

**MINNESOTA HUMANITIES CENTER**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
OCTOBER 31, 2018**

**MINNESOTA HUMANITIES CENTER**

FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

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# Mahoney Ulbrich Christiansen Russ P.A.

CERTIFIED PUBLIC ACCOUNTANTS

10 River Park Plaza, Suite 800 | Saint Paul, MN 55107

Phone: 651.227.6695 Fax: 651.227.9796 | [www.mucr.com](http://www.mucr.com)

## 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, 2018, 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.

(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, 2018, 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.

**Report on Summarized Comparative Information**

We have previously audited Minnesota Humanities Center's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2017, 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 May 3, 2019, 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.*

May 3, 2019

**MINNESOTA HUMANITIES CENTER**

STATEMENT OF FINANCIAL POSITION

October 31, 2018

(With Comparative Totals for 2017)

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 364,794	\$ 416,504
Accounts receivable	115,686	61,908
Contributions receivable - current	4,517,556	-
Government grants receivable - current	3,477,679	6,917,872
Prepaid expenses	24,266	32,597
Total current assets	8,499,981	7,428,881
Land lease	235,000	235,000
Building	2,692,463	2,582,741
Office equipment and furniture	791,166	792,603
Total land, building and equipment	3,718,629	3,610,344
Less accumulated depreciation and amortization	(2,311,131)	(2,212,323)
Net land, building and equipment	1,407,498	1,398,021
Other assets:		
Contributions receivable, net of current portion	4,412,634	-
Contributions receivable, capital campaign	65,410	-
Government grants receivable, net of current portion	50,000	20,000
Investments	5,756,189	5,515,444
Investments - endowment	53,050	52,594
Total other assets	10,337,283	5,588,038
Total assets	\$ 20,244,762	\$ 14,414,940
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 362,731	\$ 183,194
Current maturities of long-term debt	3,514	3,515
Deferred revenue	700	1,290
Accrued expenses	306,009	122,911
Total current liabilities	672,954	310,910
Long-term debt	-	3,514
Total liabilities	672,954	314,424
Net assets:		
Unrestricted		
Unrestricted - undesignated	1,533,243	1,649,258
Unrestricted - designated	1,603,984	1,380,866
Total unrestricted net assets	3,137,227	3,030,124
Temporarily restricted	16,384,581	11,020,392
Permanently restricted	50,000	50,000
Total net assets	19,571,808	14,100,516
Total liabilities and net assets	\$ 20,244,762	\$ 14,414,940

See accompanying notes to financial statements.

MINNESOTA HUMANITIES CENTER

STATEMENT OF ACTIVITIES

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

	2018			Total	2017
	Unrestricted	Temporarily restricted	Permanently restricted		
Support and revenue:					
Support:					
Contributions	\$ 47,365	\$12,818,399	\$ -	\$12,865,764	\$ 207,074
Event sponsorship	-	17,250	-	17,250	20,150
In-kind	-	-	-	-	4,315
Government grants:					
Federal grants	856,489	-	-	856,489	838,173
Other governmental agencies	-	185,000	-	185,000	7,154,250
Revenue:					
Conference center rental income - program related	302,770	-	-	302,770	278,496
Conference center rental income - non-program related	102,036	-	-	102,036	56,466
Conference center rental costs - non-program related	(108,272)	-	-	(108,272)	(62,437)
Program revenue	94,541	-	-	94,541	69,581
Investment income	29,599	456	-	30,055	53,653
Miscellaneous	3,000	-	-	3,000	6,800
Net assets released from restrictions	7,742,341	(7,742,341)	-	-	-
Total support and revenue	<u>9,069,869</u>	<u>5,278,764</u>	<u>-</u>	<u>14,348,633</u>	<u>8,626,521</u>
Expenses:					
Program services:					
MHC Educational programs	7,600,044	-	-	7,600,044	6,303,962
Conference center rental costs - program related	321,272	-	-	321,272	307,962
Total program costs	<u>7,921,316</u>	<u>-</u>	<u>-</u>	<u>7,921,316</u>	<u>6,611,924</u>
Supporting services:					
Management and general	871,582	-	-	871,582	798,432
Fundraising	169,868	-	-	169,868	188,439
Total supporting services	<u>1,041,450</u>	<u>-</u>	<u>-</u>	<u>1,041,450</u>	<u>986,871</u>
Total expenses	<u>8,962,766</u>	<u>-</u>	<u>-</u>	<u>8,962,766</u>	<u>7,598,795</u>
Change in net assets before capital campaign	107,103	5,278,764	-	5,385,867	1,027,726
Capital campaign contributions	-	85,425	-	85,425	-
Change in net assets	107,103	5,364,189	-	5,471,292	1,027,726
Net assets, beginning of year	<u>3,030,124</u>	<u>11,020,392</u>	<u>50,000</u>	<u>14,100,516</u>	<u>13,072,790</u>
Net assets at end of year	<u>\$ 3,137,227</u>	<u>\$16,384,581</u>	<u>\$ 50,000</u>	<u>\$19,571,808</u>	<u>\$14,100,516</u>

See accompanying notes to financial statements.

MINNESOTA HUMANITIES CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended October 31, 2018  
(With Comparative Totals for the 2017)

	2018								
	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		2018	2017
Salaries and temporary help	\$ 1,070,265	\$ 162,985	\$ 1,233,250	\$ 470,596	\$ 104,931	\$ 575,527	\$ 54,928	\$ 1,863,705	\$ 1,717,308
Payroll taxes	78,487	11,805	90,292	31,153	7,604	38,757	3,979	133,028	123,270
Employee benefits	247,135	40,739	287,874	86,573	10,741	97,314	13,730	398,918	369,366
Total employee compensation	1,395,887	215,529	1,611,416	588,322	123,276	711,598	72,637	2,395,651	2,209,944
Regrant expense	2,239,045	-	2,239,045	-	-	-	-	2,239,045	1,778,618
Contract services	2,434,576	6,604	2,441,180	116,329	28,884	145,213	2,225	2,588,618	2,188,386
Site fees	348,120	-	348,120	2,281	-	2,281	-	350,401	372,191
Participant stipends	370,932	-	370,932	-	-	-	-	370,932	310,712
Staff development	11,245	438	11,683	1,644	329	1,973	147	13,803	8,867
Insurance and bonding	5,810	5,613	11,423	1,164	606	1,770	1,892	15,085	18,128
Equipment rental and maintenance/building maintenance	15,321	20,371	35,692	14,868	1,963	16,831	6,865	59,388	38,557
Accounting and legal	-	-	-	35,536	-	35,536	-	35,536	19,780
Memberships and subscriptions	1,544	1,598	3,142	20,396	1,437	21,833	538	25,513	23,241
Postage	4,871	1,345	6,216	1,702	1,351	3,053	453	9,722	8,643
Printing and mailing services	48,705	1,330	50,035	254	1,014	1,268	448	51,751	28,111
Supplies - office and programs/off-site program meals	46,961	10,441	57,402	8,603	84	8,687	3,519	69,608	64,590
Telephone and internet	13,247	1,936	15,183	4,139	989	5,128	652	20,963	20,618
Travel	505,862	1,086	506,948	28,121	2,119	30,240	366	537,554	294,287
Advertising and marketing	29,481	3,809	33,290	3,484	-	3,484	1,284	38,058	35,586
License and permits	-	1,515	1,515	-	-	-	511	2,026	1,212
Interest and investment	-	3,592	3,592	4,128	712	4,840	1,211	9,643	7,142
Food services, conference center housekeeping	-	51,802	51,802	228	-	228	17,458	69,488	69,747
Internal use of conference center	84,913	(76,525)	8,388	14,843	2,559	17,402	(25,790)	-	-
Utilities	14,124	23,515	37,639	7,457	1,401	8,858	7,925	54,422	50,425
Minor furnishings	864	746	1,610	11,054	26	11,080	251	12,941	10,556
Miscellaneous	267	19	286	353	-	353	6	645	462
Total expenses before depreciation and amortization	7,571,775	274,764	7,846,539	864,906	166,750	1,031,656	92,598	8,970,793	7,559,803
Depreciation and amortization	28,269	46,508	74,777	6,676	3,118	9,794	15,674	100,245	101,429
Total expenses before removal of nonprogram conference center rental costs	7,600,044	321,272	7,921,316	871,582	169,868	1,041,450	108,272	9,071,038	7,661,232
Conference center rental costs - nonprogram	-	-	-	-	-	-	(108,272)	(108,272)	(62,437)
Total expenses	\$ 7,600,044	\$ 321,272	\$ 7,921,316	\$ 871,582	\$ 169,868	\$ 1,041,450	\$ -	\$ 8,962,766	\$ 7,598,795

See accompanying notes to financial statements.

## MINNESOTA HUMANITIES CENTER

### STATEMENT OF CASH FLOWS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

#### Increase (Decrease) in Cash

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 5,471,292	\$ 1,027,726
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation and amortization	100,246	101,429
Loss (gain) on investments	21,940	(21,977)
Capital campaign contributions	(85,425)	-
Reinvestment of interest and dividends	(62,967)	(29,130)
Changes in operating assets and liabilities:		
Accounts receivable	(53,778)	3,537
Contributions receivable	(8,930,190)	3,719,214
Government grants receivable	3,410,193	(3,943,481)
Prepaid expenses	8,331	(5,332)
Accounts payable	179,537	22,918
Deferred revenue	(590)	(2,196)
Accrued expenses	183,098	(32,224)
Net cash from operating activities	241,687	840,484
Cash flows from investing activities:		
Purchase of land, building and equipment	(109,723)	(38,181)
Purchase of investments	(3,770,868)	(3,653,862)
Sale and maturity of investments	3,570,694	2,950,647
Net cash from investing activities	(309,897)	(741,396)
Cash flows from financing activities:		
Capital campaign contributions	20,015	-
Payments on debt	(3,515)	(3,515)
Net cash from financing activities	16,500	(3,515)
Net increase (decrease) in cash	(51,710)	95,573
Cash, beginning of year	416,504	320,931
Cash, end of year	\$ 364,794	\$ 416,504

See accompanying notes to financial statements.



# MINNESOTA HUMANITIES CENTER

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

### 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 21<sup>st</sup> 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, 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, MHC managed a Healthy Eating program and Veteran's Defense Project for the State of Minnesota.

(Continued)

# MINNESOTA HUMANITIES CENTER

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

### 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** - Net assets, support and revenue, and gains and losses are classified based on donor-imposed restrictions. Accordingly, net assets of MHC 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 MHC 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.

**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.

**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, 2018 and 2017.

(Continued)

# MINNESOTA HUMANITIES CENTER

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

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

**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.

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.

(Continued)

# MINNESOTA HUMANITIES CENTER

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

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

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, 2020) for grant close-outs.

**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 as to purposes by the donor are recorded as temporarily restricted until the appropriate future period or the donor restriction is satisfied.

**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 photography services and goods valued at \$4,315 for the year ended October 31, 2017. 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. All other expenses for its programs and supporting services are allocated based upon personnel or square footage utilization.

**Advertising Costs** - Advertising costs are expensed as incurred. Advertising expenses were \$38,058 and \$35,586 for the years ended October 31, 2018 and 2017.

**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, 2018 and 2017.

**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.

(Continued)

## MINNESOTA HUMANITIES CENTER

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

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

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, 2017, from which the summarized information was derived.

#### 3. **CONTRIBUTIONS AND GOVERNMENT GRANTS RECEIVABLE**

Contributions and government grants receivable are expected to be collected in 2019 with the exception of \$4,412,634 from an anonymous donor and a \$50,000 grant receivable which is expected to be collected in 2020.

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.

#### 4. **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, 2018 and 2017.

(Continued)

## MINNESOTA HUMANITIES CENTER

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

#### 5. INVESTMENTS

Investments were comprised of the following at October 31:

	<u>2018</u>	<u>2017</u>
Brokerage bank account	\$ 252,657	\$ 252,676
Brokerage sweeps account	381,157	655,168
Money market funds	900,755	-
Exchange traded funds	33,713	34,937
Negotiable certificates of deposit	<u>4,240,957</u>	<u>4,625,257</u>
	<u>\$5,809,239</u>	<u>\$5,568,038</u>

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

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 64,568	\$ 31,676
Realized and unrealized gains (losses)	<u>(34,513)</u>	<u>21,977</u>
	<u>\$ 30,055</u>	<u>\$ 53,653</u>

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

#### 6. 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.

(Continued)

**MINNESOTA HUMANITIES CENTER**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

**6. FAIR VALUE MEASUREMENTS (Continued)**

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:

	Level 1	Level 2	Total
<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	-	4,240,957	4,240,957
	\$ 1,568,282	\$ 4,240,957	\$ 5,809,239
<u>October 31, 2017:</u>			
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	-	4,625,257	4,625,257
	\$ 942,781	\$ 4,625,257	\$ 5,568,038

(Continued)

# MINNESOTA HUMANITIES CENTER

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

### 6. FAIR VALUE MEASUREMENTS (Continued)

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.

### 7. LONG-TERM DEBT

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

	2018	2017
Phalen Shores LLC	\$ 3,514	\$ 7,029
Less current maturities	(3,514)	(3,515)
Long-term debt	\$ -	\$ 3,514

**Phalen Shores LLC** - 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 final payment due November 1, 2019. Unsecured.

### 8. NET ASSETS

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

	2018	2017
Property and equipment	\$ 1,403,984	\$ 1,380,366
Capital campaign	200,000	-
	\$ 1,603,984	\$ 1,380,366

(Continued)



## MINNESOTA HUMANITIES CENTER

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

#### 8. NET ASSETS (Continued)

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

	2018	2017
Absent Narratives program work/professional development programs for teachers and school districts	\$ 12,239,455	\$ 3,588,495
State of Minnesota operating grant	257,617	625,000
State of Minnesota arts and cultural heritage funds	1,394,116	2,271,651
State of Minnesota veteran's programming	178,895	426,764
Civics Education arts and cultural heritage funds	401,620	539,119
Healthy Eating arts and cultural heritage funds	115,910	441,282
Children's Museums arts and cultural heritage funds	876,089	1,927,787
Council of Disabilities arts and cultural heritage funds	-	68,606
MN Public Radio media initiative	64,701	-
Minnesota Pollution Control	123,138	-
Why Treaties Matter	152,885	245,436
Cultural Athletic Courts	-	74,702
Somali Community and Museum	207,913	397,967
Rondo Commemorative Plaza	-	46,386
Many Voices: One State capital campaign	85,425	-
Women Veterans Initiative	8,657	11,286
Veteran's Voices programming	111,758	293,192
Water Ways project	151,123	60,222
Other	15,279	2,497
	\$ 16,384,581	\$ 11,020,392
Total		

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

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

(Continued)

# MINNESOTA HUMANITIES CENTER

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

### 8. NET ASSETS (Continued)

**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>2018</u>	<u>2017</u>
Program expenditures	\$ 7,374,958	\$ 5,901,996
Elapsed time restriction	<u>367,383</u>	<u>358,333</u>
	<u>\$ 7,742,341</u>	<u>\$6,260,329</u>

### 9. OPERATING LEASES

MHC leases a copier under a five-year operating lease that began February 2016. Total leased equipment expenses were \$10,281 and \$9,897 for the years ended October 31, 2018 and 2017. 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 2019 through 2021 are \$2,664 per year.

### 10. 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, 2018, the Board approved a 4% discretionary contribution. 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. Contributions were \$114,258 for the year ended October 31, 2017.

### 11. 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, 2018, deposits of \$228,710 exceeded federally insured limits.

(Continued)

# MINNESOTA HUMANITIES CENTER

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

### 12. 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.

### 13. MAJOR SOURCES OF SUPPORT AND REVENUE

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

	2018	2017
National Endowment for the Humanities	\$ 856,489	\$ 816,791
State of Minnesota	-	7,154,250
Anonymous donor	12,596,336	-

### 14. ENDOWMENT

Minnesota Humanities Center's endowment consists of an investment fund established to honor one or more Minnesota Historians annually. 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.

**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.

(Continued)

**MINNESOTA HUMANITIES CENTER**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

**14. ENDOWMENT (Continued)**

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, 2018, follow:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 2,594	\$ 50,000	\$ 52,594
Investment income, net	-	456	-	456
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 3,050</u>	<u>\$ -</u>	<u>\$ 53,050</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 16	\$ 50,000	\$ 50,016
Investment income, net	-	2,578	-	2,578
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,594</u>	<u>\$ 50,000</u>	<u>\$ 52,594</u>

(Continued)

## MINNESOTA HUMANITIES CENTER

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

#### 14. ENDOWMENT (Continued)

**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.

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, 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.

#### 15. COMMITMENTS

MHC has approximately \$1,400,000 in contracts related to its Absent Narratives work with a cumulative total of approximately \$1,000,000 remaining at October 31, 2018.

(Continued)

## MINNESOTA HUMANITIES CENTER

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended October 31, 2018  
(With Comparative Totals for 2017)

#### 16. CAPITAL CAMPAIGN

In 2018, MHC initiated a capital campaign entitled “Many Voices, One State.” The campaign celebrates the 50<sup>th</sup> 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. Neither of these have been recorded in the financial statements due to the conditional nature.

MHC has contracted with an architectural firm for building preservation services. The total amount of contracts at October 31, 2018, was \$75,000 of which a payment of \$18,000 had been made.

#### 17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 3, 2019, the date the financial statements were available to be issued.