

MINNESOTA HUMANITIES CENTER

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
OCTOBER 31, 2017**

MINNESOTA HUMANITIES CENTER
FINANCIAL STATEMENTS
For the Year Ended October 31, 2017
With Comparative Totals for the Year Ended October 31, 2016

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Mahoney Ulbrich Christiansen Russ P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2017, 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, 2017, 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 2016 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated April 21, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2016, 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 24, 2018, 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 the effectiveness of Minnesota Humanities Center's 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.*

April 24, 2018

MINNESOTA HUMANITIES CENTER
STATEMENT OF FINANCIAL POSITION

October 31, 2017

With Comparative Amounts For October 31, 2016

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$416,504	\$320,930
Accounts receivable, net	61,908	65,445
Contributions receivable	-	3,719,214
Government grants receivable - current	6,917,872	2,994,391
Prepaid expense	32,597	27,265
Total current assets	<u>7,428,881</u>	<u>7,127,245</u>
Land, building and equipment:		
Land lease	235,000	235,000
Building	2,582,741	2,582,741
Office equipment and furniture	792,603	776,812
Total land, building and equipment	<u>3,610,344</u>	<u>3,594,553</u>
Less accumulated depreciation and amortization	<u>(2,212,323)</u>	<u>(2,133,284)</u>
Net land, building and equipment	<u>1,398,021</u>	<u>1,461,269</u>
Other assets:		
Government grants, net of current portion	20,000	-
Investments	5,515,444	4,763,700
Investments - endowment	52,594	50,016
Total other assets	<u>5,588,038</u>	<u>4,813,716</u>
Total assets	<u>\$14,414,940</u>	<u>\$13,402,230</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$183,194	\$160,276
Current maturities of long-term debt	3,515	3,514
Deferred revenue	1,290	3,486
Accrued expenses	122,911	155,135
Total current liabilities	<u>310,910</u>	<u>322,411</u>
Long-term debt	<u>3,514</u>	<u>7,029</u>
Total liabilities	<u>314,424</u>	<u>329,440</u>
Net assets:		
Unrestricted net assets:		
Unrestricted - undesignated	1,649,258	1,635,712
Unrestricted - designated	1,380,866	1,443,234
Total unrestricted net assets	<u>3,030,124</u>	<u>3,078,946</u>
Temporarily restricted	11,020,392	9,943,844
Permanently restricted	50,000	50,000
Total net assets	<u>14,100,516</u>	<u>13,072,790</u>
Total liabilities and net assets	<u>\$14,414,940</u>	<u>\$13,402,230</u>

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

MINNESOTA HUMANITIES CENTER

STATEMENT OF ACTIVITIES

For the Year Ended October 31, 2017

With Comparative Totals for the Year Ended October 31, 2016

	2017			Total	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue:					
Support:					
Contributions	\$47,672	\$159,402	\$ -	\$207,074	\$134,601
Event sponsorship	-	20,150	-	20,150	40,700
In-kind	4,315	-	-	4,315	66,057
Grants from governmental agencies:					
Federal grants	838,173	-	-	838,173	930,565
Other governmental agencies	-	7,154,250	-	7,154,250	105,000
Revenue:					
Conference center rental income - program related	278,496	-	-	278,496	273,161
Conference center rental income - non-program related	56,466	-	-	56,466	50,480
Conference center rental costs - non-program related	(62,437)	-	-	(62,437)	(62,991)
Program income	68,369	-	-	68,369	61,178
Investment income	50,578	3,075	-	53,653	28,952
Miscellaneous income	8,012	-	-	8,012	11,692
Subtotal	1,289,644	7,336,877	-	8,626,521	1,639,395
Net assets released from restrictions	6,260,329	(6,260,329)	-	-	-
Total support and revenue	7,549,973	1,076,548	-	8,626,521	1,639,395
Expenses:					
Program services:					
MHC educational programs	6,303,962	-	-	6,303,962	6,187,365
Conference center rental costs - program related	307,962	-	-	307,962	340,866
Total program services	6,611,924	-	-	6,611,924	6,528,231
Supporting services:					
Management and general	798,432	-	-	798,432	600,490
Fundraising	188,439	-	-	188,439	124,550
Total supporting services	986,871	-	-	986,871	725,040
Total expenses	7,598,795	-	-	7,598,795	7,253,271
Change in net assets, before adjustment of pledge	(48,822)	1,076,548	-	1,027,726	(5,613,876)
State holdback of pledged Legacy funds	-	-	-	-	(62,250)
Change in net assets	(48,822)	1,076,548	-	1,027,726	(5,676,126)
Net assets at beginning of year	3,078,946	9,943,844	50,000	13,072,790	18,748,916
Net assets at end of year	\$3,030,124	\$11,020,392	\$50,000	\$14,100,516	\$13,072,790

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

MINNESOTA HUMANITIES CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended October 31, 2017
With Comparative Totals for the Year Ended October 31, 2016

	2017									
	Program Services			Supporting Services			Conference Center Rental	Totals		
	MHC Educational Programs	Conference Center Rental Costs-Program Related	Total Program Services	Management and General	Fundraising	Total Supporting Services	Costs - Non - Program	2017	2016	
Expenses:										
Salaries and temporary help	\$955,988	\$144,058	\$1,100,046	\$492,535	\$95,519	\$588,054	\$29,208	\$1,717,308	\$1,535,172	
Payroll taxes	70,248	10,493	80,741	33,505	6,897	40,402	2,127	123,270	124,330	
Employee benefits and administration fees	212,496	42,207	254,703	83,009	23,096	106,105	8,558	369,366	379,505	
Regrant expense	1,778,618	-	1,778,618	-	-	-	-	1,778,618	1,803,288	
Contract services	2,047,236	5,461	2,052,697	84,266	50,316	134,582	1,107	2,188,386	1,957,323	
Site fees	372,191	-	372,191	-	-	-	-	372,191	390,986	
Participant stipends	310,712	-	310,712	-	-	-	-	310,712	325,026	
Staff development	5,341	387	5,728	2,329	732	3,061	78	8,867	7,865	
Insurance and bonding	7,360	7,287	14,647	1,351	653	2,004	1,477	18,128	15,764	
Equipment rental and maintenance/building maintenance	13,927	13,213	27,140	6,699	2,039	8,738	2,679	38,557	36,072	
Accounting and legal	-	-	-	19,780	-	19,780	-	19,780	19,314	
Memberships and subscriptions	2,670	1,414	4,084	18,870	-	18,870	287	23,241	26,441	
Postage	5,216	1,586	6,802	1,431	88	1,519	322	8,643	13,585	
Printing and mailing services	25,712	1,665	27,377	128	268	396	338	28,111	33,492	
Supplies -office and programs/off-site program meals	49,406	6,227	55,633	7,640	55	7,695	1,262	64,590	80,349	
Telephone and internet	12,989	2,235	15,224	3,936	1,005	4,941	453	20,618	19,727	
Travel	281,088	1,088	282,176	10,641	1,250	11,891	220	294,287	283,010	
Advertising and marketing	28,716	4,107	32,823	1,742	188	1,930	833	35,586	19,147	
License and permits	8	999	1,007	2	1	3	202	1,212	1,404	
Interest and investment	247	2,313	2,560	3,378	735	4,113	469	7,142	6,990	
Food services, conference center housekeeping	-	57,891	57,891	119	-	119	11,737	69,747	63,445	
Internal use of conference center	78,942	(77,157)	1,785	12,986	873	13,859	(15,644)	-	-	
Utilities	14,351	26,155	40,506	3,171	1,445	4,616	5,303	50,425	45,484	
Minor furnishings	1,818	3,953	5,771	3,984	-	3,984	801	10,556	4,392	
Payment in lieu of RE tax	-	-	-	-	-	-	-	-	460	
Miscellaneous	79	69	148	175	125	300	14	462	10,217	
Total expenses before depreciation and amortization	6,275,359	255,651	6,531,010	791,677	185,285	976,962	51,831	7,559,803	7,202,788	
Depreciation and amortization	28,603	52,311	80,914	6,755	3,154	9,909	10,606	101,429	113,474	
Total expenses before removal of nonprogram conference center and rental costs	6,303,962	307,962	6,611,924	798,432	188,439	986,871	62,437	7,661,232	7,316,262	
Conference center rental costs-nonprogram	-	-	-	-	-	-	(62,437)	(62,437)	(62,991)	
Total expenses	\$6,303,962	\$307,962	\$6,611,924	\$798,432	\$188,439	\$986,871	-	\$7,598,795	\$7,253,271	

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

MINNESOTA HUMANITIES CENTER

STATEMENT OF CASH FLOWS

For the Year Ended October 31, 2017

With Comparative Totals for the Year Ended October 31, 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$1,027,726	(\$5,676,126)
Adjustments to reconcile the change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	101,429	113,474
Gain on investments	(21,977)	(7,021)
Contribution for endowment	-	(50,000)
Reinvestment of interest and dividends	(29,130)	(22,176)
(Increase) decrease in accounts receivable	3,537	22,668
(Increase) decrease in contributions receivable	3,719,214	3,574,380
(Increase) decrease in government grants receivable	(3,943,481)	2,385,196
(Increase) decrease in prepaid expense	(5,332)	(13,589)
Increase (decrease) in accounts payable	22,918	(24,218)
Increase (decrease) in deferred revenue	(2,196)	608
Increase (decrease) in accrued expenses	(32,224)	20,211
Net cash provided (used) by operating activities	<u>840,484</u>	<u>323,407</u>
Cash flows from investing activities:		
Purchase of land, building and equipment	(38,181)	(25,143)
Purchase of investments	(3,653,862)	(3,628,302)
Sale and maturity of investments	2,950,647	3,183,150
Net cash provided (used) by investing activities	<u>(741,396)</u>	<u>(470,295)</u>
Cash flows from financing activities:		
Contributions for endowment	-	50,000
Payments on debt	(3,515)	(15,456)
Net cash provided (used) by financing activities	<u>(3,515)</u>	<u>34,544</u>
Net increase (decrease) in cash and cash equivalents	95,573	(112,344)
Cash and cash equivalents at beginning of year	<u>320,930</u>	<u>433,274</u>
Cash and cash equivalents at end of year	<u><u>\$416,503</u></u>	<u><u>\$320,930</u></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, 2017
With Comparatative Totals for the Year Ended October 31, 2016

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 Hutchinson Children's Museum, the Council on Disabilities, Ramsey County Parks, Cultural Athletics Courts, KaJoog Fanka Program, Somali Community and Museum, Rondo Commemorative Plaza, and an open competitive grant process. In addition, the Humanities Center managed a Healthy Eating program and Veteran's Defense Project 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.

B. FINANCIAL STATEMENT PRESENTATION

Net assets, support and revenue, and gains and losses are classified based on donor imposed restrictions.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2017
With Comparatative Totals for the Year Ended October 31, 2016

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

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, 2017, deposits of \$302,022 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, 2017 and 2016.

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.

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 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 2017, multi-year grants of \$5,152,000 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, 2017, through June 30, 2019, as the legislation permits an additional twelve months past the end of the state fiscal year (June 30, 2018) for grant close-outs.

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2017
With Comparatative Totals for the Year Ended October 31, 2016

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

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. In 2017, the holdback funds were awarded back to the Humanities Center and are included in the 2017 other governmental agencies amount on the statement of activities.

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 photography services and goods valued at \$4,315 for the year ended October 31, 2017, and public relations services and goods valued at \$66,057 for the year ended October 31, 2016.

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 \$35,586 and \$19,147 for the years ended October 31, 2017 and 2016.

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 \$- and \$14,142 for the years ended October 31, 2017 and 2016.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2017
With Comparatative Totals for the Year Ended October 31, 2016

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

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. 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.

Note 2 CONTRIBUTIONS AND GRANTS RECEIVABLE

As of October 31, 2017, government grants of \$10,000 are expected to be collected in each 2018 and 2019. 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, 2017 and 2016.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2017
With Comparatative Totals for the Year Ended October 31, 2016

Note 3 LAND LEASE Cont.

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.

Note 4 INVESTMENTS

Investments were comprised of the following at October 31:

	<u>2017</u>	<u>2016</u>
Brokerage bank account and AG deposit account	\$ 907,844	\$ 868,935
Exchange-traded funds	34,937	-
Negotiable certificates of deposit	<u>4,625,257</u>	<u>3,944,781</u>
Total investments	<u>\$ 5,568,038</u>	<u>\$ 4,813,716</u>

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 31,676	\$ 21,931
Realized and unrealized gains (losses)	<u>21,977</u>	<u>7,021</u>
Total investment income	<u>\$ 53,653</u>	<u>\$ 28,952</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.

(Continued)

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Note 5 FAIR VALUE MEASUREMENTS Cont.

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 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:

<u>2017:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Brokerage bank account	\$ 252,675	\$ -	\$ 252,675
Exchange traded funds	34,937	-	34,937
AG deposit account	655,169	-	655,169
Negotiable certificates of deposit	<u>-</u>	<u>4,625,257</u>	<u>4,625,257</u>
Total investments	\$ <u>942,781</u>	\$ <u>4,625,257</u>	\$ <u>5,568,038</u>

<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>

Exchange-traded funds and 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.

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Note 6 LONG-TERM DEBT

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

	<u>2017</u>	<u>2016</u>
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.	\$ 7,029	\$ 10,543
Less: current maturities	<u>(3,515)</u>	<u>(3,514)</u>
Long-term portion	<u>\$ 3,514</u>	<u>\$ 7,029</u>

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

<u>Year ending</u> <u>October 31</u>	<u>Amount</u>
2018	\$ 3,515
2019	<u>3,514</u>
Total	<u>\$ 7,029</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>2017</u>	<u>2016</u>
Property and equipment	\$1,380,866	\$1,443,234

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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	\$ 625,000	\$ 233,334
State of Minnesota arts and cultural heritage funds	2,271,651	1,130,515
State of Minnesota veteran’s programming	426,764	82,281
Civics Education arts and cultural heritage funds	539,119	292,633
Healthy Eating arts and cultural heritage funds	441,282	223,506
Children’s Museums arts and cultural heritage funds	1,927,787	827,934
Council of Disabilities arts and cultural heritage funds	68,606	12,937
Ramsey County Parks cultural games	1,341	78,379
KaJoog Fanka program	161	120,814
Why Treaties Matter	245,436	-
Cultural Athletic Courts	74,702	-
Somali Community and Museum	397,967	-
Rondo Commemorative Plaza	46,386	-
Competitive grants	-	34,643
Women Veterans Initiative	11,286	10,431
Veteran’s Voices programming	293,192	27,195
Water Ways project	60,222	2,760
Other	995	69
Absent Narratives program work/professional development programs for teachers and school districts	<u>3,588,495</u>	<u>6,866,413</u>
Total	<u>\$ 11,020,392</u>	<u>\$ 9,943,844</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.

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Note 7 NET ASSETS Cont.

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>2017</u>	<u>2016</u>
Program expenditures	\$ 5,901,996	\$ 5,837,531
Elapsed time restriction	358,333	350,000
State holdback of Legacy funds – 3%	-	62,250
Total	<u>\$ 6,260,329</u>	<u>\$ 6,249,781</u>

Note 8 OPERATING LEASES

The Humanities Center leases a copier. Total leased equipment expenses were \$9,897 and \$10,049 for the years ended October 31, 2017 and 2016. 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 2018 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, 2017, the Board approved a 4% discretionary contribution. Total matching contributions were \$54,242; accrued discretionary contributions were \$60,016; for a total expense of \$114,258 for the year ended October 31, 2017. Contributions were \$105,145 for the year ended October 31, 2016.

Note 10 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.

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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>2017</u>	<u>2016</u>
National Endowment for the Humanities	\$ 816,791	\$ 861,563
State of Minnesota	\$ 7,154,250	\$ -

Note 12 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

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Note 12 ENDOWMENT Cont.

Endowment net asset composition follows:

<u>October 31, 2017</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment fund	\$ -	\$ 2,594	\$ 50,000	\$ 52,594
	<u>\$ -</u>	<u>\$ 2,594</u>	<u>\$ 50,000</u>	<u>\$ 52,594</u>

Changes in endowment net assets for the year ended October 31, 2017 follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of year	\$ -	\$ 16	\$ 50,000	\$ 50,016
Investment income, net	<u>-</u>	<u>2,578</u>	<u>-</u>	<u>2,578</u>
End of year	<u>\$ -</u>	<u>\$ 2,594</u>	<u>\$ 50,000</u>	<u>\$ 52,594</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 Endowment Investment and Distribution Policy was adopted by the Board in December 2017.

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 preceding 12 calendar 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.

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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, 2016, 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.