

MINNESOTA HUMANITIES CENTER

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
OCTOBER 31, 2016**

MINNESOTA HUMANITIES CENTER
FINANCIAL STATEMENTS
For the Year Ended October 31, 2016
With Comparative Totals for the Year Ended October 31, 2015

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7



Mahoney Ulbrich Christiansen Russ P.A.

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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, 2016, 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, 2016, 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 2015 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated March 16, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2015, 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 21, 2017, 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 Ulbich
Christiansen Russ P.A.*

Saint Paul, Minnesota
April 21, 2017

MINNESOTA HUMANITIES CENTER
STATEMENT OF FINANCIAL POSITION

October 31, 2016

With Comparative Amounts for October 31, 2015

	<u>2016</u>	<u>2015</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$320,930	\$433,274
Accounts receivable, net	65,445	88,113
Current portion of contributions receivable	3,719,214	3,640,911
Government grants receivable	2,994,391	5,379,587
Prepaid expense	27,265	13,676
Total current assets	<u>7,127,245</u>	<u>9,555,561</u>
Land, building, and equipment:		
Land lease	235,000	235,000
Building	2,582,741	2,582,741
Office equipment and furniture	776,812	755,576
Total land, building, and equipment	<u>3,594,553</u>	<u>3,573,317</u>
Less accumulated depreciation and amortization	<u>(2,133,284)</u>	<u>(2,023,717)</u>
Net land, building, and equipment	<u>1,461,269</u>	<u>1,549,600</u>
Other assets:		
Contributions receivable, net of current portion	-	3,652,683
Investments	4,813,716	4,339,367
Total other assets	<u>4,813,716</u>	<u>7,992,050</u>
Total assets	<u>\$13,402,230</u>	<u>\$19,097,211</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$160,276	\$184,494
Current maturities of long-term debt	3,514	15,456
Deferred revenue	3,486	2,878
Accrued expenses	155,135	134,924
Total current liabilities	<u>322,411</u>	<u>337,752</u>
Long-term debt	7,029	10,543
Total liabilities	<u>329,440</u>	<u>348,295</u>
Net assets:		
Unrestricted net assets:		
Unrestricted - undesignated	1,635,712	1,222,861
Unrestricted - designated	1,443,234	1,523,601
Total unrestricted net assets	<u>3,078,946</u>	<u>2,746,462</u>
Temporarily restricted	9,943,844	16,002,454
Permanently restricted	50,000	-
Total net assets	<u>13,072,790</u>	<u>18,748,916</u>
Total liabilities and net assets	<u>\$13,402,230</u>	<u>\$19,097,211</u>

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

MINNESOTA HUMANITIES CENTER

STATEMENT OF ACTIVITIES

For the Year Ended October 31, 2016

With Comparative Totals for the Year Ended October 31, 2015

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue:					
Support:					
Contributions	\$39,146	\$45,455	\$50,000	\$134,601	\$10,813,135
Event Sponsorship	-	40,700	-	40,700	34,000
In-kind	66,057	-	-	66,057	10,000
Grants from governmental agencies:					
Federal grants	930,565	-	-	930,565	701,810
Other governmental agencies	-	105,000	-	105,000	5,890,000
Revenue:					
Conference center rental income - program related	273,161	-	-	273,161	281,393
Conference center rental income - non-program related	50,480	-	-	50,480	39,863
Conference center rental costs - non-program related	(62,991)	-	-	(62,991)	(48,168)
Program income	61,178	-	-	61,178	78,314
Investment income	28,936	16	-	28,952	(3,122)
Miscellaneous income	11,692	-	-	11,692	3,140
Subtotal	1,398,224	191,171	50,000	1,639,395	17,800,365
Net assets released from restrictions	6,187,531	(6,187,531)	-	-	-
Total support and revenue	7,585,755	(5,996,360)	50,000	1,639,395	17,800,365
Expense:					
Program services:					
MHC educational programs	6,187,365	-	-	6,187,365	5,135,891
Conference center rental costs - program related	340,866	-	-	340,866	374,489
Total program services	6,528,231	-	-	6,528,231	5,510,380
Supporting services:					
Management and general	600,490	-	-	600,490	614,358
Fundraising	124,550	-	-	124,550	127,731
Total supporting services	725,040	-	-	725,040	742,089
Total expense	7,253,271	-	-	7,253,271	6,252,469
Change in net assets, before adjustment of pledge	332,484	(5,996,360)	50,000	(5,613,876)	11,547,896
State holdback of pledged Legacy funds	-	(62,250)	-	(62,250)	-
Change in net assets	332,484	(6,058,610)	50,000	(5,676,126)	11,547,896
Net assets at beginning of year	2,746,462	16,002,454	-	18,748,916	7,201,020
Net assets at end of year	\$3,078,946	\$9,943,844	\$50,000	\$13,072,790	\$18,748,916

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

MINNESOTA HUMANITIES CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended October 31, 2016
With Comparative Totals for the Year Ended October 31, 2015

	2016									
	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		2016	2015	
Expenses:										
Salaries and temporary help	\$973,195	\$166,607	\$1,139,802	\$292,166	\$72,415	\$364,581	\$30,789	\$1,535,172	\$1,533,962	
Payroll taxes	80,871	12,400	93,271	23,596	5,172	28,768	2,291	124,330	123,382	
Employee benefits and administration fees	234,044	47,315	281,359	63,802	25,600	89,402	8,744	379,505	349,369	
Regrant expense	1,803,288	-	1,803,288	-	-	-	-	1,803,288	903,911	
Contract services	1,821,502	5,441	1,826,943	62,630	4,649	67,279	1,006	1,895,228	1,825,446	
Site fees	390,986	-	390,986	-	-	-	-	390,986	363,032	
Participant stipends	325,026	-	325,026	-	-	-	-	325,026	315,922	
Staff development	6,792	342	7,134	-	668	668	63	7,865	14,019	
Insurance and bonding	8,139	4,299	12,438	1,688	844	2,532	794	15,764	16,900	
Equipment rental and maintenance/building maintenance	12,974	13,112	26,086	5,456	2,107	7,563	2,423	36,072	33,668	
Accounting and legal	-	-	-	19,314	-	19,314	-	19,314	19,792	
Memberships and subscriptions	6,242	1,693	7,935	18,193	-	18,193	313	26,441	24,625	
Postage	10,364	1,198	11,562	1,788	14	1,802	221	13,585	26,556	
Printing and mailing services	30,349	2,585	32,934	80	-	80	478	33,492	41,884	
Supplies -office and programs/off-site program meals	63,352	5,769	69,121	6,131	69	6,200	1,066	76,387	80,383	
Telephone and internet	11,400	2,328	13,728	4,535	1,034	5,569	430	19,727	20,216	
Travel	273,092	398	273,490	8,712	734	9,446	74	283,010	330,578	
Advertising and marketing	12,321	3,530	15,851	2,644	-	2,644	652	19,147	9,821	
License and permits	8	1,176	1,184	2	1	3	217	1,404	2,726	
Interest and investment	29	1,908	1,937	4,096	604	4,700	353	6,990	6,769	
Food services, conference center housekeeping	54	53,504	53,558	-	-	-	9,887	63,445	61,288	
Internal use of conference center	67,189	(67,359)	(170)	11,268	1,350	12,618	(12,448)	-	-	
Utilities	12,885	23,928	36,813	2,926	1,323	4,249	4,422	45,484	48,355	
Minor Furnishings	2,408	1,116	3,524	662	-	662	206	4,392	3,815	
Payment in lieu of RE tax	-	167	167	262	-	262	31	460	552	
In-kind expenses	-	-	-	62,095	3,962	66,057	-	66,057	10,000	
Miscellaneous, Bad Debt	8,855	-	8,855	887	475	1,362	-	10,217	7,046	
Total expense before depreciation and amortization	6,155,365	281,457	6,436,822	592,933	121,021	713,954	52,012	7,202,788	6,174,017	
Depreciation and amortization	32,000	59,409	91,409	7,557	3,529	11,086	10,979	113,474	126,620	
Total expenses before removal of nonprogram conference center and rental costs	6,187,365	340,866	6,528,231	600,490	124,550	725,040	62,991	7,316,262	6,300,637	
Conference center rental costs-nonprogram	-	-	-	-	-	-	(62,991)	(62,991)	(48,168)	
Total Expenses as reported on the statement of activities	6,187,365	340,866	6,528,231	600,490	124,550	725,040	-	7,253,271	6,252,469	
Allocation of mortgage principal payments	3,405	6,233	9,638	(11,149)	359	(10,790)	1,152	-	-	
Total expenses after allocation of principal payments	\$6,190,770	\$347,099	\$6,537,869	\$589,341	\$124,909	\$714,250	\$1,152	\$7,253,271	\$6,252,469	

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

MINNESOTA HUMANITIES CENTER

STATEMENT OF CASH FLOWS

For the Year Ended October 31, 2016

With Comparative Totals for the Year Ended October 31, 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	(\$5,676,126)	\$11,547,896
Adjustments to reconcile the change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	113,474	126,620
Gain (loss) on investments	(7,021)	12,878
Contribution for endowment	(50,000)	-
Reinvestment of interest and dividends	(22,176)	(9,001)
(Increase) decrease in accounts receivable	22,668	(29,338)
(Increase) decrease in contributions receivable	3,574,380	(7,283,594)
(Increase) decrease in grants receivable	2,385,196	(3,776,269)
(Increase) decrease in prepaid expense	(13,589)	(10,155)
Increase (decrease) in accounts payable	(24,218)	52,824
Increase (decrease) in deferred revenue	608	(1,177)
Increase (decrease) in accrued expenses	20,211	13,811
Net cash provided (used) by operating activities	<u>323,407</u>	<u>644,495</u>
Cash flows from investing activities:		
Purchase of land, building, and equipment	(25,143)	(53,790)
Purchase of investments	(3,628,302)	(3,385,144)
Sale and maturity of investments	3,183,150	3,150,150
Net cash provided (used) by investing activities	<u>(470,295)</u>	<u>(288,784)</u>
Cash flows from financing activities:		
Proceeds from issuance of debt	-	17,572
Contributions for endowment	50,000	-
Payments on debt	(15,456)	(19,116)
Net cash provided (used) by financing activities	<u>34,544</u>	<u>(1,544)</u>
Net increase (decrease) in cash and cash equivalents	(112,344)	354,167
Cash and cash equivalents at beginning of year	<u>433,274</u>	<u>79,107</u>
Cash and cash equivalents at end of year	<u>\$320,930</u>	<u>\$433,274</u>
Interest paid	<u>\$85</u>	<u>\$419</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, 2016
With Comparative Totals for the Year Ended October 31, 2015

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 Narratives 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, the Council on Disabilities, Ramsey County Parks, KaJoog Fanka, City of Saint Paul Cultural Garden, and an open competitive grant process. In addition, the Humanities Center managed a Healthy Eating program for the State of Minnesota.

Conference Center Rental: In addition to the Absent Narratives 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 nonprofits, 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.

(Continued)

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

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:

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.

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. At October 31, 2016, deposits of \$240,286 exceeded federally insured limits.

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. Management believes no allowance is necessary at October 31, 2016 and 2015.

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.

(Continued)

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

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.

H. LAND, BUILDING, AND EQUIPMENT

All major expenditures for building improvements, furniture and equipment are capitalized at cost. All donated property and equipment is recorded at its fair market value. The capitalization threshold is \$5,000. 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. 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 \$3,486 and \$2,878 at October 31, 2016 and 2015.

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 2015, multi-year grants of \$5,890,000 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 are for work from July 1, 2015, through June 30, 2018, as the legislation permits an additional twelve months past the end of the state fiscal year (June 30, 2017) for grant close-outs.

In 2016, due to a shortfall in collected taxes, the State of Minnesota notified the Humanities Center of a 3% holdback of previously awarded funds. This holdback decreased net assets by \$62,250 in 2016.

(Continued)

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

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.

L. CONTRIBUTED MATERIALS AND SERVICES

Contributed materials are recorded in the financial statements at their estimated fair value at the date of donation. Contributed services are recorded when the service creates or enhances a nonfinancial asset or the service requires specialized skills, is provided by an individual possessing those skills, and would typically need to be purchased if not provided by donation.

The Humanities Center received public relations services and goods valued at \$66,057 for the year ended October 31, 2016, and space valued at \$10,000 for the year ended October 31, 2015.

M. FUNCTIONAL ALLOCATION OF EXPENSE

The Humanities Center allocates expenses among its programs and supporting services. 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 utilization.

N. ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising expenses were \$19,147 and \$9,821 for the years ended October 31, 2016 and 2015.

O. 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 \$14,142 and \$12,823 for the years ended October 31, 2016 and 2015.

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.

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2016
With Comparative Totals for the Year Ended October 31, 2015

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

Q. 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 believes that it has appropriate support for any tax positions taken, and accordingly, does not have any uncertain tax positions that are material to the financial statements.

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.

Note 2 CONTRIBUTIONS AND GRANTS RECEIVABLE

As of October 31, 2016, all contributions receivable are due within one year. Certain government grants receivable are available to be drawn over a two-year period and do not have a detailed payout schedule. Because of the uncertain timing of future 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 paid by the Humanities Center, 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, 2016 and 2015.

The Humanities Center has agreed to make payments in lieu of taxes to the City of Saint Paul Housing and Redevelopment Authority. Commencing August 1, 1996, and continuing thereafter, a total amount of \$552 in lieu of taxes must be paid annually. This agreement terminated August 1, 2016.

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MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2016
With Comparative Totals for the Year Ended October 31, 2015

Note 4 INVESTMENTS

Investments were comprised of the following at October 31:

	<u>2016</u>	<u>2015</u>
Brokerage bank account and AG deposit account	\$ 868,935	\$ 2,344,065
Mutual fund money market	-	385,577
Common stock	-	1,208,538
Negotiable certificates of deposit	<u>3,944,781</u>	<u>401,187</u>
Total investments	<u>\$ 4,813,716</u>	<u>\$ 4,339,367</u>

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

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 21,931	\$ 9,756
Realized and unrealized gains (losses)	<u>7,021</u>	<u>(12,878)</u>
Total investment income (loss)	<u>\$ 28,952</u>	<u>\$ (3,122)</u>

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, Common stock 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 obtained from statements provided by the broker.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2016
With Comparative Totals for the Year Ended October 31, 2015

Note 5 FAIR VALUE MEASUREMENTS Cont.

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

<u>2016:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Brokerage bank account	\$ 250,000	\$ -	\$ 250,000
AG deposit account	618,935	-	618,935
Negotiable certificates of deposit	<u>-</u>	<u>3,944,781</u>	<u>3,944,781</u>
Total investments	\$ <u>868,935</u>	\$ <u>3,944,781</u>	\$ <u>4,813,716</u>

<u>2015:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Brokerage bank account	\$ 250,000	\$ -	\$ 250,000
AG deposit account	2,094,065	-	2,094,065
Mutual fund money market	385,577	-	385,577
Common stock	1,208,538	-	1,208,538
Negotiable certificates of deposit	<u>-</u>	<u>401,187</u>	<u>401,187</u>
Total investments	\$ <u>3,938,180</u>	\$ <u>401,187</u>	\$ <u>4,339,367</u>

Funds deposited in AG deposit accounts are not federally insured or protected by the Securities Investor Protection Corporation (SIPC).

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>2016</u>	<u>2015</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%. The note was fully repaid in 2016.	\$ -	\$ 7,792

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2016
With Comparative Totals for the Year Ended October 31, 2015

Note 6 LONG-TERM DEBT Cont.

	<u>2016</u>	<u>2015</u>
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%. The note was fully repaid in 2016.	-	4,150
Note payable to Phalen Shores, LLC for parking lot repairs in the original amount of \$17,582 dated October 2015. Payments are due annually in the amount of \$3,514 with no interest, with the final payment due November 1, 2019.	<u>10,543</u>	<u>14,057</u>
Total long-term debt	10,543	25,999
Less: current maturities	<u>(3,514)</u>	<u>(15,456)</u>
Long-term portion	<u>\$ 7,029</u>	<u>\$ 10,543</u>

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

Year ending <u>October 31</u>	<u>Amount</u>
2017	\$ 3,514
2018	3,514
2019	<u>3,515</u>
Total	<u>\$10,543</u>

Note 7 NET ASSETS

A. UNRESTRICTED

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

	<u>2016</u>	<u>2015</u>
Property and equipment	\$1,443,234	\$1,523,601

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2016
With Comparatative Totals for the Year Ended October 31, 2015

Note 7 NET ASSETS Cont.

B. TEMPORARILY RESTRICTED

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

	<u>2016</u>	<u>2015</u>
State of Minnesota operating grant	\$ 233,334	\$ 583,333
State of Minnesota arts and cultural heritage funds	1,130,515	1,686,835
State of Minnesota veteran's programming	82,281	-
Civics Education arts and cultural heritage funds	292,633	299,644
Healthy Eating arts and cultural heritage funds	223,506	649,412
Children's Museums arts and cultural heritage funds	827,934	1,886,335
Council of Disabilities arts and cultural heritage funds	12,937	91,254
Ramsey County Parks cultural games	78,379	149,662
KaJoog Fanka program	120,814	237,087
City of Saint Paul Cultural Garden	-	49,459
Competitive grants	34,643	95,918
Women Veterans Initiative	10,431	20,443
Veteran's Voices programming	27,195	28,250
Water Ways project	2,760	33,085
Other	69	54
Absent Narratives program work/professional development programs for teachers and school districts	<u>6,866,413</u>	<u>10,191,683</u>
Total	<u>\$ 9,943,844</u>	<u>\$ 16,002,454</u>

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

C. PERMANENTLY RESTRICTED

The Humanities Center has a \$50,000 permanently restricted endowment, the earnings on which will be used to honor one or more Minnesota Historians annually.

D. 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>2016</u>	<u>2015</u>
Program expenditures	\$ 5,837,531	\$ 4,927,915
Elapsed time restriction	350,000	284,000
State holdback of Legacy funds – 3%	<u>62,250</u>	<u>-</u>
Total	<u>\$ 6,249,781</u>	<u>\$ 5,211,915</u>

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2016
With Comparatative Totals for the Year Ended October 31, 2015

Note 8 OPERATING LEASES

The Humanities Center leases a copier. Total leased equipment expenses were \$10,049 and \$10,905 for the years ended October 31, 2016 and 2015. This amount includes the base lease costs, fees for copies above the minimums and one time rental costs. The lease for the copier was renewed in February 2016. The minimum payments include a base number of copies and maintenance; overages are also recorded in the lease expense account. Future minimal rental payments for 2017 through 2021 are \$2,664 per year.

Note 9 RETIREMENT PLAN

The Humanities Center provides an employee retirement plan through a Safe Harbor 401K plan. 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 in the fiscal year). For the year ended October 31, 2016, the Board approved a 4% discretionary contribution. Total matching contributions were \$48,887; accrued discretionary contributions were \$56,258; for a total expense of \$105,145 for the year ended October 31, 2016. Contributions were \$105,206 for the year ended October 31, 2015.

Note 10 COMMITMENTS

The Humanities Center entered into a contract for consulting services effective October 1, 2016. The total amount of the contract is \$53,000 of which \$4,417 had been paid prior to year end.

Note 11 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 12 MAJOR SOURCES OF SUPPORT AND REVENUE

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

	<u>2016</u>	<u>2015</u>
National Endowment for the Humanities	\$ 861,563	\$ 701,810
State of Minnesota	\$ -	\$ 5,890,000
Anonymous foundation	\$ -	\$ 10,678,738

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2016
With Comparatative Totals for the Year Ended October 31, 2015

Note 13 ENDOWMENT

Minnesota Humanities Center's endowment consists of an investment fund established to honor one or more Minnesota Historians annually. Its endowment is donor-restricted. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Directors has interpreted the Minnesota Prudent Management of Institutional Funds Act (MPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Minnesota Humanities Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Humanities Center in a manner consistent with the standard of prudence prescribed by MPMIFA. In accordance with MPMIFA, the Humanities Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment net asset composition follows:

<u>October 31, 2016</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment fund	\$ -	\$ 16	\$ 50,000	\$ 50,016
	<u>\$ -</u>	<u>\$ 16</u>	<u>\$ 50,000</u>	<u>\$ 50,016</u>

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2016
With Comparatative Totals for the Year Ended October 31, 2015

Note 13 ENDOWMENT Cont.

Changes in endowment net assets for the year ended October 31, 2016 follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of year	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	50,000	50,000
Investment income	<u>-</u>	<u>16</u>	<u>-</u>	<u>16</u>
End of year	<u>\$ -</u>	<u>\$ 16</u>	<u>\$ 50,000</u>	<u>\$ 50,016</u>

Return Objectives and Risk Parameters – The Humanities Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable and consistent stream of funding to the program supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets will be invested in a manner that is intended to produce results that exceed the price and yield results of the All Urban Consumer Price Index (CPI) while assuming a moderate level of investment risk. The Humanities Center expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually over the CPI. Actual returns in any given year may vary from this amount.

The investment plan was adopted by the board in October 2016. At year end, the endowment was invested in certificates of deposits.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Humanities Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Humanities Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The Humanities Center has a policy of appropriating for distribution each year up to 5 percent of its endowment fund's average fair value over the prior 12 quarters through October 31 of the preceding the fiscal year in which the distribution is planned. In establishing this policy, the Humanities Center considered the long-term expected return on its endowment. The rate of draw will be periodically reviewed by the Finance Committee and/or Board of Directors. Upon completion of the initial four years from investment, distributions from the endowment fund will begin.

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2016
With Comparatative Totals for the Year Ended October 31, 2015

Note 14 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, 2015, from which the summarized information was derived.

Note 15 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.