



## **AUDIT REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2019**

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## **FINANCIAL SECTION**

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**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, 2019, 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.

**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, 2019, 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**

### *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, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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, 2018 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated August 9, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 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 July 17, 2020, 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  
July 17, 2020

**CALIFORNIA HUMANITIES**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2019**  
**WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2018**

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	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,517,887	\$ 1,378,981
Grants receivable	1,151,145	411,847
Prepaid expenses	8,330	32,835
Total current assets	<u>2,677,362</u>	<u>1,823,663</u>
Non-current assets		
Deposits	6,938	7,438
Property and equipment, net	31,928	32,795
Total non-current assets	<u>38,866</u>	<u>40,233</u>
<b>Total Assets</b>	<u>\$ 2,716,228</u>	<u>\$ 1,863,896</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Grants payable	\$ 1,024,183	\$ 805,588
Accounts payable	49,071	31,964
Accrued vacation	79,255	57,035
Total liabilities	<u>1,152,509</u>	<u>894,587</u>
Net assets		
Without donor restrictions	646,083	670,023
With donor restrictions	917,636	299,286
Total net assets	<u>1,563,719</u>	<u>969,309</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 2,716,228</u>	<u>\$ 1,863,896</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, 2019  
WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2018**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>SUPPORT AND REVENUES</b>				
Grants and contributions				
Government	\$ 2,623,623	\$ 1,000,000	\$ 3,623,623	\$ 2,611,147
Foundation contributions	107,544	93,000	200,544	311,249
Individual contributions	53,181	17,849	71,030	66,244
In-kind support	11,590	-	11,590	15,463
Other support and revenues				
Interest	274	-	274	266
Miscellaneous income	-	-	-	2,250
Net assets released from restrictions				
Donor restrictions satisfied	492,499	(492,499)	-	-
<b>Total Support and Revenues</b>	<b>3,288,711</b>	<b>618,350</b>	<b>3,907,061</b>	<b>3,006,619</b>
<b>EXPENSES</b>				
Program services				
Core programs	1,708,946	-	1,708,946	1,408,860
Periodic initiatives	317,162	-	317,162	355,674
General programs	171,451	-	171,451	159,203
Total program services	<u>2,197,559</u>	<u>-</u>	<u>2,197,559</u>	<u>1,923,737</u>
Supporting services				
Management and general	886,420	-	886,420	863,109
Fundraising	228,672	-	228,672	212,240
Total supporting services	<u>1,115,092</u>	<u>-</u>	<u>1,115,092</u>	<u>1,075,349</u>
<b>Total Expenses</b>	<b>3,312,651</b>	<b>-</b>	<b>3,312,651</b>	<b>2,999,086</b>
<b>CHANGE IN NET ASSETS</b>	<b>(23,940)</b>	<b>618,350</b>	<b>594,410</b>	<b>7,533</b>
<b>Net Assets - Beginning</b>	<b>670,023</b>	<b>299,286</b>	<b>969,309</b>	<b>961,776</b>
<b>Net Assets - Ending</b>	<b>\$ 646,083</b>	<b>\$ 917,636</b>	<b>\$ 1,563,719</b>	<b>\$ 969,309</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, 2019  
WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2018**

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	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 594,410	\$ 7,533
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	6,583	8,146
(Increase) decrease in operating assets		
Grants receivable	(739,298)	213,466
Prepaid expenses	24,505	(2,725)
Deposits	500	(500)
Increase (decrease) in operating liabilities		
Accounts payable	17,107	(14,197)
Grants payable	218,595	82,200
Accrued vacation	22,220	5,253
<b>Net cash provided by (used in) operating activities</b>	<u>144,622</u>	<u>299,176</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(5,716)</u>	<u>(1,676)</u>
<b>Net cash provided by (used in) investing activities</b>	<u>(5,716)</u>	<u>(1,676)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	138,906	297,500
<b>Cash and cash equivalents - Beginning</b>	<u>1,378,981</u>	<u>1,081,481</u>
<b>Cash and cash equivalents - Ending</b>	<u>\$ 1,517,887</u>	<u>\$ 1,378,981</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, 2019  
WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2018**

	2019				2018
	Program Services	Management and General	Fundraising	Total	Total
<b>EXPENSES</b>					
Personnel expenses					
Salaries	\$ 487,451	\$ 319,130	\$ 141,280	\$ 947,861	\$ 883,441
Employee benefits	64,105	40,874	18,580	123,559	102,584
Retirement contributions	34,143	22,353	9,896	66,392	64,149
Payroll taxes	40,763	26,687	11,815	79,265	77,612
Other personnel costs	4,635	2,612	1,344	8,591	-
Total Personnel	631,097	411,656	182,915	1,225,668	1,127,786
Non-personnel expenses					
Grants, net	1,265,896	(1,420)	-	1,264,476	1,011,842
Accounting	-	154,436	-	154,436	150,200
Marketing and communications	256	8,739	93	9,088	9,086
Information technology	12,410	6,991	3,597	22,998	36,101
Other professional services	119,751	91,123	3,150	214,024	254,962
Supplies and office expenses	17,476	25,640	4,366	47,482	47,282
Occupancy	73,532	47,194	21,313	142,039	128,196
Depreciation	3,553	2,001	1,029	6,583	8,146
Travel and conference	29,478	49,780	1,831	81,089	113,999
Meetings	7,876	1,257	8,577	17,710	26,621
Other program activities	34,984	6,743	126	41,853	-
Insurance	-	3,059	-	3,059	2,406
Dues, licenses and fees	1,250	57,593	-	58,843	46,167
In-kind services and facility	-	11,590	-	11,590	15,463
Miscellaneous	-	10,038	1,675	11,713	20,829
Total Non-personnel	1,566,462	474,764	45,757	2,086,983	1,871,300
<b>Total Expenses - 2019</b>	<b>\$ 2,197,559</b>	<b>\$ 886,420</b>	<b>\$ 228,672</b>	<b>\$ 3,312,651</b>	
<b>Total Expenses - 2018</b>	<b>\$ 1,923,737</b>	<b>\$ 863,109</b>	<b>\$ 212,240</b>		<b>\$ 2,999,086</b>

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

**CALIFORNIA HUMANITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

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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 (NEH), California Humanities 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.

**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.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2019**

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

**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, 2018, 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.

**G. Contributions**

Contributions are recorded as either net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met and unconditional contributions are recognized when pledged. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as "net assets released from restrictions." Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without 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.

**H. 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.

**I. 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. Investment return is presented net of any investment fees.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2019**

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

**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, 2019, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

**K. 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

**L. 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.

**M. 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.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2019**

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

**M. Income Taxes (continued)**

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, 2019.

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.

**N. New Accounting Pronouncements**

**Revenue Recognition**

In May 2014, the International Accounting Standards Board (IASB) and FASB issued a joint accounting standard on revenue recognition to address a number of concerns regarding the complexity and lack of consistency surrounding the accounting for revenue transactions. Consistent with each board's policy, FASB and IASB issued new reporting standards on revenue recognition. FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in FASB ASU No. 2014-09 provides a framework for revenue recognition and supersedes or amends several of the revenue recognition requirements in FASB ASC 605 Revenue Recognition. The guidance was originally effective for public entities for the fiscal year beginning after December 15, 2016. In August 2015, FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, to allow entities additional time to implement systems, gather data, and resolve implementation questions. The effective dates for the new guidance are staggered. Public entities have already implemented the new guidance, and nonprofit entities are required to implement the new guidance for fiscal years beginning after December 15, 2018. In April 2020, FASB voted to delay implementation by one year as a result of COVID-19. The Organization will determine the impact on the financial statements once implemented.

**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. In October 2019, FASB approved to delay effective dates for all public business entities, except for SEC filers, to fiscal years beginning after December 15, 2019. In April 2020, FASB voted to delay implementation by one year as a result of COVID-19. The Organization will determine the impact on the financial statements once implemented.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2019**

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of December 31, 2019 and 2018, consist of the following:

	2019	2018
Cash in banks, interest bearing	\$ 850,617	\$ 1,377,061
Cash in banks, non-interest bearing	650,163	-
Cash on hand	198	-
Cash collections awaiting deposit	-	1,920
Cash awaiting disbursement	16,909	-
<b>Total Cash and Cash Equivalents</b>	<b>\$ 1,517,887</b>	<b>\$ 1,378,981</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, 2019, \$1,250,780 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, 2019 and 2018, grants receivable consists of the following:

	2019	2018
National Endowment for Humanities	\$ 536,450	\$ 397,827
California State Library	505,300	-
Hewlett Foundation	60,525	-
Federation of State Humanities Councils	34,794	-
Other grants and donations	14,076	14,020
<b>Total Grants Receivable</b>	<b>\$ 1,151,145</b>	<b>\$ 411,847</b>

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment activity during the year ended December 31, 2019 consists of the following:

	2018	Purchases/ Additions	Sales/ Disposals	2019
Furniture and equipment	\$ 48,024	\$ 5,716	\$ -	\$ 53,740
Leasehold improvements	15,000	-	-	15,000
Less accumulated depreciation	(30,229)	(6,583)	-	(36,812)
<b>Total Property and Equipment, Net</b>	<b>\$ 32,795</b>	<b>\$ (867)</b>	<b>\$ -</b>	<b>\$ 31,928</b>

Total purchases of property and equipment during the fiscal year ended December 31, 2019 amounted to \$5,716. During the fiscal year ended December 31, 2019, total depreciation expense was \$6,583.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2019**

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**NOTE 5 – 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, 2019, 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, 2019, the endowment fund is comprised of cash and cash equivalents. The composition and changes in the endowment net assets as of December 31, 2019 are as follows:

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

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2019**

**NOTE 6 – NET ASSETS**

**Net Assets with Donor Restrictions**

Net assets with donor restrictions activity during the year ended December 31, 2019 consists of the following:

Purpose or Donor	2018	Restricted Sources	Released from Restrictions	2019
California State Library	\$ -	\$ 1,000,000	\$ 215,000	\$ 785,000
Panta Rhea Foundation	-	40,000	15,000	25,000
Hewlett Foundation	-	25,000	10,000	15,000
California Arts Council	-	28,000	-	28,000
CA 2020: Youth Documentaries	41,000	-	39,200	1,800
CA 2020: Democracy and the Informed Citizen	25,615	-	25,615	-
General Operating Support	40,000	-	40,000	-
Library Innovation Lab	46,100	8,850	54,950	-
Literature & Medicine	50,000	-	20,000	30,000
Nancy Hatamiya Arts & Humanities Fund	12,485	8,299	20,784	-
Other restrictions	51,950	700	51,950	700
Endowment funds	32,136	-	-	32,136
<b>Total Net Assets with Donor Restrictions</b>	<b>\$ 299,286</b>	<b>\$ 1,110,849</b>	<b>\$ 492,499</b>	<b>\$ 917,636</b>

The total net assets with donor restrictions as of December 31, 2019 is derived from taking the beginning balance (or balance as of December 31, 2018) plus restricted sources less amounts released from restrictions. During the year ended December 31, 2019, the Organization's received \$1,110,849 in grants and contributions with donor-imposed restrictions and released \$492,499 from donor restrictions due to fulfillment of donor stipulations.

**Net Assets without Donor Restrictions**

Certain designations or reserves have been made for the use of net assets without donor restrictions either by the board, management, or by nature of the financial assets held by the Organization. At December 31, 2019 and 2018, the Organization's net assets without donor restrictions consist of the following:

	2019	2018
Net investment in capital assets	\$ 31,928	\$ 32,795
Designated for operating reserves	694,260	684,000
Undesignated	(80,105)	(46,772)
<b>Total Net Assets without Donor Restrictions</b>	<b>\$ 646,083</b>	<b>\$ 670,023</b>

California Humanities' goal is generally to maintain financial assets to meet 120 days of operating expenses (approximately \$694,260 moving into 2020). As part of its liquidity plan, California Humanities maintains cash reserves in a designated savings account to satisfy this operational cash requirement.

**NOTE 7 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The table on the following page reflects the Organization's financial assets as of December 31, 2019 and 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.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2019**

**NOTE 7 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (continued)**

	2019	2018
Financial assets		
Cash and cash equivalents	\$ 1,517,887	\$ 1,378,981
Grants receivable, collected in less than one year	1,151,145	411,847
Total financial assets, excluding noncurrent	<u>2,669,032</u>	<u>1,790,828</u>
Contractual or donor-imposed restrictions		
Cash restricted by others to specific uses	(885,500)	(267,150)
Endowment funds	(32,136)	(32,136)
Board designations		
Operating reserves and others	<u>(694,260)</u>	<u>(684,000)</u>
<b>Financial assets available to meet cash needs for expenditures within one year</b>	<u>\$ 1,057,136</u>	<u>\$ 807,542</u>

**NOTE 8 – GRANTS, NET**

Grants consisted of the following for the year ended December 31, 2019 and 2018:

	2019	2018
Grants awards	\$ 1,269,871	\$ 1,030,014
Less: grants returned	(5,395)	(18,172)
<b>Total Grants, net</b>	<u>\$ 1,264,476</u>	<u>\$ 1,011,842</u>

**NOTE 9 – IN-KIND SUPPORT**

The Organization received the benefit of the following in-kind support during the years ended December 31, 2019 and 2018:

	2019	2018
Donated facility usage	\$ 2,784	\$ 990
Donated professional services and travel costs	8,806	14,473
<b>Total In-Kind Support</b>	<u>\$ 11,590</u>	<u>\$ 15,463</u>

**NOTE 10 – 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 \$66,392 and \$64,149 to the Plan for the years ended December 31, 2019 and 2018, respectively.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

**Specific Concentrations**

During the year ended December 31, 2019, the Organization received approximately 93% of its support and revenue from two governmental funding sources: the National Endowment for the Humanities and the California State Library. A significant reduction in the level of support from these sources, if this were to occur, may have an effect on the Organization's program and activities. Additionally, as of December 31, 2019, 90% of the Organization's accounts receivable are from the same two sources.

**CALIFORNIA HUMANITIES**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**DECEMBER 31, 2019**

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**NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued)**

**Governmental and Other Restricted Funding**

The Organization has received federal funds for specific purposes that are subject to review and audit by the grantor agency. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements would not be material.

With regards to other restricted funding, 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.

**Operating Leases**

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 the aforementioned operating lease agreements are as follows:

<u>Year Ending December 31,</u>	<u>Lease Payments</u>
2020	\$ 115,230
2021	118,577
2022	118,505
2023	121,898
2024	125,555
2025	85,786
<b>Total</b>	<u>\$ 685,551</u>

**NOTE 12 – SUBSEQUENT EVENTS**

Management of the Organization has evaluated subsequent events for the period from December 31, 2019 through July 17, 2020, the date the financial statements were available to be issued. As a result of the coronavirus (COVID-19) outbreak, economic uncertainties have arisen which could impact how the Organization operates its programs and activities for the future reporting periods. Although the Organization does not feel that its financial situation will be negatively impacted by COVID-19, there is a chance that governmental funding could be modified or delayed.

At this time, management cannot predict the overall impact of the COVID-19 pandemic, but management continues to monitor the situation, to assess further possible implications to operations, and to take actions in an effort to mitigate adverse consequences. Management did not identify any other transactions or events that require disclosure or that would have an impact on the financial statements.

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## **SUPPLEMENTARY INFORMATION**

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**CALIFORNIA HUMANITIES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

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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	\$ 2,761,855	\$ 1,264,476
<b>Total National Endowment for the Humanities</b>			<b>\$ 2,761,855</b>	<b>\$ 1,264,476</b>

**[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, 2019, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated July 17, 2020.

### **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.

A handwritten signature in blue ink that reads "Christy White, Inc". The signature is written in a cursive, flowing style.

San Diego, California  
July 17, 2020

**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, 2019. 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, 2019.

## **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  
July 17, 2020

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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, 2019**

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**PART I: 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:		<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?		<u>Yes</u>

**PART II: FINANCIAL STATEMENT FINDINGS**

*There were no findings related to the financial statements during 2019.*

**PART III: FEDERAL AWARDS FINDINGS**

*There were no findings related to the federal awards during 2019.*

**PART IV: PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**

*There were no findings reported for 2018.*