

Hawaii Council for the Humanities

Financial Statements

October 31, 2019 and 2018

Together with Independent Auditor's Report

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A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Board of Directors
Hawaii Council for the Humanities

Report on the Financial Statements

We have audited the accompanying financial statements of Hawaii Council for the Humanities (the Council), which comprise the statement of financial position as of October 31, 2019, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

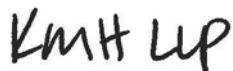
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council as of October 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Council as of and for the year ended October 31, 2018, were audited by other auditors, whose report, dated September 12, 2019, expressed an unmodified opinion on those statements. The supplementary information for the year ended October 31, 2018 was audited by other auditors whose report, dated September 12, 2019, expressed an unmodified opinion on such information 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 August 22, 2020 on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the Council'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 the Council's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "KMH LLP".

KMH LLP

Honolulu, Hawaii
August 22, 2020

Hawaii Council for the Humanities

Statements of Financial Position

October 31, 2019 and 2018

	<u>Assets</u>	
	2019	2018
Current Assets:		
Cash and cash equivalents	\$ 73,103	\$ 57,648
NEH receivable	54,007	31,697
Investments	119,111	180,260
Total current assets	246,221	269,605
Property and Equipment:		
Furniture and equipment	11,031	14,499
Less accumulated depreciation	(11,031)	(14,499)
Net property and equipment	-	-
Other Asset -- Security Deposit	4,260	2,672
	<u>\$ 250,481</u>	<u>\$ 272,277</u>
 <u>Liabilities and Net Assets</u>		
Current Liabilities:		
Accrued vacation	\$ 15,209	\$ 18,547
Subawards payable	65,239	34,317
Total current liabilities	80,448	52,864
Commitments and Contingencies		
Net Assets:		
Without donor restrictions	164,432	191,380
With donor restrictions	5,601	28,033
	170,033	219,413
	<u>\$ 250,481</u>	<u>\$ 272,277</u>

See accompanying notes to financial statements.

Hawaii Council for the Humanities

Statements of Activities

Fiscal Year Ended October 31, 2019

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenue and Other Support:			
Grants from NEH	\$ 726,461	\$ -	\$ 726,461
Contributions	21,812	63,938	85,750
Net realized and unrealized gain on investments	9,861	-	9,861
Interest and dividend income, net of investment fee of \$1,487	1,579	-	1,579
Net assets released from restrictions	86,370	(86,370)	-
Total revenue and other support	846,083	(22,432)	823,651
Expenses:			
Program services:			
Council projects	512,318	-	512,318
Subawards	110,542	-	110,542
Program development	79,027	-	79,027
Total program services	701,887	-	701,887
Support services:			
Management and general	129,029	-	129,029
Fundraising	42,115	-	42,115
Total support services	171,144	-	171,144
Total expenses	873,031	-	873,031
Change in net assets	(26,948)	(22,432)	(49,380)
Net Assets at Beginning of Fiscal Year	191,380	28,033	219,413
Net Assets at End of Fiscal Year	\$ 164,432	\$ 5,601	\$ 170,033

See accompanying notes to financial statements.

Hawaii Council for the Humanities

Statements of Activities

Fiscal Year Ended October 31, 2018

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenue and Other Support:			
Grants from NEH	\$ 631,384	\$ -	\$ 631,384
Contributions	26,760	196,881	223,641
Net realized and unrealized loss on investments	(1,201)	-	(1,201)
Interest and dividend income, net of investment fee of \$2,264	1,394	-	1,394
Program income	166	-	166
Net assets released from restrictions	173,870	(173,870)	-
Total revenue and other support	832,373	23,011	855,384
Expenses:			
Program services:			
Council projects	428,514	-	428,514
Subawards	139,065	-	139,065
Program development	71,351	-	71,351
Total program services	638,930	-	638,930
Support services:			
Management and general	123,213	-	123,213
Fundraising	48,296	-	48,296
Total support services	171,509	-	171,509
Total expenses	810,439	-	810,439
Change in net assets	21,934	23,011	44,945
Net Assets at Beginning of Fiscal Year	169,446	5,022	174,468
Net Assets at End of Fiscal Year	\$ 191,380	\$ 28,033	\$ 219,413

See accompanying notes to financial statements.

Hawaii Council for the Humanities

Statement of Functional Expenses

For the Fiscal Year Ended October 31, 2019

	Program Services				Support Services			
	Council Projects	Subawards	Program Developments	Total Program Services	Management and General	Fundraising	Total Support Services	Total Expenses
Salaries and wages	\$ 226,053	\$ 36,371	\$ 27,297	\$ 289,721	\$ 51,471	\$ 26,195	\$ 77,666	\$ 367,387
Payroll and fringe benefits	45,322	7,292	5,473	58,087	10,319	5,252	15,571	73,658
Total payroll costs	271,375	43,663	32,770	347,808	61,790	31,447	93,237	441,045
Council Projects:								
History day	123,945	-	-	123,945	-	-	-	123,945
Partnerships and special projects	55,853	-	-	55,853	-	-	-	55,853
Motheread and Try Think	15,603	-	-	15,603	-	-	-	15,603
Professional Dues and Fees	3,363	541	406	4,310	54,555	390	54,945	59,255
Grants	-	59,103	-	59,103	-	-	-	59,103
Occupancy	27,645	4,448	3,334	35,427	6,295	3,203	9,498	44,925
Other Expenses	5,030	1,257	15,688	21,975	1,557	5,975	7,532	29,507
Travel and Conferences	-	-	14,017	14,017	2,667	-	2,667	16,684
Printing, Publication and Postage	2,515	405	11,969	14,889	573	291	864	15,753
Office Expenses	4,983	802	601	6,386	1,135	577	1,712	8,098
Rental and Maintenance of Equipment	2,006	323	242	2,571	457	232	689	3,260
Total expenses	<u>\$ 512,318</u>	<u>\$ 110,542</u>	<u>\$ 79,027</u>	<u>\$ 701,887</u>	<u>\$ 129,029</u>	<u>\$ 42,115</u>	<u>\$ 171,144</u>	<u>\$ 873,031</u>

See accompanying notes to financial statements.

Hawaii Council for the Humanities

Statements of Cash Flows

For the Fiscal Years Ended October 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	\$ (49,380)	\$ 44,945
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized (gains) losses on investments	(9,861)	1,201
Donated investments included in contributions	-	(2,108)
Increase in:		
NEH receivable	(22,310)	(31,697)
Other assets	(1,588)	-
Increase (decrease) in:		
Accounts payable	-	(2,500)
Accrued vacation	(3,338)	(3,597)
Subawards payable	30,922	24,968
Contract advance payment	-	(9,387)
Net cash (used in) provided by operating activities	<u>(55,555)</u>	<u>21,825</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	71,010	3,888
Purchase of investments	-	(11,925)
Net cash provided by (used in) investing activities	<u>71,010</u>	<u>(8,037)</u>
Net increase in cash and cash equivalents	15,455	13,788
Cash and cash equivalents, beginning of year	<u>57,648</u>	<u>43,860</u>
Cash and cash equivalents, end of year	<u>\$ 73,103</u>	<u>\$ 57,648</u>

See accompanying notes to financial statements.

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2019 and 2018

1. Nature of Activities

The Hawaii Council for the Humanities (the Council) is a non-profit organization that was incorporated as a non-profit organization under the laws of the State of Hawaii in 1976. The Council administers grants from the National Endowment for the Humanities (NEH), a federal agency, and gifts from private individuals and organizations to support various non-profit projects, programs, exhibits, conferences, and other activities in promoting the dissemination and awareness of the humanities.

2. Significant Accounting Policies

a. Basis of Accounting and Financial Statement Presentation

The financial statements of the Council have been prepared on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP). GAAP requires the Council to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Council. These net assets may be used at the discretion of the Council's management and the board of directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Council or by the passage of time.

Contributions, revenues and support are recorded in the period earned as without donor restriction or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2019 and 2018

2. Significant Accounting Policies (continued)

b. Use of Estimates

The preparation of 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c. Cash and Cash Equivalents

The Council considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalent balances are maintained in bank deposit and money market fund accounts. From time to time, the cash deposits and money market funds may exceed federally insured limits. Deposit accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per account holder. Management believes that the Council is not exposed to any significant credit risk related to its cash balances.

d. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are recorded at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

e. Property and Equipment

Property and equipment acquisitions are recorded at cost. Donated assets are recorded at their estimated fair value at the date of the gift. All property and equipment with an estimated useful life of at least one year and a cost of \$3,000 or greater are capitalized. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives computed on the straight-line method.

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2019 and 2018

2. Significant Accounting Policies (continued)

e. Property and Equipment (continued)

Expenditures for maintenance, repairs, and minor renewals are charged to expense. Expenditures for betterments are capitalized. Property retired or otherwise disposed of is removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on the disposal of assets are reflected in current operations.

Long-lived assets held and used by the Council are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

f. Subawards Payable

Subawards payable are approved grants payable to subrecipients for funding as of October 31, 2019 and 2018, but not disbursed as of that date.

g. Donated Services and Materials

Donated services are recognized as contributions, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Council. Donated items are recorded at its fair value at the time of donation as in-kind contributions. During 2019 and 2018, the Council did not record any donations as in-kind contributions.

Significant and essential donated services are performed by various volunteers to support the Council's program and activities. These services have not been reflected in the financial statements as the criteria for recognition were not met.

h. Recognition of Grant Revenue

Grants are received from the NEH and other governmental entities, foundations and others. Revenues on cost reimbursement contracts are recognized when allowable and reimbursable expenses are incurred, and upon meeting the legal and contractual requirements of the funding source. These revenues are recorded as revenue of the net assets without donor restrictions. Funding received in advance of the applicable revenue recognition criteria is recorded as contract advance payment in the statements of financial position.

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2019 and 2018

2. Significant Accounting Policies (continued)

i. Functional Allocation of Expenses

The costs of providing the various programs and other activities are summarized on a functional basis in the statements of activities. Accordingly, costs are allocated to the benefited programs and supporting services based on direct costs incurred and management's estimates of resources consumed by these functions.

j. Advertising

The Council expenses the production costs of advertising the first time the advertising takes place. Advertising expense totaled approximately \$3,500 and \$1,000 for the years ended October 31, 2019 and 2018.

k. Income Taxes

The Council is exempt from income taxation under Section 501(c)(3) of the Internal Revenue Code. The Council is subject to income taxes for unrelated business income from advertising and commission income, in excess of the Internal Revenue Service's specific deduction amount.

l. Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It further provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The ASU is effective for annual periods beginning after December 15, 2018. The Council is currently assessing the impact of ASU 2018-08 on its financial statements and results of operations and has not determined if the adoption will have a material effect on its financial statements.

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2019 and 2018

2. Significant Accounting Policies (continued)

m. Recently Adopted Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among the changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions.

The Council has adopted this ASU effective November 1, 2018 and has adjusted the presentation of these statements accordingly. However, as provided for in the ASU, the Council has elected not to include comparative information related to its expenses by nature and function and its liquidity and availability or resources. Adoption of this ASU resulted in the reclassification to net assets previously reported at October 31, 2018 as follows:

	October 31, 2018		
	As Previously Reported	Reclassifications	As Reclassified
Net Assets:			
Unrestricted	\$ 191,380	\$ (191,380)	\$ -
Temporarily restricted	28,033	(28,033)	-
Without donor restrictions	-	191,380	191,380
With donor restrictions	-	28,033	28,033
Total net assets	<u>\$ 219,413</u>	<u>\$ -</u>	<u>\$ 219,413</u>

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2019 and 2018

2. Significant Accounting Policies (continued)

n. Subsequent Events

On March 10, 2020, the World Health Organization declared the coronavirus outbreak to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical areas in which the Council operates. Although the disruption is currently expected to be temporary, the duration is uncertain and cannot be predicted. As a result, the near term financial impact to the Council cannot be reasonably estimated at this time.

Management has evaluated subsequent events through August 22, 2020, the date on which the financial statements were available to be issued. There were no subsequent events that required adjustment of or disclosure in the financial statements.

3. Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities in active markets.

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2019 and 2018

3. Fair Value Measurements (continued)

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at October 31, 2019 and 2018.

Exchange-traded funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2019 and 2018

3. Fair Value Measurements (continued)

The Council's assets measured at fair value on a recurring basis at October 31, 2019 and 2018 are summarized below:

	Level 1	Level 2	Level 3	Total
<u>At October 31, 2019</u>				
Exchange-traded funds:				
Intermediate-term bond	\$ 46,164	\$ -	\$ -	\$ 46,164
Large blend	40,040	-	-	40,040
Small blend	11,834	-	-	11,834
Mid-Cap blend	11,523	-	-	11,523
Foreign large blend	9,550	-	-	9,550
Total	<u>\$ 119,111</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 119,111</u>
<u>At October 31, 2018</u>				
Exchange-traded funds:				
Intermediate-term bond	\$ 68,716	\$ -	\$ -	\$ 68,716
Large blend	58,727	-	-	58,727
Small blend	19,434	-	-	19,434
Mid-Cap blend	18,205	-	-	18,205
Foreign large blend	15,178	-	-	15,178
Total	<u>\$ 180,260</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 180,260</u>

4. Net Assets

Net assets with donor restrictions are comprised of funds received for restricted purposes by the donor. Net assets are released from donor restrictions primarily by incurring expenses that satisfy the restricted purpose. Net assets with donor restrictions of \$5,601 and \$28,033 at October 31, 2019 and 2018, respectively, are for humanities programs.

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2019 and 2018

5. Liquidity Disclosure

The table below represents the Council's financial assets available for general expenditures within one year at October 31, 2019:

Financial assets:

Cash and cash equivalents	\$ 73,103
NEH receivable	54,007
Investments	<u>119,111</u>

Financial assets, at year end	246,221
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Less those unavailable for general expenditure
within one year, due to:

Net assets with donor restrictions	<u>(5,601)</u>
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Financial assets available to meet cash needs for
general expenditures within one year

\$ 240,620

The Council structures its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

SUPPLEMENTARY INFORMATION

Hawaii Council for the Humanities

Schedule of Functional Expenses

For the Fiscal Year Ended October 31, 2018

	Program Services				Support Services			
	Council Projects	Subawards	Program Developments	Total Program Services	Management and General	Fundraising	Total Support Services	Total Expenses
Salaries and wages	\$ 156,732	\$ 31,008	\$ 27,910	\$ 215,650	\$ 47,081	\$ 29,517	\$ 76,598	\$ 292,248
Payroll and fringe benefits	38,947	7,705	6,935	53,587	11,699	7,146	18,845	72,432
Total payroll costs	195,679	38,713	34,845	269,237	58,780	36,663	95,443	364,680
Council Projects:								
History day	136,754	-	-	136,754	-	-	-	136,754
Partnerships and special projects	59,853	-	-	59,853	-	-	-	59,853
Motheread and Try Think	10,795	-	-	10,795	-	-	-	10,795
Grants	-	95,001	-	95,001	-	-	-	95,001
Professional Dues and Fees	2,971	588	528	4,087	53,322	560	53,882	57,969
Occupancy	16,508	3,266	2,940	22,714	4,959	3,109	8,068	30,782
Travel and Conferences	-	-	16,326	16,326	4,084	-	4,084	20,410
Printing, Publication and Postage	1,857	367	13,875	16,099	558	350	908	17,007
Other Expenses	398	398	2,178	2,974	398	6,918	7,316	10,290
Office Expenses	2,705	535	482	3,722	813	509	1,322	5,044
Rental and Maintenance of Equipment	994	197	177	1,368	299	187	486	1,854
Total expenses	<u>\$ 428,514</u>	<u>\$ 139,065</u>	<u>\$ 71,351</u>	<u>\$ 638,930</u>	<u>\$ 123,213</u>	<u>\$ 48,296</u>	<u>\$ 171,509</u>	<u>\$ 810,439</u>

See accompanying notes to financial statements.

Hawaii Council for the Humanities

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended October 31, 2019

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
National Endowment for the Humanities			
Promotion of the Humanities-Federal/State Partnership	45.129	<u>\$ 779,350</u>	<u>\$ 59,103</u>
Total expenditures of federal awards		<u><u>\$ 779,350</u></u>	<u><u>\$ 59,103</u></u>

Hawaii Council for the Humanities

Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended October 31, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the Hawaii Council for the Humanities (the Council) under programs of the federal government for the fiscal year ended October 31, 2019. 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 of Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Council, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Council.

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, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

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

**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**



A Hawaii Limited Liability Partnership

**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***

Independent Auditor's Report

To the Board of Directors
Hawaii Council for the Humanities

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 the Hawaii Council for the Humanities (the Council), which comprise the statement of financial position as of October 31, 2019, and related statements of activities and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated August 22, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council'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 Audit 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 Council'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 Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "KMH LLP". The letters are slightly slanted and connected, with a stylized "L" and "P".

KMH LLP

Honolulu, Hawaii
August 22, 2020

**REPORT ON COMPLIANCE FOR THE MAJOR- FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**



A Hawaii Limited Liability Partnership

Report on Compliance for the Major Federal Program and On Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
Hawaii Council for the Humanities

Report on Compliance for the Major Federal Program

We have audited the Hawaii Council for the Humanities (the Council) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the fiscal year ended October 31, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Council's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Council's compliance.

Opinion on the Major Federal Program

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended October 31, 2019.

Report on Internal Control over Compliance

Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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. *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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

The Council's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Council as of and for the year ended October 31, 2019, and have issued our report thereon dated August 22, 2020, which contained an unmodified opinion on those financial statements. 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 is presented for purposes of additional analysis as required by the Uniform Guidance 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink, appearing to read "KMH LLP", is positioned above the printed name of the firm.

KMH LLP

Honolulu, Hawaii
August 22, 2020

PART III

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Hawaii Council for the Humanities

Schedule of Findings and Questioned Costs
Fiscal Year Ended October 31, 2019

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statement audited was prepared in accordance with GAAP: Unmodified

Federal Awards

Internal control over the major program:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None reported

Type of auditor’s report issued on compliance for above federal program. Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? ☒ Yes ☐ No

Identification of major program:

<u>CFDA</u> <u>Number(s)</u>	<u>Name of Federal Program or Cluster</u>
45.129	Promotion of the Humanities – Federal/State Partnership Program

Dollar threshold used to distinguish between type A and type B Programs \$750,000

Audit qualified as a low-risk auditee? ☐ Yes ☒ No

Hawaii Council for the Humanities

Schedule of Findings and Questioned Costs (continued)

Fiscal Year Ended October 31, 2019

Section II – Financial Statement Findings

None

Hawaii Council for the Humanities

Schedule of Findings and Questioned Costs (continued)

Fiscal Year Ended October 31, 2019

Section III – Federal Award Findings and Questioned Costs

Finding No.: 2019-001 Perform and Document Risk Assessment and Audit Verification of Subrecipients

Agency: National Endowment for the Humanities
CFDA No.: 45.129
Program: Promotion of the Humanities – Federal/State Partnership
Requirement: Subrecipient Monitoring
Type of Finding: Significant Deficiency
Federal award no. and year: SO-233929-16 2016
SO-263481-19 2019

Criteria: 2 CFR 200.331 requires a pass-through entity to evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward. In addition, the pass-through entity must verify that every subrecipient is audited as required by Subpart F of 2 CFR 200. They must also consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the pass-through entity's own records.

Condition: The Council did not document the audit verification and ongoing monitoring activities performed related to 14 subrecipients.

Context: During 2019 there were 21 active subrecipient awards. 7 new subrecipients were issued during 2019 and 14 were awards previously issued prior to 2019. During the current year, approximately \$61,000 was awarded related to the 7 new subrecipient awards and approximately \$7,000 of payments were made to the subrecipients for the 14 awards issued prior to 2019. We noted that for the 7 new subawards issued in 2019 the Council performed a subrecipient risk assessment, audit verification and ongoing monitoring procedures for all the subrecipients, however, for the 14 subrecipients continuing from the previous period there was no documentation of the audit verification and ongoing monitoring procedures.

Cause: The Council was notified of deficiencies related to its subrecipient monitoring in prior audits. The Council responded by adopting policies related to subrecipient risk assessment, audit verification and ongoing monitoring. However, the Council elected to apply these procedures beginning with subrecipient awards issued in 2019.

Effect: Without documentation of its audit verification and monitoring procedures performed, the Council is unable to support its compliance with required subrecipient monitoring activities.

Recommendations: The Council should perform and document its audit verification and subrecipient monitoring activities for all subrecipients.

Hawaii Council for the Humanities

Schedule of Findings and Questioned Costs (continued)

Fiscal Year Ended October 31, 2019

Section III – Federal Award Findings and Questioned Costs (continued)

Questioned Costs: None.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2018-002.

Views of Responsible Official(s) and Planned Corrective Action: Management agrees with the finding and recommendation. See Corrective Action Plan on page 31.

PART IV

CORRECTIVE ACTION PLAN

Finding No. 2019-001: Perform and Document Risk Assessment and Audit Verification of Subrecipients

Aug 12, 2020

Corrective Action Plan: Hawaii Council for the Humanities (HCH) concurs with the finding.

Management would like to note additional context: HCH received its 2018 audit finding in July 2019, with just a few months left to address the finding in FY2019 (FY19 ending Oct 31, 2019). Many of these grants were closing out their period of performance, with just final reports due. Out of the 14 SO-16 subrecipients active at the beginning of FY2019, 8 were still open at October 31, 2019, and 2 remained open as of the completion of FY2019 audit, on August 1, 2020.

Plan: To improve our files and prepare for the FY2020 audit, HCH management will review the 8 SO-16 subrecipient files open during FY2020 and document audit verification as well as monitoring.

Review of management's 2019 activity related to this repeat finding: In FY2019 HCH focused on formalizing and documenting its subrecipient monitoring activities for SO-19 as follows: 1) Each HCH subrecipient is checked to make sure their DUNS number is active. 2) HCH also verifies and documents that subrecipients were audited as required by Subpart F of 2 CFR 200, or documents that such an audit did not apply as the case may be. 3) Each HCH subrecipient is evaluated for risk, and the risk recorded in their file as low, medium, or high. Determination of risk is made by the HCH proposal review committee before subaward is awarded. 4) Monitoring activities are conducted and recorded by the HCH Director of Grants, in a written log created for each subrecipient file. 5) These logs are regularly reviewed by the Executive Director. 6) HCH management and staff continue regular consultation with NEH Federal-State Partnership Office to confirm subrecipient monitoring activities remain in compliance with 2 CFR 200.

Person Responsible: Aiko Yamashiro, Hawai'i Council for the Humanities executive director
Anticipated completion date: October 31, 2020

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

STATUS REPORT

This section contains the current status of the prior audit recommendations. The recommendations are referenced to the prior audit report for the fiscal year ended October 31, 2018, dated July 29, 2019.

Recommendations

Status

Section III – Federal Award Findings

2018-001 Establish Written Policies and Procedures as Required by 2 CFR 200 and Document Control Procedures Finding resolved.

The Council should continue to work on finalizing and implementing its written policies and procedures to address the requirements of 2 CFR 200 for written policies and procedures. The Council should also retain documentation of control procedures performed to ensure compliance with cash management requirements.

2018-002 Perform and Document Risk Assessment and Audit Verification of Subrecipients Partially resolved. See Finding 2019-001.

The Council should formalize and document its subrecipient monitoring activities including its evaluation of the risk of subaward noncompliance for each of its subrecipients, the impact of its risk assessment on the level of subrecipient monitoring, the actual monitoring procedures performed, and the results of the monitoring procedures. The Council should also perform and document the verification that its subrecipients were audited as required by Subpart F of 2 CFR 200, or document that such audit did not apply as the case may be.