

Humanities **MONTANA**

AUDITED FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019



HUMANITIES MONTANA

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Management
Humanities Montana
Missoula, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of Humanities Montana (a nonprofit organization), which comprise the statements of financial position as of October 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 audits 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 Humanities Montana, as of October 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2021, on our consideration of Humanities Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Humanities Montana's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Humanities Montana's internal control over financial reporting and compliance.

Junkermier, Clark, Campanella, Stevens, P.C.

Missoula, Montana
April 23, 2021

HUMANITIES MONTANA
STATEMENTS OF FINANCIAL POSITION
October 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 163,654	\$ 205,402
Current grants receivable	267,948	69,218
Prepaid expenses	<u>5,295</u>	<u>7,454</u>
Total Current Assets	<u>436,897</u>	<u>282,074</u>
Property and Equipment		
Equipment	5,169	5,169
Works of art	2,695	2,695
Website	20,516	14,750
Less: Accumulated depreciation and amortization	<u>(8,119)</u>	<u>(5,169)</u>
Net Property and Equipment	<u>20,261</u>	<u>17,445</u>
Other Assets		
Endowment - Montana Community Foundation	86,675	84,412
Long-term grants receivable	<u>-</u>	<u>100,000</u>
Total Other Assets	<u>86,675</u>	<u>184,412</u>
Total Assets	<u><u>\$ 543,833</u></u>	<u><u>\$ 483,931</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 5,705	\$ 19,714
Accrued liabilities	2,206	12,331
Compensated absences	22,554	21,720
Re-Grants Payable	<u>36,500</u>	<u>-</u>
Total Current Liabilities	<u>66,965</u>	<u>53,765</u>
Net Assets		
Net assets without donor restriction	245,663	195,724
Net assets with donor restriction	<u>231,205</u>	<u>234,442</u>
Total Net Assets	<u>476,868</u>	<u>430,166</u>
Total Liabilities and Net Assets	<u><u>\$ 543,833</u></u>	<u><u>\$ 483,931</u></u>

See the independent auditors' report and the accompanying notes to the financial statements.

HUMANITIES MONTANA
STATEMENT OF ACTIVITIES
For the Year Ended October 31, 2020

	Without Donor Restriction	With Donor Restriction	Total
Revenues			
Federal grant revenue	\$ 979,238	\$ -	\$ 979,238
Other grant revenue	110,018	44,500	154,518
Contributions	57,219	-	57,219
Royalties	384	-	384
Investment income, net	205	7,107	7,312
Net assets released from restriction	<u>54,844</u>	<u>(54,844)</u>	<u>-</u>
Total Revenues	1,201,908	(3,237)	1,198,671
Expenses			
Program services	747,455	-	747,455
Administration	286,910	-	286,910
Fundraising	<u>117,604</u>	<u>-</u>	<u>117,604</u>
Total Expenses	<u>1,151,969</u>	<u>-</u>	<u>1,151,969</u>
Change in Net Assets	49,939	(3,237)	46,702
Beginning Net Assets	<u>195,724</u>	<u>234,442</u>	<u>430,166</u>
Ending Net Assets	<u><u>\$ 245,663</u></u>	<u><u>\$ 231,205</u></u>	<u><u>\$ 476,868</u></u>

See the independent auditors' report and the accompanying notes to the financial statements.

HUMANITIES MONTANA
STATEMENT OF ACTIVITIES
For the Year Ended October 31, 2019

	Without Donor Restriction	With Donor Restriction	Total
Revenues			
Federal grant revenue	\$ 690,718	\$ -	\$ 690,718
Other grant revenue	66,925	150,000	216,925
Contributions	83,324	-	83,324
Royalties	677	-	677
Investment income, net	713	1,718	2,431
Net assets released from restriction	<u>14,799</u>	<u>(14,799)</u>	<u>-</u>
Total Revenues	857,156	136,919	994,075
Expenses			
Program services	545,591	-	545,591
Administration	187,543	-	187,543
Fundraising	<u>138,054</u>	<u>-</u>	<u>138,054</u>
Total Expenses	<u>871,188</u>	<u>-</u>	<u>871,188</u>
Change in Net Assets	(14,032)	136,919	122,887
Beginning Net Assets	<u>209,756</u>	<u>97,523</u>	<u>307,279</u>
Ending Net Assets	<u><u>\$ 195,724</u></u>	<u><u>\$ 234,442</u></u>	<u><u>\$ 430,166</u></u>

See the independent auditors' report and the accompanying notes to the financial statements.

HUMANITIES MONTANA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended October 31, 2020

	Program Services	Administration	Fundraising	Total
Expenses				
Salaries and fringe benefits	\$ 115,890	\$ 214,424	\$ 103,412	\$ 433,726
Re-grants	535,961	-	-	535,961
Program honoraria and travel	69,862	2,821	1,242	73,925
Professional development	3,670	11,692	277	15,639
Rent and administration	2,062	3,749	3,155	8,966
Professional services	4,000	13,397	600	17,997
Postage and printing	1,313	2,387	2,009	5,709
Dues and subscriptions	-	17,188	400	17,588
Network and database expense	2,436	4,425	3,726	10,587
Advertising	830	537	130	1,497
Supplies	2,549	1,934	832	5,315
Telephone	241	438	368	1,047
Insurance	384	698	587	1,669
Miscellaneous	12	185	866	1,063
Board expenses	8,245	75	-	8,320
Website expenses	-	10,010	-	10,010
Amortization expense	-	2,950	-	2,950
Total Expenses	\$ 747,455	\$ 286,910	\$ 117,604	\$ 1,151,969

See the independent auditors' report and the accompanying notes to the financial statements.

HUMANITIES MONTANA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended October 31, 2019

	Program Services	Administration	Fundraising	Total
Expenses				
Salaries and fringe benefits	\$ 197,061	\$ 90,741	\$ 111,544	\$ 399,346
Re-grants	71,255	-	-	71,255
Program honoraria and travel	190,375	1,484	8,785	200,644
Professional development	16,584	6,959	164	23,707
Rent and administration	9,488	1,735	5,922	17,145
Professional services	10,700	45,471	500	56,671
Postage and printing	3,780	2,000	1,762	7,542
Dues and subscriptions	-	15,570	2,000	17,570
Network and database expense	6,251	1,755	2,961	10,967
Advertising	11,873	7,353	-	19,226
Supplies	14,089	1,567	3,060	18,716
Telephone	1,691	475	836	3,002
Insurance	1,124	231	390	1,745
Miscellaneous	-	1,001	-	1,001
Board expenses	11,320	2,186	130	13,636
Website expenses	-	9,015	-	9,015
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses	<u><u>\$ 545,591</u></u>	<u><u>\$ 187,543</u></u>	<u><u>\$ 138,054</u></u>	<u><u>\$ 871,188</u></u>

See the independent auditors' report and the accompanying notes to the financial statements.

HUMANITIES MONTANA
STATEMENTS OF CASH FLOWS
For the Years Ended October 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities:		
Change in Net Assets	\$ 46,702	\$ 122,887
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities:		
Amortization Expense	2,950	-
(Increase) Decrease in:		
Grants Receivable	(98,730)	(104,656)
Prepaid Expenses	2,159	3,126
Endowment - Montana Community Foundation	(2,263)	3,111
Increase (Decrease) in:		
Accounts Payable	(14,009)	1,284
Accrued Liabilities	(10,125)	7,135
Compensated Absences	834	2,913
Re-Grants Payable	<u>36,500</u>	<u>-</u>
Cash Flows From Operating Activities	<u>(35,982)</u>	<u>35,800</u>
Cash Flows From Investing Activities:		
Purchases of Capital Assets	<u>(5,766)</u>	<u>(14,750)</u>
Net Change in Cash and Cash Equivalents	(41,748)	21,050
Cash and Cash Equivalents Beginning of the Year	<u>205,402</u>	<u>184,352</u>
Cash and Cash Equivalents End of the Year	<u><u>\$ 163,654</u></u>	<u><u>\$ 205,402</u></u>

See the independent auditors' report and the accompanying notes to the financial statements.

HUMANITIES MONTANA
NOTES TO FINANCIAL STATEMENTS
October 31, 2020 and 2019

1. Significant Accounting Policies

Organization - Humanities Montana (the "Organization") is a non-profit corporation incorporated in 1972 under the laws of the State of Montana. The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Humanities Montana is located in Missoula, Montana and was formed at the invitation of the National Endowment for the Humanities to encourage and promote, through grants or other arrangements with non-profit groups, education in and public understanding and appreciation of the humanities in Montana. This is accomplished through providing services and grants in support of public programs in history, literature, philosophy, and other disciplines of the humanities. The educational and cultural programs sponsored by the Organization encourage Montanans to reflect on humanity's creative achievements, to conserve cultural diversity, and foster appreciation of culture.

The Board of Directors is composed of both public representatives and representatives of the humanities institutions and disciplines in the State of Montana. The Governor of the State of Montana appoints up to four members of the Board of Directors.

Basis of Accounting - Humanities Montana uses the accrual basis of accounting and, accordingly, the financial statements reflect all significant receivables, payables, and other liabilities. Revenues are recognized when earned and expenses are recorded when services are rendered and the liability is incurred. The Organization measures financial instruments at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments are recorded at quoted active market prices at the reporting date for identical assets (Level 1).

Adoption of ASU 2018-08 - During the year ended October 31, 2020, the Organization adopted FASB Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities: *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 605), because management believes the standard improves the usefulness and understandability of the Organization's financial reporting. The Organization's policy of revenue recognition agreed to the new standard and there was no prior period effect upon implementation.

Classification of Net Assets - The financial statement presentation follows the recommendations of Financial Accounting Standards Board Accounting Standards Codification 958, *Not-for-Profit Entities* (FASB ASC 958). Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to the two following classes of net assets:

Net assets without donor restrictions represent net amounts that have been earned and expended according to contract restrictions and net amounts from generally unrestricted activities. Grants and donor-restricted contributions received in a fiscal year whose restrictions were met in the same fiscal year are reported as net assets without donor restriction. Net assets without donor restrictions include cash and fixed assets that are contractually designated for operations.

Net assets with donor restrictions represent resources restricted by donors as to purpose or by passage of time, or resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

HUMANITIES MONTANA
NOTES TO FINANCIAL STATEMENTS
October 31, 2020 and 2019

1. Significant Accounting Policies (Continued)

Cash and Cash Equivalents and Investments - For purposes of the Statement of Cash Flows, the Organization considers cash in banks, cash on hand, and highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash deposits at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC). At times during the year, cash balances may be in excess of the FDIC insured limit. Management does not consider this to be a significant risk.

Vacation and Sick Leave - The Organization records a liability for 100 percent of accumulated vacation benefits and 25 percent of accumulated sick leave benefits plus related taxes. After a six-month probationary period, the Organization pays terminated employees the full amount of accumulated vacation up to 240 hours and 25 percent of all accumulated sick leave.

Revenue Recognition - The Organization recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

A majority of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as unearned revenue in the statement of financial position.

Contributed service revenue is recognized when donated services create or enhance non-financial assets or when they require specialized skills provided by people possessing those skills that would typically be purchased if not provided by donation. Contributed goods are recognized at their estimated fair value at the date of contribution.

The Organization received contributions of volunteer time, matching project funds, and miscellaneous items with an estimated value of \$327,174 and \$959,559 during the years ended October 31, 2020 and 2019, respectively, that have not been recorded in these financial statements because they do not meet the requirements for recognition under accounting principles generally accepted in the United States of America.

Investments - The Organization's investments are held and managed by the Montana Community Foundation. Investment balances are stated at fair value based on quoted prices in active markets for identical assets (Level 1). Interest, dividends, and realized and unrealized gains and losses are included in investment income. The composition of investments within this account are determined solely by the Montana Community Foundation. As such, the cost basis of these investments is not available.

Fixed Assets - The Organization capitalizes equipment with an acquisition cost of \$5,000 or more per unit and an estimated useful life of at least three years. Property and equipment is stated at cost and depreciated on a straight-line basis over the estimated useful life of the assets. Works of art are stated at cost and are not depreciated, because the salvage value is expected to be in excess of cost.

Concentration of Risk - The Organization has a concentration of risk related to its revenue sources. The Organization received approximately 82% and 69% of its total revenue from the National Endowment for the Humanities grant during the years ended October 31, 2020 and 2019, respectively. A substantial change in the level of funding could have a significant impact on the operations of the Organization.

HUMANITIES MONTANA
NOTES TO FINANCIAL STATEMENTS
October 31, 2020 and 2019

1. Significant Accounting Policies (Continued)

Income Taxes - Humanities Montana is a 501(c)(3) organization and is exempt from Federal and state income taxes. A provision for income taxes has not been recorded, because the Organization had no business income unrelated to its exempt activities during the years ended October 31, 2020 and 2019.

Advertising Costs - The Organization expenses the costs of advertising as incurred. Total advertising expense was \$1,497 and \$19,226 during the years ended October 31, 2020 and 2019, respectively.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

Revenue Recognition of Paycheck Protection Program Loan Funds

During the year ended October 31, 2020, the Organization received funds under the Paycheck Protection Program ("PPP") administered by the U.S. Small Business Administration. The Organization expects to meet the PPP's eligibility criteria and has concluded that the PPP loan represents, in substance, a grant that is expected to be forgiven. As such, the Organization has elected to account for the PPP loan proceeds in accordance with FASB ASC 958-605 as a conditional contribution. Under this model the Organization has recognized \$63,000 as other grant revenue in the statement of activities, based on qualifying expenditures incurred, for the year ended October 31, 2020. See Note 12 for additional information.

Management of Liquid Resources - The Organization is substantially supported by federal granting agencies. Additional funding is obtained from contributions and donations. For donations and grants received with donor restrictions, the Organization must maintain adequate resources to meet those responsibilities to donors. Thus, some of the Organization's financial assets may not be available for general expenditure within one year of the date of the statement of financial position. The Organization manages its liquidity to make financial assets without donor restrictions available for general expenditures, liabilities, and other obligations as they come due.

Functional Allocation of Expenses - The costs of providing program and supporting services have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Certain administrative and other costs have been allocated among the programs based on specific identification or based on estimates of the expenses incurred. The primary activity groups and their related purposes are summarized as follows:

Program Service - Expenses which are associated with the Organization's objectives and purpose.

Administrative Expenses - Expenses which allow the Organization to operate and provide services to program services, but are not directly attributable to the provision of program services.

Fundraising Expenses - Provides for time and materials related to appeals to donors and creation of public awareness and support for the Organization's mission.

These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated on the table on the following page include:

HUMANITIES MONTANA
NOTES TO FINANCIAL STATEMENTS
October 31, 2020 and 2019

1. Significant Accounting Policies (Continued)

Functional Allocation of Expenses (Continued)

Expense	Method of Allocation
Salaries and fringe benefits	Time and effort, purpose
Program honoraria and travel	Purpose
Professional development	Time and effort
Rent and administration	Time and effort
Professional services	Time and effort, purpose
Postage and printing	Time and effort
Dues and subscriptions	Purpose
Network and database expense	Time and effort
Advertising	Purpose
Supplies	Time and effort
Telephone	Time and effort
Insurance	Time and effort
Board expenses	Purpose

2. Financial Assets

The following table reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts that are not available for general use due to contractual or donor imposed restrictions within one year of the statement of financial position date:

	<u>2020</u>	<u>2019</u>
Financial Assets, at Year End:		
Cash	\$ 163,654	\$ 205,402
Receivables	267,948	169,218
Beneficial Interest in Perpetual Trust	<u>86,675</u>	<u>84,412</u>
Total Financial Assets	518,277	459,032
Less Financial Assets Unavailable for General Expenditures		
Within One Year Due to:		
Beneficial interest in Perpetual Trust	(86,675)	(84,412)
Receivables, Long Term	<u>-</u>	<u>(100,000)</u>
Total Financial Assets Unavailable for General Expenditure		
Within One Year:	<u>(86,675)</u>	<u>(184,412)</u>
Financial Assets Available to Meet Cash Needs for General		
Expenditures Within One Year	<u>\$ 431,602</u>	<u>\$ 274,620</u>

HUMANITIES MONTANA
NOTES TO FINANCIAL STATEMENTS
October 31, 2020 and 2019

3. Grants Receivable

Grants receivable represent the balance of grant funds earned but not yet received in cash. The Organization uses the allowance method to determine uncollectible grants receivable. Management estimates the allowance for uncollectible grants receivable to be zero at October 31, 2020 and 2019. Of the grants receivable, the amount expected to be collected within one year of the balance sheet date at October 31, 2020 and 2019 is \$267,948 and \$69,218, respectively. The long term portion of grants receivable at October 31, 2020 and 2019 is zero and \$100,000, respectively. A discount for the long-term portion of grants receivable has not been included because the present value approximates the future value.

4. Endowment

The Organization has an endowment held at the Montana Community Foundation (MCF). The endowment consists of cash, fixed income investments, and equities that are fully managed by the MCF. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors and management of the Organization have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

HUMANITIES MONTANA
NOTES TO FINANCIAL STATEMENTS
October 31, 2020 and 2019

4. Endowment (Continued)

Changes in endowment net assets for the years ended October 31, 2020 and 2019 are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment Net Assets, October 31, 2018	\$ -	\$ 87,553	\$ 87,553
Investment Return			
Investment Loss, Net	-	(46)	(46)
Net Appreciation, Realized and Unrealized	-	729	729
Reclassification Adjustment	3,824	(3,824)	-
Appropriations for Expenditure	<u>(3,824)</u>	<u>-</u>	<u>(3,824)</u>
Endowment Net Assets, October 31, 2019	-	84,412	84,412
Investment Return			
Investment Income, Net	-	108	108
Net Appreciation, Realized and Unrealized	-	5,967	5,967
Reclassification Adjustment	3,812	(3,812)	-
Appropriations for Expenditure	<u>(3,812)</u>	<u>-</u>	<u>(3,812)</u>
Endowment Net Assets, October 31, 2020	<u>\$ -</u>	<u>\$ 86,675</u>	<u>\$ 86,675</u>

The portion of endowment net assets whose use is restricted either by explicit donor stipulation or by UPMIFA that neither expires by the passage of time nor can be fulfilled or otherwise removed by actions of the Organization at October 31, 2020 and 2019 was \$55,911.

The portion of endowment net assets whose use was restricted by time was \$30,794 and \$28,531 at October 31, 2020 and 2019, respectively.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported as assets with donor restriction. There were no such deficiencies as of October 31, 2020 and 2019.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner intended to produce results consistent with a balanced bond and equity portfolio.

HUMANITIES MONTANA
NOTES TO FINANCIAL STATEMENTS
October 31, 2020 and 2019

4. Endowment (Continued)

Strategies Employed for Achieving Objectives

The endowment assets are managed at the discretion of the MCF. To satisfy the Organization's long-term rate-of-return objectives, the MCF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The MCF targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization's policy is to not make any significant withdrawals from the endowment until the corpus reaches \$100,000. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

5. Endowed Perpetual Trust

The Organization has been named a beneficiary of a perpetual trust held by the Montana Community Foundation (MCF), which was created by donation. Under the agreement set forth by the MCF, the Organization does not have variance power over the trust and, therefore, has not recorded it in the financial statements. The Organization is to receive distributions from the trust's annual income under a reasonable structure as set forth by the MCF. Income received annually from the trust will be reported in the statement of activities as an increase in assets without donor restriction. No cash has been received from the endowed perpetual trust during the years ended October 31, 2020 and 2019. The balance of the trust at October 31, 2020 and 2019 is \$16,923 and \$16,481, respectively.

6. Re-Grants

Re-grant expense is recognized when the funds to be re-granted are obligated. Funds are considered obligated on the date that re-grant award documents are mailed to the recipient. A corresponding re-grant payable is recorded until which time the funds are disbursed to the recipients. Re-grants which are not claimed revert to the Organization as program income and must be expensed under the same terms as the original grant award.

7. Leases

The Organization classifies its leases as either operating or capital leases. Currently all leases are operating leases. The Organization leases office space in Missoula, Montana on an annual lease.

HUMANITIES MONTANA
NOTES TO FINANCIAL STATEMENTS
October 31, 2020 and 2019

8. Risk Management

The Organization faces a number of risks including (a) loss or damage to property, (b) general liability, (c) workers compensation, and (d) employee medical insurance. Commercial insurance policies are purchased for loss or damage to property, general liability, and employee medical insurance.

9. Employee Benefits

The Organization participates in the Teachers Insurance and Annuity Association College Retirement Equities Fund (Plan) to provide retirement benefits for eligible employees. The Plan is a Section 403(b) defined contribution retirement plan. Plan contributions are invested, at the direction of the participant, in one or more of the funding vehicles available under the plan.

Employees are eligible to make elective deferrals on the first of the month following employment and can contribute up to the maximum amount allowed by law. Employees are eligible for employer match up to 10 percent of the employee's salary. For the years ending October 31, 2020 and 2019, the Organization contributed \$22,155 and \$27,221 in matching contributions, respectively.

The Organization also participates in the Montana University System Group Health Insurance Program to provide for health coverage for eligible employees and their dependents.

10. Net Assets Without Donor Restriction

Net assets without donor restriction are as follows at October 31:

	<u>2020</u>	<u>2019</u>
Invested in property and equipment, net	\$ 20,261	\$ 17,445
Undesignated	<u>225,402</u>	<u>178,279</u>
Total net assets without donor restriction	<u><u>\$ 245,663</u></u>	<u><u>\$ 195,724</u></u>

HUMANITIES MONTANA
NOTES TO FINANCIAL STATEMENTS
October 31, 2020 and 2019

11. Net Assets With Donor Restriction

Net assets with donor restriction are as follows at October 31:

	<u>2020</u>	<u>2019</u>
Time restriction for uncollected grants receivable	\$ 144,500	\$ 150,000
Endowment earnings in excess of corpus	30,794	28,531
Donor restricted endowment	<u>55,911</u>	<u>55,911</u>
 Total net assets with donor restriction	 <u>\$ 231,205</u>	 <u>\$ 234,442</u>

The table above presents the composition of net assets with donor restrictions. As of October 31, 2020 and 2019, \$175,294 and \$178,531, respectively, are restricted by donors by the passage of time. Additionally, as of October 31, 2020 and 2019, \$55,911 are restricted in perpetuity by donors as to their use as well as by the passage of time.

12. Subsequent Events

Management has evaluated subsequent events through April 23, 2021, the date on which the financial statements were available to be issued.

In December 2020, subsequent to year end, the Organization was granted forgiveness of loan proceeds received under the Paycheck Protection Program administered by the U.S. Small Business Administration.

HUMANITIES MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended October 31, 2020

FEDERAL SOURCE <i>PASS THROUGH SOURCE</i> PROGRAM NAME	FEDERAL CFDA NUMBER	TOTAL FEDERAL EXPENDITURES	PASSED THROUGH TO SUBRECIPIENTS
National Endowment for the Humanities (NEH) <i>Direct</i> General Support Grants to State Humanities Councils			
Grant No. SO-268603-20	45.129	\$ 560,158	\$ 87,631
Grant No. SO-268603-20 CARES	45.129	<u>419,080</u>	<u>419,080</u>
Total National Endowment for the Humanities		<u>979,238</u>	<u>506,711</u>
TOTAL FEDERAL EXPENDITURES		<u><u>\$ 979,238</u></u>	<u><u>\$ 506,711</u></u>

See accompanying notes to the schedule of expenditures of federal awards.

HUMANITIES MONTANA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended October 31, 2020

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance of Humanities Montana for the year ended October 31, 2020. 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). Because the Schedule presents only a selected portion of the operations of Humanities Montana, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Humanities Montana.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

Humanities Montana did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

4. Programs

Humanities Montana receives a significant portion of funding from the National Endowment for Humanities (NEH). The primary program for the year ended October 31, 2020, was the National Endowment for Humanities comprised of CFDA number 45.129.

5. Re-Grants (Subrecipients)

The Organization provided re-grant awards to subrecipients based on the program guidelines. The total amounts provided to subrecipients and included in the Schedule for the year ended October 31, 2020 are as follows:

National Endowment for the Humanities CFDA No. 45.129	\$506,711
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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***

Board of Directors and Management
Humanities Montana
Missoula, Montana

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 Humanities Montana (a nonprofit organization), which comprise the statement of financial position as of October 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Humanities Montana's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Humanities Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Humanities Montana'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 a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Junkermier, Clark, Campanella, Stevens, P.C.

Missoula, Montana
April 23, 2021



JCCS

ACCOUNTING
AUDIT
TAX
EMPLOYEE BENEFITS
SPECIALIZED SERVICES

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors and Management
Humanities Montana
Missoula, Montana

Report on Compliance for Each Major Federal Program

We have audited Humanities Montana's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Humanities Montana's major federal programs for the year ended October 31, 2020. Humanities Montana's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Humanities Montana'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 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 Humanities Montana'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 Humanities Montana's compliance.

Opinion on Each Major Program

In our opinion, Humanities Montana 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, 2020.

Report on Internal Control Over Compliance

Management of Humanities Montana 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 Humanities Montana'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 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 Humanities Montana'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 a 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Junkermier, Clark, Campanella, Stevens, P.C.

Missoula, Montana
April 23, 2021

HUMANITIES MONTANA
SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS
For the Year Ended October 31, 2020

I. Summary of Auditors' Results

1. The independent auditors' report expresses an unmodified opinion on whether the financial statements of Humanities Montana were prepared in accordance with U.S. GAAP.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of Humanities Montana, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over major federal award programs disclosed during the audit are reported in the Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The independent auditors' report on compliance for the major federal award programs for Humanities Montana expresses an unmodified opinion on the major federal program.
6. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a).
7. The program tested as a major program was the following: National Endowment for the Humanities - Promotion of the Humanities Federal State Partnership, CFDA No. 45.129.
8. The threshold for distinguishing Type A and B programs was \$750,000 in expenditures.
9. Humanities Montana was not determined to be a low-risk auditee.

II. Findings - Financial Statements Audit

No matters were reported.

III. Findings and Questioned Costs - Major Federal Award Programs

No matters were reported.

HUMANITIES MONTANA
SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS
For the Year Ended October 31, 2020

IV. Status of Prior Year Findings

2019-001 REVENUE RECOGNITION FOR UNCONDITIONAL CONTRIBUTIONS AND GRANTS

Condition and Criteria: During the 2019 audit, we discovered assets and net assets were understated by \$150,000 due to one unconditional multi-year grant in which amounts to be received in future periods were not accrued. The only revenue recognized was the funds received in the prior year. Internal controls should be in place to ensure unconditional multi-year grants are recognized in accordance with ASC 958-605-25, in which contributions or grants with conditions based on time should be recorded as unconditional, with a corresponding donor restriction in net assets due to the passage of time.

Current Status: No issues were discovered in the current year audit related to revenue recognition of unconditional grants. The finding appears to be resolved.

2019-002 CAPITALIZATION OF WEBSITE COSTS

Condition and Criteria: During the 2019 audit we discovered assets and net assets were understated in the amount of \$14,750 due to the expensing of capitalizable website costs. Internal controls should be in place to ensure website costs are capitalized in accordance with ASC 350-50-55-3, in which costs are capitalized for website work related to: developing or acquiring software for website operations, developing or acquiring code for web applications, developing or acquiring database software, development of HTML web pages or templates, installing developed applications, the creation of hypertext links to other websites or locations in the website, and the testing of website applications.

Current Status: No issues were discovered in the current year audit related to capitalization of website costs. The finding appears to be resolved.