss contingency is recognized when it is more likely than not that a liability has been incurred and the amount can be reasonably estimated.

Donated goods and services:

Contributed goods and services are included in in-kind contributions for the years ended December 31, 2017 and 2016, respectively. These services benefited the Organization as a whole and included donated professional services, software licenses, and travel expenses. The Organization received \$37,687 and \$39,021 in 2017 and 2016, respectively.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and summary of significant accounting policies (continued):

Reclassifications:

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent events:

HW has evaluated subsequent events through the date these financial statements were available to be issued, which was May 17, 2018.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Investments:

Investments consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 12,001	\$ 7,771
Fixed income mutual funds:		
Intermediate-term bond	217,955	132,899
Corporate bond	95,605	115,266
Inflation-protected bond	65,581	67,563
Foreign bond		46,257
Emerging markets bond	36,387	24,115
	<u>415,528</u>	<u>386,100</u>
Equity mutual funds:		
Foreign blend	107,937	103,828
Value	108,755	103,989
Growth	132,666	101,879
Emerging markets	42,628	37,354
Commodities	9,421	24,012
Large blend		15,281
	<u>401,407</u>	<u>386,343</u>
	<u>\$ 828,936</u>	<u>\$ 780,214</u>

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Investments (continued):

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

	<u>2017</u>	<u>2016</u>
Unrestricted	\$ 463,977	\$ 462,247
Endowment	<u>364,959</u>	<u>317,967</u>
	<u>\$ 828,936</u>	<u>\$ 780,214</u>

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 19,336	\$ 20,801
Realized gains	8,993	33,672
Unrealized gains (losses)	<u>67,252</u>	<u>(2,608)</u>
	<u>\$ 95,581</u>	<u>\$ 51,865</u>

3. Pledges receivable:

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

All pledges receivable were expected to be collected within one year at December 31, 2017 and 2016.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Property and equipment:

Property and equipment consisted of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Information technology	\$ 85,868	\$99,833
Furniture and fixtures	45,843	39,156
Leasehold improvements	<u>23,705</u>	<u>23,705</u>
	155,416	162,694
Less accumulated depreciation	<u>94,549</u>	<u>85,328</u>
Total	<u>\$ 60,867</u>	<u>\$77,366</u>

5. Temporarily restricted net assets:

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

	<u>2017</u>	<u>2016</u>
Time-restricted pledges		\$ 53,478
Family Reading program	\$ 69,460	150,168
Endowment fund earnings	103,376	56,384
Speakers Bureau program	34,400	30,939
Center for Washington Cultural Traditions	37,500	26,836
Poet Laureate program	<u>26,266</u>	<u>17,460</u>
	<u>\$ 271,002</u>	<u>\$ 335,265</u>

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Permanently restricted net assets:

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

	<u>2017</u>	<u>2016</u>
Washington Stories Fund	\$ 100,000	\$ 100,000
Frank Family Endowment	40,000	40,000
Other endowment gifts	<u>121,583</u>	<u>121,583</u>
	<u>\$ 261,583</u>	<u>\$ 261,583</u>

7. Operating lease:

HW leases office space under a noncancelable lease that expires on November 30, 2021. Rent payments escalate over the term of the lease and are included in the future minimum rental payment schedule below. Rent expense amounted to \$47,605 and \$20,205 for the years ended December 31, 2017 and 2016, respectively.

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

2018	\$ 47,065
2019	48,477
2020	49,932
2021	<u>47,026</u>
	<u>\$192,500</u>

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, 2017 and 2016. Total expenses for the years ended December 31, 2017 and 2016, under this plan were \$30,632 and \$27,664, respectively.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. 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 of America, 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.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Endowment (continued):

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.

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, 2017 or 2016.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Endowment (continued):

Endowment net assets:

Endowment net assets consist of the following:

	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds:			
December 31, 2017	\$ 103,376	\$ 261,583	\$ 364,959
December 31, 2016	56,384	261,583	317,967

Changes to endowment net assets for the year ended December 31, 2017, are as follows:

	Temporarily restricted	Permanently restricted	Total
Beginning of year	\$ 56,384	\$ 261,583	\$ 317,967
Investment income	46,992		46,992
End of year	\$ 103,376	\$ 261,583	\$ 364,959

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

	Temporarily restricted	Permanently restricted	Total
Beginning of year	\$ 36,816	\$ 261,583	\$ 298,399
Investment income	19,568		19,568
End of year	\$ 56,384	\$ 261,583	\$ 317,967

OTHER INFORMATION



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*

Board of Trustees
Humanities Washington
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Humanities Washington (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, 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 17, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Humanities Washington'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 Humanities Washington's internal control. Accordingly, we do not express an opinion on the effectiveness of Humanities Washington'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 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.

Bader Martin, P.S. Certified Public Accountants + Business Advisors

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Board of Trustees
Humanities Washington
Seattle, Washington

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Humanities Washington'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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BADER MARTIN, P.S.

May 17, 2018



Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Trustees
Humanities Washington
Seattle, Washington

Report on Compliance for Each Major Federal Program

We have audited Humanities Washington's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Humanities Washington's major federal programs for the year ended December 31, 2017. Humanities Washington's major federal programs are identified in the summary of auditor's 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Humanities Washington'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 of America; 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 Humanities Washington'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 Humanities Washington's compliance.

Board of Trustees
Humanities Washington
Seattle, Washington

Opinion on Each Major Federal Program

In our opinion, Humanities Washington 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, 2017.

Report on Internal Control over Compliance

Management of Humanities Washington 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 Humanities Washington'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 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 Humanities Washington'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 a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BADER MARTIN, P.S.

May 17, 2018

HUMANITIES WASHINGTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR YEAR ENDED DECEMBER 31, 2017

<u>Federal Assistance Description</u>	<u>CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditures</u>
National Endowment for the Humanities:			
Promotion of the Humanities - Federal/State Partnership*	45.129	SO-226610-15	\$ 764,480
National Endowment for the Arts:			
Promotion of the Arts - Grants to Organizations and Individuals	45.024	16-5500-7138	<u>42,000</u>
Total expenditures			<u>\$ 806,480</u>

* Denotes major program

See notes to schedule of expenditures of federal awards

HUMANITIES WASHINGTON

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of HW, it is not intended to and does not present the financial position, changes in net assets, or cash flows of HW.

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.

3. Indirect Cost Rate

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

HUMANITIES WASHINGTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR YEAR ENDED DECEMBER 31, 2017

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