



AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2022**

A NONPROFIT PUBLIC BENEFIT CORPORATION

**CALIFORNIA HUMANITIES
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DECEMBER 31, 2022**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
California Humanities
Oakland, California

Report on the Financial Statements**Opinion**

We have audited the accompanying financial statements of California Humanities (the "Organization") which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Humanities as of December 31, 2022, 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.

Basis for Opinion

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

Change in Accounting Principle

As discussed in item N of Note 1 to the financial statements, in 2022 California Humanities adopted new accounting guidance, ASU No. 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited California Humanities' 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 2, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it was been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2023, 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 and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

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

San Diego, California
July 25, 2023

CALIFORNIA HUMANITIES
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022
WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,393,200	\$ 1,696,481
Grants receivable	1,573,061	1,047,066
Prepaid expenses	12,828	12,774
Total current assets	<u>2,979,089</u>	<u>2,756,321</u>
Non-current assets		
Deposits	6,938	8,024
Property and equipment, net	11,254	17,167
Right-of-use asset	235,396	
Total non-current assets	<u>253,588</u>	<u>25,191</u>
Total Assets	<u>\$ 3,232,677</u>	<u>\$ 2,781,512</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable	\$ 892,550	\$ 853,361
Accounts payable	135,757	75,710
Accrued vacation	136,064	94,997
Operating lease liability	254,432	
Total liabilities	<u>1,418,803</u>	<u>1,024,068</u>
Net assets		
Without donor restrictions	688,398	674,333
With donor restrictions	1,125,476	1,083,111
Total net assets	<u>1,813,874</u>	<u>1,757,444</u>
Total Liabilities and Net Assets	<u>\$ 3,232,677</u>	<u>\$ 2,781,512</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, 2022
WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2021**

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUES				
Grants and contributions				
Governmental	\$ 2,754,632	\$ 800,000	\$ 3,554,632	\$ 6,777,084
Foundation contributions	5,000	86,000	91,000	40,000
Individual contributions	50,796	22,955	73,751	74,507
In-kind support	2,500	-	2,500	37,046
Other support and revenues				
Interest	240	-	240	91
Net assets released from restrictions				
Donor restrictions satisfied	866,590	(866,590)	-	-
Total Support and Revenues	3,679,758	42,365	3,722,123	6,928,728
EXPENSES				
Program services				
Core programs	1,892,788	-	1,892,788	1,319,002
Periodic initiatives	445,949	-	445,949	3,550,168
General programs	155,603	-	155,603	146,890
Total program services	2,494,340	-	2,494,340	5,016,060
Supporting services				
Management and general	903,236	-	903,236	840,349
Fundraising	268,117	-	268,117	235,650
Total supporting services	1,171,353	-	1,171,353	1,075,999
Total Expenses	3,665,693	-	3,665,693	6,092,059
CHANGE IN NET ASSETS	14,065	42,365	56,430	836,669
Net Assets - Beginning	674,333	1,083,111	1,757,444	920,775
Net Assets - Ending	\$ 688,398	\$ 1,125,476	\$ 1,813,874	\$ 1,757,444

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, 2022
WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2021**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 56,430	\$ 836,669
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	5,913	7,190
(Increase) decrease in operating assets		
Grants receivable	(525,995)	(395,244)
Prepaid expenses	(54)	(8,814)
Deposits	1,086	(561)
Increase (decrease) in operating liabilities		
Grants payable	39,189	(171,156)
Accounts payable	60,047	30,856
Accrued vacation	41,067	5,102
Operating lease liability	19,036	
Net cash provided by (used in) operating activities	<u>(303,281)</u>	<u>304,042</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(303,281)	304,042
Cash and cash equivalents - Beginning	<u>1,696,481</u>	<u>1,392,439</u>
Cash and cash equivalents - Ending	<u>\$ 1,393,200</u>	<u>\$ 1,696,481</u>
SUPPLEMENTAL DISCLOSURE		
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, 2022
WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2021**

	2022				2021
	Program Services	Management and General	Fundraising	Total	Total
EXPENSES					
Personnel expenses					
Salaries	\$ 521,765	\$ 329,828	\$ 172,739	\$ 1,024,332	\$ 979,914
Employee benefits	76,825	48,223	25,434	150,482	115,585
Retirement contributions	36,309	22,953	12,021	71,283	69,211
Payroll taxes	38,788	24,520	12,842	76,150	75,061
Other personnel costs	23,592	14,530	7,809	45,931	13,006
Total Personnel	697,279	440,054	230,845	1,368,178	1,252,777
Non-personnel expenses					
Grants, net	1,395,151	-	-	1,395,151	4,058,013
Accounting	2,055	165,620	-	167,675	174,683
Marketing and communications	2,062	45,823	-	47,885	14,188
Information technology	12,469	7,680	4,128	24,277	29,783
Other professional services	247,971	43,365	-	291,336	272,058
Supplies and office expenses	15,380	23,004	4,268	42,652	38,357
Occupancy	83,373	49,917	27,605	160,895	119,493
Depreciation	3,037	1,870	1,006	5,913	7,190
Travel and conference	4,227	27,809	-	32,036	4,420
Meetings	15,386	22,537	-	37,923	2,041
Other program activities	15,459	2,399	-	17,858	20,907
Insurance	-	3,076	-	3,076	6,655
Dues, licenses and fees	40	63,665	-	63,705	50,014
In-kind services and facility	10	2,490	-	2,500	37,046
Miscellaneous	441	3,927	265	4,633	4,434
Total Non-personnel	1,797,061	463,182	37,272	2,297,515	4,839,282
Total Expenses - 2022	\$ 2,494,340	\$ 903,236	\$ 268,117	\$ 3,665,693	
Total Expenses - 2021	\$ 5,016,060	\$ 840,349	\$ 235,650		\$ 6,092,059

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

**CALIFORNIA HUMANITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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 makes grants and delivers programs that promotes the public humanities—focused on ideas, conversation and learning—as relevant, meaningful ways to understand the human condition and connect people to each other in order to help strengthen California.

As an independent, non-profit state partner of the National Endowment for the Humanities (NEH), California Humanities was founded in 1975 and through the years it has created and implemented its signature public humanities programs and initiatives. California Humanities plays a critical role across the state in producing, funding, and supporting public humanities programs and projects. The Organization's major activities include:

Core Programs: California Humanities supports main core programs with grant awards and program implementation. 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 all programs delivered 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, 2022

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, 2021, 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, 2022**

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, 2022, 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, 2022

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, 2022.

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. Change in Accounting Principle

ASC 842 Leases

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, referred to as FASB ASC 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. The new lease standard is effective for private nonprofits with fiscal years beginning after December 15, 2021.

Under FASB ASC 842, a right-of-use asset and a related lease liability must be recorded on the statement of financial position (balance sheet) for proper recognition of an operating lease. A right-of-use asset is an intangible asset that pertains to the lessee’s right to occupy, operate, or hold a leased asset during the agreed rental period. A lease liability is the financial obligation for the payments required by the lease, discounted to present value.

The Organization has determined the impact and has reflected the significant change from this accounting principle within its financial statements for the 2022 year. Refer to Note 5 for additional information regarding the operating lease and the related right-of-use asset and operating lease liability held by the Organization.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2022 and 2021, consist of the following:

	<u>2022</u>	<u>2021</u>
Cash in banks, interest bearing	\$ 872,306	\$ 850,825
Cash in banks, non-interest bearing	515,295	846,058
Cash on hand	199	198
Cash awaiting deposit/(disbursement)	5,400	(600)
Total Cash and Cash Equivalents	<u>\$ 1,393,200</u>	<u>\$ 1,696,481</u>

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 when deposits (less immediate obligations to be paid) exceed 6 months of operating expenses. Cash balances are closely monitored weekly throughout the year. The FDIC insures up to \$250,000 per depositor per insured bank. As of December 31, 2022, \$1,149,712 was exposed to custodial credit risk, as deposits exceeded the FDIC limit for funds held at one or more banks.

CALIFORNIA HUMANITIES
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2022

NOTE 3 – GRANTS RECEIVABLE

As of December 31, 2022 and 2021, grants receivable consists of the following:

	2022	2021
National Endowment for Humanities	\$ 671,118	\$ 999,436
California State Library	800,000	-
California Arts Council	86,000	35,000
National Endowment for Arts	10,000	-
Other grants and donations	5,943	12,630
Total Grants Receivable	\$ 1,573,061	\$ 1,047,066

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment activity during the year ended December 31, 2022 consists of the following:

	2021	Purchases/ Additions	Sales/ Disposals	2022
Furniture and equipment	\$ 53,740	\$ -	\$ -	\$ 53,740
Leasehold improvements	15,000	-	-	15,000
Less accumulated depreciation	(51,573)	(5,913)	-	(57,486)
Total Property and Equipment, Net	\$ 17,167	\$ (5,913)	\$ -	\$ 11,254

There were no purchases of property and equipment during the fiscal year ended December 31, 2022. During the fiscal year ended December 31, 2022, total depreciation expense was \$5,913.

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. During the year ended December 31, 2022, the Organization paid \$100,169 in lease payments and recognized lease expense of \$119,205. At December 31, 2022, the right-of-use asset was \$235,396 and the operating lease liability was \$254,432.

The following table shows the present value of the operating lease liability as the actual lease payments less the implied discount rate and the right-of-use asset as the lease expense over a straight-line basis reduced by the implied discount rate. The Organization has accounted for its lease agreement using an implied discount rate of four percent. The associated asset and liability are amortized on a straight-line basis over the term of the lease as follows:

Year Ending December 31,	(a) Lease Expense	(b) Actual Lease Payments	(c) Discount (4%)	(b) - (c) Operating Lease Liability	(a) - (c) Right-of-Use Asset
2023	\$ 117,826	\$ 121,898	\$ 25,560	\$ 96,338	\$ 92,266
2024	117,826	125,555	30,144	95,411	87,682
2025	78,551	85,786	23,103	62,683	55,448
Total	\$ 314,203	\$ 333,239	\$ 78,807	\$ 254,432	\$ 235,396

CALIFORNIA HUMANITIES
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2022

NOTE 6 – 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, 2022, 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, 2022, the endowment fund is comprised of cash and cash equivalents. The composition and changes in the endowment net assets as of December 31, 2022 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	-	-
Endowment, end of year	\$ 32,136	\$ 32,136

CALIFORNIA HUMANITIES
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2022

NOTE 7 – NET ASSETS

Net Assets with Donor Restrictions

Net assets with donor restrictions activity during the year ended December 31, 2022 consists of the following:

Purpose or Donor	2021	Restricted Sources	Released from Restrictions	2022
State of California and California State Library	\$ 1,000,000	\$ 800,000	\$ 804,685	\$ 995,315
Hewlett Foundation	12,025	-	-	12,025
California Arts Council	35,000	86,000	35,000	86,000
Nancy Hatamiya Arts & Humanities Fund	3,950	-	3,950	-
Other restrictions	-	22,955	22,955	-
Endowment funds	32,136	-	-	32,136
Total Net Assets with Donor Restrictions	\$ 1,083,111	\$ 908,955	\$ 866,590	\$ 1,125,476

The total net assets with donor restrictions as of December 31, 2022 is derived from taking the beginning balance (or balance as of December 31, 2021) plus restricted sources less amounts released from restrictions. During the year ended December 31, 2022, the Organization received \$908,955 in grants and contributions with donor-imposed restrictions and released \$866,590 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, 2022 and 2021, the Organization's net assets without donor restrictions consist of the following:

	2022	2021
Net investment in capital assets	\$ 11,254	\$ 17,167
Designated for operating reserves	750,400	715,244
Undesignated	(73,256)	(58,078)
Total Net Assets without Donor Restrictions	\$ 688,398	\$ 674,333

California Humanities' goal is generally to maintain financial assets to meet 120 days of operating expenses (approximately \$750,400 moving into 2023). As part of its liquidity plan, California Humanities maintains cash reserves in a designated savings account to satisfy this operational cash requirement.

NOTE 8 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The table on the following page reflects the Organization's financial assets as of December 31, 2022 and 2021, 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, 2022

NOTE 8 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (continued)

	<u>2022</u>	<u>2021</u>
Financial assets		
Cash and cash equivalents	\$ 1,393,200	\$ 1,696,481
Grants receivable, collected in less than one year	<u>1,573,061</u>	<u>1,047,066</u>
Total financial assets, excluding noncurrent	<u>2,966,261</u>	<u>2,743,547</u>
Contractual or donor-imposed restrictions		
Cash restricted by others to specific uses	(1,093,340)	(1,050,975)
Endowment funds	(32,136)	(32,136)
Board designations		
Operating reserves and others	<u>(750,400)</u>	<u>(715,244)</u>
Financial assets available to meet cash needs for expenditures within one year	<u>\$ 1,090,385</u>	<u>\$ 945,192</u>

NOTE 9 – GRANTS, NET

Grants consisted of the following for the year ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Grant awards	\$ 1,451,473	\$ 4,234,885
Less: grants returned	<u>(56,322)</u>	<u>(176,872)</u>
Total Grants, net	<u>\$ 1,395,151</u>	<u>\$ 4,058,013</u>

NOTE 10 – IN-KIND SUPPORT

The Organization received the benefit of the following in-kind support during the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Donated facility usage	\$ 2,500	\$ -
Donated professional services and travel costs	-	<u>37,046</u>
Total In-Kind Support	<u>\$ 2,500</u>	<u>\$ 37,046</u>

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 an eligible employee's gross salary towards the Plan. The Organization made contributions of \$71,283 and \$69,211 to the Plan for the years ended December 31, 2022 and 2021, respectively.

CALIFORNIA HUMANITIES
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2022

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Specific Concentrations

During the year ended December 31, 2022, the Organization received approximately 96% 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, 2022, 94% of the Organization's grants receivable are from the same two sources.

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.

NOTE 13 – SUBSEQUENT EVENTS

Management of the Organization has evaluated subsequent events for the period from December 31, 2022 through July 25, 2023, 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.

SUPPLEMENTARY INFORMATION

**CALIFORNIA HUMANITIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster</u>	<u>AL Number</u>	<u>Federal Award ID Number</u>	<u>Federal Expenditures</u>	<u>Federal Awards Passed Through to Subrecipients</u>
NATIONAL ENDOWMENT FOR THE HUMANITIES:				
Promotion for the Humanities [1]				
Federal-State Partnership	45.129	SO-268663-20	\$ 2,707,600	\$ 1,395,151
Humanities Council American Rescue Plan (ARP)	45.129	ZSO-283128-21	14,532	-
Subtotal Promotion for the Humanities			<u>2,722,132</u>	<u>1,395,151</u>
Promotion of the Arts Grants to Organizations and Individuals	45.024	1889315-34-20 & 1889315-34-22	<u>30,000</u>	<u>-</u>
Total National Endowment for the Humanities			<u>2,752,132</u>	<u>1,395,151</u>
Total Federal Expenditures			<u>\$ 2,752,132</u>	<u>\$ 1,395,151</u>

[1] - 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.

The following schedule provides a reconciliation between revenues reported on the statement of activities and the related expenditures reported on the schedule of expenditures of federal awards. The reconciling amounts represent the following:

Total governmental grants and contributions reported in the Statement of Activities	<u>Amount</u>
	\$ 3,554,632
Nonfederal grants from the California State Library	<u>(802,500)</u>
Total federal expenditures reported in the Schedule of Expenditures of Federal Awards	<u>\$ 2,752,132</u>

OTHER INDEPENDENT AUDITORS' REPORTS

**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**Independent Auditors' Report

To the Board of Directors 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, 2022, 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 25, 2023.

Report on 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") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

San Diego, California
July 25, 2023

**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 Board of Directors of
California Humanities
Oakland, California

Report on Compliance for Each Major Federal Program

Opinion on 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, 2022. California Humanities' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding California Humanities' compliance with the compliance requirements referred to above and performing such procedures as we consider necessary in the circumstances.
- Obtain an understanding of California Humanities' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of California Humanities' internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on 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 Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

Report on Internal Control Over Compliance (continued)

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.

Christy White, Inc

San Diego, California
July 25, 2023

FINDINGS AND QUESTIONED COSTS SECTION

**CALIFORNIA HUMANITIES
SUMMARY OF AUDITORS' RESULTS AND SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2022**

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>AL Number(s)</u>	<u>Name of Federal Program or Cluster</u>
45.129	Promotion for the Humanities

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 2022.

PART III: FEDERAL AWARDS FINDINGS

There were no findings related to the federal awards during 2022.

PART IV: PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

There were no findings reported for 2021.