

# CALIFORNIA HUMANITIES

## AUDIT REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2017

San Diego

Los Angeles

San Francisco  
Bay Area

christywhite  
A PROFESSIONAL  
ACCOUNTANCY CORPORATION *associates*

**CALIFORNIA HUMANITIES**  
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**DECEMBER 31, 2017**

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# FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
California Humanities  
Oakland, California

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

### **Report on the Financial Statements**

We have audited the accompanying financial statements of California Humanities (the "Organization") which comprise the statement of financial position as of December 31, 2017, and the related statements of activities 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.

### **Auditor's 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 of material misstatement.

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

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

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Humanities 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 Matters**

### ***Report on Summarized Comparative Information***

The summarized comparative information presented herein as of and for the year ended December 31, 2016 was derived from the financial statements of California Humanities as of December 31, 2016, which were audited by other auditors whose report dated September 18, 2017, expressed an unmodified opinion on those statements.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Organization's financial statements. The schedule of expenditures of Federal awards, which is required Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is a required part of the basic financial statements.

The supplementary information listed in the table of contents 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 August 9, 2018, on our consideration of the Organization'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 or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal controls over financial reporting and compliance.

*Christy White Associates*

San Diego, California  
August 9, 2018

**CALIFORNIA HUMANITIES**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2017**  
**WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2016**

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	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,081,481	\$ 1,050,309
Grants receivable	625,313	276,702
Prepaid expenses	30,110	12,920
Total current assets	<u>1,736,904</u>	<u>1,339,931</u>
Non-current assets		
Deposits	6,938	6,938
Property and equipment, net	39,265	36,612
Total non-current assets	<u>46,203</u>	<u>43,550</u>
<b>Total Assets</b>	<u>\$ 1,783,107</u>	<u>\$ 1,383,481</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 46,161	\$ 28,831
Grants payable	723,388	549,536
Accrued vacation	51,782	30,946
Total liabilities	<u>821,331</u>	<u>609,313</u>
Net assets		
Unrestricted	663,014	674,902
Temporarily restricted	266,626	67,230
Permanently restricted	32,136	32,036
Total net assets	<u>961,776</u>	<u>774,168</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 1,783,107</u>	<u>\$ 1,383,481</u>

The notes to the financial statements are an integral part of this statement.

**CALIFORNIA HUMANITIES  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017  
WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2017	2016
<b>SUPPORT AND REVENUES</b>					
Government	\$ 2,538,528	\$ -	\$ -	\$ 2,538,528	\$ 2,295,475
Foundation contributions	100	319,593	-	319,693	174,840
Individual contributions	46,087	15,765	100	61,952	43,008
In-kind support	31,118	-	-	31,118	29,851
Interest	271	-	-	271	231
Donor restrictions satisfied	135,962	(135,962)	-	-	-
<b>Total Support and Revenues</b>	<b>2,752,066</b>	<b>199,396</b>	<b>100</b>	<b>2,951,562</b>	<b>2,543,405</b>
<b>EXPENSES</b>					
Program services					
Core programs	1,332,370	-	-	1,332,370	1,096,189
Periodic initiatives	190,575	-	-	190,575	201,010
General programs	110,713	-	-	110,713	127,037
Total program services	1,633,658	-	-	1,633,658	1,424,236
Supporting services					
Management and general	941,346	-	-	941,346	785,577
Fundraising	188,950	-	-	188,950	311,758
Total supporting services	1,130,296	-	-	1,130,296	1,097,335
<b>Total Expenses</b>	<b>2,763,954</b>	<b>-</b>	<b>-</b>	<b>2,763,954</b>	<b>2,521,571</b>
<b>CHANGE IN NET ASSETS</b>	<b>(11,888)</b>	<b>199,396</b>	<b>100</b>	<b>187,608</b>	<b>21,834</b>
<b>Net Assets - Beginning</b>	<b>674,902</b>	<b>67,230</b>	<b>32,036</b>	<b>774,168</b>	<b>752,334</b>
<b>Net Assets - Ending</b>	<b>\$ 663,014</b>	<b>\$ 266,626</b>	<b>\$ 32,136</b>	<b>\$ 961,776</b>	<b>\$ 774,168</b>

The notes to the financial statements are an integral part of this statement.

**CALIFORNIA HUMANITIES**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2016**

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	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 187,608	\$ 21,834
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	7,066	5,289
(Increase) decrease in operating assets		
Grants receivable	(348,611)	6,098
Prepaid expenses	(17,190)	7,705
Deposits	-	133
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	17,330	(11,910)
Grants payable	173,852	103,908
Accrued vacation	20,836	(13,689)
<b>Net cash provided by (used in) operating activities</b>	<u>40,891</u>	<u>119,368</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(9,719)	(1,711)
<b>Net cash provided by (used in) investing activities</b>	<u>(9,719)</u>	<u>(1,711)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	31,172	117,657
<b>Cash and cash equivalents - Beginning</b>	<u>1,050,309</u>	<u>932,652</u>
<b>Cash and cash equivalents - Ending</b>	<u>\$ 1,081,481</u>	<u>\$ 1,050,309</u>

The notes to the financial statements are an integral part of this statement.

**CALIFORNIA HUMANITIES**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2016**

EXPENSES	Program Services	Management and General	Fundraising	Total	
				2017	2016
Salaries	\$ 353,141	\$ 351,820	\$ 116,189	\$ 821,150	\$ 842,066
Employee benefits	43,757	41,977	14,397	100,131	76,031
Retirement contributions	24,368	24,277	8,017	56,662	54,332
Payroll taxes	28,720	28,613	9,450	66,783	67,606
<b>Total Personnel</b>	<b>\$ 449,986</b>	<b>\$ 446,687</b>	<b>\$ 148,053</b>	<b>\$ 1,044,726</b>	<b>\$ 1,040,035</b>
Grants, net	\$ 944,710	\$ -	\$ -	\$ 944,710	\$ 769,242
Accounting	-	141,975	-	141,975	133,000
Professional services	105,179	70,725	1,343	177,247	103,308
Advertising and promotion	803	24,555	-	25,358	75,372
Supplies and office expenses	15,871	24,323	4,144	44,338	44,586
Information technology	15,675	13,497	5,157	34,329	37,359
Occupancy	54,252	57,533	19,435	131,220	125,500
Travel and meals	30,911	69,797	5,463	106,171	105,998
Meetings	7,638	1,767	2,982	12,387	7,897
Depreciation	3,226	2,778	1,062	7,066	5,289
Insurance	-	2,088	-	2,088	1,017
Dues, licenses and fees	-	52,658	-	52,658	31,977
In-kind services and facility	4,818	26,300	-	31,118	28,251
Miscellaneous	589	6,663	1,311	8,563	12,740
<b>Total Expenses</b>	<b>\$ 1,633,658</b>	<b>\$ 941,346</b>	<b>\$ 188,950</b>	<b>\$ 2,763,954</b>	<b>\$ 2,521,571</b>

The notes to the financial statements are an integral part of this statement.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

California Humanities (the Organization) is a California nonprofit public benefit corporation that promotes the humanities in California to help create "a state of open mind." The Organization produces, funds, and supports cultural experiences in media, literature, and discussion programs. California Humanities promotes the humanities as relevant, meaningful ways to understand the human condition and connect us to each other in order to become a better California.

As an independent, non-profit state partner of the National Endowment for the Humanities, it was originally founded in 1975 as a granting organization, but through the years it has created and implemented its own signature humanities programs and projects. California Humanities now plays a critical role across the state in producing, funding, and supporting cultural experiences and events. The Organization's major activities include:

**Core Programs**

California Humanities supports four main core programs with research and development, production, and public engagement grant awards. These programs are the California Documentary Project, Humanities for All, Library Innovation Lab, and Literature & Medicine®.

**Periodic Initiatives**

Statewide Themed Initiatives include multiyear themed initiatives with subprograms for grant making, direct programming, and programming partnerships.

**General Programs**

This major activity supports the initiatives of all programs put on or supported by California Humanities.

CALIFORNIA HUMANITIES  
NOTES TO FINANCIAL STATEMENTS, *continued*  
DECEMBER 31, 2017

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NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

**B. Basis of Accounting**

The Organization's policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when cash is received, and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

**C. Financial Statement Presentation**

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include all resources available for use by the Board of Directors and management's discretion in carrying out the activities of the Organization in accordance with its Bylaws. Temporarily or permanently restricted net assets are only expendable for the purposes specified by the donor or through the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets are generally required to be held by the Organization in perpetuity while the earnings on those assets are available for use by the Organization to support its activities. Donors can place restrictions on the earnings from permanently restricted contributions at the time the contributions are made or pledged. Fund accounting is not used in the Organization's financial statement presentation.

**D. Prior Year Summarized Comparative Information**

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP (generally accepted accounting principles). Accordingly, such information should be read in conjunction with California Humanities' financial statements as of and for the year ended December 31, 2016, from which the summarized comparative information was derived.

CALIFORNIA HUMANITIES  
NOTES TO FINANCIAL STATEMENTS, continued  
DECEMBER 31, 2017

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NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities. Certain costs and expenditures have been allocated between program and supporting services based on management's estimates.

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

G. Cash and Cash Equivalents

The Organization considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

H. Investments

The Organization's method of accounting for most investments is the fair value method. Fair value is determined by published quotes when they are readily available. Gains and losses resulting from adjustments to fair values are included in the accompanying statement of activities.

I. Capital Assets

The Organization has adopted policies to capitalize asset purchases over \$1,000. Lesser amounts are expensed. Donations of capital assets are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset. Capital assets are depreciated using the straight-line method over the estimated useful lives on the property and equipment or the related lease terms as follows:

Furniture and equipment	3-10 years
Leasehold improvements	10 years or life of lease

J. Receivables and Allowances

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include the relationship of the allowance for doubtful accounts to accounts receivable and current economic conditions. Based on review of these factors, the Organization establishes or adjusts the allowance for specific revenue sources as a whole. At December 31, 2017, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2017**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**K. Contributions**

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

Non-cash contributions of goods, materials, and facilities are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone possessing those skills, and would have to be purchased by the Organization if not donated.

**L. Income Taxes**

California Humanities is a publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. California Humanities is also exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code. California Humanities is registered with the California Attorney General as a charity.

Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Organization did not have any net unrelated business income for the year ended December 31, 2017. It is management's belief that the Organization does not hold any uncertain tax positions that would materially impact the financial statements. The Organization's information and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

**M. Fair Value Measurements**

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are described below:

- Level 1     Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2     Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3     Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2017**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**N. New Accounting Pronouncements**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities* whereby significant changes were proposed in seven areas: net asset classes, liquidity and availability of resources, classification and disclosure of underwater endowment funds, expense reporting, statement of cash flows, investment return, and release of restrictions on capital assets. The amendments in ASU No. 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization has not yet determined the impact on the financial statements.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of December 31, 2017 and 2016, consist of the following:

	2017	2016
Cash in banks, interest bearing	\$ 1,063,830	\$ 1,046,055
Cash on hand	100	-
Cash collections awaiting deposit	551	2,947
Cash awaiting disbursement	17,000	1,307
<b>Total Cash and Cash Equivalents</b>	<b>\$ 1,081,481</b>	<b>\$ 1,050,309</b>

**Cash in Banks – Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, an organization deposits may not be returned to it. California Humanities has adopted cash management policies that address investment options as well as actions to be taken in the event that deposits exceed FDIC limits. The FDIC insures up to \$250,000 per depositor per insured bank. As of December 31, 2017, \$813,830 held by California Humanities was exposed to custodial credit risk, as deposits exceeded the FDIC limit for funds held with Wells Fargo Bank. As of December 31, 2016, \$796,055 held by California Humanities was exposed to custodial credit risk, as deposits exceeded the FDIC limit for funds held with Wells Fargo Bank.

**NOTE 3 – GRANTS RECEIVABLES**

As of December 31, 2017 and 2016, grants receivable consists of the following:

	2017	2016
Grant receivable - NEH	\$ 564,679	\$ 236,702
Grant receivable - other	60,634	40,000
<b>Total grants receivable</b>	<b>\$ 625,313</b>	<b>\$ 276,702</b>

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2017**

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**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment activity for the year ended December 31, 2017 and 2016, consists of the following:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	46,349	36,630
Leasehold improvements	15,000	15,000
Less accumulated depreciation	<u>(22,084)</u>	<u>(15,018)</u>
<b>Total property and equipment, net</b>	<b>\$ 39,265</b>	<b>\$ 36,612</b>

Total purchases of property and equipment during the fiscal year ended December 31, 2017 amounted to \$9,719. During the fiscal year ended December 31, 2017, total depreciation expense was \$7,066.

**NOTE 5 – OPERATING LEASE**

The Organization entered into a lease agreement for office space in Oakland, California. The lease term expires August 2025. The lease agreement includes the option to extend the lease for an additional 5 years, under certain circumstances. The Organization also entered into a lease agreement for office phones. The lease is for 36 months and expires September 2018. Future minimum lease payments for these two operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Lease Payments</u>	
2018	\$	91,959
2019		91,886
2020		94,642
2021		97,482
2022		100,406
2023 - 2025		<u>282,359</u>
<b>Total</b>	<b>\$</b>	<b>758,734</b>

**NOTE 6 – CONTINGENCIES**

Funders require the fulfillment of certain conditions as set forth in the instrument of grant or donation, and failure to fulfill the conditions of funding may result in the return of the funds to the funder. In the opinion of management, allowances for returned funds, if any, will not materially affect the Organization's financial position.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2017**

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**NOTE 7 – NET ASSETS**

**Temporarily Restricted Net Assets**

As of December 31, 2017 and 2016, the Organization’s temporarily restricted net assets consists of the following:

	2017	2016
Education Research and Development	\$ -	\$ 25,230
Organizational Effectiveness	750	2,000
CA 2020: Youth Documentaries	150,000	-
CA 2020: Democracy and the Informed Citizen	49,693	-
General Operating Support	10,418	-
Equity Alignment Project	20,000	-
Library Innovation Lab	5,110	-
Nancy Hatamiya Arts & Humanities Fund	8,655	-
Other Restrictions	2,000	-
Passage of Time	20,000	40,000
<b>Total Temporarily Restricted Net Assets</b>	<b>\$ 266,626</b>	<b>\$ 67,230</b>

As of December 31, 2017 and 2016, the Organization’s temporarily restricted net assets released from donor restrictions consists of the following:

	2017	2016
CA State Library Partnerships	\$ -	\$ 24,495
Pulitzer Prize Centennial Campfire Events and Partnership	-	65,980
Education Research and Development	25,230	59,770
Organizational Effectiveness	1,250	-
Library Innovation Lab	10,000	9,030
California Arts Council	18,900	-
General Operating Support	14,582	-
Equity Alignment Project	25,000	-
Communications Planning	20,000	-
Art of Storytelling Exhibit	1,000	-
Other Restrictions	-	1,009
Passage of Time	20,000	20,000
<b>Total Donor Restrictions Satisfied</b>	<b>\$ 135,962</b>	<b>\$ 180,284</b>

**Permanently Restricted Net Assets**

Permanently Restricted Net Assets consist of funds held in endowment accounts. Refer to Note 8 on endowment funds.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2017**

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**NOTE 8 – ENDOWMENT FUNDS**

**Sharleen Cooper-Cohen Endowment Funds**

California Humanities maintains the Sharleen Cooper-Cohen Endowment Fund established in 1998. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Board of the Organization has interpreted the State of California Uniform Prudent Management of Institutional Funds Act (UPMIF A) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowments funds, absent explicit donor stipulations to the contrary. Consequently, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization's Board. In accordance with UPMIF A, the Organization considers the following factors in making determination to appropriate or accumulate donor-restricted endowment funds: The duration and preservation of the fund, the purpose of the Organization and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Organization, the investment policies of the Organization.

**Investment Return Objectives, Risk Parameters, and Strategies**

Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. The Organization has adopted investment and spending policies approved by the Board of Directors for endowment and all other assets that attempts to achieve maximum returns while preserving capital and long-term growth. The endowment is invested in a federally insured funds and is expected to produce a rate of return of approximately 1% annually.

**Spending Policy**

The Organization' spending policy for this endowment has been to abide by the wishes of the original donor. In accordance with this, earnings from the principal during the first two years of the endowment's existence were applied to the expense of promotion and public relations, to increase the visibility of the organization. Following that period, earnings have been applied towards various programmatic and operational expenses of the organization, at the discretion of the Organization's management.

The composition and changes in the endowment net assets as of December 31, 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 32,036	\$ 32,036
Contributions to endowment	-	100	100
Current year investment income	-	-	-
Appropriations of earnings for use	-	-	-
<b>Endowment net assets, end of year</b>	<b>\$ -</b>	<b>\$ 32,136</b>	<b>\$ 32,136</b>

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2017**

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**NOTE 9 – IN-KIND SUPPORT**

The Organization received the benefit of the following in-kind support during the years ended December 31, 2017 and 2016:

	2017	2016
Donated facility usage	1,244	12,308
Donated professional services and travel costs	29,874	17,543
<b>Total In-Kind Support</b>	<b>\$ 31,118</b>	<b>\$ 29,851</b>

**NOTE 10 – CONCENTRATION**

During the year ended December 31, 2017, the Organization received approximately 86% of its support and revenue from a single governmental funder. A significant reduction in the level of this support, if this were to occur, may have an effect on the Organization's program and activities. Additionally, as of December 31, 2017, 90% of the Organization's accounts receivable is from the same governmental entity.

**NOTE 11 – RETIREMENT PLAN**

The Organization has a defined contribution retirement plan (the Plan) under section 403(b) of the Internal Revenue Code. The Organization contributes 7% of eligible employee's gross salary towards the Plan. The Organization made contributions of \$56,662 and \$54,332 to the Plan for the years ended December 31, 2017 and 2016, respectively.

**NOTE 12 – GRANTS, NET**

Grants consisted of the following for the year ended December 31, 2017 and 2016:

	2017	2016
Grants awards	\$ 959,710	\$ 791,585
Less: grants returned	(15,000)	(22,343)
<b>Total Grants, net</b>	<b>\$ 944,710</b>	<b>\$ 769,242</b>

**NOTE 13 – SUBSEQUENT EVENTS**

Management of the Organization has evaluated subsequent events for the period from December 31, 2017 through August 9, 2018, the date the financial statements were available to be issued. Management did not identify any transactions or events that require disclosure or that would have an impact on the financial statements.

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**SUPPLEMENTARY INFORMATION SECTION**

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**CALIFORNIA HUMANITIES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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<u>Federal Grantor/Pass-Through Grantor/Program or Cluster</u>	<u>CFDA Number</u>	<u>Award Numbers</u>	<u>Federal Expenditures</u>	<u>Federal Awards Passed Through to Subrecipients</u>
NATIONAL ENDOWMENT FOR THE HUMANITIES				
Promotion for the Humanities - Federal/State Partnership [1]	45.129	SO-50583-14 & SO-253167-17	\$ 3,298,198	\$ 944,710
<b>Total National Endowment for the Humanities</b>			<u>\$ 3,298,198</u>	<u>\$ 944,710</u>

[1] - Tested as a major program

The schedule of expenditures of federal awards includes the Federal Grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The Organization has not elected to use the 10 percent de minimis indirect cost rate.

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**OTHER INDEPENDENT AUDITOR'S REPORTS**

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**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**

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

**Corporate Office:**

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State Board of Accountancy*

To the Governance Board of  
California Humanities  
Oakland, California

We have audited, 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, the financial statements of California Humanities (the "Organization") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated August 9, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal control") to determine the auditing 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California  
August 9, 2018

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

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

To the Governance Board of  
California Humanities  
Oakland, California

**Report on Compliance for Each Major Federal Program**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of California Humanities' 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 California Humanities' 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 California Humanities' compliance.

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## **Opinion on Each Major Federal Program**

In our opinion, California Humanities 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 California Humanities 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 California Humanities' 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 California Humanities' internal control over compliance.

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

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

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



San Diego, California  
August 9, 2018

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**FINDINGS AND QUESTIONED COSTS SECTION**

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**CALIFORNIA HUMANITIES  
SUMMARY OF AUDITORS' RESULTS AND SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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**SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>45.129</u>	<u>Promotion for the Humanities - Federal/State Partnership</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

**FINANCIAL STATEMENT FINDINGS**

*There were no findings related to the financial statements during 2016-17.*

CALIFORNIA HUMANITIES  
SUMMARY OF AUDITORS' RESULTS AND SCHEDULE OF FINDINGS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2017

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FEDERAL AWARDS FINDINGS

Finding 2017-001 –Internal Control over Compliance

**CFDA Number I Program Name:** 45.129 I Promotion of the Humanities Federal/State Partnership

**Criteria:** 2 CFR part 215 requires that non-Federal entities receiving Federal awards establish and maintain an internal control system designed to reasonably ensure compliance with Federal laws, regulations, and program requirements.

**Condition:** During testing we noted that the Organization did not appear to have fully developed its system of internal control over compliance related to identification of new requirements.

**Effect:** Noncompliance with a compliance requirement of a federal program may not be prevented, or detected and corrected on a timely basis.

**Context:** Compliance and requirement changes (some with delayed implementation dates) have increased as a result of the adoption of the Uniform Guidance (Super Circular).

**Cause:** The Organization had not fully developed its process to identify changes and new compliance requirements.

**Recommendation:** We recommend that the Organization develop and maintain an internal control system including adopting a procurement manual. We recommend that the Organization review the compliance supplement and Uniform Guidance on a proactive basis. The Organization should also document decisions to delay implementation when the Organization is eligible for delayed implementation, such as the development of the procurement manual.

**CALIFORNIA HUMANITIES  
FEDERAL AWARD FINDINGS – CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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**Finding 2017-001 –Internal Control over Compliance – Corrective Action Plan**

**Corrective Action Plan:** California Humanities will conduct periodic reviews of federal websites and other professional sources to ensure the organization remains in compliance with Federal and NEH-specific guidelines. In addition, California Humanities will seek out training opportunities in this area.

**Contact Person(s):** Linda Spain de Bruin (CFO) and Julie Fry (Executive Director)

**Anticipated Completion Date:** December 31, 2018

**CALIFORNIA HUMANITIES  
SUMMARY OF PRIOR YEAR AUDITORS' RESULTS AND SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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**PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**

**Finding 2016-001 – Reporting – Subaward Identification**

**CFDA Number I Program Name:** 45.129 I Promotion of the Humanities Federal/State Partnership

**Criteria:** 2 CFR sections 200.33 1 (a) requires that include 13 required data elements.

**Condition:** We noted that the Organization's subaward notifications appeared to omit some of the 13 required data elements including the federal award identification number, federal award date and the research and development indicator.

**Effect:** Inclusion of all data elements may enhance the ability of subrecipients to carry out their compliance activities, and increase the traceability of awards from subrecipient, through the Organization to a specific federal award.

**Questioned costs:** None

**Context:** The Organization exercised care to identify data elements such as the CFDA number of funding, the names of federal awarding entity, project title along with descriptions of federal restrictions and compliance items which clearly indicated the federal nature of the funding. In addition, the Organization maintained in its records additional information such as subrecipient's unique identifiers and certifications by awardees with respect to federal compliance matters. Recipients may therefore have been in a position to comply with federal funding requirements even in the absence of certain data elements.

**Cause:** The Organization had not fully reviewed the Uniform Guidance with respect to subaward identification.

**Recommendation:** Update grant award notifications to include the required data elements. The Official Notice of Action from the NEH may serve as a useful sample.

**Views of responsible officials:** California Humanities has updated its grant award letters to include the required data elements.

**Current Status:** Implemented.

**CALIFORNIA HUMANITIES  
SUMMARY OF PRIOR YEAR AUDITORS' RESULTS AND SCHEDULE OF FINDINGS CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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**PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Finding 2016-002 – Cash Management**

**CFDA Number I Program Name:** 45.129 I Promotion of the Humanities Federal/State Partnership

**Criteria:** 2 CFR 200.305(b) requires entities minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity.

**Condition:** The Organization had not fully refined its policies around payment requests to minimize the time between receipt of funds and disbursement.

**Effect:** The Organization may request federal cash earlier than necessary. Excess cash held may result in interest income which in some cases must be repaid to the awarding agency.

**Questioned Costs:** None

**Context:** The Organization held most cash (80%) in an interest-bearing account. Total interest of \$231 was below the threshold which would require repayment.

**Cause:** The Organization had not fully defined its process for payment requests using a cash basis of reporting.

**Recommendation:** Update the Organization's written policy in this area to fully consider unliquidated obligations when making payment requests.

**Views of responsible officials:** California Humanities has updated its policy in this area based on this comment.

**Current Status:** Implemented.

**CALIFORNIA HUMANITIES  
SUMMARY OF PRIOR YEAR AUDITORS' RESULTS AND SCHEDULE OF FINDINGS CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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**PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Finding 2016-003 – Reporting – Federal Financial Report (SF425)**

**CFDA Number I Program Name:** 45.129 I Promotion of the Humanities Federal/State Partnership

**Criteria:** 2 CFR 200.327 Financial reporting and paragraph 15 of General Terms and Conditions for awards specify financial reporting using the OMB approved Federal Financial Report (SF 425)

**Condition:** During testing we noted that the Organization had not fully developed its accrual basis to cash basis conversion necessary to accurately complete item b) federal cash -cash disbursements and t) "Federal Share of Unliquidated Obligations". Based on our audit we would expect item t) to be consistent with subrecipient awards ("regrants") awarded but not yet disbursed, which in turn may affect the calculation for item b).

**Effect:** Selected amounts on the FFR may have been incorrect.

**Questioned costs:** None

**Context:** These matters did not affect federal expenditures reported on the accrual basis on the FFR. The Organization maintains sufficient detail in its general ledger to the necessary reporting for a given award.

**Cause:** The Organization had not fully developed relevant processes in this area to distinguish between cash and accrual basis.

**Recommendation:** Leverage existing coding of regrants payable by federal award identification number already maintained in general ledger to generate the appropriate reporting.

**Views of responsible officials:** California Humanities has modified its reporting for consistency with this requirement to include correct cash basis numbers where necessary.

**Current Status:** Implemented

CALIFORNIA HUMANITIES  
SUMMARY OF PRIOR YEAR AUDITORS' RESULTS AND SCHEDULE OF FINDINGS CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2017

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PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

**Finding 2016-004 –Internal Control over Compliance**

**CFDA Number I Program Name:** 45.129 I Promotion of the Humanities Federal/State Partnership

**Criteria:** 2 CFR part 215 requires that non-Federal entities receiving Federal awards establish and maintain an internal control system designed to reasonably ensure compliance with Federal laws, regulations, and program requirements.

**Condition:** During testing we noted that the Organization did not appear to have fully developed its system of internal control over compliance related to identification of new requirements.

**Effect:** Noncompliance with a compliance requirement of a federal program may not be prevented or detected and corrected on a timely basis.

**Context:** Compliance and requirement changes (some with delayed implementation dates) have increased as a result of the adoption of the Uniform Guidance (Super Circular).

**Cause:** The Organization had not fully developed its process to identify changes and new compliance requirements.

**Recommendation:** Review contract terms, the compliance supplement and Uniform Guidance on a proactive basis. Document decisions to delay implementation of matters eligible for delayed implementation.

**Views of responsible officials:** California Humanities will conduct a periodic review of key documents as well as review training opportunities and continue to build out and maintain an internal set of reference materials in this area.

**Current Status:** Partially implemented, See Finding 2017-001.