

HUMANITIES WASHINGTON

DECEMBER 31, 2021 AND 2020
FINANCIAL STATEMENTS



HUMANITIES WASHINGTON

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Independent Auditors' Report



Board of Trustees
Humanities Washington
Seattle, Washington

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Humanities Washington (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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 of America.

Basis for Opinion

We conducted our audits 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Humanities Washington and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Humanities Washington's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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

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Board of Trustees
Humanities Washington
Seattle, Washington

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Humanities Washington's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Humanities Washington's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.

Board of Trustees
Humanities Washington
Seattle, Washington

Other Information

Our 2021 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2022, 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.

BADER MARTIN, P.S.

May 26, 2022

HUMANITIES WASHINGTON

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 327,553	\$ 550,144
Investments	776,876	728,034
Pledges receivable	7,397	54,612
Grants and other receivables	213,941	39,415
Deposits and prepaid expenses	53,483	34,723
Total current assets	1,379,250	1,406,928
Property and equipment, net	5,958	15,808
Endowment investments	504,448	451,586
Total assets	\$ 1,889,656	\$ 1,874,322
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 68,794	\$ 69,821
Deferred revenue	19,499	13,808
Paycheck Protection Program (PPP) loan, current portion		76,953
Capital lease, current portion	638	1,423
Grants payable	89,500	13,500
Total current liabilities	178,431	175,505
PPP loan, net of current portion		76,953
Capital lease, net of current portion		638
Deferred rent	374	3,388
Total liabilities	178,805	256,484
Net assets:		
Without donor restrictions	912,591	876,534
With donor restrictions	798,260	741,304
Total net assets	1,710,851	1,617,838
Total liabilities and net assets	\$ 1,889,656	\$ 1,874,322

See notes to financial statements

HUMANITIES WASHINGTON

STATEMENT OF ACTIVITIES

FOR YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING:			
Support and revenue:			
Grants	\$ 1,910,444	\$ 281,884	\$ 2,192,328
Gifts and contributions	89,842	49,067	138,909
Special events, net of expenses of \$52,987	31,001		31,001
Other income	1,087		1,087
Net investment return	48,938	52,862	101,800
Net assets released from restrictions	326,857	(326,857)	
Total support and revenue	2,408,169	56,956	2,465,125
Operating expenses:			
Program services:			
Grants	1,167,321		1,167,321
Speakers Bureau	214,873		214,873
Family Reading	220,871		220,871
Big Think	124,655		124,655
Center for WA Cultural Traditions	275,089		275,089
Other programs	303,300		303,300
Total program services	2,306,109		2,306,109
Support services:			
Management & general	115,910		115,910
Fundraising	253,739		253,739
Total support services	369,649		369,649
Total operating expenses	2,675,758		2,675,758
Change in net assets from operating activities	(267,589)	56,956	(210,633)
NON-OPERATING:			
Gain on extinguishment of debt	303,646		303,646
Total change in net assets	36,057	56,956	93,013
Net assets, beginning of year	876,534	741,304	1,617,838
Net assets, end of year	\$ 912,591	\$ 798,260	\$ 1,710,851

See notes to financial statements

HUMANITIES WASHINGTON

STATEMENT OF ACTIVITIES

FOR YEAR ENDED DECEMBER 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING:			
Support and revenue:			
Grants	\$ 1,388,771	\$ 261,250	\$ 1,650,021
Gifts and contributions	266,658	82,869	349,527
Special events, net of expenses of \$26,333	69,746		69,746
Other income	1,462		1,462
Net investment return	46,923	46,630	93,553
Net assets released from restrictions	376,020	(376,020)	
	2,149,580	14,729	2,164,309
Operating expenses:			
Program services:			
Grants	700,595		700,595
Speakers Bureau	175,047		175,047
Family Reading	198,369		198,369
Big Think	89,930		89,930
Center for WA Cultural Traditions	258,318		258,318
Other programs	297,530		297,530
	1,719,789		1,719,789
Support services:			
Management & general	122,829		122,829
Fundraising	238,029		238,029
	360,858		360,858
	2,080,647		2,080,647
Change in net assets	68,933	14,729	83,662
Net assets, beginning of year	807,601	726,575	1,534,176
Net assets, end of year	\$ 876,534	\$ 741,304	\$ 1,617,838

See notes to financial statements

HUMANITIES WASHINGTON

STATEMENT OF FUNCTIONAL EXPENSES

FOR YEAR ENDED DECEMBER 31, 2021

	Grants	Speakers Bureau	Family Reading	Big Think	Center for WA Cultural Traditions	Other Programs	Total Program Services	Management & General	Fundraising	Total
Grants to domestic organizations	\$ 1,027,139						\$ 1,027,139			\$ 1,027,139
Wages, benefits and payroll taxes	104,678	\$ 133,521	\$ 129,579	\$ 99,137	\$ 120,036	\$ 160,596	747,547	\$ 61,528	\$ 196,914	1,005,989
Accounting								28,127		28,127
Lobbying								10,000		10,000
Professional - other	3,518	3,518	3,518	3,518	3,518	7,036	24,626	3,518	3,518	31,662
Professional fundraising services									27,300	27,300
Advertising and promotion	2	6,560	6	260	6	69,936	76,770	513	7	77,290
Office expenses	3,099	2,673	3,130	2,385	2,587	3,570	17,444	1,450	5,175	24,069
Occupancy	4,760	7,366	6,721	5,336	6,260	8,138	38,581	3,206	9,982	51,769
Travel	51						51	177	56	284
Conferences, conventions, meetings								28		28
Interest								213		213
Depreciation and amortization	1,095	1,095	1,095	1,095	1,095	2,189	7,664	1,095	1,095	9,854
Insurance	534	534	534	534	534	1,069	3,739	619	534	4,892
Repairs and maintenance	834	1,571	858	623	782	3,101	7,769	421	1,370	9,560
Direct program expenses	12,750	51,593	69,196	7,100	133,841	18,846	293,326			293,326
Dues and fees	7,997	3,986	3,954	4,043	5,758	16,134	41,872	4,645	6,233	52,750
Postage	88	1,798	1,626	65	78	11,328	14,983	44	152	15,179
Miscellaneous	776	658	654	559	594	1,357	4,598	326	1,403	6,327
Total expenses	\$ 1,167,321	\$ 214,873	\$ 220,871	\$ 124,655	\$ 275,089	\$ 303,300	\$ 2,306,109	\$ 115,910	\$ 253,739	\$ 2,675,758

See notes to financial statements

HUMANITIES WASHINGTON

STATEMENT OF FUNCTIONAL EXPENSES

FOR YEAR ENDED DECEMBER 31, 2020

	Grants	Speakers Bureau	Family Reading	Big Think	Center for WA Cultural Traditions	Other Programs	Total Program Services	Management & General	Fundraising	Total
Grants to domestic organizations	\$ 553,100						\$ 553,100			\$ 553,100
Wages, benefits and payroll taxes	118,829	\$ 100,645	\$ 114,050	\$ 70,477	\$ 114,270	\$ 139,493	657,764	\$ 56,199	\$ 184,635	898,598
Accounting								24,740		24,740
Lobbying								10,000		10,000
Professional - other	972	972	972	972	972	1,944	6,804	1,973	2,473	11,250
Professional fundraising services									26,321	26,321
Advertising and promotion	120	362	548	470	509	67,741	69,750	1,107	652	71,509
Office expenses	1,398	1,347	1,676	869	1,556	1,927	8,773	705	2,638	12,116
Occupancy	6,817	5,515	6,319	4,031	6,193	7,852	36,727	3,372	10,256	50,355
Travel	34	15	1,872	538	428	434	3,321	10,644	115	14,080
Conferences, conventions, meetings								5,808		5,808
Interest								287		287
Depreciation and amortization	1,791	1,791	1,791	1,791	1,791	3,585	12,540	1,791	1,791	16,122
Insurance	516	516	516	516	516	1,033	3,613	601	516	4,730
Repairs and maintenance	651	744	762	467	774	3,970	7,368	338	1,226	8,932
Direct program expenses	10,600	58,955	64,004	5,805	125,386	40,104	304,854			304,854
Direct fundraising expenses									612	612
Dues and fees	5,495	3,873	3,914	3,754	5,537	17,747	40,320	5,015	6,038	51,373
Postage	109	78	1,689	82	104	11,390	13,452	159	215	13,826
Miscellaneous	163	234	256	158	282	310	1,403	90	541	2,034
Total expenses	\$ 700,595	\$ 175,047	\$ 198,369	\$ 89,930	\$ 258,318	\$ 297,530	\$ 1,719,789	\$ 122,829	\$ 238,029	\$ 2,080,647

See notes to financial statements

HUMANITIES WASHINGTON

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 93,013	\$ 83,662
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	9,850	16,122
Gain on extinguishment of debt	(303,646)	
Realized and unrealized gains on investments	(81,932)	(79,946)
Donated securities	(1,051)	
Changes in operating assets and liabilities:		
Pledges, grants, and other receivables	(127,311)	13,499
Deposits and prepaid expenses	(18,760)	(1,728)
Accounts payable and accrued expenses	(1,027)	(14,554)
Deferred revenue	5,691	(3,869)
Grants payable	76,000	(3,500)
Deferred rent	(3,014)	(2,327)
Net cash provided by (used in) operating activities	<u>(352,187)</u>	<u>7,359</u>
Cash flows from investing activities:		
Purchases of investments	(275,829)	(122,646)
Proceeds from sales of investments	257,108	109,334
Net cash used in investing activities	<u>(18,721)</u>	<u>(13,312)</u>
Cash flows from financing activities:		
Proceeds from PPP loan	149,740	153,906
Payments on capital lease	(1,423)	(1,284)
Net cash provided by financing activities	<u>148,317</u>	<u>152,622</u>
Net change in cash and cash equivalents	(222,591)	146,669
Cash and cash equivalents, beginning of year	<u>550,144</u>	<u>403,475</u>
Cash and cash equivalents, end of year	<u><u>\$ 327,553</u></u>	<u><u>\$ 550,144</u></u>

See notes to financial statements

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS

1. Organization:

Humanities Washington (HW) is an independent, not-for-profit organization incorporated in 1973 that exists to provide public programs in the humanities. HW creates spaces for people to explore different perspectives, opening minds and bridging divides. 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 public humanities 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 jurisdictional humanities councils whose work is funded, in part, by the National Endowment for the Humanities (NEH). NEH funding must be matched, at least, 1:1 by cash contributions to the council from any source, program income the council has earned, subrecipient (grantee) cost share, and the value of in-kind contributions made by a third party. 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.

Humanities Washington's primary programs are:

Grants – Through a 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 the year ended December 31, 2021, HW received \$1,082,730 from Sustaining the Humanities through the American Rescue Plan (SHARP) funds through an NEH grant for mandatory re-grant to subrecipients within Washington State's cultural community for project and general operating support. HW expended \$1,063,631 during the year ended December 31, 2021. Approximately \$49,000 of the SHARP grants were to organizations with which HW trustees are affiliated. Any trustee affiliated with a SHARP grant applicant abstained from award decision-making. During the year ended December 31, 2020, HW received \$568,167 in Coronavirus Aid, Relief, and Economic Securities Act (CARES Act) funds through an NEH grant for mandatory re-grant to subrecipients within Washington State's cultural community for general operating support.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization (continued):

Speakers Bureau – Speakers travel the state to deliver free presentations and lead discussions on diverse subjects including history, politics, music, philosophy, cultural traditions, and everything in between. 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, and is offered in English and Spanish.

Big Think – HW's Big Think program provides a statewide audience with virtual events with scholars who explore current community issues. The events provide unique insights into provocative topics and offer innovative ideas to address community concerns.

Center for Washington Cultural Traditions – The Center for Washington Cultural Traditions (The Center) is Washington State's folklife and traditional arts program, developed and run as a partnership between HW and the Washington State Arts Commission (ArtsWA). 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.

Other Programs – HW sponsors the Washington State Poet Laureate in partnership with ArtsWA. 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. On an ongoing basis, HW is also involved in humanities-related special initiatives and ad-hoc projects.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies:

Basis of accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net assets and revenue recognition:

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of HW and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations that consist of assets, liabilities, revenue, and expenses available for current programs and administration. It also consists of capital assets acquired through expenditure of unrestricted funds or in satisfaction of restrictions on funds contributed to purchase capital assets.

Net Assets With Donor Restrictions – Net assets subject to donor- and grantor-imposed stipulations. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. When a restriction expires or the stipulated purpose has been fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Expenses are reported as decreases in net assets without donor restrictions.

HW's federal grants support and revenue are generally from grants funded on a reimbursement basis. HW recognizes federal grant revenue when amounts allowed for reimbursement have been expended or conditions have been met. 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.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

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.

Net investment return is reported on the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external investment management expenses.

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, 2021 or 2020.

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 \$2,500. 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.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

Property and equipment (continued):

HW has a capital lease agreement with a third party for a copier machine. Property and equipment includes \$6,159 related to the asset held under capital lease as of December 31, 2021 and 2020. Accumulated depreciation includes \$5,016 and \$3,593 related to the asset held under the capital lease as of December 31, 2021 and 2020, respectively.

Grant expense:

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

Functional allocation of expenses:

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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. At December 31, 2021, 81% of pledge receivables were due from three donors and 96% of grants and other receivables were due from the NEH and NEA. At December 31, 2020, 73% of pledge receivables were due from one donor and 65% of grant and other receivables were due from the NEH and another donor.

A significant portion of HW 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 75% and 62% of total support and revenue for 2021 and 2020, respectively.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued):

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.

Reclassification:

Certain balances from the prior period have been reclassified to conform to the current period presentation.

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. A provision for income taxes has not been recorded, because HW had no business income unrelated to its exempt activities during the years ended December 31, 2021 and 2020.

Donated goods and services:

Contributed goods and services are included in in-kind contributions at fair value on the date of donation for the years ended December 31, 2021 and 2020. These services benefited HW as a whole and included donated securities, and professional services, software licenses, and travel expenses. HW received \$11,704 and \$4,880 in 2021 and 2020, respectively.

Subsequent events:

HW has evaluated subsequent events through May 26, 2022, the date in which the financial statements were available to be issued.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Liquidity and availability:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 327,553	\$ 550,144
Investments	1,281,324	1,179,620
Receivables	<u>221,338</u>	<u>94,027</u>
Total financial assets	1,830,215	1,823,791
Donor restrictions:		
Restricted funds	(536,677)	(479,721)
Endowments corpus	<u>(261,583)</u>	<u>(261,583)</u>
Net financial assets after donor restrictions	1,031,955	1,082,487
Internal designations:		
Board designated funds	<u>(751,872)</u>	<u>(551,718)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 280,083</u>	<u>\$ 530,769</u>

HW generally receives between fifty and sixty percent of its annual revenues from the NEH, which are usually committed before the fiscal year begins. HW generally receives between thirty and forty percent from contributions from both public and private donors, half of which are normally committed in advance of finalizing program expenses. The remaining ten percent is received from its investment portfolio and in-kind contributions.

HW considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. Because the majority of HW's revenues are committed prior to the start of each fiscal year, concerns about maintaining adequate liquid assets to fund near-term operating needs are low. HW manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. HW maintains an operating reserves policy that stipulates a year-end balance of at least four months but no more than six months of expected operating expenditures in invested reserves plus the balance of unrestricted and undesignated earnings on the permanent endowment. To achieve these targets, HW forecasts its future cash flows and monitors its liquidity and reserves bi-monthly.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Investments:

Investments consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 16,046	\$ 10,765
Fixed income mutual funds	437,333	366,467
Equity mutual funds	<u>827,945</u>	<u>802,388</u>
	<u>\$ 1,281,324</u>	<u>\$ 1,179,620</u>

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

	<u>2021</u>	<u>2020</u>
Without donor restrictions	\$ 776,876	\$ 728,034
With donor restrictions	<u>504,448</u>	<u>451,586</u>
	<u>\$ 1,281,324</u>	<u>\$ 1,179,620</u>

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

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 28,452	\$ 20,559
Realized gains	8,204	24,359
Unrealized gains	73,728	55,587
Investment management fees	<u>(8,584)</u>	<u>(6,952)</u>
	<u>\$ 101,800</u>	<u>\$ 93,553</u>

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. 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, 2021 and 2020.

6. Property and equipment:

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

	<u>2021</u>	<u>2020</u>
Information technology	\$ 86,463	\$ 86,463
Furniture and fixtures	45,843	45,843
Leasehold improvements	<u>23,706</u>	<u>23,706</u>
	156,012	156,012
Less accumulated depreciation	<u>150,054</u>	<u>140,204</u>
Total	<u><u>\$ 5,958</u></u>	<u><u>\$ 15,808</u></u>

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Paycheck Protection Program loans:

In April 2020, HW received a loan of \$153,906 through the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP). In January 2021, HW received an additional PPP loan of \$149,740. During 2021, HW received notice that the entire balance of both loans was forgiven. The debt forgiveness has been recognized as a gain on extinguishment of debt during the year ended December 31, 2021.

8. Net assets without donor restrictions:

Net assets without donor restrictions consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Undesignated	\$ 160,719	\$ 324,816
Board designated operating reserves	<u>751,872</u>	<u>551,718</u>
Total net assets without donor restriction	<u>\$ 912,591</u>	<u>\$ 876,534</u>

HW's Board of Trustees has set aside a specific portion of financial assets without donor restrictions as reserves to fund operations in case of shortfall in funding sources.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Net assets with donor restrictions:

Net assets with donor restrictions consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Subject to the passage of time or expenditure for a specified purpose:		
Family Reading program	\$ 4,500	\$ 30,623
Endowment fund earnings	242,865	190,003
Speakers Bureau program	60,917	17,442
Center for Washington Cultural Traditions	182,963	163,903
Poet Laureate program	638	7,456
Democracy and the Informed Citizen	44,794	44,794
Re:building Democracy	<u> </u>	<u>25,500</u>
Total subject to the passage of time or expenditure for a specified purpose	<u>536,677</u>	<u>479,721</u>
Endowments:		
Washington Stories Fund	100,000	100,000
Frank Family Endowment	40,000	40,000
Barbara Krohn Endowment	64,067	64,067
Other endowment gifts	<u>57,516</u>	<u>57,516</u>
Total endowments	<u>261,583</u>	<u>261,583</u>
Total net assets with donor restrictions	<u>\$ 798,260</u>	<u>\$ 741,304</u>

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Operating lease:

HW leases office space under a non-cancelable lease which expires on November 30, 2026. Rent expense amounted to \$51,769 and \$50,355 for the years ended December 31, 2021 and 2020, respectively. Future rental payments under the non-cancelable operating lease agreement are as follows:

<u>Year ending December 31,</u>	
2022	\$ 53,510
2023	55,666
2024	57,916
2025	60,259
2026	<u>57,278</u>
	<u>\$ 284,629</u>

11. 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. Total expense for the years ended December 31, 2021 and 2020, under this plan were \$45,519 and \$40,438, respectively.

12. 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.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Endowment (continued):

Interpretation of relevant law (continued):

As a result of this interpretation, HW classifies as net assets with donor restrictions (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 as endowment funds (if any) is classified as net assets with donor restrictions subject to a specified purpose 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.

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.

HUMANITIES WASHINGTON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Endowment (continued):

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 investments 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. There were no such deficiencies at December 31, 2021 and 2020.

Endowment net assets:

Endowment net assets consist of donor-restricted funds. Changes to endowment net assets are as follows for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Beginning of year	\$ 451,586	\$ 404,956
Investment return, net	<u>52,862</u>	<u>46,630</u>
End of year	<u>\$ 504,448</u>	<u>\$ 451,586</u>

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, 2021, 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 26, 2022.

Report on 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 or significant deficiencies may exist that were not identified.

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

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Board of Trustees
Humanities Washington
Seattle, Washington

Report on 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 financial statements. 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 26, 2022



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

Opinion on Each Major Federal Program

We have audited Humanities Washington's compliance with the types of compliance requirements identified as subject to audit 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, 2021. 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.

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, 2021.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Humanities Washington and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Humanities Washington's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Humanities Washington's federal programs.



Board of Trustees
Humanities Washington
Seattle, Washington

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Humanities Washington's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Humanities Washington's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Humanities Washington's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Humanities Washington's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Humanities Washington's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Board of Trustees
Humanities Washington
Seattle, Washington

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.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 26, 2022

HUMANITIES WASHINGTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR YEAR ENDED DECEMBER 31, 2021

Federal Assistance Description	CFDA Number	Award Number	Passed Through to Subrecipients	Total Federal Expenditures
National Foundation of the Arts and the Humanities:				
* Promotion of the Humanities - Federal/State Partnership	45.129	SO-258577-18		\$ 185,690
* Promotion of the Humanities - Federal/State Partnership	45.129	SO-276923-21		610,052
* Promotion of the Humanities - Federal/State Partnership (COVID-19 Relief - American Rescue Plan Act Funding)	45.129	ZSO-283165-21	\$ 987,139	1,063,631
Promotion of the Arts - Grants to Organizations and Individuals	45.024	1865242-55-21		22,971
Promotion of the Arts Partnership Agreements	45.025	N/A		25,000
Total National Foundation of the Arts and the Humanities				<u>1,907,344</u>
Total expenditures				<u>\$ 1,907,344</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, 2021. 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 accrual 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 THE YEAR ENDED DECEMBER 31, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal award programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of Major Programs

Name of Federal Program or Cluster

National Foundation of the Arts and the Humanities – Promotion of the Humanities –
Federal/State Partnership – CFDA 45.129

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Reporting Finding

None

Section III – Federal Award Findings and Questioned Costs

None