



MINNESOTA HUMANITIES CENTER

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
OCTOBER 31, 2021**



MINNESOTA HUMANITIES CENTER

FINANCIAL STATEMENTS

For the Year Ended October 31, 2021
(With Comparative Totals for 2020)

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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, 2021, 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, 2021, 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 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 23, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2020, 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 March 13, 2023, 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, PA

March 13, 2023

MINNESOTA HUMANITIES CENTER

STATEMENT OF FINANCIAL POSITION

October 31, 2021
(With Comparative Totals for 2020)

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 339,185	\$ 346,389
Accounts receivable	57,679	10,298
Contributions receivable - current	78,727	5,197,327
Government grants receivable - current	13,469,796	291,877
Prepaid expenses	10,500	23,318
Total current assets	13,955,887	5,869,209
Land lease	235,000	235,000
Building	2,661,417	2,674,823
Construction in progress	2,229,985	77,108
Office equipment and furniture	796,350	810,790
Total land, building and equipment	5,922,752	3,797,721
Less accumulated depreciation and amortization	(2,527,666)	(2,460,370)
Net land, building and equipment	3,395,086	1,337,351
Other assets:		
Cash - capital campaign	-	537,077
Contributions receivable - capital campaign	60,000	408,310
Investments	4,976,134	7,276,180
Investments - endowment	79,402	62,772
Total other assets	5,115,536	8,284,339
Total assets	\$ 22,466,509	\$ 15,490,899
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 149,126	\$ 91,162
Construction payable	800,150	7,277
Grants payable	124,795	-
Current maturities of long-term debt	14,430	-
Deferred revenue	576	7,000
Accrued expenses	297,984	332,948
Paycheck Protection Program loan payable	-	56,900
Total current liabilities	1,387,061	495,287
Long-term debt	109,833	-
Total liabilities	1,496,894	495,287
Net assets:		
Without donor restrictions		
Undesignated	273,849	1,730,630
Designated	2,720,673	1,560,525
Total net assets without donor restrictions	2,994,522	3,291,155
With donor restrictions	17,975,093	11,704,457
Total net assets	20,969,615	14,995,612
Total liabilities and net assets	\$ 22,466,509	\$ 15,490,899

See accompanying notes to financial statements.

MINNESOTA HUMANITIES CENTER

STATEMENT OF ACTIVITIES

For the Year Ended October 31, 2021
(With Comparative Totals for 2020)

	2021		Total	2020
	Without donor restrictions	With donor restrictions		
Support and revenue:				
Support:				
Contributions	\$ 88,605	\$ 1,908,104	\$ 1,996,709	\$ 137,096
Event sponsorship	-	-	-	3,000
Government grants:				
Federal grants	1,473,430	-	1,473,430	1,276,202
PPP loan forgiveness	56,900	-	56,900	-
Other governmental agencies	431	10,950,000	10,950,431	415,041
Revenue:				
Conference center rental income - program related	68,066	-	68,066	130,386
Conference center rental income - non-program related	-	-	-	21,877
Conference center rental costs - non-program related	-	-	-	(60,120)
Program revenue	179,746	-	179,746	82,483
Investment income	9,946	16,630	26,576	69,030
Miscellaneous	16,830	-	16,830	3,033
Net assets released from restrictions	6,643,119	(6,643,119)	-	-
Total support and revenue	8,537,073	6,231,615	14,768,688	2,078,028
Expenses:				
Program services:				
MHC Educational programs	6,926,304	-	6,926,304	6,785,948
Conference center rental costs - program related	320,780	-	320,780	358,943
Total program costs	7,247,084	-	7,247,084	7,144,891
Supporting services:				
Management and general	835,047	-	835,047	816,674
Fundraising	176,892	-	176,892	70,557
Total supporting services	1,011,939	-	1,011,939	887,231
Total expenses	8,259,023	-	8,259,023	8,032,122
Change in net assets before nonoperating	278,050	6,231,615	6,509,665	(5,954,094)
Loss from fraud	(574,683)	-	(574,683)	-
Capital campaign contributions	-	39,021	39,021	169,046
Change in net assets	(296,633)	6,270,636	5,974,003	(5,785,048)
Net assets, beginning of year	3,291,155	11,704,457	14,995,612	20,780,660
Net assets, end of year	\$ 2,994,522	\$ 17,975,093	\$ 20,969,615	\$ 14,995,612

See accompanying notes to financial statements.

MINNESOTA HUMANITIES CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended October 31, 2021
(With Comparative Totals for the 2019)

	2021							
	Program Services			Supporting Services			Totals	
	MHC	Conference	Total	Management	Fundraising	Total		
	Educational	Center Rental	Program				and General	Supporting
Programs	Costs - Program	Services			Services	2021	2020	
	Related							
Salaries and temporary help	\$ 1,239,068	\$ 119,150	\$ 1,358,218	\$ 425,308	\$ 93,987	\$ 519,295	\$ 1,877,513	\$ 1,922,559
Payroll taxes	86,568	7,439	94,007	41,085	6,442	47,527	141,534	132,598
Employee benefits	338,854	59,676	398,530	127,877	28,171	156,048	554,578	470,393
Total employee compensation	1,664,490	186,265	1,850,755	594,270	128,600	722,870	2,573,625	2,525,550
Regrant expense	2,485,665	-	2,485,665	-	-	-	2,485,665	2,048,335
Contract services	2,309,364	14,300	2,323,664	139,628	5,554	145,182	2,468,846	2,532,641
Site fees	12,764	-	12,764	-	-	-	12,764	199,573
Participant stipends	211,550	-	211,550	-	-	-	211,550	190,910
Staff development	2,132	40	2,172	4,028	-	4,028	6,200	4,862
Insurance and bonding	7,204	10,238	17,442	2,528	758	3,286	20,728	17,436
Equipment rental and maintenance/building maintenance	15,042	4,238	19,280	4,106	3,308	7,414	26,694	35,260
Accounting and legal	1,018	-	1,018	19,800	14,829	34,629	35,647	36,016
Memberships and subscriptions	3,534	2,005	5,539	28,169	-	28,169	33,708	30,140
Postage	5,068	687	5,755	1,040	931	1,971	7,726	6,962
Printing and mailing services	25,873	543	26,416	413	1,654	2,067	28,483	26,781
Supplies - office and programs/off-site program meals	8,681	4,549	13,230	6,751	273	7,024	20,254	56,075
Telephone and internet	8,541	1,510	10,051	3,297	532	3,829	13,880	15,850
Travel	5,506	476	5,982	1,677	242	1,919	7,901	120,694
Advertising and marketing	105,114	5,349	110,463	4,753	882	5,635	116,098	42,977
License and permits	11	1,371	1,382	3	1	4	1,386	1,472
Interest and investment	287	865	1,152	8,354	949	9,303	10,455	8,208
Food services, conference center housekeeping	2,666	12,396	15,062	-	-	-	15,062	18,505
Internal use of conference center	14,890	(19,212)	(4,322)	3,229	1,093	4,322	-	-
Utilities	11,029	26,166	37,195	3,349	1,038	4,387	41,582	44,864
Minor furnishings	-	1,100	1,100	650	8,863	9,513	10,613	11,127
Cost of goods sold	-	-	-	-	-	-	-	17,171
Miscellaneous	469	6,686	7,155	-	359	359	7,514	8,037
Total expenses before depreciation and amortization	6,900,898	259,572	7,160,470	826,045	169,866	995,911	8,156,381	7,999,446
Depreciation and amortization	25,406	61,208	86,614	9,002	7,026	16,028	102,642	92,796
Total expenses before removal of nonprogram conference center rental costs	6,926,304	320,780	7,247,084	835,047	176,892	1,011,939	8,259,023	8,092,242
Conference center rental costs - nonprogram	-	-	-	-	-	-	-	(60,120)
Total expenses	\$ 6,926,304	\$ 320,780	\$ 7,247,084	\$ 835,047	\$ 176,892	\$ 1,011,939	\$ 8,259,023	\$ 8,032,122

See accompanying notes to financial statements.

MINNESOTA HUMANITIES CENTER

STATEMENT OF CASH FLOWS

For the Year Ended October 31, 2021

(With Comparative Totals for 2020)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 5,974,003	\$ (5,785,048)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation and amortization	102,642	92,796
Loss (gain) on investments	25,266	(11,906)
Capital campaign contributions	(39,021)	(169,046)
PPP loan forgiveness	(56,900)	-
Reinvestment of interest and dividends	(44,461)	(45,477)
Changes in operating assets and liabilities:		
Accounts receivable	(47,381)	67,354
Contributions receivable	5,118,600	7,215,224
Government grants receivable	(13,177,919)	(108,978)
Prepaid expenses	12,818	(11,189)
Accounts and grants payable	182,759	(352,559)
Deferred revenue	(6,424)	5,241
Accrued expenses	(34,964)	78,263
Net cash from operating activities	(1,990,982)	974,675
Cash flows from investing activities:		
Purchase of land, building and equipment	(1,367,504)	(83,275)
Purchase of investments	(1,898,312)	(4,420,362)
Sale and maturity of investments	4,200,923	3,300,792
Net cash from investing activities	935,107	(1,202,845)
Cash flows from financing activities:		
Capital campaign contributions	387,331	162,916
Proceeds from issuance of long-term debt	135,000	56,900
Payments on long-term debt	(10,737)	-
Net cash from financing activities	511,594	219,816
Net decrease in cash	(544,281)	(8,354)
Cash, beginning of year	883,466	891,820
Cash, end of year	\$ 339,185	\$ 883,466
Reconciliation to the statement of financial position:		
Cash and cash equivalents	\$ 339,185	\$ 346,389
Cash - capital campaign	-	537,077
Total cash	\$ 339,185	\$ 883,466
Noncash investing and financing activity:		
Land, building and equipment additions included in accrued expenses	\$ 800,150	\$ 7,277

See accompanying notes to financial statements.

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2021
(With Comparative Totals for 2020)

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 (NEH), 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 Children's Museums throughout Minnesota, four Hmong Cultural Heritage grants, six Somali Cultural Heritage grants, eleven Cultural Identity grants, three Minnesota Civic Education Coalition grants, two Community Partner grants, and 82 NEH CARES grants. In addition, MHC administers the Healthy Eating Program.

(Continued)

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2021
(With Comparative Totals for 2020)

1. ORGANIZATION (Continued)

Conference Center Rental: In addition to its Educational 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. The governing board has designated, from net assets without donor restrictions, net assets for restrictive purposes.
- *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 - 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 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, 2021
(With Comparative Totals for 2020)

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, 2021 and 2020.

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 computed using 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. Absent explicit donor restrictions regarding how long contributed assets must be used, MHC reports expiration of donor restrictions when the donated or acquired assets are placed in service.

Deferred Revenue - Deferred revenue includes revenues that will be recognized in a future period such as prepayment of program services, Event Center deposits for future client events, advances on contracts, and other exchange transactions received prior to the incurrence of the related costs.

Grants from Governmental Agencies - Federal government grants funds are accounted for as contributions and are considered conditional based upon certain performance requirements and/or the incurrence of allowable qualifying expenses. For reimbursement grants, revenue is earned when eligible expenditures, as defined in each grant or contract, are incurred. Funds received but not yet earned are shown as refundable advances. 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, 2021
(With Comparative Totals for 2020)

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. 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 2021, multi-year grants of \$10,950,000 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, 2021, through June 30, 2024, as the legislation permits an additional twelve months past the end of the state fiscal year 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. No contributed materials or services were recorded for the year ended October 31, 2021 and 2020.

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 costs.

(Continued)

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2021
(With Comparative Totals for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs - Advertising costs are expensed as incurred. Advertising expenses were \$116,098 and \$42,977 for the years ended October 31, 2021 and 2020.

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, 2021 and 2020.

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 began 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, 2020, from which the summarized information was derived.

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MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2021
(With Comparative Totals for 2020)

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.

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:

	2021	2020
Cash and equivalents	\$ 339,185	\$ 346,389
Accounts receivable	57,679	10,928
Contributions receivable - current	78,727	5,197,327
Government grants receivable – current	13,343,818	291,877
Investments	4,976,134	7,276,180
 Total financial assets	 18,795,543	 13,122,701
 Less amounts not available to be used within one year:		
Contributions receivable for Healthy Eating Here at Home grant	-	(150,000)
Contributions receivable for Legacy grants	(12,975,000)	(4,706,000)
 Total financial assets available within one year after donor restrictions and Board designations	 \$ 5,820,543	 \$ 8,266,701

4. CONTRIBUTIONS AND GOVERNMENT GRANTS RECEIVABLE

Contributions and government grants receivable of \$13,422,545 are expected to be collected in 2022, and \$60,000 in 2023.

(Continued)

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2021
(With Comparative Totals for 2020)

4. CONTRIBUTIONS AND GOVERNMENT GRANTS RECEIVABLE (Continued)

At October 31, 2021, MHC has government grants with remaining commitments of \$1,140,407 that are conditional upon incurring eligible expenditures or performing certain services in accordance with the corresponding grant agreements. Conditional contributions are not recognized in the financial statements until the conditions have been met.

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.

5. LAND USE

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, 2021 and 2020.

6. INVESTMENTS

Investments were comprised of the following at October 31:

	2021	2020
Brokerage bank account	\$ 253,669	\$ 253,710
AG deposit account	2,577,957	1,939,142
Money market funds	502,325	502,369
Exchange traded funds	53,604	40,630
Negotiable certificates of deposit	1,667,981	4,603,101
	<u>\$ 5,055,536</u>	<u>\$ 7,338,952</u>

(Continued)

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2021
(With Comparative Totals for 2020)

6. INVESTMENTS (Continued)

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

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 51,842	\$ 80,936
Realized and unrealized gains (losses)	<u>(25,266)</u>	<u>(11,906)</u>
	<u>\$ 26,576</u>	<u>\$ 69,030</u>

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

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.

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7. FAIR VALUE MEASUREMENTS (Continued)

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

	Level 1	Level 2	Total
<u>October 31, 2021:</u>			
Brokerage bank account	\$ 253,669	\$ -	\$ 253,669
Exchange traded funds	53,604	-	53,604
AG deposit account	2,577,957	-	2,577,957
Money market	502,325	-	502,325
Negotiable certificates of deposit	-	1,667,981	1,667,981
	<u>\$ 3,387,555</u>	<u>\$ 1,667,981</u>	<u>\$ 5,055,536</u>
 <u>October 31, 2020:</u>			
Brokerage bank account	\$ 253,710	\$ -	\$ 253,710
Exchange traded funds	40,630	-	40,630
AG deposit account	1,939,142	-	1,939,142
Money market	502,369	-	502,369
Negotiable certificates of deposit	-	4,603,101	4,603,101
	<u>\$ 2,735,851</u>	<u>\$ 4,603,101</u>	<u>\$ 7,338,952</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.

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8. PAYCHECK PROTECTION PROGRAM LOAN PAYABLE

In May 2020, MHC received a \$56,900 unsecured loan payable to Bremer Bank with an interest rate of 1%. The note is funded through the Paycheck Protection Program (PPP), a program developed by the Federal government in response to the COVID-19 pandemic. All or a portion of this note was forgivable if MHC uses the proceeds from the note for payroll costs and other expenses in accordance with the requirements of the PPP. If the proceeds were not used in accordance with the PPP guidelines, the note was required to be repaid with monthly principal and interest payments beginning November 1, 2020, through May 1, 2022, the date all outstanding principal and interest were due. The loan was fully forgiven during the year ending October 31, 2021.

9. LONG-TERM DEBT

Long-term debt consists of a STAR note payable to City of St. Paul for building rehabilitation in the original amount of \$135,000 dated February 1, 2021, with 1% interest. Principal and interest payments are due monthly in the amount of \$1,314.

Future maturities for the years ending October 31 are as follows:

2022	\$	14,430
2023		14,575
2024		14,722
2025		14,869
2026		15,018
Thereafter		50,648
		\$ 124,263

10. NET ASSETS

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

	2021	2020
Property and equipment	\$ 2,470,673	\$ 1,310,525
Capital campaign	250,000	250,000
	\$ 2,720,673	\$ 1,560,525

(Continued)

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10. NET ASSETS (Continued)

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

	2021	2020
Absent Narratives program work/professional development programs for teachers and school districts	\$ 3,805,207	\$ 4,864,958
State of Minnesota operating grant	538,576	244,824
State of Minnesota arts and cultural heritage funds	3,217,150	1,718,195
Civics Education arts and cultural heritage funds	368,583	240,318
Healthy Eating arts and cultural heritage funds	538,786	159,007
Children’s Museums arts and cultural heritage funds	2,287,855	1,703,807
Community identity and heritage - Hmong	71,646	119,443
Community identity and heritage - Somali	112,396	177,869
Community identity and heritage	5,685,412	1,025,253
Minnesota Pollution Control	126,575	202,253
Why It Matters – Civic and Electoral Participation	10,620	50,000
Many Voices: One State capital campaign	1,061,515	1,022,495
Women Veterans Initiative	11,258	9,514
Veteran’s Voices programming	35,233	36,249
Water Ways project	24,879	67,500
Endowment	79,402	62,772
	\$ 17,975,093	\$ 11,704,457
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.

(Continued)

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10. 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>2021</u>	<u>2020</u>
Program expenditures	\$ 6,186,872	\$ 6,020,459
Elapsed time restriction	<u>456,247</u>	<u>380,177</u>
	<u>\$ 6,643,119</u>	<u>\$ 6,400,636</u>

11. OPERATING LEASES

MHC leases a copier under a five-year operating lease. Total leased equipment expenses were \$10,176 and \$9,996 for the years ended October 31, 2021 and 2020. 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 2021 through 2024 are \$3,588 per year.

12. 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, 2021, the Board approved a 4% discretionary contribution. Total matching contributions were \$64,669; accrued discretionary contributions were \$68,719; for a total expense of \$138,388 for the year ended October 31, 2021. Total matching contributions were \$62,159; accrued discretionary contributions were \$68,429; for a total expense of \$130,588 for the year ended October 31, 2020.

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13. 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, 2021 and 2020, deposits of \$293,866 and \$848,730 exceeded federally insured limits.

14. 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.

15. MAJOR SOURCES OF SUPPORT AND REVENUE

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

	<u>2021</u>	<u>2020</u>
National Endowment for the Humanities	\$ 1,347,452	\$ 1,276,202
State of Minnesota	10,950,000	-

Government grants receivable of \$12,975,000 are from the State of Minnesota.

16. 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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16. 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, 2021, follow:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 62,772	\$ 62,772
Investment income, net	-	16,630	16,630
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 79,402</u>	<u>\$ 79,402</u>

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16. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended October 31, 2020, follow:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 58,885	\$ 58,885
Investment income, net	-	3,887	3,887
Endowment net assets, end of year	\$ -	\$ 62,772	\$ 62,772

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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17. CAPITAL CAMPAIGN

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 \$1M 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, 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. Funds of \$135,000 have been advanced against the loan as of October 31, 2021. The remaining funds are expected to be drawn in 2022.

In October 2020, MHC was awarded \$750,000 of additional state bonding for asset preservation. The bonding contracts are expected to be finalized in 2022.

In 2020, MHC entered into construction and architect contracts totaling \$1,489,224 for the building’s preservation work. Construction change orders of \$1,656,946 have been added. It is estimated it will be completed in the year ending October 31, 2022.

18. COMMITMENTS

MHC has approximately \$909,000 in contracts related to its Absent Narratives work with a cumulative total of approximately \$740,500 remaining at October 31, 2021.

19. COVID-19

A nationwide public health emergency began developing in 2020. The state of Minnesota has enacted 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.

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19. **COVID-19 (Continued)**

The immediate impact on the MHC's operations included the following:

- Temporary closure of the event center
- Suspension of MHC's in-person program related group offerings
- Development and implementation of virtual program offerings
- Instruction from Minnesota Management and Budget placed 14% holdback on all 2021 Legacy appropriations; these funds were released after July 1, 2021
- Receipt of PPP loan and related forgiveness

The future potential impact of these issues is unknown.

20. **LOSS FROM FRAUD**

During the year, MHC was fraudulently induced to transfer funds into the purported bank account of its construction vendor. The fraud was accomplished when a senior management official's email account was hacked by a third party. The cumulative amount of the transfers was approximately \$575,000. No governmental funds were impacted.

21. **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 13, 2023, the date the financial statements were available to be issued.