Humanities MONTANA

AUDITED FINANCIAL STATEMENTS

OCTOBER 31, 2016 AND 2015

JCCS

HUMANITIES MONTANA

CONTENTS

INDEPENDENT AUDITORS' REPORT

Board of Directors and Management
Humanities Montana
Missoula, MT

Report on the Financial Statements
We have audited the accompanying statements of financial position as of October 31, 2016 and 2015, and the related statements of activities, functional expenses, cash flows, and the related notes for the years then ended, and the schedule of expenditures of federal awards for the NEH Federal/State Partnership Program (CFDA 45.129) of Humanities Montana (a nonprofit organization) for the year ended October 31, 2016, and the related notes (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; 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 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.

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Board of Directors and Management
Humanities Montana

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, and the expenditures of Federal Awards for the NEH Federal/State Partnership Program (CFDA 45.129) of Humanities Montana for the year ended October 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Humanities Montana's internal control over financial reporting and compliance.

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

Missoula, Montana
January 6, 2017

HUMANITIES MONTANA
STATEMENTS OF FINANCIAL POSITION
October 31, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and Cash Equivalents	$ 211,232	$ 162,304
Grants Receivable	11,094	19,147
Prepaid Expenses	7,464	6,390
Total Current Assets	229,790	187,841
Property and Equipment		
Equipment	5,169	5,169
Works of Art	2,695	2,695
Less: Accumulated Depreciation	(5,169)	(5,169)
Net Property and Equipment	2,695	2,695
Endowment - Montana Community Foundation	83,094	81,905
Total Assets	$ 315,579	$ 272,441
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	$ 11,080	$ 16,150
Accrued Liabilities	8,492	4,716
Compensated Absences	12,209	13,059
Re-Grants Payable	45,579	18,600
Total Current Liabilities	77,360	52,525
Net Assets		
Unrestricted	115,095	137,981
Temporarily Restricted	67,213	26,024
Permanently Restricted	55,911	55,911
Total Net Assets	238,219	219,916
Total Liabilities and Net Assets	$ 315,579	$ 272,441

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

HUMANITIES MONTANA
STATEMENT OF ACTIVITIES
For the Year Ended October 31, 2016

	Unrestricted Activities	Temporarily Restricted Activities	Permanently Restricted Activities	Total
Revenues				
Grant Revenue	$ 579,219	$ -	$ -	$ 579,219
Other Grant Revenue	90,478	15,000	-	105,478
Contributions	36,415	25,000	-	61,415
Royalties	1,742	-	-	1,742
Investment Income, Net	762	5,935	-	6,697
Net Assets Released From Restriction	4,746	(4,746)	-	-
Total Revenues	713,362	41,189	-	754,551
Expenses				
Administration	89,144	-	-	89,144
Program Services	591,146	-	-	591,146
Fundraising	55,958	-	-	55,958
Total Expenses	736,248	-	-	736,248
Change in Net Assets	(22,886)	41,189	-	18,303
Net Assets				
Beginning of the year	137,981	26,024	55,911	219,916
End of the year	$ 115,095	$ 67,213	$ 55,911	$ 238,219

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

HUMANITIES MONTANA
STATEMENT OF ACTIVITIES
For the Year Ended October 31, 2015

	Unrestricted Activities	Temporarily Restricted Activities	Permanently Restricted Activities	Total
Revenues				
Federal Grant Revenue	$ 603,775	$ -	$ -	$ 603,775
Other Grant Revenue	21,155	-	-	21,155
Contributions	64,039	-	-	64,039
Sale of Goods	15	-	-	15
Royalties	1,770	-	-	1,770
Investment Income, Net	91	940	-	1,031
Net Assets Released From Restriction	4,833	(4,833)	-	-
Total Revenues	695,678	(3,893)	-	691,785
Expenses				
Administration	81,392	-	-	81,392
Program Services	564,875	-	-	564,875
Fundraising	27,615	-	-	27,615
Total Expenses	673,882	-	-	673,882
Change in Net Assets	21,796	(3,893)	-	17,903
Net Assets				
Beginning of the year	116,185	29,917	55,911	202,013
End of the year	$ 137,981	$ 26,024	$ 55,911	$ 219,916

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, 2016

	Administration	Program Services	Fundraising	Total
Salaries and Fringe Benefits	$ 33,176	$ 183,429	$ 49,301	$ 265,906
Re-Grants	-	148,530	-	148,530
Program Honoraria and Travel	-	178,199	384	178,583
Professional Development	8,416	8,842	24	17,282
Rent and Administration	1,133	7,823	959	9,915
Professional Services	20,679	28,588	-	49,267
Postage and Printing	5,314	2,071	875	8,260
Dues and Subscriptions	14,572	-	795	15,367
Network and Database Expense	1,419	8,298	1,201	10,918
Advertising	1,580	3,918	68	5,566
Supplies	695	6,087	589	7,371
Telephone	679	3,969	575	5,223
Insurance	184	1,076	156	1,416
Miscellaneous	1,297	790	-	2,087
Board Expenses	-	9,526	-	9,526
Endowment Investment Fees	-	-	1,031	1,031
Total Expenses	$ 89,144	$ 591,146	$ 55,958	$ 736,248

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, 2015

	Administration	Program Services	Fundraising	Total
Salaries and Fringe Benefits	$ 25,982	$ 227,340	$ 14,806	$ 268,128
Re-Grants	-	140,500	-	140,500
Program Honoraria and Travel	-	138,825	6,103	144,928
Professional Development	4,079	9,957	1,619	15,655
Rent and Administration	1,408	7,540	486	9,434
Professional Services	26,738	-	-	26,738
Postage and Printing	6,312	2,873	378	9,563
Dues and Subscriptions	12,952	110	440	13,502
Network and Database Expense	864	7,013	501	8,378
Advertising	541	7,682	77	8,300
Supplies	620	8,312	472	9,404
Telephone	685	4,107	293	5,085
Insurance	136	1,142	82	1,360
Miscellaneous	-	1,195	1,279	2,474
Board Expenses	1,075	8,279	-	9,354
Endowment Investment Fees	-	-	1,079	1,079
Total Expenses	$ 81,392	$ 564,875	$ 27,615	$ 673,882

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, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities:		
Change in Net Assets	$ 18,303	$ 17,903
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities:		
(Increase) Decrease in:		
Grants Receivable	8,053	13,744
Prepaid Expenses	(1,074)	2,187
Endowment - Montana Community Foundation	(1,189)	3,893
Increase (Decrease) in:		
Accounts Payable	(5,070)	(1,120)
Accrued Liabilities	3,776	745
Compensated Absences	(850)	2,051
Re-Grants Payable	26,979	7,200
Cash Flows From Operating Activities	48,928	46,603
Net Change in Cash	48,928	46,603
Cash Balances		
Beginning of the Year	162,304	115,701
End of the Year	$ 211,232	$ 162,304

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

HUMANITIES MONTANA
NOTES TO FINANCIAL STATEMENTS
October 31, 2016 and 2015

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).

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

Unrestricted - Unrestricted net assets represent resources over which the Organization has unlimited discretionary control to carry out its activities. Grants and donor-restricted contributions received in a fiscal year whose restrictions were met in the same fiscal year are reported as unrestricted revenue. The Organization's primary revenue sources include cost reimbursement grants, contributions, and program fees.

Temporarily Restricted - Temporarily restricted net assets represent resources whose use is limited by donor-imposed restrictions that will be met either by actions of the Organization or by the passage of time. There were $67,213 and $26,024 temporarily restricted net assets at October 31, 2016 and 2015, respectively.

Permanently Restricted - Permanently restricted net assets represent resources whose use is limited by donor-imposed restrictions that require the net assets to be maintained in perpetuity. There were $55,911 permanently restricted funds at October 31, 2016 and 2015.

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.

1. Significant Accounting Policies (Continued)

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 - Contract, grant, and other revenues are recognized when earned. 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 $528,914 and $571,591 during the years ended October 31, 2016 and 2015, 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.

Cost Allocation - The Organization allocates costs that can be specifically identified to a program to the individual program benefiting. Joint costs are allocated directly to individual programs based on estimates made by management.

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 77% and 87% of its total revenue from the National Endowment for the Humanities grant during the years ended October 31, 2016 and 2015, respectively. A substantial change in the level of funding could have a significant impact on the operations of the Organization.

Functional Expense Reporting - The cost of providing program and supporting services have been summarized by function, based on estimates developed by management.

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, 2016 and 2015.

Reclassifications - Certain amounts have been reclassified on the statement of activities in the prior year to conform to the current year presentation. These reclassifications had no effect on net assets or changes in net assets.

1. Significant Accounting Policies (Continued)

Advertising Costs - The Organization expenses the costs of advertising as incurred. Total advertising expense was $5,566 and $8,300 during the years ended October 31, 2016 and 2015, 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.

2. Grants Receivable

Grants receivable represent the balance of grant funds earned but not yet received in cash. Management expects to collect the full balance of grants receivable within one year of the balance sheet date. As such, management estimates the allowance for uncollectible grants receivable to be zero at October 31, 2016 and 2015.

3. 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 State Prudent Management of Institutional Funds Act (SPMIFA) 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 permanently restricted net assets (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 SPMIFA, 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

3. Endowment (Continued)

Changes in endowment net assets for the years ended October 31, 2016 and 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, October 31, 2014	$ -	$ 29,917	$ 55,911	$ 85,828
Investment Return				
Investment Income	-	2,635	-	2,635
Net Appreciation, Realized and Unrealized	-	(1,695)	-	(1,695)
Investment Fees	-	(1,079)	-	(1,079)
Appropriations for Expenditure	-	(3,754)	-	(3,754)
Endowment Net Assets, October 31, 2015	-	26,024	55,911	81,935
Investment Return				
Investment Income	-	1,415	-	1,415
Net Appreciation, Realized and Unrealized	-	4,520	-	4,520
Investment Fees	-	(1,031)	-	(1,031)
Appropriations for Expenditure	-	(3,715)	-	(3,715)
Endowment Net Assets, October 31, 2016	$ -	$ 27,213	$ 55,911	$ 83,124

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA at October 31, 2016 and 2015 was $55,911.

The temporarily restricted net assets within the endowment fund of $27,213 and $26,024 at October 31, 2016 and 2015, respectively, were subject to a time restriction under SPMIFA without purpose restrictions.

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 SPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of October 31, 2016 and 2015.

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 that is intended to produce results consistent with a balanced bond and equity portfolio.

3. 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.

4. 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 unrestricted net assets. No cash has been received from the endowed perpetual trust during the years ended October 31, 2016 and 2015. The balance of the trust at October 31, 2016 and 2015 is $16,133 and $14,082, respectively.

5. 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.

6. 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.

7. 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 year ending October 31, 2016 and 2015, the Organization contributed $17,814 and $17,273 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.

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. Subsequent Events

Management has evaluated subsequent events through January 6, 2017, the date on which the financial statements were available to be issued.

HUMANITIES MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended October 31, 2016

FEDERAL SOURCE *PASS THROUGH SOURCE* PROGRAM NAME	FEDERAL CFDA NUMBER	PASSED THROUGH TO SUBRECIPIENTS	TOTAL FEDERAL EXPENDITURES
National Endowment for the Humanities (NEH)			
Direct			
General Support Grants to State Humanities Councils			
Grant No. SO-50606-14	45.129	$ 148,530	$ 579,219
Total National Endowment for the Humanities		148,530	579,219
TOTAL FEDERAL EXPENDITURES		$ 148,530	$ 579,219

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, 2016

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Humanities Montana under programs of the federal government for the year ended October 31, 2016. 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. 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, 2016 are as follows:

National Endowment for the Humanities CFDA No. 45.129	$148,530

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, 2016, 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 the schedule of expenditures of federal awards for the NEH Federal/State Partnership Program (CFDA 45.129) of Humanities Montana for the year ended October 31, 2016, and the related notes (the financial statements), and have issued our report thereon dated January 6, 2017.

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) 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 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. 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings, questioned costs, and recommendations that we consider to be a significant deficiency. See finding 2016-001.

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Board of Directors and Management
Humanities Montana

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 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*.

Humanities Montana's Response to Findings
Humanities Montana's response to the finding identified in our audit is described in the accompanying schedule of findings, questioned costs, and recommendations. Humanities Montana's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
January 6, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE NEH FEDERAL/STATE PARTNERSHIP PROGRAM (CFDA NO. 45.129) AND ON INTERNAL CONTROL OVER COMPLIANCE BASED ON AN AUDIT IN ACCORDANCE WITH THE NEH OIG PROGRAM-SPECIFIC AUDIT GUIDE

Board of Directors and Management
Humanities Montana
Missoula, Montana

Report on Compliance for NEH Federal/State Partnership Program (CFDA 45.129)
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 its NEH Federal/State Partnership Program (CFDA 45.129) for the year ended October 31, 2016.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of federal awards applicable to the NEH Federal/State Partnership Program.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for Humanities Montana’s NEH Federal/State Partnership Program (CFDA 45.129) 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 NEH Federal/State Partnership Program (CFDA 45.129) 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 Humanities Montana's NEH Federal/State Partnership Program (CFDA 45.129). However, our audit does not provide a legal determination of Humanities Montana’s compliance.

Opinion on Compliance for NEH Federal/State Partnership Program (CFDA 45.129)
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 its NEH Federal/State Partnership Program (CFDA 45.129) for the year ended October 31, 2016.

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Board of Directors and Management
Humanities Montana

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 its NEH Federal/State Partnership Program (CFDA 45.129) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its NEH Federal/State Partnership Program (CFDA 45.129) 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the 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
January 6, 2017

HUMANITIES MONTANA
SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS
For the Year Ended October 31, 2016

I. Summary of Auditors' Results

Our program-specific audit disclosed no findings that are required to be reported herein under the NEH Office of Inspector General Program - Specific Audit Guide.

II. Findings - Financial Statements Audit

Corrective Action In-Process

Significant Deficiency

2016-001 Revenue Recognition for Unconditional Contributions and Grants

Questioned Costs: Not applicable.

Universe and Population Size: Two transactions totaling $40,000.

Sample Size: Two transactions totaling $40,000 (100% of population).

Noncompliance Data: Not applicable.

Condition and Criteria: During the audit, we discovered two transactions that were recorded as conditional contributions and grants due to the funds being restricted for the fiscal year ended October 31, 2017. However, in accordance with ASC 958-605-25, contributions or grants received with conditions based on time should be recorded as unconditional when received with a corresponding temporary restriction in net assets due to the passage of time.

Cause: The Organization misinterpreted accounting principles generally accepted in the United States of America with regard to the proper recognition of conditional versus restricted revenue.

Effect or Potential Effect: The effect of this deficiency in internal controls was the overstatement of liabilities and the understatement of revenue in the amount of $40,000 during the year ended October 31, 2016. This deficiency in internal controls has the potential effect of understating revenue and overstating liabilities for revenue received with a similar time restriction.

Recommendations: We recommend the Organization implement procedures to review contribution and grant revenue for restrictions and conditions. Conditional revenue should not be recognized as revenue until the condition on which it depends is substantially met (other than the passage of time). Restricted revenue should be recognized as revenue when received and reclassified from temporarily restricted net assets to unrestricted net assets when the restriction is satisfied or when the stipulated time has elapsed.

Views of Responsible Officials: See the Corrective Action Plan.

III. Findings and Questioned Costs - Promotion of the Humanities - Federal/State Partnership

Our program-specific audit disclosed no findings that are required to be reported herein under the NEH Office of Inspector General Program - Specific Audit Guide.

IV. Schedule of Prior Audit Findings, Questioned Costs, and Recommendations

No matters were reported in the prior year.

CORRECTIVE ACTION PLAN

January 6, 2017

National Endowment for the Humanities

Humanities Montana respectfully submits the following corrective action plan for the year ended October 31, 2016.

Name and address of independent public accounting firm:

JCCS, P.C.
2620 Connery Way
Missoula, MT 59808

Audit period:

The finding from the January 6, 2017 schedule of findings, questioned costs, and recommendations are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2016-001 Revenue Recognition for Unconditional Contributions and Grants

Recommendation: The Organization should implement procedures to review contribution and grant revenue for restrictions and conditions. Conditional revenue should not be recognized as revenue until the condition on which it depends is substantially met (other than the passage of time). Restricted revenue should be recognized as revenue when received and reclassified from temporarily restricted net assets to unrestricted net assets when the restriction is satisfied or when the stipulated time has elapsed.

Action Taken: We concur with the recommendation, and it was implemented effective January 6, 2017.

If the National Endowment for the Humanities has questions regarding this plan, please call me, Ken Egan, at (406) 243-6022.

Sincerely yours,

Ken Egan
Executive Director