

ARIZONA HUMANITIES COUNCIL, INC.

**Financial Statements,
Independent Auditors' Reports,
Supplementary Information
and
Single Audit Reports**

**Year Ended October 31, 2014
(with comparative totals for 2013)**

CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1-2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities.....	4
Statement of Cash Flows.....	5
Notes to Financial Statements.....	6-11
Supplementary Information:	
Schedule of Expenditures of Federal Awards.....	12
Notes to the Schedule of Expenditures of Federal Awards.....	13
Single Audit Reports:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14-15
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	16-17
Schedule of Findings and Questioned Costs.....	18-19



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Independent Auditors' Report

The Board of Directors
Arizona Humanities Council, Inc.
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Arizona Humanities Council, Inc. (the Council, a nonprofit corporation) which comprise the statement of financial position as of October 31, 2014, 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.

Auditors' 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 auditors' 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 the Council as of October 31, 2014, 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.

Report on Summarized Comparative Information

We have previously audited the the Council's 2013 financial statements, and our report dated May 14, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 5, 2015, on our consideration of the Council'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 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 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 Council's internal control over financial reporting and compliance.



March 5, 2015

Arizona Humanities Council, Inc.

STATEMENT OF FINANCIAL POSITION

October 31, 2014

(with comparative financial information as of October 31, 2013)

ASSETS

	2014	2013
Cash and cash equivalents	\$ 22,119	\$ 109,271
Investments	120,910	113,319
Grants receivable	252,860	164,438
Pledges and other receivables	3,040	7,536
Prepaid expenses	7,622	11,593
Other assets - donated art	8,000	8,000
Furniture, equipment and improvements, net	<u>25,993</u>	<u>19,936</u>
 Total assets	 <u>\$ 440,544</u>	 <u>\$ 434,093</u>

LIABILITIES AND NET ASSETS

Grants payable	\$ 85,500	\$ 67,500
Accounts payable	19,019	17,573
Accrued expenses	11,175	14,671
Deferred income	10,534	7,984
Refundable advances	<u>3,000</u>	<u>3,000</u>
Total liabilities	129,228	110,728
 Net assets:		
Unrestricted:		
Undesignated	282,354	293,503
Board designated funds	<u>18,421</u>	<u>18,421</u>
Total unrestricted net assets	300,775	311,924
Temporarily restricted	2,541	3,441
Permanently restricted	<u>8,000</u>	<u>8,000</u>
Total net assets	<u>311,316</u>	<u>323,365</u>
 Total liabilities and net assets	 <u>\$ 440,544</u>	 <u>\$ 434,093</u>

The accompanying notes are an integral part of these statements.

Arizona Humanities Council, Inc.

STATEMENT OF ACTIVITIES

Year Ended October 31, 2014

(with comparative financial information for the year ended October 31, 2013)

	2014			Total	2013
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support, revenues and gains:					
Grants:					
National Endowment for the Humanities	\$ 788,739			\$ 788,739	\$ 818,175
Other	13,525			13,525	23,051
Contributions	26,406	\$ 9,036		35,442	26,353
In-kind contributions	24,100			24,100	25,068
Dividends and interest on investments	4,159			4,159	2,255
Net gain on investments	3,333			3,333	11,843
Program revenue	16,300			16,300	34,540
Reimbursed expense	6,412			6,412	7,487
Miscellaneous income	8,730			8,730	
Net assets released from restrictions:					
Satisfaction of donor restrictions	9,936	(9,936)			
Total support, revenues and gains	<u>901,640</u>	<u>(900)</u>		<u>900,740</u>	<u>948,772</u>
Expenses:					
Program expenses:					
Regrant payments	179,371			179,371	191,151
Opportunity grant payments	12,518			12,518	15,950
Service to the field	420,198			420,198	349,897
Total program expenses	612,087			612,087	556,998
General and administrative	255,239			255,239	273,887
Fundraising	45,463			45,463	76,621
Total expenses	<u>912,789</u>			<u>912,789</u>	<u>907,506</u>
Change in net assets	(11,149)	(900)		(12,049)	41,266
Net assets, beginning of the year	<u>311,924</u>	<u>3,441</u>	<u>\$ 8,000</u>	<u>323,365</u>	<u>282,099</u>
Net assets, end of the year	<u>\$ 300,775</u>	<u>\$ 2,541</u>	<u>\$ 8,000</u>	<u>\$ 311,316</u>	<u>\$ 323,365</u>

The accompanying notes are an integral part of these statements.

Arizona Humanities Council, Inc.

STATEMENT OF CASH FLOWS

Year Ended October 31, 2014

(with comparative financial information for the year ended October 31, 2013)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ (12,049)	\$ 41,266
Adjustments to reconcile change in net assets to net cash and cash equivalents used by operating activities:		
Depreciation	5,418	4,432
Net realized and unrealized gain on investments	(3,333)	(11,843)
Changes in assets and liabilities:		
Grants receivable	(88,422)	(97,932)
Pledges and other receivables	4,496	(572)
Prepaid expenses	3,971	1,059
Grants payable	18,000	19,472
Accounts payable	1,446	(1,621)
Accrued expenses	(3,496)	2,128
Deferred income	<u>2,550</u>	<u>1,894</u>
Net cash used by operating activities	<u>(71,419)</u>	<u>(41,717)</u>
Cash flows from investing activities:		
Proceeds from the sales of investments	13,147	8,267
Purchases of investments	(17,405)	(11,754)
Purchases of furniture, equipment and improvements	<u>(11,475)</u>	<u>(18,455)</u>
Net cash used by investing activities	<u>(15,733)</u>	<u>(21,942)</u>
Net decrease in cash and cash equivalents	(87,152)	(63,659)
Cash and cash equivalents, beginning of the year	<u>109,271</u>	<u>172,930</u>
Cash and cash equivalents, end of the year	<u>\$ 22,119</u>	<u>\$ 109,271</u>
Supplemental disclosure:		
Cash paid during the period for interest	\$ 0	\$ 0

The accompanying notes are an integral part of these statements.

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2014

(with comparative financial information as of and for the year ended October 31, 2013)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES

Arizona Humanities Council, Inc. (the Council) is a nonprofit organization founded in 1973, and is the Arizona affiliate of the National Endowment of the Humanities (NEH). It was created to support public programs primarily relating to the promotion of the humanities in the understanding of human thoughts, actions, creations and values. The Council collaborates with museums, libraries, and other cultural and educational organizations to offer humanities programs for residents throughout Arizona. Programs are principally funded by grants from the NEH, and from gifts and contributions from individuals, companies and institutions.

The Council operates within three main areas of activity: Programs, General and administrative and Fundraising. Programs include Re grants, Opportunity grants, and Service to the field. Re grants are for projects awarded through the competitive grant process. Opportunity grants are provided as support for smaller public humanities projects that are below the limit for a project grant. Activities conducted directly by the Council, such as AZ Speaks, Prime Time Family Reading Program, Veterans book discussions and writing workshops, Community Programs, and program assistance to applicants, are classified as Service to the Field, which also includes most of the Council's printing. General and administrative are activities that do not directly relate to program development, whether Council-conducted or regrant-related, such as most of the activities that relate to running the office, including space rental, supplies, and secretarial work. Fundraising is conducted through online donations, direct mail appeals, special events, program sponsorships and targeted solicitations.

These financial statements relate to the period from November 1, 2012 to October 31, 2014. They include the operations of the following NEH grants:

<u>Grant Number</u>	<u>Period Covered</u>
SO-50519-13	11/1/12 - 10/31/14
SO-50347-10	11/1/12 - 10/31/14

A summary of the significant accounting policies follows:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*, requiring the Council to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, described as follows:

Unrestricted Net Assets: Unrestricted net assets include all contributions received without donor-imposed stipulations, which include both undesignated and board designated funds in accordance with FASB ASC Topic 958, *Not-for-Profit Entities*. The total amount designated by the Board of Directors for future operational expenses was \$18,421 at October 31, 2014 and 2013.

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2014

(with comparative financial information as of and for the year ended October 31, 2013)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES - Continued

Temporarily Restricted Net Assets: Temporarily restricted net assets include contributions that have donor-imposed restrictions that limit the use of the donated assets. When a donor's restriction is met, temporarily restricted net assets are reclassified as unrestricted net assets.

Permanently Restricted Net Assets: Permanently restricted net assets are those which are subject to non-expiring donor restrictions, such as endowments. The Council had \$8,000 in permanently restricted net assets at October 31, 2014 and 2013, comprised of donated art.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For the purposes of the statement of cash flows, the Council considers money market funds and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments: Investments are recorded at fair value. Unrealized gains and losses are accounted for as investment income.

Grants Receivable / Refundable Advances: Grants receivable is stated at the amount management expects to collect from outstanding balances. It is recognized as support when eligible costs are incurred or services are provided, but reimbursement has not been received. The Council records funds received from grant awards classified as exchange transactions as refundable advances until the related funds are expended and/or the services related to the awards are performed, at which time funds are recognized as revenue.

Pledges and Other Receivables: The Council had \$3,040 and \$7,536 in pledges and other receivables at October 31, 2014 and 2013, respectively, for amounts pledged to the Council by donors and due within one year. The Council considers the balances to be fully collectible and has not recorded an allowance for doubtful accounts.

Donated Art: Donated art consists of a painting donated to the Council in 2005 for display in the Council's office. The painting does not meet FASB ASC's definition of a collection. It has been recorded at fair value on the date of donation, and is accounted for as a non-depreciable asset in the statement of financial position.

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2014

(with comparative financial information as of and for the year ended October 31, 2013)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES - Continued

Furniture, Equipment and Improvements: Assets such as furniture, equipment, and leasehold improvements in excess of \$3,000 are recorded at cost if purchased, or at their estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the following estimated useful lives of the respective assets:

Furniture and equipment	5-7 years
Leasehold improvements	Lesser of the estimated useful life or remaining term of applicable lease

NEH retains a reversionary interest in the title of assets purchased with federal funds.

Grants Payable: Grants payable consists of regrant and opportunity grants that have been awarded but have not been disbursed to grantees as of the fiscal year end.

Deferred Income: Fees received for events held in a subsequent fiscal year are recorded as deferred income when received, and recognized as revenue in the period in which the event occurs.

In-kind Contributions: In-kind contributions represent services and donated rent which meet the criteria specified in the FASC ASC topic of *Not-for-Profit Entities*, including, among other things, services requiring specialized skills, and office space that the Council would typically purchase. Contributed services and donated rent are recorded at their estimated fair value at the date of the contribution, and shown as revenues and expenses in the financial statements.

Income Taxes: The Council is exempt from federal and state income tax as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code. The Council's Forms 990 *Return of Organization Exempt From Income Tax* are generally subject to examination for three years after they are filed, and the related State of Arizona Forms 99 are generally subject to examination for four years from the later of the due date or the file date of the tax return.

Concentration of Credit Risk: The Council maintains its cash and cash equivalents with various financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC). At times, such cash and cash equivalents may be in excess of FDIC insurance limits. The Council has not experienced any losses in such accounts and believes it is not exposed to any significant risks related to cash and cash equivalents.

Advertising: The Council expenses advertising costs as incurred. Advertising expense for the years ended October 31, 2014 and 2013, was \$1,287 and \$6,734, respectively.

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2014

(with comparative financial information as of and for the year ended October 31, 2013)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES - Continued

Prior Year Summarized 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended October 31, 2013, from which the summarized information was derived.

Subsequent Events: Subsequent events have been evaluated through March 5, 2015, the date the Council's financial statements were available to be issued, and management has concluded that no events have occurred since the year ended October 31, 2014 that would require an adjustment to, or disclosure in, the financial statements.

NOTE 2 - INVESTMENTS

At October 31, 2014 and 2013, investments are stated at their fair value of \$120,910 and \$113,319, respectively. (See Note 8.) Return on investments included \$4,159 of reinvested interest and dividends and \$3,333 in net realized and unrealized gains in 2014, and \$2,255 of reinvested interest and dividends and \$11,843 in net realized and unrealized gains in 2013.

NOTE 3 - FURNITURE, EQUIPMENT AND IMPROVEMENTS

Furniture, equipment and improvements consisted of the following at October 31:

	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ 25,174	\$ 18,699
Leasehold improvements	<u>23,455</u>	<u>18,455</u>
	48,629	37,154
Less accumulated depreciation	<u>(22,636)</u>	<u>(17,218)</u>
Total furniture, equipment and improvements, net	<u>\$ 25,993</u>	<u>\$ 19,936</u>

Depreciation expense for the years ended October 31, 2014 and 2013, was \$5,418 and \$4,432, respectively.

NOTE 4 - CONCENTRATION OF REVENUES

During the years ended October 31, 2014 and 2013, the Council received 88% and 86%, respectively, of its revenues from the NEH Promotion of the Humanities - Federal/State Partnership grant.

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2014

(with comparative financial information as of and for the year ended October 31, 2013)

NOTE 5 - FUNDING

NEH authorized grant funds to the Council for the grants active during the year ended October 31, 2014, as follows:

<u>Grant no.</u>	<u>Regrants</u>	<u>Program Development/ Service to the Field</u>	<u>Administration/ Program Support</u>	<u>Total Grants Authorized</u>
SO-50519-13	\$ 150,000	\$ 521,036	\$ 91,824	\$ 762,860

NEH matches certified outside donations received by the Council on a dollar for dollar basis on non-exemplary grants for which NEH has established a matching amount. As of the date of the financial statements, all such funds allocated had been matched by NEH, and the match is included in the amounts shown as grants authorized. Private funds which have been matched are expended and accounted for under the grants.

<u>Grant no.</u>	<u>Total Grant Matched</u>
SO-50519-13	\$ 8,900

NOTE 6 - EMPLOYEE BENEFIT PLAN

The Council participates in a 403(b)(7) retirement plan administered by an investment company, to provide tax sheltered pension funds for its employees. All employees who work over twenty hours per week are eligible to participate in the plan. Contributions to the plan are made on a discretionary basis and are reviewed annually. The Council's contributions to these annuities for the years ended October 31, 2014 and 2013, totaled \$13,745 and \$9,163, respectively.

NOTE 7 - IN-KIND CONTRIBUTIONS

The Council recognized revenue and expense of \$24,000 for donated office space for each of the years ended October 31, 2014 and 2013. In addition, the Council recognized in-kind revenue and expense of \$100 and \$1,068 for donated professional services during the years ended October 31, 2014 and 2013, respectively.

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2014

(with comparative financial information as of and for the year ended October 31, 2013)

NOTE 8 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the 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 and liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 inputs generally are available indirect information, such as quoted prices for similar assets or liabilities in active markets, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 inputs are the most subjective, and are generally based on the entity's own assumptions on how knowledgeable parties would price assets or liabilities, and are developed using the best information available in the circumstances. The Council currently does not have any financial instruments it values based on Level 3 inputs.

Fair value of assets measured on a recurring basis at October 31, 2014, was as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Mutual funds	\$ 88,265	\$ 88,265	
Investment pool - ACF	<u>32,645</u>		\$ 32,645
	<u>\$ 120,910</u>	<u>\$ 88,265</u>	<u>\$ 32,645</u>

Fair value of assets measured on a recurring basis at October 31, 2013, was as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Mutual funds	\$ 82,514	\$ 82,514	
Investment pool - ACF	<u>30,805</u>		\$ 30,805
	<u>\$ 113,319</u>	<u>\$ 82,514</u>	<u>\$ 30,805</u>

SUPPLEMENTARY INFORMATION

Arizona Humanities Council, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended October 31, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Direct Grant:		
National Endowment for the Humanities:		
Promotion of the Humanities - Federal/State Partnership	45.129	\$ <u>770,739</u>
Total Expenditures of Federal Awards		\$ <u><u>770,739</u></u>

See accompanying notes to this schedule.

Arizona Humanities Council, Inc.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended October 31, 2014

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Arizona Humanities Council, Inc. (the Council), and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantors, or the 2014 *Catalog of Federal Domestic Assistance Update*.

NOTE 3 - SUBRECIPIENTS

The Council awarded \$179,371 under CFDA number 45.129 to subrecipients during the year ended October 31, 2014.

SINGLE AUDIT REPORTS

**Independent Auditors' Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Directors
Arizona Humanities Council, Inc.
Phoenix, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Arizona Humanities Council, Inc. (the Council, a nonprofit organization), which comprise the statement of financial position as of October 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 may not have been identified.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Foster & Chapman P.C." with a stylized ampersand.

March 5, 2015

**Independent Auditors' Report on Compliance for Each Major Program and
on Internal Control Over Compliance Required by OMB Circular A-133**

The Board of Directors
Arizona Humanities Council, Inc.
Phoenix, Arizona

Report on Compliance for Each Major Federal Program

We have audited Arizona Humanities Council, Inc.'s (the Council) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the the Council's major federal program for the year ended October 31, 2014. The Council's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Council's 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the Council's 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 the Council's compliance.

Opinion on Each Major Federal Program

In our opinion, the Council complied, in all material respects, with the 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 October 31, 2014.

Report on Internal Control Over Compliance

Management of the Council 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 the Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Council's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 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 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.

Purpose of this Report

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



March 5, 2015

Arizona Humanities Council, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended October 31, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of Auditors' Report issued:	Unmodified	
	<u>Yes</u>	<u>No</u>
Internal control over financial reporting:		
Material weaknesses identified in internal control over financial reporting?	_____	_____ <u>X</u> _____
Significant deficiencies identified not considered to be material weaknesses?	_____	_____ <u>X</u> _____ (none reported)
Noncompliance material to the financial statements noted?	_____	_____ <u>X</u> _____

Federal Awards:

Internal control over major programs:		
Material weakness identified in internal control over major programs?	_____	_____ <u>X</u> _____
Significant deficiencies identified not considered to be material weaknesses?	_____	_____ <u>X</u> _____ (none reported)
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____	_____ <u>X</u> _____

Identification of major program:

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

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	_____ <u>X</u> _____

Other Matters:

Auditee's Summary Schedule of Prior Findings required to be reported in accordance with Circular A-133 (section .315[b])?	_____ <u>X</u> _____
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Arizona Humanities Council, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended October 31, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS' AUDIT

None