

Hawaii Council for the Humanities

Financial Statements

October 31, 2020 and 2019

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 statements of financial position as of October 31, 2020 and 2019, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2021 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.

KMH LLP

KMH LLP

Honolulu, Hawaii
July 24, 2021

Hawaii Council for the Humanities

Statements of Financial Position

October 31, 2020 and 2019

Assets

	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and cash equivalents	\$ 110,884	\$ 73,103
NEH receivable	46,722	54,007
Investments	121,972	119,111
Prepays and other	2,829	-
Total current assets	<u>282,407</u>	<u>246,221</u>
Property and Equipment:		
Furniture and equipment	11,031	11,031
Less accumulated depreciation	<u>(11,031)</u>	<u>(11,031)</u>
Net property and equipment	<u>-</u>	<u>-</u>
Other Asset -- Security Deposit	<u>4,290</u>	<u>4,260</u>
	<u>\$ 286,697</u>	<u>\$ 250,481</u>

Liabilities and Net Assets

Current Liabilities:		
Accounts payable	\$ 11,529	\$ -
Accrued vacation	17,321	15,209
Regrants payable	<u>26,000</u>	<u>65,239</u>
Total current liabilities	<u>54,850</u>	<u>80,448</u>
Commitments and Contingencies		
Net Assets:		
Without donor restrictions	224,647	164,432
With donor restrictions	<u>7,200</u>	<u>5,601</u>
	<u>231,847</u>	<u>170,033</u>
	<u>\$ 286,697</u>	<u>\$ 250,481</u>

See accompanying notes to financial statements.

Hawaii Council for the Humanities

Statements of Activities

Fiscal Year Ended October 31, 2020

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenue and Other Support:			
Grants from NEH	\$ 1,262,585	\$ -	\$ 1,262,585
Contributions	62,950	7,200	70,150
Net realized and unrealized gain on investments	2,861	-	2,861
Interest and dividend income, net of investment fee of \$1,264	1,225	-	1,225
Net assets released from restrictions	5,601	(5,601)	-
Total revenue and other support	<u>1,335,222</u>	<u>1,599</u>	<u>1,336,821</u>
Expenses:			
Program services:			
Council projects	410,119	-	410,119
Regrants	611,122	-	611,122
Program development	74,357	-	74,357
Total program services	<u>1,095,598</u>	<u>-</u>	<u>1,095,598</u>
Support services:			
Management and general	115,774	-	115,774
Fundraising	63,635	-	63,635
Total support services	<u>179,409</u>	<u>-</u>	<u>179,409</u>
Total expenses	<u>1,275,007</u>	<u>-</u>	<u>1,275,007</u>
Change in net assets	60,215	1,599	61,814
Net Assets at Beginning of Fiscal Year	<u>164,432</u>	<u>5,601</u>	<u>170,033</u>
Net Assets at End of Fiscal Year	<u><u>\$ 224,647</u></u>	<u><u>\$ 7,200</u></u>	<u><u>\$ 231,847</u></u>

See accompanying notes to financial statements.

Hawaii Council for the Humanities

Statements of Activities

Fiscal Year Ended October 31, 2019

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
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	<u>846,083</u>	<u>(22,432)</u>	<u>823,651</u>
Expenses:			
Program services:			
Council projects	512,318	-	512,318
Regrants	110,542	-	110,542
Program development	79,027	-	79,027
Total program services	<u>701,887</u>	<u>-</u>	<u>701,887</u>
Support services:			
Management and general	129,029	-	129,029
Fundraising	42,115	-	42,115
Total support services	<u>171,144</u>	<u>-</u>	<u>171,144</u>
Total expenses	<u>873,031</u>	<u>-</u>	<u>873,031</u>
Change in net assets	(26,948)	(22,432)	(49,380)
Net Assets at Beginning of Fiscal Year	<u>191,380</u>	<u>28,033</u>	<u>219,413</u>
Net Assets at End of Fiscal Year	<u>\$ 164,432</u>	<u>\$ 5,601</u>	<u>\$ 170,033</u>

See accompanying notes to financial statements.

Hawaii Council for the Humanities

Statement of Functional Expenses
For the Fiscal Year Ended October 31, 2020

	Program Services				Support Services			
	Council Projects	Regrants	Program Development	Total Program Services	Management and General	Fundraising	Total Support Services	Total Expenses
Salaries and Wages	\$ 223,530	\$ 78,506	\$ 36,552	\$ 338,588	\$ 43,305	\$ 40,181	\$ 83,486	\$ 422,074
Payroll and Fringe Benefits	47,871	16,815	7,837	72,523	9,276	8,607	17,883	90,406
Accrued Vacation	1,148	403	187	1,738	222	206	428	2,166
Total payroll costs	272,549	95,724	44,576	412,849	52,803	48,994	101,797	514,646
Grants	-	500,135	-	500,135	-	-	-	500,135
Council Projects:								
History day	59,756	-	-	59,756	-	-	-	59,756
Partnerships and special projects	26,415	-	-	26,415	-	-	-	26,415
Motheread and Try Think	8,420	-	-	8,420	-	-	-	8,420
Professional Dues and Fees	3,791	1,331	620	5,742	53,132	6,892	60,024	65,766
Occupancy	29,417	10,329	4,809	44,555	5,698	5,287	10,985	55,540
Other Expenses	2,340	994	11,345	14,679	667	1,126	1,793	16,472
Printing, Publication and Postage	1,764	619	8,457	10,840	342	317	659	11,499
Office Expenses	3,955	1,389	647	5,991	754	711	1,465	7,456
Travel and Conferences	-	-	3,623	3,623	2,046	-	2,046	5,669
Rental and Maintenance of Equipment	1,712	601	280	2,593	332	308	640	3,233
Total expenses	\$ 410,119	\$ 611,122	\$ 74,357	\$ 1,095,598	\$ 115,774	\$ 63,635	\$ 179,409	\$ 1,275,007

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	Regrants	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
Motherhead 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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 61,814	\$ (49,380)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized gains on investments	(2,861)	(9,861)
(Increase) decrease in:		
NEH receivable	7,285	(22,310)
Prepays and other	(2,859)	(1,588)
Increase (decrease) in:		
Accounts payable	11,529	-
Accrued vacation	2,112	(3,338)
Regrants payable	(39,239)	30,922
Net cash provided by (used in) operating activities	<u>37,781</u>	<u>(55,555)</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	-	71,010
Net cash provided by investing activities	<u>-</u>	<u>71,010</u>
Net increase in cash and cash equivalents	37,781	15,455
Cash and cash equivalents, beginning of year	<u>73,103</u>	<u>57,648</u>
Cash and cash equivalents, end of year	<u>\$ 110,884</u>	<u>\$ 73,103</u>

See accompanying notes to financial statements.

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2020 and 2019

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, 2020 and 2019

2. Significant Accounting Policies (continued)

b. Use of Estimates

The preparation of financial statements in conformity with GAAP 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 statements 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, 2020 and 2019

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. Re grants Payable

Re grants payable are approved grants payable to subrecipients for funding as of October 31, 2020 and 2019, but not disbursed as of that date.

g. Contributions

Unconditional donor promises to give cash and other assets are reported at fair value at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor and received by the Council. The promises are reported as contributions with donor restrictions if received with donor stipulations that sufficiently limit the use of the donated assets.

Government grants and contracts are primarily considered to be contribution transactions, the majority of which are cost reimbursable grants. The Council has elected the "simultaneous release" accounting policy option such that restricted grants received and used within the same period are reported in net assets without donor restriction. Revenue is recognized when allowable costs have been incurred. Funding received in advance of the applicable revenue recognition criteria is recorded as refundable advances in the statements of financial position.

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2020 and 2019

2. Significant Accounting Policies (continued)

h. 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 2020 and 2019, 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.

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 \$1,300 and \$3,500 for the years ended October 31, 2020 and 2019.

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.

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2020 and 2019

2. Significant Accounting Policies (continued)

l. Newly Adopted Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves current accounting guidance to determine when a transaction should be accounted for as a contribution or as exchange transactions and provides additional guidance about how to determine whether a contribution is conditional. The Council adopted this guidance for the year ended October 31, 2020. The adoption of this ASU did not have a material impact on the financial statements.

m. Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which clarifies the accounting for revenue and related revenue transactions. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) – Effective Dates for Certain Entities*, which deferred the effective date by one year for organizations that are not public business entities and that have not yet issued financial statements reflecting the adoption of this ASU. The ASU is effective for the Council beginning November 1, 2020. Management is currently evaluating the effect of adopting the new ASU on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840 Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the income statement. In June 2020, the FASB issued ASU 2020-05, which deferred the effective date by one year for organizations that are not public business entities and that have not yet issued financial statements reflecting the adoption of this ASU. As such, this ASU is effective for the Council beginning November 1, 2022. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. In July 2018, FASB issued ASU 2015-11, which provides an option to initially apply the requirements of ASU 2016-02 by recognizing a cumulative effect adjustment to the opening balance of net assets in the year of adoption. The Council is currently evaluating the effect of adopting the new standard on its financial statements.

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2020 and 2019

2. Significant Accounting Policies (continued)

m. Recent Accounting Pronouncements (continued)

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU is effective for the Council beginning November 1, 2021. The adoption of ASU 2020-07 is not expected to have a significant impact on the financial statements.

n. Risks and Uncertainties

In March 2020, the World Health Organization declared the coronavirus outbreak to be a pandemic. 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. While it is unknown how long these conditions will last and what the complete financial effect will be to the Council, the Council continues to monitor the situation including the financial effect to the Council. It is reasonably possible that the estimates made in the financial statements may be materially and adversely impacted in the near term as a result of these conditions.

o. Subsequent Events

Management has evaluated subsequent events through July 24, 2021, 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.

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2020 and 2019

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.

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, 2020 and 2019.

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, 2020 and 2019

3. Fair Value Measurements (continued)

The Council's assets measured at fair value on a recurring basis at October 31, 2020 and 2019 are summarized below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>At October 31, 2020</u>				
Exchange-traded funds:				
Intermediate-term bond	\$ 47,818	\$ -	\$ -	\$ 47,818
Large blend	43,103	-	-	43,103
Mid-Cap blend	11,179	-	-	11,179
Small blend	10,731	-	-	10,731
Foreign large blend	9,141	-	-	9,141
Total	<u>\$ 121,972</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,972</u>
<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>

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 \$7,200 and \$5,601 at October 31, 2020 and 2019, respectively, are for humanities programs.

Hawaii Council for the Humanities

Notes to Financial Statements

Fiscal Years Ended October 31, 2020 and 2019

5. Leases

In 2020, the Council entered in to a non-cancelable operating lease for office equipment that expires in July 2025. Lease expense related to this agreement was approximately \$720 during the fiscal year ended October 31, 2020. As of October 31, 2020, the future minimum lease payments under the non-cancelable operating lease were as follows:

Years ending October 31,	
2021	\$ 2,872
2022	2,872
2023	2,872
2024	2,872
2025	2,154
	<hr/>
	\$ 13,642
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6. Liquidity Disclosure

The table below represents the Council's financial assets available for general expenditures within one year at October 31, 2020:

Financial assets:	
Cash and cash equivalents	\$ 110,884
NEH receivable	46,722
Investments	121,972
	<hr/>
Financial assets, at year end	279,578
Less those unavailable for general expenditure within one year, due to:	
Net assets with donor restrictions	(7,200)
	<hr/>
Financial assets available to meet cash needs for general expenditures within one year	\$ 272,378
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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 Expenditures of Federal Awards
For the Fiscal Year Ended October 31, 2020

<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	\$ 741,961	\$ 25,968
COVID-19 Promotion of the Humanities-Federal/State Partnership	45.129	<u>474,167</u>	<u>474,167</u>
Total expenditures of federal awards		<u>\$ 1,216,128</u>	<u>\$ 500,135</u>

Hawaii Council for the Humanities

Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended October 31, 2020

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, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements 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, 2020, 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 July 24, 2021.

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) as a basis for designing 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.

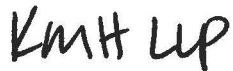
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government 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.



KMH LLP

Honolulu, Hawaii
July 24, 2021

**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, 2020. The Council's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of 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, 2020.

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. 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.

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 years ended October 31, 2020, and have issued our report thereon dated July 24, 2021, 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.



KMH LLP

Honolulu, Hawaii
July 24, 2021

PART III

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Hawaii Council for the Humanities

Schedule of Findings and Questioned Costs
Fiscal Year Ended October 31, 2020

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
45.129	COVID-19 Promotion of the Humanities-Federal/State Partnership

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

Auditee 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, 2020

Section II – Financial Statement Findings

None noted.

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

None noted.

PART IV

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, 2019, dated August 22, 2020.

Recommendations

Status

Section III – Federal Award Findings

2019-001 Perform and Document Risk Assessment and Audit Verification of Subrecipients Finding resolved.

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