

# **CALIFORNIA HUMANITIES**

## **AUDIT REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2018**

**CALIFORNIA HUMANITIES  
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DECEMBER 31, 2018**

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## **FINANCIAL SECTION**

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Schools throughout California

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
California Humanities  
Oakland, California

### **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, 2018, 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 from material misstatement.

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

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

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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, 2018, 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**

### ***Change in Accounting Principle***

As discussed in Note 1N to the financial statements, in 2018 California Humanities adopted new accounting guidance, ASU No. 2016-14, Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

### ***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.

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

We have previously audited California Humanities' December 31, 2017 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated August 9, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2019, 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.



San Diego, California  
August 9, 2019

**CALIFORNIA HUMANITIES**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2018**  
**WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2017**

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	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,378,981	\$ 1,081,481
Grants receivable	411,847	625,313
Prepaid expenses	<u>32,835</u>	<u>30,110</u>
Total current assets	<u>1,823,663</u>	<u>1,736,904</u>
Non-current assets		
Deposits	7,438	6,938
Property and equipment, net	<u>32,795</u>	<u>39,265</u>
Total non-current assets	<u>40,233</u>	<u>46,203</u>
<b>Total Assets</b>	<b><u>\$ 1,863,896</u></b>	<b><u>\$ 1,783,107</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 31,964	\$ 46,161
Grants payable	805,588	723,388
Accrued vacation	<u>57,035</u>	<u>51,782</u>
Total liabilities	<u>894,587</u>	<u>821,331</u>
Net assets		
Net assets without donor restrictions	670,023	663,014
Net assets with donor restrictions	<u>299,286</u>	<u>298,762</u>
Total net assets	<u>969,309</u>	<u>961,776</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 1,863,896</u></b>	<b><u>\$ 1,783,107</u></b>

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

**CALIFORNIA HUMANITIES  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018  
WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2017**

	Without Donor Restrictions	With Donor Restrictions	Total	
			2018	2017
<b>SUPPORT AND REVENUES</b>				
Government	\$ 2,558,147	\$ 53,000	\$ 2,611,147	\$ 2,538,528
Foundation contributions	149	311,100	311,249	319,693
Individual contributions	48,159	18,085	66,244	61,952
In-kind support	15,463	-	15,463	31,118
Interest	266	-	266	271
Other revenue	2,250	-	2,250	-
Net assets released from restrictions	381,661	(381,661)	-	-
<b>Total Support and Revenues</b>	<b>3,006,095</b>	<b>524</b>	<b>3,006,619</b>	<b>2,951,562</b>
<b>EXPENSES</b>				
Program services				
Core programs	1,408,860	-	1,408,860	1,332,370
Periodic initiatives	355,674	-	355,674	190,575
General programs	159,203	-	159,203	110,713
Total program services	1,923,737	-	1,923,737	1,633,658
Supporting services				
Management and general	863,109	-	863,109	941,346
Fundraising	212,240	-	212,240	188,950
Total supporting services	1,075,349	-	1,075,349	1,130,296
<b>Total Expenses</b>	<b>2,999,086</b>	<b>-</b>	<b>2,999,086</b>	<b>2,763,954</b>
<b>CHANGE IN NET ASSETS</b>	<b>7,009</b>	<b>524</b>	<b>7,533</b>	<b>187,608</b>
<b>Net Assets - Beginning</b>	<b>663,014</b>	<b>298,762</b>	<b>961,776</b>	<b>774,168</b>
<b>Net Assets - Ending</b>	<b>\$ 670,023</b>	<b>\$ 299,286</b>	<b>\$ 969,309</b>	<b>\$ 961,776</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, 2018  
WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 7,533	\$ 187,608
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	8,146	7,066
(Increase) decrease in operating assets		
Grants receivable	213,466	(348,611)
Prepaid expenses	(2,725)	(17,190)
Deposits	(500)	-
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(14,197)	17,330
Grants payable	82,200	173,852
Accrued vacation	5,253	20,836
<b>Net cash provided by (used in) operating activities</b>	<u>299,176</u>	<u>40,891</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(1,676)</u>	<u>(9,719)</u>
<b>Net cash provided by (used in) investing activities</b>	<u>(1,676)</u>	<u>(9,719)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	297,500	31,172
<b>Cash and cash equivalents - Beginning</b>	<u>1,081,481</u>	<u>1,050,309</u>
<b>Cash and cash equivalents - Ending</b>	<u>\$ 1,378,981</u>	<u>\$ 1,081,481</u>
<b>SUPPLEMENTAL DISCLOSURE</b>		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</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, 2018  
WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2017**

EXPENSES	Program Services	Management and General	Fundraising	Total	
				2018	2017
Salaries	\$ 427,402	\$ 325,590	\$ 130,449	\$ 883,441	\$ 821,150
Employee benefits	50,065	37,238	15,281	102,584	100,131
Retirement contributions	31,035	23,642	9,472	64,149	56,662
Payroll taxes	37,548	28,604	11,460	77,612	66,783
<b>Total Personnel</b>	<b>\$ 546,050</b>	<b>\$ 415,074</b>	<b>\$ 166,662</b>	<b>\$ 1,127,786</b>	<b>\$ 1,044,726</b>
Grants, net	\$ 1,013,342	\$ -	\$ (1,500)	\$ 1,011,842	\$ 944,710
Accounting	-	150,200	-	150,200	141,975
Professional services	170,615	82,947	1,400	254,962	177,247
Advertising and promotion	1,339	7,447	300	9,086	25,358
Supplies and office expenses	18,156	22,275	6,851	47,282	44,338
Information technology	19,199	11,042	5,860	36,101	34,329
Occupancy	62,435	46,705	19,056	128,196	131,220
Travel and meals	56,558	54,823	2,618	113,999	106,171
Meetings	17,524	623	8,474	26,621	12,387
Depreciation	4,332	2,492	1,322	8,146	7,066
Insurance	-	2,406	-	2,406	2,088
Dues, licenses and fees	85	46,082	-	46,167	52,658
In-kind services and facility	990	14,473	-	15,463	31,118
Miscellaneous	13,112	6,520	1,197	20,829	8,563
<b>Total Expenses</b>	<b>\$ 1,923,737</b>	<b>\$ 863,109</b>	<b>\$ 212,240</b>	<b>\$ 2,999,086</b>	<b>\$ 2,763,954</b>

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

**CALIFORNIA HUMANITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

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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 single or multiyear initiatives and may encompass subprograms for grant making, direct programming, and/or 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, 2018**

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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 two classes of net assets: net assets without donor restrictions and net asset with donor restrictions.

Net assets without donor restrictions—These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

Net assets with donor restrictions—These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted.

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, 2017, from which the summarized comparative information was derived.

**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.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2018**

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

**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 (Level 1). Gains and losses resulting from adjustments to fair values are included in the accompanying statement of activities. Investment return is presented net of any investment fees.

**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, 2018, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

**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. Contributions restricted for the acquisition of property and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

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.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2018**

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

**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.

While California Humanities does not presently hold surplus funds in investment accounts, the organization would adopt the Level 1 measure to assess the fair value of any investments it may purchase in the coming months or years.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2018**

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

**N. Change in Accounting Principle**

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 the 2018 year. The Organization has applied the ASU retrospectively to all periods presented. The implementation had no impact on previously reported total net assets for the 2017 year.

**O. New Accounting Pronouncement**

**Leases**

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The objective of the ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. The new FASB ASU topic on leases consists of five subtopics: overall, lessee, lessor, sale and leaseback transactions, and leveraged lease arrangements. ASU No. 2016-02 is applicable to any entity that enters into a lease and is effective for public business entities for fiscal years beginning after December 15, 2018. The Organization will determine the impact on the financial statements once implemented in the 2019 year.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of December 31, 2018 and 2017, consist of the following:

	2018	2017
Cash in banks, interest bearing	\$ 1,377,061	\$ 1,063,830
Cash on hand	-	100
Cash collections awaiting deposit	1,920	551
Cash awaiting disbursement	-	17,000
<b>Total Cash and Cash Equivalents</b>	<b>\$ 1,378,981</b>	<b>\$ 1,081,481</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, 2018, \$1,127,061 was exposed to custodial credit risk, as deposits exceeded the FDIC limit for funds held with Wells Fargo Bank. As of December 31, 2017, \$813,830 was exposed to custodial credit risk, as deposits exceeded the FDIC limit for funds held with Wells Fargo Bank.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2018**

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**NOTE 3 – GRANTS RECEIVABLES**

As of December 31, 2018 and 2017, grants receivable consists of the following:

	2018	2017
Grant receivable - NEH	\$ 397,827	\$ 564,679
Grant receivable - other	14,020	60,634
<b>Total Grants Receivable</b>	<b>\$ 411,847</b>	<b>\$ 625,313</b>

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment balances as of December 31, 2018 and 2017, consists of the following:

	2018	2017
Furniture and equipment	48,024	46,348
Leasehold improvements	15,000	15,000
Less accumulated depreciation	(30,229)	(22,083)
<b>Total Property and Equipment, Net</b>	<b>\$ 32,795</b>	<b>\$ 39,265</b>

Total purchases of property and equipment during the fiscal year ended December 31, 2018 amounted to \$1,676. During the fiscal year ended December 31, 2018, total depreciation expense was \$8,146. 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 a copier. The lease is for 39 months and expires December 2021. In addition, the Organization also entered into a lease agreement for a postage meter. The lease is for 51 months and expires May 2022. Future minimum lease payments for these three operating leases are as follows:

Year Ending December 31,	Lease Payments	
2019	\$	111,981
2020		115,230
2021		118,577
2022		118,505
2023		121,898
2024 - 2025		211,341
<b>Total</b>	<b>\$</b>	<b>797,532</b>

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2018**

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**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.

**NOTE 7 – NET ASSETS**

**Net Assets With Donor Restriction**

As of December 31, 2018 and 2017, the Organization’s net assets with donor restrictions consists of the following:

	2018	2017
Organizational Effectiveness	\$ -	\$ 750
CA 2020: Youth Documentaries	41,000	150,000
CA 2020: Democracy and the Informed Citizen	25,615	49,693
General Operating Support	40,000	10,418
Equity Alignment Project	-	20,000
Library Innovation Lab	46,100	5,110
Literature & Medicine	50,000	-
Nancy Hatamiya Arts & Humanities Fund	12,485	8,655
Other Restrictions	51,950	2,000
Passage of Time	-	20,000
Endowment Funds	32,136	32,136
<b>Total Net Assets With Donor Restrictions</b>	<b>\$ 299,286</b>	<b>\$ 298,762</b>

As of December 31, 2018 and 2017, the Organization’s net assets released from donor restrictions consists of the following:

	2018	2017
Communications Planning	\$ -	\$ 20,000
Art of Storytelling Exhibit	-	1,000
California Arts Council	-	18,900
Education Research and Development	-	25,230
Organizational Effectiveness	750	1,250
CA 2020: Youth Documentaries	127,000	-
CA 2020: Democracy and the Informed Citizen	81,578	-
General Operating Support	10,418	14,582
Library Innovation Lab	22,610	10,000
Nancy Hatamiya Arts & Humanities Fund	8,655	-
Regranting	44,650	-
Equity Alignment Project	64,000	25,000
Other Restrictions	2,000	-
Passage of Time	20,000	20,000
<b>Total Net Assets Released From Restrictions</b>	<b>\$ 381,661</b>	<b>\$ 135,962</b>

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2018**

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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 (UPMIFA) 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 net assets with donor restrictions (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.

In accordance with UPMIFA, 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.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with an original gift value of \$32,136 and a fair value of \$32,136 were reported in net assets with donor restrictions with no deficiencies.

**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.

As of December 31, 2018, the endowment fund is comprised of cash and cash equivalents.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2018**

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**NOTE 8 – ENDOWMENT FUNDS, continued**

The composition and changes in the endowment net assets as of December 31, 2018 are as follows:

	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 32,136	\$ 32,136
Contributions to endowment	-	-
Current year investment income	-	-
Appropriations of earnings for use	-	-
<b>Endowment net assets, end of year</b>	<b>\$ 32,136</b>	<b>\$ 32,136</b>

**NOTE 9 – IN-KIND SUPPORT**

The Organization received the benefit of the following in-kind support during the years ended December 31, 2018 and 2017:

	2018	2017
Donated facility usage	990	1,244
Donated professional services and travel costs	14,473	29,874
<b>Total In-Kind Support</b>	<b>\$ 15,463</b>	<b>\$ 31,118</b>

**NOTE 10 – CONCENTRATION**

During the year ended December 31, 2018, the Organization received approximately 87% 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, 2018, 97% 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 \$64,149 and \$56,662 to the Plan for the years ended December 31, 2018 and 2017, respectively.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2018**

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**NOTE 12 – GRANTS, NET**

Grants consisted of the following for the year ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Grants awards	\$ 1,030,014	\$ 959,710
Less: grants returned	(18,172)	(15,000)
<b>Total Grants, net</b>	<b><u>\$ 1,011,842</u></b>	<b><u>\$ 944,710</u></b>

**NOTE 13 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The following table reflects the Organization’s financial assets as of December 31, 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, state-required annuity reserves, trust assets, assets held for others, perpetual endowments and accumulated earnings net of appropriations within one year, or because the governing board has set aside the funds for a specific contingency reserve or a long-term investment as board designated endowments. These board designations could be drawn upon if the board approves that action.

	<u>2018</u>	<u>2017</u>
Financial assets		
Cash and cash equivalents	\$ 1,378,981	\$ 1,081,481
Grants receivable, collected in less than one year	411,847	625,313
Total financial assets, excluding noncurrent receivables	<u>1,790,828</u>	<u>1,706,794</u>
Contractual or donor-imposed restrictions:		
Cash restricted by others to specific uses	(267,150)	(266,626)
Endowment fund investments	(32,136)	(32,136)
Board designations:		
Operating reserves and others	<u>(684,000)</u>	<u>(660,000)</u>
<b>Financial assets available to meet cash needs for expenditures within one year</b>	<b><u>\$ 807,542</u></b>	<b><u>\$ 748,032</u></b>

California Humanities’ goal is generally to maintain financial assets to meet 120 days of operating expenses (approximately \$684,000 moving into 2019). As part of its liquidity plan, California Humanities maintains cash reserves in a designated savings account to satisfy this operational cash requirement.

**NOTE 14 – SUBSEQUENT EVENTS**

Management of the Organization has evaluated subsequent events for the period from December 31, 2018 through August 9, 2019, 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, 2018**

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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-253167-17	\$ 2,558,147	\$ 1,011,842
<b>Total National Endowment for the Humanities</b>			<u>\$ 2,558,147</u>	<u>\$ 1,011,842</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 AUDITORS' 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**

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, 2018, 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, 2019.

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

## **Purpose of this Report**

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



San Diego, California

August 9, 2019

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

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, 2018. 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.

## 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, 2018.

## 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, 2019

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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, 2018**

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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>None Reported</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>	
45.129	Promotion for the Humanities - Federal/State Partnership	
Dollar threshold used to distinguish between Type A and Type B programs:		\$ 750,000
Auditee qualified as low-risk auditee?		<u>Yes</u>

**FINANCIAL STATEMENT FINDINGS**

*There were no findings related to the financial statements during 2018.*

**FEDERAL AWARDS FINDINGS**

*There were no findings related to the federal awards during 2018.*

**CALIFORNIA HUMANITIES  
SUMMARY OF AUDITORS' RESULTS AND SCHEDULE OF FINDINGS, continued  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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**PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**

**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.

**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

**Current Status:** Implemented.