



**MINNESOTA HUMANITIES CENTER**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
OCTOBER 31, 2022**



**MINNESOTA HUMANITIES CENTER**

**FINANCIAL STATEMENTS**

For the Year Ended October 31, 2022

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to the Financial Statements	8



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Minnesota Humanities Center  
Saint Paul, Minnesota

### Opinion

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in their net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Minnesota Humanities Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Minnesota Humanities Center's ability to continue as a going concern within one year after the date that the statements are available to be issued.

(Continued)

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Minnesota Humanities Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Minnesota Humanities Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated.

(Continued)

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 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.

November 3, 2023

*Mahoney Ulbrich*  
*Christiansen & Russ, PA*

**MINNESOTA HUMANITIES CENTER**

STATEMENT OF FINANCIAL POSITION

October 31, 2022

ASSETS

Cash and cash equivalents	\$	228,277
Accounts receivable		133,802
Contributions receivable - current		196,150
Government grants receivable		8,666,335
Prepaid expenses		200
Total current assets		9,224,764
Land use		341,600
Building		5,864,124
Office equipment and furniture		851,262
Total land, building and equipment		7,056,986
Less accumulated depreciation and amortization		(2,585,174)
Net land, building and equipment		4,471,812
Other assets:		
Contributions receivable - capital campaign		100,000
Investments		2,629,110
Investments - endowment		64,613
Total other assets		2,793,723
Total assets	\$	16,490,299

LIABILITIES AND NET ASSETS

Accounts payable	\$	57,400
Grants payable		231,843
Current maturities of long-term debt		14,575
Deferred revenue		1,703
Accrued expenses		206,382
Total current liabilities		511,903
Long-term debt		95,246
Total liabilities		607,149
Net assets:		
Without donor restrictions		
Undesignated		216,401
Designated		4,026,084
Total net assets without donor restrictions		4,242,485
With donor restrictions		11,640,665
Total net assets		15,883,150
Total liabilities and net assets	\$	16,490,299

See accompanying notes to financial statements.

**MINNESOTA HUMANITIES CENTER**

STATEMENT OF ACTIVITIES

For the Year Ended October 31, 2022

	Without donor restrictions	With donor restrictions	Total
Support and revenue:			
Support:			
Contributions	\$ 151,074	\$ 195,000	\$ 346,074
Government grants:			
Federal grants	1,917,350	-	1,917,350
Revenue:			
Conference center rental income - program related	175,832	-	175,832
Conference center rental income - non-program related	68,382	-	68,382
Conference center rental costs - non-program related	(122,081)	-	(122,081)
Program revenue	222,064	-	222,064
Investment income (loss)	8,395	(14,789)	(6,394)
Net assets released from restrictions	5,694,723	(5,694,723)	-
Total support and revenue	8,115,739	(5,514,512)	2,601,227
Expenses:			
Program services:			
MHC Educational programs	7,936,516	-	7,936,516
Conference center rental costs - program related	259,885	-	259,885
Total program costs	8,196,401	-	8,196,401
Supporting services:			
Management and general	922,421	-	922,421
Fundraising	216,789	-	216,789
Total supporting services	1,139,210	-	1,139,210
Total expenses	9,335,611	-	9,335,611
Change in net assets before nonoperating	(1,219,872)	(5,514,512)	(6,734,384)
Return of advanced grant funds	(34,931)	(100,000)	(134,931)
Net assets released from restrictions - capital	1,061,516	(1,061,516)	-
City of St. Paul - land use	-	341,600	341,600
Write off land lease	(153,553)	-	(153,553)
Capital campaign contributions and government grants	1,720,778	-	1,720,778
Change in net assets	1,373,938	(6,334,428)	(4,960,490)
Net assets, beginning of year	2,868,547	17,975,093	20,843,640
Net assets, end of year	\$ 4,242,485	\$ 11,640,665	\$ 15,883,150

See accompanying notes to financial statements.

MINNESOTA HUMANITIES CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended October 31, 2022

	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		
Salaries and temporary help	\$ 1,050,224	\$ 90,678	\$ 1,140,902	\$ 426,931	\$ 93,441	\$ 520,372	\$ 35,264	\$ 1,696,538
Payroll taxes	77,639	8,967	86,606	24,512	6,819	31,331	3,487	121,424
Employee benefits	339,183	42,184	381,367	79,821	23,386	103,207	16,405	500,979
<b>Total employee compensation</b>	<b>1,467,046</b>	<b>141,829</b>	<b>1,608,875</b>	<b>531,264</b>	<b>123,646</b>	<b>654,910</b>	<b>55,156</b>	<b>2,318,941</b>
Regrant expense	2,961,251	-	2,961,251	-	-	-	-	2,961,251
Contract services	2,873,108	8,520	2,881,628	165,166	59,599	224,765	3,313	3,109,706
Site fees, participant stipends	258,612	-	258,612	-	-	-	-	258,612
Staff development	4,990	300	5,290	1,586	1,383	2,969	117	8,376
Insurance and bonding	6,676	7,795	14,471	10,553	730	11,283	3,032	28,786
Equipment rental and maintenance/building maintenance	45,787	10,650	56,437	100,100	1,151	101,251	4,142	161,830
Accounting and legal	-	-	-	19,551	7,621	27,172	-	27,172
Memberships and subscriptions	6,640	1,017	7,657	23,920	75	23,995	395	32,047
Postage	9,007	1,247	10,254	679	1,046	1,725	485	12,464
Printing and mailing services	10,616	1,022	11,638	-	2,434	2,434	398	14,470
Supplies - office and programs/off-site program meals	33,470	7,754	41,224	7,325	1,931	9,256	3,015	53,495
Telephone and internet	7,844	1,374	9,218	4,538	569	5,107	534	14,859
Travel	85,718	1,907	87,625	15,386	7,264	22,650	741	111,016
Advertising and marketing	54,712	3,269	57,981	4,781	3,962	8,743	1,271	67,995
License and permits	-	662	662	75	-	75	258	995
Interest and fees	7,523	1,531	9,054	15,468	737	16,205	596	25,855
Food services, conference center housekeeping	3,586	34,273	37,859	-	-	-	13,328	51,187
Internal use of conference center	50,437	(54,037)	(3,600)	3,600	-	3,600	-	-
Utilities	8,833	27,542	36,375	5,438	1,002	6,440	10,711	53,526
Minor furnishings	118	862	980	378	-	378	335	1,693
Publications	4,461	-	4,461	-	-	-	-	4,461
<b>Total expenses before depreciation and amortization</b>	<b>7,900,435</b>	<b>197,517</b>	<b>8,097,952</b>	<b>909,808</b>	<b>213,150</b>	<b>1,122,958</b>	<b>97,827</b>	<b>9,318,737</b>
Depreciation and amortization	36,081	62,368	98,449	12,613	3,639	16,252	24,254	138,955
<b>Total expenses before removal of nonprogram conference center rental costs</b>	<b>7,936,516</b>	<b>259,885</b>	<b>8,196,401</b>	<b>922,421</b>	<b>216,789</b>	<b>1,139,210</b>	<b>122,081</b>	<b>9,457,692</b>
Conference center rental costs - nonprogram	-	-	-	-	-	-	(122,081)	(122,081)
<b>Total expenses</b>	<b>\$ 7,936,516</b>	<b>\$ 259,885</b>	<b>\$ 8,196,401</b>	<b>\$ 922,421</b>	<b>\$ 216,789</b>	<b>\$ 1,139,210</b>	<b>\$ -</b>	<b>\$ 9,335,611</b>

See accompanying notes to financial statements.



# MINNESOTA HUMANITIES CENTER

## STATEMENT OF CASH FLOWS

For the Year Ended October 31, 2022

Cash flows from operating activities:	
Change in net assets	\$ (4,960,490)
Adjustments to reconcile the change in net assets to net cash from operating activities:	
Depreciation and amortization	138,955
Loss on investments	23,639
Capital campaign contributions	(1,720,778)
Reinvestment of interest and dividends	(16,424)
Changes in operating assets and liabilities:	
Accounts receivable	(76,123)
Contributions receivable	(117,423)
Government grants receivable	4,677,486
Prepaid expenses	10,300
Accounts and grants payable	15,322
Deferred revenue	1,127
Accrued expenses	(98,879)
Net cash from operating activities	<u>(2,123,288)</u>
Cash flows from investing activities:	
Purchase of land, building and equipment	(2,008,554)
Purchase of investments	(1,696,304)
Sale and maturity of investments	4,050,902
Net cash from investing activities	<u>346,044</u>
Cash flows from financing activities:	
Capital campaign contributions	1,680,778
Payments on debt	(14,442)
Net cash from financing activities	<u>1,666,336</u>
Net decrease in cash	(110,908)
Cash, beginning of year	<u>339,185</u>
Cash, end of year	<u>\$ 228,277</u>
Supplemental cash flow disclosure	
Cash paid for interest expense	<u>\$ 1,825</u>

See accompanying notes to financial statements.

# MINNESOTA HUMANITIES CENTER

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2022

### 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 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 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, 2022

### 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 and liquid securities held in its investment brokerage accounts are not considered cash equivalents.

(Continued)

# MINNESOTA HUMANITIES CENTER

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2022

### 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, 2022.

**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, 2022

### 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.

**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, 2022

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

**Advertising Costs** - Advertising costs are expensed as incurred. Advertising expenses was \$67,995 for the year ended October 31, 2022.

**Conference Center** - MHC allocates internal usage costs of the conference center to its programs or supporting services.

**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 year ended October 31, 2022.

**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.

#### 3. CONTRIBUTIONS AND GOVERNMENT GRANTS RECEIVABLE

Contributions and government grants receivable of \$8,902,485 are expected to be collected in 2023, \$30,000 in 2024, and \$30,000 in 2025.

At October 31, 2022, MHC has government grants with remaining commitments of \$2,166,827 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.

(Continued)

**MINNESOTA HUMANITIES CENTER**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2022

**4. 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:

Cash and equivalents	\$	228,277
Accounts receivable		133,802
Contributions receivable - current		196,150
Government grants receivable – current		8,666,335
Investments		<u>2,629,110</u>
Total financial assets		11,853,674
Less amounts not available to be used for general expenditures within one year:		
Contributions receivable for Legacy grants		<u>(8,099,082)</u>
Total financial assets available within one year after donor restrictions and Board designations	\$	<u><u>3,754,592</u></u>

**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 was for 30 years beginning in August 1995 with the option to renew for five periods of ten years each. Rent was \$100 per year. 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 was amortized over the expected 80-year term of the lease.

(Continued)

## MINNESOTA HUMANITIES CENTER

### NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2022

#### 5. LAND USE (Continued)

In 2018, MHC began steps to address foundational issues with the building which required significant repairs. As part of this process, substantial rehabilitation costs paid by MHC were incurred and the lease with the City was amended. The amended lease is for 20 years with 3 10-year renewal options available. There is no rent required. The land at the time of the amended lease has an assessed market value of \$341,600 and is recorded as a contribution the time the lease was signed. The use of the land will be amortized over the expected 50-year term of the amended lease. The unamortized amount (\$153,553) of the original lease was written off when the lease was amended.

The amended lease still requires the building to be used for their day-to-day administration and programs. MHC is responsible for all assessment, utilities, and insuring the building. Amortization expense was \$6,183 for the year ended October 31, 2022. Future amortization expense will be \$6,832 annually through the term of the lease.

#### 6. INVESTMENTS

Investments were comprised of the following at October 31:

Brokerage bank account	\$ 452,889
Savings deposits	1,937,021
Exchange traded funds	61,527
Negotiable certificates of deposit	242,286
	<u>\$ 2,693,723</u>

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

Interest and dividends	\$ 17,244
Realized and unrealized gains (losses)	<u>(23,638)</u>
	<u>\$ (6,394)</u>

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

(Continued)



# MINNESOTA HUMANITIES CENTER

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2022

### 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, savings deposits, 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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Brokerage bank account	\$ 452,889	\$ -	\$ 452,889
Exchange traded funds	61,527	-	61,527
Savings deposits	1,937,021	-	1,937,021
Negotiable certificates of deposit	-	242,286	242,286
	<u>\$ 2,451,437</u>	<u>\$ 242,286</u>	<u>\$ 2,693,723</u>

(Continued)

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2022

7. **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.

8. **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 \$150,000 dated February 1, 2021, with 1% interest. Principal and interest payments are due monthly in the amount of \$1,314 until maturity on February 1, 2031.

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

2023	\$ 14,575
2024	14,721
2025	14,869
2026	15,018
2027	15,170
Thereafter	<u>35,468</u>
	<u>\$ 109,821</u>

9. **NET ASSETS**

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

Building and equipment	\$ 4,026,084
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(Continued)

MINNESOTA HUMANITIES CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2022

9. NET ASSETS (Continued)

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

Absent Narratives program work/professional development programs for teachers and school districts	\$ 1,746,245
State of Minnesota arts and cultural heritage funds	8,165,261
Civics Education arts and cultural heritage funds	132,100
Healthy Eating arts and cultural heritage funds	524,947
Community identity and heritage	393,118
Civics vision in Minnesota and beyond	195,000
Minnesota Pollution Control	11,138
Why It Matters – Civic and Electoral Participation	9,980
Women Veterans Initiative	10,743
Land use	335,907
Endowment	64,613
Other	51,613
Total	<u>\$ 11,640,665</u>

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)

**MINNESOTA HUMANITIES CENTER**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2022

9. **NET ASSETS (Continued)**

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

**Released from Restrictions** - Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restriction	\$ 6,217,663
Change in value	14,789
Returned to funder	100,000
Elapsed time restriction	<u>538,576</u>
	<u>\$ 6,871,028</u>

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, 2022, the Board approved a 4% discretionary contribution. Total matching contributions were \$54,945; accrued discretionary contributions were \$64,081; for a total expense of \$119,026 for the year ended October 31, 2022.

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, 2022, deposits of \$65,320 exceeded federally insured limits.

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.

(Continued)

## MINNESOTA HUMANITIES CENTER

### NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2022

#### 13. 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

**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

(Continued)

## MINNESOTA HUMANITIES CENTER

### NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended October 31, 2022

#### 13. ENDOWMENT (Continued)

Changes in endowment net assets for the year follow:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 79,402	\$ 79,402
Investment loss, net	-	(14,789)	(14,789)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 64,613</u>	<u>\$ 64,613</u>

**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.

(Continued)

**MINNESOTA HUMANITIES CENTER**

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended October 31, 2022

**14. MAJOR SOURCES OF SUPPORT AND REVENUE**

Major sources of support and revenue were as follows:

National Endowment for the Humanities	\$ 1,917,350
State of Minnesota – capital campaign	1,696,304

Government grants receivable of \$8,099,082 are from the State of Minnesota.

**15. 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 was awarded \$1.75M of state bonding for asset preservation and has drawn \$1.6M as of October 31, 2022. The remaining funds were drawn in 2023.

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. Funds of \$135,000 have been advanced against the loan as of October 31, 2022. The remaining funds were drawn in 2023.

The building’s preservation work was completed during the year ending October 31, 2022.

**16. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 3, 2023, the date the financial statements were available to be issued.