

MINNESOTA HUMANITIES CENTER

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
OCTOBER 31, 2014**

MINNESOTA HUMANITIES CENTER
FINANCIAL STATEMENTS
For The Year Ended October 31, 2014
With Comparative Totals For 2013

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MAHONEY
ULBRICH
CHRISTIANSEN
RUSS P.A.
CERTIFIED PUBLIC ACCOUNTANTS

30 EAST PLATO BOULEVARD SAINT PAUL, MN 55107-1809
TELEPHONE 651.227.6695 FACSIMILE 651.227.9796

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Minnesota Humanities Center
Saint Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Minnesota Humanities Center (a nonprofit corporation), which comprise the statement of financial position as of October 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to 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 Minnesota Humanities Center as of October 31, 2014, 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.

(Continued)

Report on Summarized Comparative Information

We have previously audited Minnesota Humanities Center's 2013 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated April 11, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2015, on our consideration of Minnesota Humanities Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Minnesota Humanities Center's internal control over financial reporting and compliance.

*Mahoney Ulbrich
Christiansen Russ P.A.*

Saint Paul, Minnesota
April 16, 2015

MINNESOTA HUMANITIES CENTER
STATEMENT OF FINANCIAL POSITION
October 31, 2014
With Comparative Amounts For October 31, 2013

	<u>2014</u>	<u>2013</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$79,107	\$218,944
Accounts receivable, net	58,775	33,754
Contributions receivable - current	10,000	2,814,046
Government grants receivable - current	1,603,318	2,727,016
Prepaid expense	3,521	20,933
Total current assets	<u>1,754,721</u>	<u>5,814,693</u>
Land, building and equipment:		
Land lease	235,000	235,000
Building	2,563,702	2,563,702
Office equipment and furniture	726,867	681,412
Total land, building and equipment	<u>3,525,569</u>	<u>3,480,114</u>
Less accumulated depreciation and amortization	<u>(1,903,139)</u>	<u>(1,773,641)</u>
Net land, building and equipment	<u>1,622,430</u>	<u>1,706,473</u>
Other assets:		
Investments	4,108,250	4,426,500
Total other assets	<u>4,108,250</u>	<u>4,426,500</u>
Total assets	<u><u>\$7,485,401</u></u>	<u><u>\$11,947,666</u></u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$131,670	\$131,865
Current maturities of long-term debt	15,445	15,123
Deferred revenue	4,055	350
Accrued expenses	121,113	107,871
Total current liabilities	<u>272,283</u>	<u>255,209</u>
Long-term debt	12,098	27,567
Total liabilities	<u>284,381</u>	<u>282,776</u>
Net assets:		
Unrestricted net assets:		
Unrestricted - undesignated	1,094,343	987,075
Unrestricted - designated	1,608,111	1,706,473
Total unrestricted net assets	<u>2,702,454</u>	<u>2,693,548</u>
Temporarily restricted	4,498,566	8,971,342
Total net assets	<u>7,201,020</u>	<u>11,664,890</u>
Total liabilities and net assets	<u><u>\$7,485,401</u></u>	<u><u>\$11,947,666</u></u>

The accompanying notes are an integral part of these financial statements.

MINNESOTA HUMANITIES CENTER

STATEMENT OF ACTIVITIES

For The Year Ended October 31, 2014

With Comparative Totals For The Year Ended October 31, 2013

	2014			2013
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Support:				
Contributions	\$44,077	\$151,672	\$195,749	\$6,418,604
Event sponsorship	-	18,800	18,800	16,000
In-kind	10,007	-	10,007	1,799
Grants from governmental agencies:				
Federal grants	628,822	-	628,822	598,081
Other governmental agencies	-	225,000	225,000	3,792,000
Revenue:				
Investment income	7,976	-	7,976	6,864
Publication sales	2,551	-	2,551	24
Conference center rental income - program related	292,387	-	292,387	300,650
Conference center rental income - non-program related	96,485	-	96,485	45,322
Conference center rental costs - non-program related	(116,257)	-	(116,257)	(55,210)
Program income	47,592	-	47,592	36,020
Miscellaneous income	-	-	-	5,199
Subtotal	1,013,640	395,472	1,409,112	11,165,353
Net assets released from restrictions	4,868,248	(4,868,248)	-	-
Total support and revenue	5,881,888	(4,472,776)	1,409,112	11,165,353
Expense:				
Program services:				
MHC educational programs	4,805,655	-	4,805,655	5,520,663
Conference center rental costs-program related	341,446	-	341,446	358,289
Total program services	5,147,101	-	5,147,101	5,878,952
Supporting services:				
Management and general	620,193	-	620,193	555,818
Fundraising	105,688	-	105,688	104,403
Total supporting services	725,881	-	725,881	660,221
Total expense	5,872,982	-	5,872,982	6,539,173
Change in net assets	8,906	(4,472,776)	(4,463,870)	4,626,180
Net assets at beginning of year	2,693,548	8,971,342	11,664,890	7,038,710
Net assets at end of year	\$2,702,454	\$4,498,566	\$7,201,020	\$11,664,890

The accompanying notes are an integral part of these financial statements.

MINNESOTA HUMANITIES CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended October 31, 2014
With Comparative Totals For The Year Ended October 31, 2013

	2014								
	Program Services			Supporting Services			Conference Center Rental Costs - Non - Program	Totals	
	MHC Educational Programs	Conference Center Rental Costs-Program Related	Total Program Services	Management and General	Fundraising	Total Supporting Services		2014	2013
Expenses:									
Salaries and temporary help	\$822,650	\$145,727	\$968,377	\$343,659	\$66,089	\$409,748	\$48,089	\$1,426,214	\$1,435,004
Payroll taxes	69,854	10,938	80,792	23,263	4,760	28,023	3,610	112,425	102,373
Employee benefits and HR Admin fees	208,154	39,835	247,989	84,050	23,367	107,417	13,145	368,551	343,155
Regrant expense	905,478	-	905,478	-	-	-	-	905,478	1,557,654
Contract services	1,757,000	10,196	1,767,196	68,932	2,192	71,124	3,364	1,841,684	1,887,961
Site fees	290,076	-	290,076	-	-	-	-	290,076	243,437
Participant stipends	204,463	-	204,463	-	-	-	-	204,463	151,830
Staff development	15,327	331	15,658	2,973	552	3,525	109	19,292	13,782
Insurance and bonding	8,218	5,233	13,451	1,593	827	2,420	1,727	17,598	17,064
Equipment rental and maintenance/bldg maint	23,007	11,363	34,370	7,294	236	7,530	3,750	45,650	46,481
Accounting and legal	-	-	-	21,700	-	21,700	-	21,700	19,739
Memberships and subscriptions	2,489	1,105	3,594	17,120	-	17,120	364	21,078	19,321
Postage	10,979	239	11,218	1,568	-	1,568	79	12,865	8,003
Printing and mailing services	15,742	230	15,972	1,096	402	1,498	76	17,546	36,326
Supplies -office and programs/off-site program meals	33,385	8,676	42,061	7,501	-	7,501	2,863	52,425	50,471
Telephone and internet	12,340	1,744	14,084	5,007	1,105	6,112	576	20,772	21,378
Travel	312,882	889	313,771	5,219	136	5,355	293	319,419	341,831
Advertising and marketing	5,747	2,582	8,329	2,453	-	2,453	852	11,634	22,211
License and permits	75	1,344	1,419	-	-	-	444	1,863	1,798
Interest and investment exp, cr card exp	195	1,838	2,033	3,611	303	3,914	607	6,554	6,361
Food services, conference center housekeeping	6,776	47,217	53,993	-	-	-	15,581	69,574	64,979
Internal use of conference center	42,319	(39,174)	3,145	9,782	-	9,782	(12,927)	-	-
Utilities	14,804	25,033	39,837	3,559	1,632	5,191	8,261	53,289	52,295
Furniture and equipment purchases	1,406	2,623	4,029	-	-	-	4,448	8,477	9,568
Payment in lieu of RE tax	-	178	178	315	-	315	59	552	554
Miscellaneous	5,230	2,008	7,238	746	-	746	662	8,646	10,300
Total expense before depreciation and amortization	4,768,596	280,155	5,048,751	611,441	101,601	713,042	96,032	5,857,825	6,463,876
Depreciation and amortization	37,059	61,291	98,350	8,752	4,087	12,839	20,225	131,414	130,507
Total expenses before removal of nonprogram conference center rental costs	4,805,655	341,446	5,147,101	620,193	105,688	725,881	116,257	5,989,239	6,594,383
Conference center rental costs-nonprogram	-	-	-	-	-	-	(116,257)	(116,257)	(55,210)
Total expense as reported on the statement of activities	4,805,655	341,446	5,147,101	620,193	105,688	725,881	-	5,872,982	6,539,173
Allocation of mortgage principal payments	4,271	7,064	11,335	(14,137)	471	(11,335)	2,331	-	-
Total expenses after allocation of principal payments	\$4,809,926	\$348,510	\$5,158,436	\$606,056	\$106,159	\$714,546	\$2,331	\$5,872,982	\$6,539,173

The accompanying notes are an integral part of these financial statements.

MINNESOTA HUMANITIES CENTER**STATEMENT OF CASH FLOWS**

For The Year Ended October 31, 2014

With Comparative Totals For The Year Ended October 31, 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase (Decrease) in net assets	(\$4,463,870)	\$4,626,180
Adjustments to reconcile the change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	131,414	130,507
Unrealized gain (loss)	(164)	(1,564)
Reinvestment of interest and dividends	(7,038)	(4,380)
In-kind software	(9,957)	-
(Increase) decrease in accounts receivable	(25,021)	40,508
(Increase) decrease in contributions receivable	2,804,046	(1,291,555)
(Increase) decrease in grants receivable	1,123,698	(1,050,467)
(Increase) decrease in prepaid expense	17,412	5,161
Increase (decrease) in accounts payable	(195)	36,759
Increase (decrease) in deferred revenue	3,705	(1,150)
Increase (decrease) in accrued expenses	13,242	(11,418)
Net cash provided (used) by operating activities	<u>(412,728)</u>	<u>2,478,581</u>
Cash flows from investing activities:		
Purchase of land, building and equipment	(37,414)	(29,475)
Purchase of investments	(2,824,698)	(4,877,215)
Sale and maturity of investments	3,150,150	2,450,150
Net cash provided (used) by investing activities	<u>288,038</u>	<u>(2,456,540)</u>
Cash flows from financing activities:		
Payments on debt	(15,147)	(15,088)
Net increase (decrease) in cash and cash equivalents	(139,837)	6,953
Cash and cash equivalents at beginning of year	<u>218,944</u>	<u>211,991</u>
Cash and cash equivalents at end of year	<u>\$79,107</u>	<u>\$218,944</u>
Interest paid	<u>\$1,270</u>	<u>\$751</u>

The accompanying notes are an integral part of these financial statements.

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For The Year Ended October 31, 2014
With Comparatative Totals For The Year Ended October 31, 2013

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Minnesota Humanities Center (the Humanities Center) is an independent, not-for-profit organization that conducts and supports cultural and educational programs throughout Minnesota. The Humanities Center supports and encourages exemplary teaching and partners with other organizations to provide meaningful and engaging public humanities programming in communities state-wide. Financial support for the programs and services of the Humanities Center comes primarily from the National Endowment for the Humanities, the Minnesota State Legislature, foundation grants, corporation gifts, donations from individuals, and conference center rental.

MHC Educational Programs: The Minnesota Humanities Center educational programs prepare schools, cultural organizations, state agencies, and other professional and community based organizations to meet the complicated needs of the 21st century. Through its Absent Narratives approach and strategy the Humanities Center puts the under-represented and untold stories and experiences of marginalized communities at the heart of school, community and organizational planning for the future of Minnesota. Whether these marginalized communities are ethnic minorities, veterans, or immigrants and refugees the Humanities Center's programs work to guarantee that the wisdom and knowledge in these communities is seen and represented as essential to creating a successful future together; a future founded on expanding economic and social opportunity.

The Absent Narrative approach has brought work which was traditionally considered separate programs under one program entity; it permeates all activities – whether programs for teachers, development of resources for educators and communities or community programming. The Humanities Center was also responsible for administering Legacy Funding for the Minnesota Children's Museum, the Duluth Children's Museum, The Children's Museum of Southern Minnesota, the Grand Rapids Children's Museum and the Council on Disabilities. In addition, the Humanities Center has lead an initiative entitled the New Ecology of Learning, which has led to discussions and collaborations with a number of cultural organizations.

Conference Center Rental: In addition to the Absent Narrative programming, the Humanities Center operates a full-service event center, as created by the State Legislature in 1996. In addition to housing programs of the Humanities Center, this restored architectural landmark serves educators, social service providers, other non-profits, state colleges and universities, and state agencies and community groups seeking to improve both their individual work and the quality of life for all Minnesotans, by providing high-quality, cost effective meeting and event space for educational and public programs, and staff education and development.

B. FINANCIAL STATEMENT PRESENTATION

Net assets, support and revenue and gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Humanities Center and changes therein are classified and reported as follows:

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For The Year Ended October 31, 2014
With Comparatative Totals For The Year Ended October 31, 2013

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

Unrestricted – Resources over which the Board of Directors has discretionary control. Designated amounts represent those revenues which the Board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Humanities Center or passage of time.

Permanently Restricted – Those resources subject to donor imposed restrictions in which the donor has specified they must be maintained in perpetuity. The Humanities Center does not have any permanently restricted net assets at this time.

C. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Humanities Center considers highly liquid securities purchased with an original maturity of three months or less to be cash equivalents. Cash and liquid securities held in its investment brokerage accounts are not considered cash equivalents.

D. CONCENTRATION OF CREDIT RISK

The Humanities Center places its cash with multiple financial institutions. At times the amount on deposit exceeds the insured limit of an institution and exposes the Humanities Center to a credit risk. The Humanities Center believes it is not exposed to any significant risk on these funds.

E. ACCOUNTS RECEIVABLE

Accounts receivable are stated at net realizable value. Accordingly, bad debts are provided for on the reserve method based on management's evaluation of outstanding receivables at the end of each year. When all collection efforts have been exhausted, the accounts are written off against the related allowance. As of October 31, 2014, an allowance of \$2,570 has been recorded.

F. CONTRIBUTIONS AND GRANTS RECEIVABLE

Pledges and grants that are expected to be collected within one year are recorded at their net realizable value. Pledges and grants that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge or grant is received. Amortization of the discount is included in contribution or grant revenue. Conditional pledges are not included in support until such time as the conditions are substantially met.

G. INVESTMENTS

The Humanities Center carries its investments at fair value. Realized and unrealized gains and losses are included in investment income in the statement of activities.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For The Year Ended October 31, 2014
With Comparatative Totals For The Year Ended October 31, 2013

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

H. LAND, BUILDING AND EQUIPMENT

All major expenditures for building improvements, furniture and equipment are capitalized at cost. Depreciation is provided through the use of the straight-line method over the estimated useful lives of the assets. The estimated life of the building is 40 years, 80 years for the land lease, and three to ten years for the office equipment and furniture. The capitalization threshold is \$5,000. All donated property and equipment is recorded at its fair market value. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted.

I. DEFERRED REVENUE

Deferred revenue includes revenues that will be recognized in a future period such as prepayment of program services, advances on contracts and exchange transactions received prior to the incurrence of the related costs. Deferred revenue was \$4,055 and \$350 at October 31, 2014 and 2013.

J. GRANTS FROM GOVERNMENTAL AGENCIES

Federal government grants and contract funds are recorded as revenue when earned. For reimbursement grants, revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown as deferred revenue. Expenditures under government contracts are subject to review by the granting authority.

State government grants are awarded at the beginning of the State of Minnesota's budget cycle, which operates on a two-year cycle. Funding for the Humanities Center from the State is not reimbursement based and therefore is accounted for like contributions. Under generally accepted accounting principles, contributions are recognized as revenue when a donor makes an unconditional commitment. As a result, revenue from state funding fluctuates year-to-year depending on the year in which the state budget is adopted. Thus, two years of funding are recognized in the year the state budget is adopted.

In 2013, multi-year grants were awarded by the State of Minnesota, recorded in revenue and the unspent portion included in temporarily restricted net assets at the end of the year. These funds were for work from July 1, 2013, through June 30, 2016, as the legislation permits an additional twelve months past the end of the state fiscal year (June 30, 2015) for grant close-outs.

K. CONTRIBUTIONS

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received which are designated for future periods or restricted in use or as to purposes by the donor are recorded as temporarily restricted until the appropriate future period or the donor restriction is satisfied, respectively.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For The Year Ended October 31, 2014
With Comparatative Totals For The Year Ended October 31, 2013

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

L. FUNCTIONAL ALLOCATION OF EXPENSE

Salaries and related expenses are allocated based on job descriptions and time studies. Other expenses are either directly identifiable with a function or allocated based primarily on personnel costs or space allocation.

M. ADVERTISING COSTS

Advertising expenses are expensed as incurred. Advertising expenses were \$11,634 and \$22,211 for the years ended October 31, 2014 and 2013.

N. UNEMPLOYMENT COMPENSATION

The Humanities Center has elected to self-insure unemployment tax claims. Any amounts incurred are recorded as expense when liable and estimable. Unemployment claims expense was \$9,567 and \$4,646 for the years ended October 31, 2014 and 2013.

O. TAX EXEMPT STATUS

The Humanities Center is classified as a tax-exempt organization under Minnesota Statute 290.05 and Section 501(c)(3) of the Internal Revenue Code, is exempt from private foundation status under Section 509(a)(1) of the Internal Revenue Code and is subject to income taxes only on net unrelated business income. A portion of rental activities from the conference center is subject to unrelated business income tax; however losses have been incurred so no tax has been due.

The Humanities Center has significant net operating loss carryforwards from rental activities that begin to expire in 2018. It is expected that most or all of the carryforwards will expire without being fully utilized.

Federal and state tax authorities generally have the right to examine the current and prior three years returns. The Humanities Center is not currently under examination by any taxing jurisdiction.

P. ESTIMATES

Management uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Q. CONTRIBUTED MATERIALS

Contributed materials are recorded in the financial statements at their estimated fair value at the date of donation. The Humanities Center received \$10,007 and \$1,799 for software and miscellaneous program supplies for the years ended October 31, 2014 and 2013.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For The Year Ended October 31, 2014
With Comparatative Totals For The Year Ended October 31, 2013

Note 2 CONTRIBUTIONS AND GRANTS RECEIVABLE

As of October 31, 2014, all contributions receivable were due within one year. Certain grants receivable are available to be drawn over a two-year period and do not have a detailed payout schedule. Because of the future uncertainty of the timing of receipts, no discount has been calculated. All receivables are expected to be collected; therefore, no allowance has been recorded.

Note 3 LAND LEASE

The Humanities Center leases both land and a building from the City of Saint Paul. The portion of the lease related to the building is for 30 years beginning in August 1995 with the option to renew for five periods of ten years each. Rent is \$100 per year. The Humanities Center is responsible for insuring the building. Due to the poor condition of the building and the extensive amount of rehabilitation costs, the fair market value of the portion of the bargain lease relating to the building was valued at \$0. The Humanities Center renovated the building as part of their capital campaign with the stipulation that the building be used for their day-to-day administration and programs. The portion of the lease attributed to the land had an appraised market value of \$235,000 and was recorded as a contribution when the lease was signed. The use of the land is amortized over the expected 80-year term of the lease. Amortization expense was \$2,938 for the years ended October 31, 2014 and 2013.

The Humanities Center has agreed to make payments in lieu of taxes to the City of Saint Paul Housing Redevelopment Authority. Commencing August 1, 1996, and continuing thereafter, a total amount of \$552 in lieu of taxes shall be paid annually. This agreement terminates August 1, 2016; the City has indicated that no payment will be required after that date.

Note 4 INVESTMENTS

Investments were comprised of the following at October 31:

	<u>2014</u>	<u>2013</u>
Brokerage bank account	\$ 681,723	\$1,958,695
Mutual fund money market	385,349	385,257
Negotiable certificates of deposit	<u>3,041,178</u>	<u>2,082,548</u>
Total investments	<u>\$4,108,250</u>	<u>\$4,426,500</u>

Investment income consisted of the following for the years ended October 31:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 7,812	\$ 5,300
Unrealized gain (loss)	<u>164</u>	<u>1,564</u>
Total investment income	<u>\$ 7,976</u>	<u>\$6,864</u>

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For The Year Ended October 31, 2014
With Comparatative Totals For The Year Ended October 31, 2013

Note 5 FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Humanities Center has the ability to access.

Level 2 Inputs to the valuation methodology include

- 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

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

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used.

Cash, AG Deposit account and Mutual funds: (Level 1) Carried at fair value based on quoted prices.

Certificates of deposit: (Level 2) All certificate of deposit values are derived using a computerized valuation model and therefore represent an estimated market value. Estimated market values are provided on statements provided by broker.

Significant assets that are measured at fair value on a recurring basis were as follows as of October 31:

<u>2014:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Brokerage bank account	\$ 250,000	\$ -	\$ 250,000
AG deposit account	431,723	-	431,723
Mutual fund money market	385,349	-	385,349
Negotiable certificates of deposit	-	<u>3,041,178</u>	<u>3,041,178</u>
Total investments	<u>\$1,067,072</u>	<u>\$3,041,178</u>	<u>\$4,108,250</u>
<u>2013:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Brokerage bank account	\$ 250,000	\$ -	\$ 250,000
AG deposit account	1,708,695	-	1,708,695
Mutual fund money market	385,257	-	385,257
Negotiable certificates of deposit	-	<u>2,082,548</u>	<u>2,082,548</u>
Total investments	<u>\$2,343,952</u>	<u>\$2,082,548</u>	<u>\$4,426,500</u>

(Continued)

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Note 5 FAIR VALUE MEASUREMENTS Cont.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Humanities Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 6 LONG-TERM DEBT

Long-term debt consisted of the following at October 31:

	<u>2014</u>	<u>2013</u>
Note payable to the City of Saint Paul Housing and Redevelopment Authority for building and renovation in the original amount of \$170,000 dated August 15, 1995. Payments are due monthly in the amount of \$860, including interest at a stated rate of 2%, with the final payment due August 1, 2016. The note is secured by a mortgage on the property and all assets of the Humanities Center.	\$ 17,845	\$ 27,700
Note payable to the City of Saint Paul Housing and Redevelopment Authority for building and renovation in the original amount of \$100,000 dated August 15, 1995. Payments are due monthly in the amount of \$460, including interest at a stated rate of 1%, with the final payment due August 1, 2016. The note is secured by a mortgage on the property and all assets of the Humanities Center.	<u>9,698</u>	<u>14,990</u>
Total long-term debt	27,543	42,690
Less: current maturities	<u>(15,445)</u>	<u>(15,123)</u>
Long-term portion	<u>\$ 12,098</u>	<u>\$ 27,567</u>

Annual principal maturities of long-term debt are as follows:

<u>Year ending</u> <u>October 31</u>	<u>Amount</u>
2015	\$15,445
2016	<u>12,098</u>
Total	<u>\$27,543</u>

(Continued)

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Note 7 NET ASSETS

A. UNRESTRICTED

The Board of Directors has made the following designations of unrestricted net assets as of October 31:

	<u>2014</u>	<u>2013</u>
Property and equipment	\$1,608,111	\$1,706,473

B. TEMPORARILY RESTRICTED

Temporarily restricted net assets consisted of the following as of October 31:

	<u>2014</u>	<u>2013</u>
State of Minnesota operating grant	\$ 167,333	\$ 418,333
State of Minnesota arts and cultural heritage funds	434,179	802,245
Civics Education arts and cultural heritage funds	-	16,179
Councils of Color arts and cultural heritage funds	-	101,693
Children's Museums arts and cultural heritage funds	599,367	1,410,376
State of Minnesota for regrant to Everybody Wins!	189	19,778
Council of Disabilities arts and cultural heritage funds	277,489	319,469
For Veteran's Voices programming	107,085	9,016
Veteran's programming	25,872	-
Story Circles	-	3,698
Cultural Organizational Collaboration	2,403	-
Absent Narratives program work/professional development programs for teachers and school districts	<u>2,884,649</u>	<u>5,870,555</u>
Total	<u>\$4,498,566</u>	<u>\$8,971,342</u>

Restrictions are classified above according to their primary restriction. Some of the restricted amounts have components of both time and purpose restrictions.

C. RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2014</u>	<u>2013</u>
Program expenditures	\$4,617,248	\$5,292,502
Elapsed time restriction	<u>251,000</u>	<u>241,667</u>
Total	<u>\$4,868,248</u>	<u>\$5,534,169</u>

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Note 8 RETIREMENT PLAN

The Humanities Center provides an employee retirement plan through a Safe Harbor 401K plan. The Humanities Center changed to this plan effective November 1, 2011. Employees eligible to participate in the plan receive a 1:1 match on the first 3% of contributions, and a 0.5 to 1 match on the next 2%. The plan also provides for a discretionary employer contribution for eligible employees, to be made after the end of the plan year (but expense is accrued for in the fiscal year). For the year ended October 31, 2014, the Board approved a 4% discretionary contribution. Total matching contributions were \$52,838; accrued discretionary contributions were \$52,367; for a total expense of \$105,205 for the year ended October 31, 2014. Contributions were \$101,328 for the year ended October 31, 2013.

Note 9 COMMITMENTS

In 1995, the Humanities Center began a capital campaign to renovate the west wing of Gillette Hospital to be used for its administrative and program operations. The Humanities Center received several significant governmental grants and loans. The Humanities Center received a \$1,200,000 grant from the City of Saint Paul which requires the Humanities Center to repay all or a portion of the grant if the Humanities Center does not occupy the renovated space for a specified period of time. If the Humanities Center had vacated the renovated space within 10 years, they would have been required to repay 100% of the grant proceeds. If the vacancy occurs within the time frame of 10 to 20 years, the Humanities Center will be required to repay the grant funds minus 10% for each full year after the first 10 years. The money for this grant was raised through state general obligation bonds.

The Humanities Center received additional funding for the capital campaign through two loans from the City of Saint Paul (Note 6). In order to retain these funds, the Humanities Center must comply with certain provisions and conditions specified in both the grant and loan agreements.

Note 10 OPERATING LEASES

The Humanities Center leases a copier. Total leased equipment expenses were \$9,791 and \$9,743 for the years ended October 31, 2014 and 2013. This amount includes the base lease costs, fees for copies above the minimums and one time rental costs. Actual lease payments were \$3,201. The lease for the copier expired August 2013 and was renewed for an additional 3 years at a lower rate. The minimum payments include a base number of copies and maintenance; overages are also recorded in the lease expense account.

Future minimum rental payments required under the copier lease are:

2015	\$2,004
2016	\$2,004

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Note 11 MAJOR SOURCES OF SUPPORT AND REVENUE

Major sources of support and revenue were as follows for the years ended October 31:

	<u>2014</u>	<u>2013</u>
National Endowment for the Humanities	\$ 628,822	\$ 563,243
State of Minnesota	\$ 225,000	\$ 3,792,000
Anonymous Foundation	\$ -	\$ 6,119,430

Note 12 CONTINGENCIES

The Humanities Center receives financial assistance from federal and state governmental agencies in the form of grants. These programs generally require compliance with the terms and conditions specified in the grant agreements, which are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Humanities Center. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the Humanities Center.

Note 13 SUMMARIZED PRIOR YEAR FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Humanities Center's financial statements as of and for the year ended October 31, 2013, from which the summarized information was derived.

Note 14 SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the Independent Auditor's Report and concluded that there are no additional subsequent events that require disclosure.