

ARIZONA HUMANITIES COUNCIL, INC.

Report to the Board of Directors

October 31, 2016

DRAFT

Report Date, 2017

To the Board of Directors
Arizona Humanities Council, Inc.
Phoenix, Arizona

We have audited the financial statements of Arizona Humanities Council, Inc. (the Council, a nonprofit organization) for the year ended October 31, 2016, and have issued our report thereon dated Report Date, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 17, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Council are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended October 31, 2016. We noted no transactions entered into by the Council during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the expense allocation to opportunity grants, service to the field, general and administrative, and fundraising expenses on the statement of activities is based on management's estimate of employee hours devoted to each function and direct expenses incurred.

The amount of depreciation recorded by management is based on useful lives of furniture, equipment, and improvements estimated by management.

We evaluated the key factors and assumptions used to develop the estimates described above in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not identify any such misstatements during the course of our audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated Report Date, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Council's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Council's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Council's Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

ARIZONA HUMANITIES COUNCIL, INC.

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

**Year Ended October 31, 2016
(with comparative totals for 2015)**

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Arizona Humanities Council, Inc.

STATEMENT OF FINANCIAL POSITION

October 31, 2016

(with comparative financial information as of October 31, 2015)

ASSETS

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 243,263	\$ 187,872
Investments	122,263	119,596
Grants receivable		19,393
Pledges and other receivables	6,292	5,166
Prepaid expenses	5,475	9,857
Other assets - donated art	8,000	8,000
Furniture, equipment and improvements, net	<u>27,430</u>	<u>34,691</u>
Total assets	<u>\$ 412,723</u>	<u>\$ 384,575</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 24,962	\$ 9,286
Accrued expenses	12,312	6,686
Deferred income	11,100	5,960
Refundable advances	<u>3,000</u>	<u>3,000</u>
Total liabilities	51,374	24,932
Net assets:		
Unrestricted:		
Undesignated	317,556	307,678
Board designated funds	<u>24,564</u>	<u>24,461</u>
Total unrestricted net assets	342,120	332,139
Temporarily restricted	11,229	19,504
Permanently restricted	<u>8,000</u>	<u>8,000</u>
Total net assets	<u>361,349</u>	<u>359,643</u>
Total liabilities and net assets	<u>\$ 412,723</u>	<u>\$ 384,575</u>

The accompanying notes are an integral part of these statements.

Arizona Humanities Council, Inc.

STATEMENT OF ACTIVITIES

Year Ended October 31, 2016

(with comparative financial information for the year ended October 31, 2015)

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support, revenues and gains:					
Grants:					
National Endowment for the Humanities	\$ 760,860			\$ 760,860	\$ 751,360
Other	3,133			3,133	7,284
Contributions	29,861	\$ 34,150		64,011	69,686
In-kind contributions	24,000			24,000	24,075
Dividends and interest on investments	4,948			4,948	902
Net loss on investments	(1,987)			(1,987)	(2,316)
Program revenue	26,878			26,878	20,200
Reimbursed expense	10,221			10,221	8,582
Miscellaneous income	1,980			1,980	2,185
Net assets released from restrictions:					
Satisfaction of donor restrictions	42,425	(42,425)			
Total support, revenues and gains	<u>902,319</u>	<u>(8,275)</u>		<u>894,044</u>	<u>881,958</u>
Expenses:					
Program expenses:					
Regrant payments	149,965			149,965	150,028
Service to the field	416,866			416,866	383,390
Total program expenses	566,831			566,831	533,418
General and administrative	288,050			288,050	261,131
Fundraising	37,457			37,457	39,082
Total expenses	<u>892,338</u>			<u>892,338</u>	<u>833,631</u>
Change in net assets	9,981	(8,275)		1,706	48,327
Net assets, beginning of the year	<u>332,139</u>	<u>19,504</u>	<u>\$ 8,000</u>	<u>359,643</u>	<u>311,316</u>
Net assets, end of the year	<u>\$ 342,120</u>	<u>\$ 11,229</u>	<u>\$ 8,000</u>	<u>\$ 361,349</u>	<u>\$ 359,643</u>

The accompanying notes are an integral part of these statements.

Arizona Humanities Council, Inc.

STATEMENT OF CASH FLOWS

Year Ended October 31, 2016

(with comparative financial information for the year ended October 31, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,706	\$ 48,327
Adjustments to reconcile change in net assets to net cash and cash equivalents provided (used) by operating activities:		
Depreciation	7,261	5,267
Net realized and unrealized loss on investments	1,987	2,316
Changes in assets and liabilities:		
Grants receivable	19,393	233,467
Pledges and other receivables	(1,126)	(2,126)
Prepaid expenses	4,382	(2,235)
Grants payable		(85,500)
Accounts payable	15,676	(9,733)
Accrued expenses	5,626	(4,489)
Deferred income	5,140	(4,574)
Net cash provided by operating activities	<u>60,045</u>	<u>180,720</u>
Cash flows from investing activities:		
Proceeds from the sales of investments	125	15,046
Purchases of investments	(4,779)	(16,048)
Purchases of furniture, equipment and improvements		<u>(13,965)</u>
Net cash used by investing activities	<u>(4,654)</u>	<u>(14,967)</u>
Net increase in cash and cash equivalents	55,391	165,753
Cash and cash equivalents, beginning of the year	<u>187,872</u>	<u>22,119</u>
Cash and cash equivalents, end of the year	<u>\$ 243,263</u>	<u>\$ 187,872</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, 2016

(with comparative financial information as of and for the year ended October 31, 2015)

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, 2014 to October 31, 2016. They include the operations of the following NEH grants:

<u>Grant Number</u>	<u>Period Covered</u>
SO-50519-13	11/1/12 - 10/31/15
SO-233917-16	11/1/15 - 10/31/20

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 \$24,564 and \$24,461 at October 31, 2016 and 2015, respectively.

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2016

(with comparative financial information as of and for the year ended October 31, 2015)

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, 2016 and 2015.

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 \$6,292 and \$5,166 in pledges and other receivables at October 31, 2016 and 2015, 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, 2016

(with comparative financial information as of and for the year ended October 31, 2015)

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 FASB 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 and similar state provisions.

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, 2016 and 2015, was \$1,921 and \$6,586, respectively.

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2016

(with comparative financial information as of and for the year ended October 31, 2015)

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, 2015, from which the summarized information was derived.

Subsequent Events: Subsequent events have been evaluated through Report date, 2017, 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, 2016 that would require an adjustment to, or disclosure in, the financial statements.

NOTE 2 - INVESTMENTS

At October 31, 2016 and 2015, investments are stated at their fair value of \$122,263 and \$119,596, respectively. (See Note 9.) Return on investments included \$4,948 of reinvested interest and dividends and \$1,987 in net realized and unrealized losses in 2016, and \$902 of reinvested interest and dividends and \$2,316 in net realized and unrealized losses in 2015.

NOTE 3 - FURNITURE, EQUIPMENT AND IMPROVEMENTS

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

	2016	2015
Furniture and equipment	\$ 25,174	\$ 25,174
Leasehold improvements	37,420	37,420
	<u>62,594</u>	<u>62,594</u>
Less accumulated depreciation	<u>(35,164)</u>	<u>(27,903)</u>
Total furniture, equipment and improvements, net	<u>\$ 27,430</u>	<u>\$ 34,691</u>

Depreciation expense for the years ended October 31, 2016 and 2015, was \$7,261 and \$5,267, respectively.

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2016

(with comparative financial information as of and for the year ended October 31, 2015)

NOTE 4 - CONCENTRATION OF REVENUES

During the years ended October 31, 2016 and 2015, the Council received 85% and 85%, respectively, of its revenues from the NEH Promotion of the Humanities - Federal/State Partnership grant.

NOTE 5 - FUNDING

NEH authorized grant funds to the Council for the grants active during the year ended October 31, 2016, 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-233917-16	\$ 150,000	\$ 447,240	\$ 169,020	\$ 766,260

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-233917-16	\$ 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, 2016 and 2015, totaled \$13,936 and \$11,445, respectively.

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2016

(with comparative financial information as of and for the year ended October 31, 2015)

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net asset activity for the year ended October 31, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Releases</u>	<u>Ending Balance</u>
Latino studies program	\$ 8,288		\$ (8,288)	
History of the region program	10,091			\$ 10,091
Legacy of race program		\$ 3,750	(3,112)	638
Rural program		30,000	(30,000)	
Other future programs	1,125	400	(1,025)	500
	<u>\$ 19,504</u>	<u>\$ 34,150</u>	<u>\$ (42,425)</u>	<u>\$ 11,229</u>

Temporarily restricted net asset activity for the year ended October 31, 2015 is as follows:

	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Releases</u>	<u>Ending Balance</u>
Latino studies program		\$ 10,000	\$ (1,712)	\$ 8,288
History of the region program		10,091		10,091
Other future programs	\$ 2,541	1,550	(2,966)	1,125
Fence addition project		6,683	(6,683)	
Lidman bench project		4,375	(4,375)	
	<u>\$ 2,541</u>	<u>\$ 32,699</u>	<u>\$ (15,736)</u>	<u>\$ 19,504</u>

NOTE 8 - IN-KIND CONTRIBUTIONS

The Council recognized revenue and expense of \$24,000 for donated office space for each of the years ended October 31, 2016 and 2015. In addition, the Council recognized in-kind revenue and expense of \$75 for donated professional services during the year ended October 31, 2015.

NOTE 9 - 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:

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2016

(with comparative financial information as of and for the year ended October 31, 2015)

NOTE 9 - FAIR VALUE MEASUREMENTS - Continued

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, 2016, was as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Money market	\$ 625	\$ 625	
Bond mutual funds:			
Intermediate-term bond	10,195	10,195	
High yield bond	3,772	3,772	
Nontraditional bond	2,653	2,653	
Equity mutual funds:			
Commodities broad basket	2,538	2,538	
Diversified emerging mkts	7,845	7,845	
Foreign large blend	7,952	7,952	
Global real estate	2,740	2,740	
Large growth	16,027	16,027	
Large value	9,651	9,651	
Mid-cap growth	2,474	2,474	
Mid-cap value	2,773	2,773	
Moderate allocation	9,821	9,821	
Real estate	1,913	1,913	
Small growth	3,915	3,915	
Small value	4,805	4,805	
Investment Pool - ACF	<u>32,564</u>		\$ 32,564
Total investments	<u>\$ 122,263</u>	<u>\$ 89,699</u>	<u>\$ 32,564</u>

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2016

(with comparative financial information as of and for the year ended October 31, 2015)

NOTE 9 - FAIR VALUE MEASUREMENTS - Continued

Fair value of assets measured on a recurring basis at October 31, 2015, was as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Money market	\$ 581	\$ 581	
Bond mutual funds:			
Intermediate-term bond	9,795	9,795	
High yield bond	3,514	3,514	
Nontraditional bond	2,629	2,629	
Equity mutual funds:			
Commodities broad basket	2,553	2,553	
Diversified emerging mkts	7,029	7,029	
Foreign large blend	7,718	7,718	
Global real estate	2,663	2,663	
Large growth	16,092	16,092	
Large value	9,591	9,591	
Mid-cap growth	2,529	2,529	
Mid-cap value	2,588	2,588	
Moderate allocation	9,586	9,586	
Real estate	1,815	1,815	
Small growth	4,044	4,044	
Small value	4,408	4,408	
Investment Pool - ACF	32,461		\$ 32,461
Total investments	<u>\$ 119,596</u>	<u>\$ 87,135</u>	<u>\$ 32,461</u>

SUPPLEMENTARY INFORMATION

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Arizona Humanities Council, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended October 31, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>	<u>Passed Through to Subrecipients</u>
Direct Grant:				
National Endowment for the Humanities: Promotion of the Humanities - Federal/State Partnership	45.129	N/A	\$ 760,860	\$ 149,965
Total Expenditures of Federal Awards			<u>\$ 760,860</u>	<u>\$ 149,965</u>

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See accompanying notes to this schedule.

Arizona Humanities Council, Inc.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended October 31, 2016

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 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.

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 2016 *Catalog of Federal Domestic Assistance Update*.

NOTE 3 - INDIRECT COST RATE

The Council has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 - SUBRECIPIENTS

The Council distributed \$149,965 under CFDA number 45.129 to subrecipients during the year ended October 31, 2016.

SINGLE AUDIT REPORTS

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**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, 2016, 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 Report date, 2017.

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.

Report date, 2017

**Independent Auditors' Report on Compliance for Each Major Program and
on Internal Control Over Compliance Required by the Uniform Guidance**

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 Compliance Supplement* that could have a direct and material effect on each of the Council's major federal programs for the year ended October 31, 2016. 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 the Council's major federal program 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 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 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, 2016.

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 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report date, 2017

Arizona Humanities Council, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended October 31, 2016

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 weakness(es) identified in internal control over financial reporting?	<u> </u>	<u> X </u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> </u>	<u> X </u>
		(none reported)
Noncompliance material to the financial statements noted?	<u> </u>	<u> X </u>

Federal Awards:

Internal control over major programs:		
Material weakness(es) identified in internal control over major programs?	<u> </u>	<u> X </u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> </u>	<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 2 CFR 200.516(a)?	<u> </u>	<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:	\$ 750,000
Auditee qualified as low-risk auditee?	<u> X </u> <u> </u>

Other Matters:

Auditee's Summary Schedule of Prior Findings required to be reported in accordance with 2 CFR 200.511(b)?	<u> </u> <u> X </u>
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Arizona Humanities Council, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended October 31, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

None

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

None

DRAFT

