

MINNESOTA HUMANITIES CENTER

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
OCTOBER 31, 2019**

MINNESOTA HUMANITIES CENTER

FINANCIAL STATEMENTS

For the Year Ended October 31, 2019
(With Comparative Totals for 2018)

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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 organization), which comprise the statement of financial position as of October 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

(Continued)

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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, Minnesota Humanities Center has adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Minnesota Humanities Center’s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 3, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2018, 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 28, 2020, 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 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 Minnesota Humanities Center’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 Minnesota Humanities Center’s internal control over financial reporting and compliance.

*Mahoney Ulbrich
Christiansen Russ P.A.*

April 28, 2020

MINNESOTA HUMANITIES CENTER

STATEMENT OF FINANCIAL POSITION

October 31, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 891,820	\$ 364,794
Accounts receivable	88,898	115,686
Contributions receivable - current	12,412,551	4,517,556
Government grants receivable - current	171,653	3,477,679
Prepaid expenses	12,129	24,266
Total current assets	13,577,051	8,499,981
Land lease	235,000	235,000
Building	2,692,823	2,692,463
Office equipment and furniture	779,346	791,166
Total land, building and equipment	3,707,169	3,718,629
Less accumulated depreciation and amortization	(2,367,574)	(2,311,131)
Net land, building and equipment	1,339,595	1,407,498
Other assets:		
Contributions receivable, net of current portion	-	4,412,634
Contributions receivable, capital campaign	402,180	65,410
Government grants receivable, net of current portion	-	50,000
Investments	6,103,114	5,756,189
Investments - endowment	58,885	53,050
Total other assets	6,564,179	10,337,283
Total assets	\$ 21,480,825	\$ 20,244,762
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 450,998	\$ 362,731
Current maturities of long-term debt	-	3,514
Deferred revenue	1,759	700
Accrued expenses	247,408	306,009
Total current liabilities	700,165	672,954
Net assets:		
Without donor restrictions		
Undesignated	1,696,437	1,533,243
Designated	1,573,514	1,603,984
Total net assets without donor restrictions	3,269,951	3,137,227
With donor restrictions	17,510,709	16,434,581
Total net assets	20,780,660	19,571,808
Total liabilities and net assets	\$ 21,480,825	\$ 20,244,762

See accompanying notes to financial statements.

MINNESOTA HUMANITIES CENTER

STATEMENT OF ACTIVITIES

For the Year Ended October 31, 2019
(With Comparative Totals for 2018)

	2019		Total	2018
	Without donor restrictions	With donor restrictions		
Support and revenue:				
Support:				
Contributions	\$ 49,542	\$ 8,557	\$ 58,099	\$ 12,865,764
Event sponsorship	-	6,825	6,825	17,250
In-kind	1,000	-	1,000	-
Government grants:				
Federal grants	831,371	-	831,371	856,489
Other governmental agencies	-	7,804,726	7,804,726	185,000
Revenue:				
Conference center rental income - program related	322,433	-	322,433	302,770
Conference center rental income - non-program related	85,628	-	85,628	102,036
Conference center rental costs - non-program related	(102,046)	-	(102,046)	(108,272)
Program revenue	98,301	-	98,301	94,541
Investment income	142,646	8,885	151,531	30,055
Miscellaneous	6,388	-	6,388	3,000
Net assets released from restrictions	7,399,315	(7,399,315)	-	-
 Total support and revenue	 8,834,578	 429,678	 9,264,256	 14,348,633
Expenses:				
Program services:				
MHC Educational programs	7,084,094	-	7,084,094	7,600,044
Conference center rental costs - program related	383,562	-	383,562	321,272
Total program costs	7,467,656	-	7,467,656	7,921,316
Supporting services:				
Management and general	1,106,127	-	1,106,127	871,582
Fundraising	128,071	-	128,071	169,868
Total supporting services	1,234,198	-	1,234,198	1,041,450
Total expenses	8,701,854	-	8,701,854	8,962,766
 Change in net assets before capital campaign	 132,724	 429,678	 562,402	 5,385,867
Grant funds returned to the state	-	(44,546)	(44,546)	-
Capital campaign contributions	-	690,996	690,996	85,425
 Change in net assets	 132,724	 1,076,128	 1,208,852	 5,471,292
Net assets, beginning of year	3,137,227	16,434,581	19,571,808	14,100,516
Net assets, end of year	\$ 3,269,951	\$ 17,510,709	\$ 20,780,660	\$ 19,571,808

See accompanying notes to financial statements.

MINNESOTA HUMANITIES CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended October 31, 2019
(With Comparative Totals for the 2017)

	2019								
	Program Services			Supporting Services				Totals	
	MHC Educational Programs	Conference Center Rental Costs - Program Related	Total Program Services	Management and General	Fundraising	Total Supporting Services	Conference Center Rental Costs - Non - Program	2019	2018
Salaries and temporary help	\$ 1,061,225	\$ 174,620	\$ 1,235,845	\$ 605,649	\$ 91,362	\$ 697,011	\$ 46,458	\$ 1,979,314	\$ 1,863,705
Payroll taxes	93,359	12,848	106,207	42,788	6,919	49,707	3,418	159,332	133,028
Employee benefits	263,831	51,636	315,467	106,286	9,776	116,062	13,737	445,266	398,918
Total employee compensation	1,418,415	239,104	1,657,519	754,723	108,057	862,780	63,613	2,583,912	2,395,651
Regrant expense	1,861,510	-	1,861,510	-	-	-	-	1,861,510	2,239,045
Contract services	2,450,101	5,832	2,455,933	202,914	3,271	206,185	1,552	2,663,670	2,588,618
Site fees	469,390	-	469,390	2,375	-	2,375	-	471,765	350,401
Participant stipends	288,040	-	288,040	-	-	-	-	288,040	370,932
Staff development	3,647	1,111	4,758	5,666	139	5,805	296	10,859	13,803
Insurance and bonding	6,062	6,354	12,416	1,272	632	1,904	1,690	16,010	15,085
Equipment rental and maintenance/building maintenance	17,317	19,463	36,780	10,973	1,778	12,751	5,178	54,709	59,388
Accounting and legal	-	-	-	30,555	-	30,555	-	30,555	35,536
Memberships and subscriptions	2,682	1,511	4,193	19,288	-	19,288	402	23,883	25,513
Postage	8,593	519	9,112	1,470	1,763	3,233	138	12,483	9,722
Printing and mailing services	47,338	450	47,788	1,609	1,577	3,186	120	51,094	51,751
Supplies - office and programs/off-site program meals	48,342	15,999	64,341	6,952	180	7,132	4,257	75,730	69,608
Telephone and internet	9,189	1,701	10,890	6,235	803	7,038	452	18,380	20,963
Travel	336,794	1,118	337,912	23,931	380	24,311	297	362,520	537,554
Advertising and marketing	12,872	5,254	18,126	2,594	-	2,594	1,398	22,118	38,058
License and permits	-	782	782	-	-	-	208	990	2,026
Interest and investment	-	2,139	2,139	4,231	3,554	7,785	569	10,493	9,643
Food services, conference center housekeeping	-	54,086	54,086	-	-	-	14,389	68,475	69,488
Internal use of conference center	49,624	(54,006)	(4,382)	17,614	1,202	18,816	(14,368)	66	-
Utilities	16,312	28,620	44,932	3,855	1,616	5,471	7,614	58,017	54,422
Minor furnishings	5,384	2,744	8,128	1,441	-	1,441	730	10,299	12,941
Miscellaneous	4,200	1,645	5,845	1,750	-	1,750	438	8,033	645
Total expenses before depreciation and amortization	7,055,812	334,426	7,390,238	1,099,448	124,952	1,224,400	88,973	8,703,611	8,970,793
Depreciation and amortization	28,282	49,136	77,418	6,679	3,119	9,798	13,073	100,289	100,245
Total expenses before removal of nonprogram conference center rental costs	7,084,094	383,562	7,467,656	1,106,127	128,071	1,234,198	102,046	8,803,900	9,071,038
Conference center rental costs - nonprogram	-	-	-	-	-	-	(102,046)	(102,046)	(108,272)
Total expenses	\$ 7,084,094	\$ 383,562	\$ 7,467,656	\$ 1,106,127	\$ 128,071	\$ 1,234,198	\$ -	\$ 8,701,854	\$ 8,962,766

See accompanying notes to financial statements.

MINNESOTA HUMANITIES CENTER

STATEMENT OF CASH FLOWS

For the Year Ended October 31, 2019
(With Comparative Totals for 2018)

Increase (Decrease) in Cash

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 1,208,852	\$ 5,471,292
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation and amortization	100,289	100,245
Loss (gain) on investments	51,257	21,940
Capital campaign contributions	(690,996)	(85,425)
Reinvestment of interest and dividends	(175,232)	(62,967)
Changes in operating assets and liabilities:		
Accounts receivable	26,788	(53,777)
Contributions receivable	(3,416,951)	(8,930,190)
Government grants receivable	3,356,026	3,410,193
Prepaid expenses	12,137	8,331
Accounts payable	88,267	179,537
Deferred revenue	1,059	(590)
Accrued expenses	(58,601)	183,098
Net cash from operating activities	502,895	241,687
Cash flows from investing activities:		
Purchase of land, building and equipment	(32,386)	(109,723)
Purchase of investments	(4,434,567)	(3,770,868)
Sale and maturity of investments	4,205,782	3,570,694
Net cash from investing activities	(261,171)	(309,897)
Cash flows from financing activities:		
Capital campaign contributions	288,816	20,015
Payments on debt	(3,514)	(3,515)
Net cash from financing activities	285,302	16,500
Net increase (decrease) in cash	527,026	(51,710)
Cash, beginning of year	364,794	416,504
Cash, end of year	\$ 891,820	\$ 364,794

See accompanying notes to financial statements.

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2019
(With Comparative Totals for 2018)

1. ORGANIZATION

The Minnesota Humanities Center (MHC) is an independent, not-for-profit organization that conducts and supports cultural and educational programs throughout Minnesota. MHC 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 MHC 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, MHC 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 MHC'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.

MHC 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, Children's Discovery Museum, Wheel and Cog Children's Museum of Hutchinson, MN Civic Education Coalition grants, Somali Community and Museum competitive grants, and an open competitive grant process. In addition, MHC managed a Healthy Eating Program and the Veteran's Defense Project for the State of Minnesota.

(Continued)

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2019
(With Comparative Totals for 2018)

1. ORGANIZATION (Continued)

Conference Center Rental: In addition to the Absent Narratives programming, MHC operates a full-service event center, as created by the State Legislature in 1996. In addition to housing programs of MHC, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation – MHC reports information regarding its financial position and activities in the following net asset categories:

- *Net Assets Without Donor Restrictions* - Net assets available to use in general operations at the discretion of management and the board of directors and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of 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.

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

(Continued)

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 and 2018.

Contributions and Government 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.

Investments - MHC carries its investments at fair value. Realized and unrealized gains and losses are included in investment income in the statement of activities.

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.

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.

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.

(Continued)

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2019
(With Comparative Totals for 2018)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 MHC 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 from year-to-year depending on the year in which the state budget is adopted. Two years of funding are recognized in the year the state budget is adopted.

In 2019, multi-year grants of \$7,800,000 were awarded by the State of Minnesota, recorded in revenue, and the unspent portion included in net assets with donor restrictions at the end of the year. These funds are for work from July 1, 2019, through June 30, 2021, as the legislation permits an additional twelve months past the end of the state fiscal year (June 30, 2022) for grant close-outs.

Contributions - Contributions are recognized when the donor makes an unconditional commitment to give to MHC. Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. When a restriction expires, net assets with donor restrictions are released to net assets without donor restrictions.

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.

MHC received professional services valued at \$1,000 for the year ended October 31, 2019. No contributed materials or services were recorded for the year ended October 31, 2018.

Functional Allocation of Expense - Employees complete timesheets bi-weekly tracking hours by program and supporting services. Associated salaries and related benefit expenses are charged directly to program and supporting services. Specifically identifiable expenses are charged directly to program and supporting services. Interest, utilities, and building maintenance expense are allocated based on square footage. All other indirect expenses for its programs and supporting services are allocated based upon personnel.

(Continued)

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs - Advertising costs are expensed as incurred. Advertising expenses were \$38,058 and \$38,586 for the years ended October 31, 2019 and 2018.

Unemployment Compensation - MHC has elected to self-insure unemployment tax claims. Any amounts incurred are recorded as expense when liable and estimable. There was no unemployment claims expense for the years ended October 31, 2019 and 2018.

Tax Exempt Status - MHC 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. MHC 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. MHC has significant net operating loss carryforwards from rental activities that begin to expire in 2019. It is expected that most or all of the carryforwards will expire without being fully utilized.

Comparative Total Column - 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 MHC's financial statements as of and for the year ended October 31, 2018, from which the summarized information was derived.

3. LIQUIDITY AND AVAILABILITY

MHC adopts an annual budget and anticipates collecting sufficient revenue to fund general expenditures. Budget to actual results are monitored monthly. As part of the MHC's liquidity management, its policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Cash in excess of immediate needs has been invested.

(Continued)

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2019
(With Comparative Totals for 2018)

3. LIQUIDITY AND AVAILABILITY (Continued)

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, consist of the following:

Cash and equivalents	\$	891,820
Accounts receivable		88,898
Contributions receivable - current		12,412,551
Government grants receivable – current		171,653
Investments		<u>6,103,114</u>
Total financial assets		19,668,036

Less amounts not available to be used within one year:

Cash and equivalents – capital campaign	(373,991)
Contributions receivable for Healthy Eating Here at Home grant	(475,000)
Contributions restricted for use in 2021	(4,427,286)
Contributions receivable for Legacy grants	<u>(4,478,500)</u>

Total financial assets available within one year after donor restrictions and Board designations	<u>\$ 9,913,259</u>
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4. CONTRIBUTIONS AND GOVERNMENT GRANTS RECEIVABLE

Contributions and government grants receivable of \$12,836,484 are expected to be collected in 2020 and \$149,900 are expected to be collected in 2021. Capital campaign contributions of \$252,280 are presented as noncurrent because they will be used towards the building preservation.

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.

(Continued)

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2019
(With Comparative Totals for 2018)

5. LAND LEASE

MHC 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. MHC is responsible for insuring the building. Due to the poor condition of the building and the extensive amount of rehabilitation costs paid by MHC, the fair market value of the portion of the bargain lease relating to the building was valued at \$0. MHC renovated the building as part of a previous 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, 2019 and 2018.

6. INVESTMENTS

Investments were comprised of the following at October 31:

	<u>2019</u>	<u>2018</u>
Brokerage bank account	\$ 253,091	\$ 252,657
Brokerage sweeps account	57,892	381,157
Money market funds	959,875	900,755
Exchange traded funds	38,039	33,713
Negotiable certificates of deposit	4,853,102	4,240,957
	<u>\$ 6,161,999</u>	<u>\$ 5,809,239</u>

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

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 100,274	\$ 64,568
Realized and unrealized gains (losses)	51,257	(34,513)
	<u>\$ 151,531</u>	<u>\$ 30,055</u>

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

(Continued)

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2019
(With Comparative Totals for 2018)

7. FAIR VALUE MEASUREMENTS

MHC determines fair value, when necessary, based on the assumptions that market participants would use when pricing the asset or liability. Valuation inputs are categorized using the following fair value hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs that are observable, directly or indirectly, other than the quoted prices included in Level 1; and
- Level 3 - inputs that are unobservable for the asset or liability, which are typically based on an organization's own assumptions, as there is little, if any, related market activity.

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, money market, and exchange-traded 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.

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

October 31, 2019:

Brokerage bank account	\$ 253,091	\$ -	\$ 253,091
Exchange traded funds	38,039	-	38,039
AG deposit account	57,892	-	57,892
Money market	959,875	-	959,875
Negotiable certificates of deposit	<u>-</u>	<u>4,853,102</u>	<u>4,853,102</u>
	<u>\$ 1,308,897</u>	<u>\$ 4,853,102</u>	<u>\$ 6,161,999</u>

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7. FAIR VALUE MEASUREMENTS (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<u>October 31, 2018:</u>			
Brokerage bank account	\$ 250,000	\$ -	\$ 250,000
Exchange traded funds	33,713	-	33,713
AG deposit account	383,814	-	383,814
Money market	900,755	-	900,755
Negotiable certificates of deposit	<u>-</u>	<u>4,240,957</u>	<u>4,240,957</u>
	<u>\$ 1,568,282</u>	<u>\$ 4,240,957</u>	<u>\$ 5,809,239</u>

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 MHC 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.

8. LONG-TERM DEBT

Long-term debt consisted of a note payable to Phalen Shores LLC for parking lot repairs in the original amount of \$17,582 dated October 2015. Payments were due annually in the amount of \$3,514 with no interest. The loan was paid off during 2019.

9. NET ASSETS

Without Donor Restrictions - The Board of Directors has made the following designations of net assets without donor restrictions as of October 31:

	<u>2019</u>	<u>2018</u>
Property and equipment	\$ 1,323,514	\$ 1,403,984
Capital campaign	<u>250,000</u>	<u>200,000</u>
	<u>\$ 1,573,514</u>	<u>\$ 1,603,984</u>

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9. NET ASSETS (Continued)

With Donor Restrictions - Net assets with donor restrictions consisted of the following as of October 31:

	2019	2018
Absent Narratives program work/professional development programs for teachers and school districts	\$ 8,242,458	\$ 12,239,455
State of Minnesota operating grant	625,000	257,617
State of Minnesota arts and cultural heritage funds	2,641,394	1,394,116
State of Minnesota veteran's programming	-	178,895
Civics Education arts and cultural heritage funds	420,507	401,620
Healthy Eating arts and cultural heritage funds	476,753	115,910
Children's Museums arts and cultural heritage funds	2,350,968	876,089
Community identity and heritage - Hmong	249,867	-
Community identity and heritage - Somali	249,867	-
Community identity and heritage	1,186,634	-
MN Public Radio media initiative	-	64,701
Minnesota Pollution Control	23,589	123,138
Why Treaties Matter	94,815	152,885
Somali Community and Museum	11,641	207,913
Many Voices: One State capital campaign	776,171	85,425
Women Veterans Initiative	14,021	8,657
Veteran's Voices programming	36,721	111,758
Water Ways project	50,986	151,123
Endowment	58,885	53,050
Other	432	12,229
	\$ 17,510,709	\$ 16,434,581
Total		

MHC has a perpetually restricted endowment of \$50,000, the earnings on which will be used annually to honor one or more Minnesota historians and/or outstanding work of Minnesota History.

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9. NET ASSETS (Continued)

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

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>2019</u>	<u>2018</u>
Program expenditures	\$ 7,185,779	\$ 7,374,958
Elapsed time restriction	<u>258,082</u>	<u>367,383</u>
	<u>\$ 7,443,861</u>	<u>\$ 7,742,341</u>

10. OPERATING LEASES

MHC leases a copier under a five-year operating lease. Total leased equipment expenses were \$9,996 and \$10,281 for the years ended October 31, 2019 and 2018. This amount includes the base lease costs, fees for copies above the minimums and one-time rental costs. 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 2020 through 2024 are \$3,588 per year.

11. RETIREMENT PLAN

MHC 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, 2019, the Board approved a 4% discretionary contribution. Total matching contributions were \$63,858; accrued discretionary contributions were \$72,371; for a total expense of \$136,229 for the year ended October 31, 2019. Total matching contributions were \$56,629; accrued discretionary contributions were \$68,135; for a total expense of \$124,764 for the year ended October 31, 2018.

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12. CONCENTRATIONS OF CREDIT RISK

MHC places its cash with multiple financial institutions. At times the amount on deposit exceeds the insured limit of an institution and exposes MHC to a credit risk. MHC believes it is not exposed to any significant risk on these funds. At October 31, 2019 and 2018, deposits of \$789,315 and \$228,710 exceeded federally insured limits.

13. CONTINGENCIES

MHC 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 MHC. 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 MHC.

14. MAJOR SOURCES OF SUPPORT AND REVENUE

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

	<u>2019</u>	<u>2018</u>
National Endowment for the Humanities	\$ 831,371	\$ 856,489
State of Minnesota	7,800,000	-
Anonymous donor	-	12,596,336

15. ENDOWMENT

Minnesota Humanities Center's endowment consists of an investment fund established to recognize one or more outstanding Minnesota historians and/or outstanding work of Minnesota History as defined by MHC. The 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.

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15. ENDOWMENT (Continued)

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, MHC 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 MHC in a manner consistent with the standard of prudence prescribed by MPMIFA. In accordance with MPMIFA, MHC 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 MHC 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 MHC
- (7) The investment policies of MHC

Changes in endowment net assets for the year ended October 31, 2019, follow:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 53,050	\$ 53,050
Investment income, net	-	5,835	5,835
Endowment net assets, end of year	\$ -	\$ 58,885	\$ 58,885

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15. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended October 31, 2018, follow:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 52,594	\$ 52,594
Investment income, net	-	456	456
Endowment net assets, end of year	\$ -	\$ 53,050	\$ 53,050

Return Objectives and Risk Parameters – MHC 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. MHC expects its endowment investments, 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.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, MHC 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). MHC 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 – MHC has a policy of appropriating for distribution each year up to 5 percent of its endowment fund's average fair value over the preceding 12 calendar quarters through October 31 of the preceding the fiscal year in which the distribution is planned. In establishing this policy, MHC 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 (December 2020), distributions from the endowment fund will begin.

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16. CAPITAL CAMPAIGN (Continued)

In 2018, MHC initiated a capital campaign entitled “Many Voices, One State.” The campaign celebrates the 50th anniversary of MHC and its decades of accomplishments and services to the state and strengthens the foundation for the next 50 years. The \$3.5 million campaign’s goals are 1) to secure the funding needed for short-term and long-term asset preservation, and 2) build a broad base of sustainable support for MHC.

MHC has been awarded \$1 million of state bonding for asset preservation for which the contracts have not been finalized. The City of Saint Paul, under its STAR Loan and Grant program, has awarded a grant of \$100,000 and a loan of \$150,000 for the campaign. Under the City award, MHC must provide matching funds of \$475,550. The grant was recognized as revenue in 2019. No funds have been advanced against the loan as of October 31, 2019.

MHC has completed initial drawings for asset preservation services and paid the architect \$18,000. MHC is currently in the process of negotiating a contract to complete all of the design drawings for the project. It is estimated it will be completed in the year ending October 31, 2020.

17. COMMITMENTS

MHC has approximately \$1,207,000 in contracts related to its Absent Narratives work with a cumulative total of approximately \$931,000 remaining at October 31, 2019.

MHC has approximately \$974,000 in conditional grants related to Legacy funds with a cumulative total of approximately \$664,000 remaining at October 31, 2019. Conditional grants are not expensed until such time as the conditions are substantially met.

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18. **SUBSEQUENT EVENTS**

In March 2020, the state of Minnesota began to enact measures to combat the global pandemic resulting from a novel strain of coronavirus known as COVID-19. Measures have included regulatory restrictions on citizen and business activities as well as recommendations for further voluntary curtailment of activities. As a result of the spread of COVID-19, economic uncertainties have arisen. As of April 28, 2020, the impact to MHC has been:

- Temporary closure of the event center
- Suspension of MHC's program related group offerings
- Development and implementation of virtual program offerings
- Instruction from Minnesota Management and Budget department to temporarily delay any new unplanned spending from Legacy funding until July 1, 2020

However, the future financial impact effects of these issues are unknown.

Management has evaluated subsequent events through April 28, 2020, the date the financial statements were available to be issued.