

ARIZONA HUMANITIES COUNCIL, INC.

Financial Statements,

Supplementary Information

and

Single Audit Reports

Years Ended October 31, 2007 and 2006

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Independent Auditors' Report

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

We have audited the accompanying statements of financial position of Arizona Humanities Council, Inc. (the Council, a nonprofit corporation) as of October 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona Humanities Council, Inc. as of October 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2008, 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, 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* and should be considered in assessing the results of our audit.

To the Board of Directors of
Arizona Humanities Council, Inc.
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Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Council taken as a whole. The accompanying schedule of expenditures of federal awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the reconciliation of the schedule of expenditures of federal awards to the statement of activities are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

March 21, 2008

Arizona Humanities Council, Inc.

STATEMENTS OF FINANCIAL POSITION

October 31,

ASSETS

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 36,980	\$ 8,711
Investments	165,135	153,459
Accounts receivable	4,285	3,597
Deferred expenses - regrantees	151,916	53,923
Other assets	16,744	15,218
Property and equipment, net	<u>4,200</u>	<u>6,567</u>
Total assets	<u>\$ 379,260</u>	<u>\$ 241,475</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 44,374	\$ 41,842
Accrued expenses	13,336	7,926
Unliquidated regrant obligations	151,916	53,923
Refundable advances	<u>40,000</u>	<u>68,642</u>
Total liabilities	249,626	172,333
Unrestricted net assets	<u>129,634</u>	<u>69,142</u>
Total liabilities and net assets	<u>\$ 379,260</u>	<u>\$ 241,475</u>

The accompanying notes are an integral part of these statements.

Arizona Humanities Council, Inc.

STATEMENTS OF ACTIVITIES

Years Ended October 31,

	<u>2007</u>	<u>2006</u>
Revenue, gains, and other support:		
Grants:		
National Endowment for the Humanities	\$ 680,020	\$ 648,210
Arizona Department of Education	40,000	40,000
Other	96,108	31,889
Contributions	62,730	84,018
In-kind contributions	26,940	28,000
Net gain on investments	9,753	11,260
Dividends and interest on investments	13,904	7,573
Other revenue	<u>42,905</u>	<u>45,015</u>
Total revenue, gains and other support	<u>972,360</u>	<u>895,965</u>
Expenses:		
Regrant payments	155,515	253,319
Service to the field	416,879	375,288
General and administrative	315,538	280,246
Fundraising	<u>23,936</u>	<u>29,239</u>
Total expenses	<u>911,868</u>	<u>938,092</u>
Change in net assets	60,492	(42,127)
Net assets, beginning of year	<u>69,142</u>	<u>111,269</u>
Net assets, end of year	<u>\$ 129,634</u>	<u>\$ 69,142</u>

The accompanying notes are an integral part of these statements.

Arizona Humanities Council, Inc.

STATEMENTS OF CASH FLOWS

Years Ended October 31,

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 60,492	\$ (42,127)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	2,368	2,754
Net gain on investments	(9,753)	(11,260)
Changes in operating assets and liabilities:		
Accounts receivable	(688)	4,569
Deferred expense- regrantees	(97,993)	24,265
Other assets	(1,526)	(551)
Accounts payable	2,532	12,311
Accrued expenses	5,410	1,292
Unliquidated regrant obligations	97,993	(24,265)
Refundable advances	<u>(28,642)</u>	<u>35,335</u>
Net cash provided by operating activities	30,193	2,323
Cash flows from investing activities:		
Purchase of investments	(39,664)	(14,689)
Proceeds from the sales of investments	<u>37,740</u>	<u>13,922</u>
Net cash used by investing activities	<u>(1,924)</u>	<u>(767)</u>
Net increase in cash and cash equivalents	28,269	1,556
Cash and cash equivalents, beginning of year	<u>8,711</u>	<u>7,155</u>
Cash and cash equivalents, end of year	<u>\$ 36,980</u>	<u>\$ 8,711</u>
Cash paid for interest during period	\$ 0	\$ 0

The accompanying notes are an integral part of these statements.

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2007 and 2006

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES

Arizona Humanities Council, Inc. (the Council) is organized as a non-profit corporation. It is principally funded by grants from the National Endowment for the Humanities (NEH), contracts with the Arizona Department of Education, and from gifts and contributions from individuals, companies and institutions.

The Council provides services throughout Arizona, operating within three main areas of activity: Administration, Service to the Field, and Re-grants. Administration is 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. Activities conducted directly by the Council, such as Motherhead, Speakers Bureau, Community Book Discussions, the Arizona Book Festival, and program assistance to applicants, are classified as Service to the Field, which also includes most of the Council's printing. Re-grants are projects awarded through the competitive grant process.

These financial statements relate to the period from November 1, 2003 to October 31, 2007. They include the operations of the following NEH grant:

Grant <u>Number</u>	Period <u>Covered</u>
SO-50178-07	11/1/03 - 10/31/07

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS 117, the Council is required 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. The Council did not have any temporarily or permanently restricted net assets at October 31, 2007 and 2006.

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2007 and 2006

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Use of Estimates: In preparing financial statements in conformity with generally accepted accounting principles, 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: The Council considers money market funds and all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments: The Council carries investments in marketable securities at their fair market values.

Property, Equipment and Depreciation: Assets such as furniture, equipment, and leasehold improvements in excess of \$3,000 are recorded at cost and depreciated or amortized under the straight-line method over their estimated useful lives.

The National Endowment for the Humanities retains a reversionary interest in the title of assets purchased with federal funds.

Refundable Advances: 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.

In-Kind Contributions: In-kind contributions represent services and property which meet the criteria specified in SFAS No. 116 including, among other things, services requiring specialized skills and services and office space that the Council would typically purchase. Contributed services and property are measured at the fair value of the contributions received.

Income Taxes: Arizona Humanities Council, Inc. is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization other than a private foundation.

Deferred Expense-Grantees/Unliquidated Regrant Obligations: Regrant expenditures are recognized in the period regrant funds are disbursed. Regrant awards less regrant disbursements as of year-end are reflected as corresponding asset and liability amounts on the statement of financial position.

Reclassifications: Certain reclassifications were made to the 2006 financial statement's presentation in order to conform to the 2007 presentation.

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2007 and 2006

NOTE 2 - INVESTMENTS

At October 31, 2007 and 2006, investments in equity securities are stated at their fair market value of \$165,135 and \$153,459, respectively. Return on investments included \$13,904 of reinvested dividends and \$9,753 in realized and unrealized gains in 2007, and \$7,573 of reinvested dividends and \$11,260 in realized and unrealized gains in 2006.

The Council maintains its investments at one national financial institution. Balances are protected by Securities Investors Protection Corporation (SIPC) against theft, loss or failure of the brokerage firm up to \$500,000.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2007</u>	<u>2006</u>
Furniture and equipment	\$ 52,125	\$ 52,125
Leasehold improvements	<u>9,518</u>	<u>9,518</u>
	61,643	61,643
Less accumulated depreciation and amortization	<u>57,443</u>	<u>55,076</u>
	<u>\$ 4,200</u>	<u>\$ 6,567</u>

Depreciation expense for the years ended October 31, 2007 and 2006, was \$2,368 and \$2,754, respectively. The National Endowment for the Humanities retains a reversionary interest in \$52,125 of property and equipment.

NOTE 4 - DEFERRED EXPENSE-REGRANTEES/UNLIQUIDATED REGRANT OBLIGATIONS

Regrants obligated are as follows:

	<u>2007</u>	<u>2006</u>
Regrants awarded	\$ 461,247	\$ 395,943
Regrant payments to date	<u>309,331</u>	<u>342,020</u>
Regrants obligated at end of year	<u>\$ 151,916</u>	<u>\$ 53,923</u>

Regrant awards and payments exceeding authorized regrant funds received from NEH are funded by the Council from non-restricted gifts received, marketable investment securities, mutual funds held, and earnings thereon.

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2007 and 2006

NOTE 5 - REFUNDABLE ADVANCES

Refundable advances at October 31, 2007 and 2006, were comprised of the following:

	<u>Refundable advances 10/31/06</u>	<u>Grants received</u>	<u>Grants expended</u>	<u>Refundable advances 10/31/07</u>
Arizona Office of Tourism	\$ 26,938		\$ 26,938	
Motheread	1,704		1,704	
State of Arizona	<u>40,000</u>	<u>\$ 40,000</u>	<u>40,000</u>	<u>\$ 40,000</u>
Total	<u>\$ 68,642</u>	<u>\$ 40,000</u>	<u>\$ 68,642</u>	<u>\$ 40,000</u>

NOTE 6 - FUNDING

NEH authorized grant funds to the Council for the grants active during the year ended October 31, 2007, as follows:

<u>Grant No.</u>	<u>Regrants</u>	<u>Program Devel- opment/ Service to the Field</u>	<u>Adminis- tration/ Program Support</u>	<u>Total Grants Authorized</u>
SO-50178-07	\$98,700	\$252,500	\$219,500	\$570,700

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-50178-07	\$31,200

Arizona Humanities Council, Inc.

NOTES TO FINANCIAL STATEMENTS

October 31, 2007 and 2006

NOTE 7 - 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. The Council contributes 9% of each employee's gross salary to the plan. Council contributions to these annuities for the years ended October 31, 2007 and 2006, amounted to \$24,849 and \$21,434, respectively.

NOTE 8 - IN-KIND CONTRIBUTIONS

The Council recognized revenue and expense of \$24,480 and \$24,000 for donated office space during the years ended October 31, 2007 and 2006, respectively. In addition, the Council recognized revenue and expense of \$2,460 and \$4,000 for donated professional services during the years ended October 31, 2007 and 2006, respectively.

SUPPLEMENTARY INFORMATION

Arizona Humanities Council, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended October 31, 2007

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Direct Grants:		
National Endowment for the Humanities		
Promotion of the Humanities - Federal/State Partnership	45.129	\$ 570,700
Promotion of the Humanities-We the People	45.168	<u>109,320</u>
Total expenditures of federal awards		<u>\$ 680,020</u>

See accompanying notes.

Arizona Humanities Council, Inc.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended October 31, 2007

NOTE 1 - BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal grant activity of Arizona Humanities Council, Inc. and is presented on the 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 federal or pass-through grantors or the 2007 Catalog of Federal Domestic Assistance Update.

NOTE 3 - SUBRECIPIENTS

From the federal expenditures presented in the schedule, the Council awarded the following to subrecipients.

Program Title	CFDA Number	Amount
Promotion of the Humanities - Federal/State Partnership	45.129	\$ 124,702
We the People	45.168	<u>30,813</u>
Total		<u>\$ 155,515</u>

Arizona Humanities Council, Inc.

RECONCILIATION OF SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS TO THE STATEMENT OF ACTIVITIES

Year Ended October 31, 2007

Total expenses per the statement of activities	\$ 911,868
Less expenses not charged against federal grants	<u>(231,848)</u>
Total expenditures per the schedule of expenditures of federal awards	<u>\$ 680,020</u>

**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 the financial statements of the Arizona Humanities Council, Inc. (the Organization), as of and for the year ended October 31, 2007, and have issued our report thereon dated March 21, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Arizona Humanities Council, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures 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 Arizona Humanities Council, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Arizona Humanities Council, Inc.'s internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

The Board of Directors
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arizona Humanities Council Inc.'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*.

This report is intended solely for the information and use of the management, Board of Directors, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

March 21, 2008

**Independent Auditors' Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of the Arizona Humanities Council, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended October 31, 2007. Arizona Humanities Council, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Arizona Humanities Council, Inc.'s management. Our responsibility is to express an opinion on Arizona Humanities Council, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 Arizona Humanities Council, Inc.'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. Our audit does not provide a legal determination of Arizona Humanities Council, Inc.'s compliance with those requirements.

In our opinion, Arizona Humanities Council, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended October 31, 2007.

Internal Control Over Compliance

The management of Arizona Humanities Council, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Arizona Humanities Council, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Organization's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

March 21, 2008

SINGLE AUDIT REPORTS