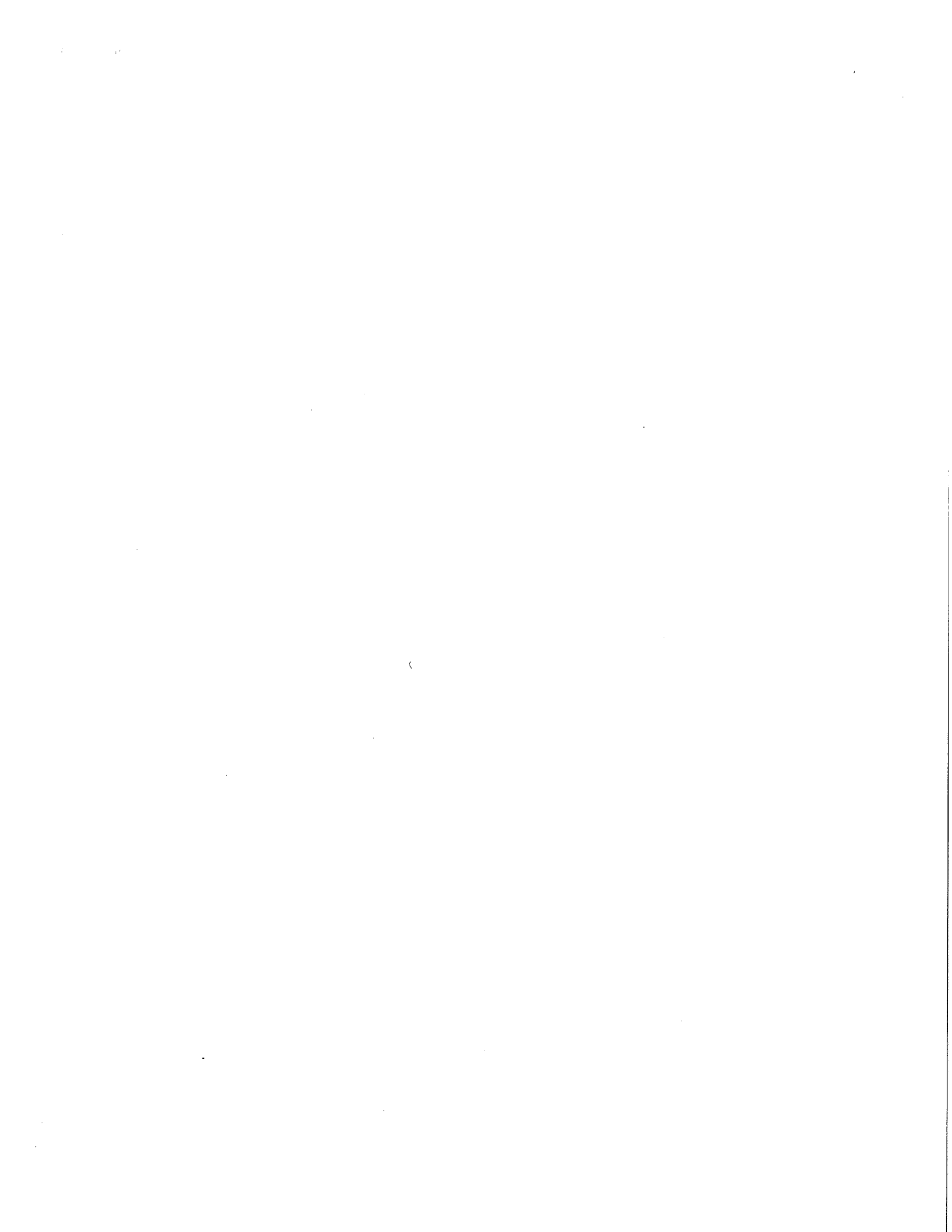


MINNESOTA HUMANITIES CENTER

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
OCTOBER 31, 2011**



MINNESOTA HUMANITIES CENTER
FINANCIAL STATEMENTS
For The Year Ended October 31, 2011
With Comparative Totals For 2010

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Minnesota Humanities Center (the Organization) as of October 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Minnesota Humanities Center's 2010 financial statements and, in our report dated February 24, 2011, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mahoney Ulbrich
Christiansen Russ P.A.*

Saint Paul, Minnesota
January 31, 2012

MINNESOTA HUMANITIES CENTER
STATEMENT OF FINANCIAL POSITION
October 31, 2011
With Comparative Amounts For October 31, 2010

	<u>2011</u>	<u>2010</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$775,155	\$82,280
Accounts receivable	77,910	77,325
Pledges receivable-current	180	733,721
Grants receivable - current	3,320,284	1,042,829
Prepaid expense	1,537	7,264
Inventory	-	7,528
Total current assets	<u>4,175,066</u>	<u>1,950,947</u>
Land, building and equipment:		
Land lease	235,000	235,000
Building	2,550,295	2,550,295
Office equipment and furniture	627,754	627,369
Total land, building and equipment	<u>3,413,049</u>	<u>3,412,664</u>
Less accumulated depreciation and amortization	<u>(1,572,909)</u>	<u>(1,457,720)</u>
Net land, building and equipment	<u>1,840,140</u>	<u>1,954,944</u>
Other assets:		
Investments	376,159	933,963
Total other assets	<u>376,159</u>	<u>933,963</u>
Total assets	<u>\$6,391,365</u>	<u>\$4,839,854</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$54,190	\$17,492
Current maturities of long-term debt	14,757	14,437
Deferred revenue	-	1,505
Accrued expenses	104,849	48,128
Total current liabilities	<u>173,796</u>	<u>81,562</u>
Long-term debt	<u>57,724</u>	<u>72,512</u>
Total liabilities	<u>231,520</u>	<u>154,074</u>
Net assets:		
Unrestricted net assets:		
Unrestricted - undesignated	696,469	673,585
Unrestricted - designated	1,840,140	1,954,944
Total unrestricted net assets	<u>2,536,609</u>	<u>2,628,529</u>
Temporarily restricted	<u>3,623,236</u>	<u>2,057,251</u>
Total net assets	<u>6,159,845</u>	<u>4,685,780</u>
Total liabilities and net assets	<u>\$6,391,365</u>	<u>\$4,839,854</u>

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

MINNESOTA HUMANITIES CENTER
STATEMENT OF ACTIVITIES
For The Year Ended October 31, 2011
With Comparative Totals For The Year Ended October 31, 2010

	2011			2010
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Support:				
Contributions	\$48,430	\$163,000	\$211,430	\$209,283
In-kind	2,981	-	2,981	182
Grants from governmental agencies:				
Federal grants	966,930	-	966,930	1,143,455
Other governmental agencies	-	3,624,000	3,624,000	7,728
Revenue:				
Investment income	3,498	-	3,498	9,607
Publication sales	1,585	-	1,585	8,344
Conference center rental income - program related	319,724	-	319,724	286,325
Conference center rental income - non-program related	45,606	-	45,606	18,244
Conference center rental costs - non-program related	(48,829)	-	(48,829)	(24,299)
Program income	73,200	-	73,200	78,562
Miscellaneous income	497	-	497	(52)
Subtotal	395,281	-	395,281	376,731
Net assets released from restrictions	2,221,015	(2,221,015)	-	-
Total support and revenue	3,634,637	1,565,985	5,200,622	1,737,379
Expenses:				
Program services:				
MHC educational programs	2,694,888	-	2,694,888	2,457,843
Conference center rental costs - program related	342,314	-	342,314	326,428
Total program services	3,037,202	-	3,037,202	2,784,271
Supporting services:				
Management and general	531,994	-	531,994	536,709
Fundraising	157,361	-	157,361	186,164
Total supporting services	689,355	-	689,355	722,873
Total expenses	3,726,557	-	3,726,557	3,507,144
Change in net assets	(91,920)	1,565,985	1,474,065	(1,769,765)
Net assets at beginning of year	2,628,529	2,057,251	4,685,780	6,455,545
Net assets at end of year	\$2,536,609	\$3,623,236	\$6,159,845	\$4,685,780

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

MINNESOTA HUMANITIES CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended October 31, 2011
With Comparative Totals For The Year Ended October 31, 2010

	2011						Totals		
	MHC Educational Programs	Program Services - Conference Center Rental Costs - Program Related	Total Program Services	Management and General	Supporting Services - Fundraising	Total Supporting Services	Conference Center Rental Costs - Non-Program	2011	2010
Expenses:									
Salaries and temporary help	\$718,935	\$142,880	\$861,815	\$306,039	\$94,279	\$400,318	\$20,381	\$1,282,514	\$1,186,492
Payroll taxes	59,737	11,266	71,003	26,634	6,944	33,578	1,607	106,188	117,373
Employee benefits and HR admin fees	154,638	40,410	195,048	50,269	26,978	77,247	5,764	278,059	329,544
Regrant expense	443,336	-	443,336	-	-	-	-	443,336	387,533
Contract services	965,733	8,182	973,915	56,938	5,117	62,055	1,168	1,037,138	798,483
Staff development	3,191	1,023	4,214	697	1,317	2,014	146	6,374	8,678
Insurance and bonding	8,656	6,972	15,628	2,135	1,109	3,244	994	19,866	17,907
Equipment rental and maintenance/bldg maint	6,431	11,838	18,269	9,332	2,534	11,866	1,688	31,823	51,531
Accounting, legal	1,188	-	1,188	19,001	-	19,001	-	20,189	22,403
Resource acquisition	-	-	-	-	-	-	-	-	35,593
Memberships and subscriptions	9,107	1,756	10,863	7,633	4,447	12,080	251	23,194	9,590
Postage	10,505	497	11,002	1,014	628	1,642	71	12,715	12,176
Printing and mailing services	31,028	275	31,303	6	-	6	39	31,348	12,830
Supplies	49,059	9,390	58,449	2,172	1,002	3,174	1,339	62,962	24,827
Telephone and internet	8,451	1,295	9,746	4,869	1,323	6,192	185	16,123	14,748
Travel	81,075	677	81,752	9,756	766	10,522	96	92,370	204,291
Advertising and marketing	14,001	2,021	16,022	353	-	353	288	16,663	13,781
License and permits	90	1,626	1,716	27	13	40	232	1,988	1,381
Interest and investment expense	4,020	987	5,007	4,386	324	4,710	141	9,858	6,022
Food services, housekeeping	-	46,935	46,935	-	-	-	6,694	53,629	47,263
Internal use of conference center	36,666	(38,041)	(1,375)	6,721	79	6,800	(5,425)	-	-
Utilities	14,030	26,706	40,736	4,196	2,056	6,252	3,810	50,798	43,945
Investment in fixed assets	18,440	518	18,958	8,929	-	8,929	74	27,961	13,155
Payment in lieu of RE tax	-	-	-	552	-	552	-	552	525
Cost of goods sold	1,052	-	1,052	-	-	-	-	1,052	62
Site fees, teacher stipends, program scholarships	17,930	-	17,930	-	-	-	-	17,930	39,361
In kind expenses - donated goods	-	-	-	-	2,981	2,981	-	2,981	182
Miscellaneous	2,708	-	2,708	50	353	403	-	3,111	945
Total expenses before depreciation and amortization	2,660,007	277,213	2,937,220	521,709	152,250	673,959	39,543	3,650,722	3,400,621
Depreciation and amortization	34,881	65,101	99,982	10,285	5,111	15,396	9,286	124,664	130,822
Total expenses before removal of nonprogram conference center rental costs	2,694,888	342,314	3,037,202	531,994	157,361	689,355	48,829	3,775,386	3,531,443
Conference center rental costs - nonprogram	-	-	-	-	-	-	(48,829)	(48,829)	(24,299)
Total Expenses	2,694,888	342,314	3,037,202	531,994	157,361	689,355	-	3,726,557	3,507,144
Allocation of principal payments	4,063	7,584	\$11,647	(13,324)	595	(\$12,729)	1,082	-	-
Total expenses after allocation of principal payments	\$2,698,951	\$349,898	\$3,048,849	\$518,670	\$157,956	\$676,626	\$1,082	\$3,726,557	\$3,507,144

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

MINNESOTA HUMANITIES CENTER
STATEMENT OF CASH FLOWS
For The Year Ended October 31, 2011
With Comparative Totals For The Year Ended October 31, 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase (Decrease) in net assets	\$1,474,065	(\$1,769,765)
Adjustments to reconcile the change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	124,664	130,822
Unrealized gain (loss)	1,499	(2,420)
(Increase) decrease in fair value of investments	(5,074)	(3,847)
(Increase) decrease in accounts receivable	(585)	3,489
(Increase) decrease in pledges receivable	733,541	1,057,122
(Increase) decrease in grants receivable	(2,277,455)	576,111
(Increase) decrease in prepaid expense	5,727	21,995
(Increase) decrease in inventory	7,528	25,384
Increase (decrease) in regrant liability	-	(5,498)
Increase (decrease) in accounts payable	36,698	(16,872)
Increase (decrease) in deferred revenue	(1,505)	-
Increase (decrease) in accrued expenses	56,721	(23,164)
Net cash provided (used) by operating activities	<u>155,824</u>	<u>(6,643)</u>
Cash flows from investing activities:		
Purchase of land, building and equipment	(9,860)	(15,135)
Purchase of investments	(438,621)	(745,130)
Sale and maturity of investments	1,000,000	445,000
Net cash provided (used) by investing activities	<u>551,519</u>	<u>(315,265)</u>
Cash flows from financing activities:		
Payments on debt	(14,468)	(14,277)
Net increase (decrease) in cash and cash equivalents	692,875	(336,185)
Cash and cash equivalents at beginning of year	<u>82,280</u>	<u>418,465</u>
Cash and cash equivalents at end of year	<u>\$775,155</u>	<u>\$82,280</u>
Interest paid	<u>\$1,371</u>	<u>\$1,561</u>

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

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For The Year Ended October 31, 2011
With Comparatative Totals For The Year Ended October 31, 2010

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Minnesota Humanities Center (The Humanities Center) is an independent, not-for-profit organization that conducts and supports cultural and educational programs throughout Minnesota. Prior to September 12, 2007, the Organization's legal name was the Minnesota Humanities Commission. The Humanities Center supports and encourages exemplary teaching and partners with other organizations to provide meaningful and engaging public humanities programming in communities state-wide. Financial support for the programs and services of the Humanities Center comes primarily from the National Endowment for the Humanities, the Minnesota State Legislature, foundation grants, corporation gifts, donations from individuals, and conference center rental.

MHC Education Programs: The Minnesota Humanities Center programs prepare schools, cultural organizations, state agencies, and other professional and community based organizations to meet the complicated needs of the 21st century. Through its Absent Narratives approach and strategy the Center puts the under-represented and untold stories and experiences of marginalized communities at the heart of school, community and organizational planning for the future of Minnesota. Whether these marginalized communities are ethnic minorities, veterans, or immigrants and refugees the Humanities 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.

Much of this work was done independently. Other work reflects the collaboration with the Humanities Center's "Legacy Funding Partners": the Council on Black Minnesotans, the Chicano Latino Affairs Council, the Minnesota Indian Affairs Council, and the Council on Asian Pacific Minnesotans. The Absent Narratives approach has brought work which used to be considered separate programs under one program entity; it permeates all activities—whether programs for teachers, development of resources for educators and communities, or community programming. The Humanities Center was also responsible for pass-thru Legacy Funding to the Minnesota Civics Education Coalition.

Conference Center Rental: In addition to the Absent Narrative Programming, the Humanities Center operates a full-service event center, as created by the State Legislature in 1996. In addition to housing programs of the Humanities Center, this restored architectural landmark serves educators, social service providers, other non-profits, state colleges and universities, and state agencies and community groups seeking to improve both their individual work and the quality of life for all Minnesotans, by providing high-quality, cost effective meeting and event space for educational and public programs and staff education and development.

B. FINANCIAL STATEMENT PRESENTATION

Net assets and revenues and gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Humanities Center and changes therein are classified and reported as follows:

Unrestricted – Resources over which the Board of Directors has discretionary control. Designated amounts represent those revenues which the Board has set aside for a particular purpose.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For The Year Ended October 31, 2011
With Comparatative Totals For The Year Ended October 31, 2010

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Humanities Center or passage of time.

Permanently Restricted – Those resources subject to donor imposed restrictions in which the donor has specified they must be maintained in perpetuity. The Humanities Center does not have any permanently restricted net assets.

C. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Humanities Center considers all highly liquid securities purchased with an original maturity of three months or less to be cash equivalents.

D. CONCENTRATION OF CREDIT RISK

The Humanities Center places its cash with multiple financial institutions. At times the amount on deposit exceeds the insured limit of the institution and exposes the Humanities Center to a credit risk. The Humanities Center believes it is not exposed to any significant risk on these funds. As of October 31, 2011, deposits exceeded the insured limit by \$785,783.

E. ACCOUNTS RECEIVABLE

Accounts receivable are stated at net realizable value. Accordingly, bad debts are provided for on the reserve method based on management's evaluation of outstanding receivables at the end of each year. When all collection efforts have been exhausted, the accounts are written off against the related allowance. As of October 31, 2011, management believes all receivables are collectible; therefore, no allowance has been recorded.

F. PLEDGES AND GRANTS RECEIVABLE

Pledges and grants that are expected to be collected within one year are recorded at their net realizable value. Pledges and grants that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge or grant is received. Amortization of the discount is included in contribution or grant revenue. Conditional pledges are not included in support until such time as the conditions are substantially met.

G. INVENTORY

Inventory is valued at the lower of cost or market, determined on a first-in, first-out basis. Inventory consisted of a publication titled Braided Lives, an anthology of multi-cultural American writing distributed for use as a classroom resource, and Somali bilingual books. All remaining publications were sold or given as book grants during the past fiscal year.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For The Year Ended October 31, 2011
With Comparatative Totals For The Year Ended October 31, 2010

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

H. LAND, BUILDING AND EQUIPMENT

All major expenditures for building improvements, furniture and equipment are capitalized at cost. 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. The capitalization threshold is \$3,000. All donated property and equipment is recorded at its fair market value. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted.

I. INVESTMENTS

The Humanities Center carries its investments at fair value. Realized and unrealized gains and losses are included in investment income in the statement of activities.

J. 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. Deferred revenue was \$0 and \$1,505 at October 31, 2011 and 2010.

K. GRANTS FROM GOVERNMENT AGENCIES

Federal government grants and contract funds are recorded as revenue when earned. For reimbursement grants, revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown as deferred revenue. Expenditures under government contracts are subject to review by the granting authority.

State government grants are awarded at the beginning of the State of Minnesota's budget cycle, which operates on a two-year cycle. Funding for the Humanities Center from the state is not reimbursement based and therefore is accounted for like contributions. Under generally accepted accounting principles, contributions are recognized as revenue when a donor makes an unconditional commitment. As a result, revenue from state funding fluctuates year-to-year depending on the year in which the state budget is adopted. Thus, two years of funding are recognized in the year the state budget is adopted.

In 2009, multi-year grants from the State of Minnesota were recorded in revenue and the unspent portion was included in temporarily restricted net assets at the end of the year. This resulted in a large positive change in net assets for the year. In 2010, those grants were released from restriction, but the revenue had been recognized in 2009, resulting in a large negative change in net assets for the year. In 2011, multi-year grants were again received from the State of Minnesota, recorded in revenue and the unspent portion included in temporarily restricted net assets at the end of the year. The unrestricted change in net assets was (\$79,750) in 2011 and (\$30,362) in 2010. This represents the operating loss for each year.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For The Year Ended October 31, 2011
With Comparatative Totals For The Year Ended October 31, 2010

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

L. 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 by the donor are recorded as temporarily restricted until the appropriate future period or the donor restriction is satisfied, respectively.

M. FUNCTIONAL ALLOCATION OF EXPENSE

Salaries and related expenses are allocated based on job descriptions and time studies. Other expenses are either directly identifiable with a program or allocated based primarily on personnel costs or space allocation.

N. ADVERTISING COSTS

Advertising expenses are expensed as incurred. Advertising expenses were \$16,663 and \$13,781 for the years ended October 31, 2011 and 2010.

O. UNEMPLOYMENT COMPENSATION

The Humanities Center has elected to self-insure unemployment tax claims. Any amounts incurred are recorded as expense when liable and estimable. Unemployment claims expense was \$11,954 and \$29,452 for the years ended October 31, 2011 and 2010.

P. TAX EXEMPT STATUS

The Humanities Center is classified as a tax-exempt organization under Minnesota Statute 290.05 and Section 501(c)(3) of the Internal Revenue Code, is exempt from private foundation status under Section 509(a)(1) of the Internal Revenue Code and is subject to income taxes only on net unrelated business income. A portion of rental activities from the conference center is subject to unrelated business income tax.

The Humanities Center has significant net operating loss carryforwards from rental activities that begin to expire in 2018. It is expected that most or all of the carryforwards will expire without being fully utilized.

Federal and state tax authorities generally have the right to examine the current and prior three years returns. The Humanities Center is not currently under examination by any taxing jurisdiction.

Q. 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.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For The Year Ended October 31, 2011
With Comparatative Totals For The Year Ended October 31, 2010

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

R. CONTRIBUTED MATERIALS

The value of other contributed materials is recorded in the financial statements at \$2,981 and \$182 and for the years ended October 31, 2011 and 2010.

S. RECLASSIFICATIONS

Reclassifications were made to the 2010 financial statements to be consistent with the current year financial statements. These reclassifications did not affect net assets or the change in net assets.

Note 2 MAJOR SOURCES OF REVENUE

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

	<u>2011</u>	<u>2010</u>
National Endowment for the Humanities	\$ 710,282	\$ 989,163
US Department of Education	256,648	153,029
State of Minnesota	3,624,000	-

Note 3 PLEDGES AND GRANTS RECEIVABLE

As of October 31, 2011, all pledges and grants receivable were due within one year. All receivables are expected to be collected; therefore, no allowance has been recorded.

Note 4 LAND LEASE

The Humanities Center leases both land and a building from the City of Saint Paul. The portion of the lease related to the building is for 30 years beginning in August 1995 with the option to renew for five periods of ten years each. Rent is \$100 per year plus minor additional amounts for insurance, assessments and fees. Due to the poor condition of the building and the extensive amount of rehabilitation costs, the fair market value of the portion of the bargain lease relating to the building was valued at \$0. The Humanities Center renovated the building as part of their capital campaign with the stipulation that the building be used for their day-to-day administration and programs. The portion of the lease attributed to the land had an appraised market value of \$235,000 and was recorded as a contribution when the lease was signed. The use of the land is amortized over the expected 80-year term of the lease. Amortization expense was \$2,938 for the years ended October 31, 2011 and 2010.

The Humanities Center has agreed to make payments in lieu of taxes to the City of Saint Paul Housing Redevelopment Authority. Commencing August 1, 1996, and continuing thereafter, a total amount of \$552 in lieu of taxes shall be paid annually. This agreement terminates August 1, 2016.

(Continued)

MINNESOTA HUMANITIES CENTER
 NOTES TO FINANCIAL STATEMENTS
 For The Year Ended October 31, 2011
 With Comparatative Totals For The Year Ended October 31, 2010

Note 5 INVESTMENTS

Investments were comprised of the following at October 31:

	<u>2011</u>	<u>2010</u>
Eaton Vance Floating mutual fund	\$ -	\$ 50,120
Mutual fund money market	\$142,527	\$ 581,554
Negotiable certificates of deposit	<u>\$233,632</u>	<u>\$ 302,289</u>
Total investments	<u>\$376,159</u>	<u>\$ 933,963</u>

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

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 4,997	\$ 7,187
Increase (decrease) in fair value	<u>\$(1,499)</u>	<u>\$ 2,420</u>
Total investment income	<u>\$3,498</u>	<u>\$ 9,607</u>

Note 6 FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability access.

Level 2 Inputs to the valuation methodology include

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used.

Mutual funds: (Level 1) Carried at fair value based on quoted prices in active markets.

Certificates of deposit: (Level 2) All certificate of deposit value are derived using a computerized valuation model and therefore represent an estimated market value.

(Continued)

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Note 6 FAIR VALUE MEASUREMENTS Cont.

Significant assets that are measured at fair value on a recurring basis were as follows as of October 31:

<u>2011:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Mutual Fund money market	\$142,527	\$ -	\$142,527
Negotiable certificates of deposit	-	233,632	233,632
Total investments	<u>\$142,527</u>	<u>\$233,632</u>	<u>\$376,159</u>
<u>2010:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Eaton Vance Floating mutual fund	\$ 50,120	\$ -	\$ 50,120
Mutual Fund money market	\$581,554	-	\$ 581,554
Negotiable certificates of deposit	-	\$ 302,289	\$ 302,289
Total investments	<u>\$701,286</u>	<u>\$ 302,289</u>	<u>\$ 933,963</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 the Organization 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.

Note 7 LONG-TERM DEBT

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

	<u>2011</u>	<u>2010</u>
Note payable to the City of Saint Paul Housing and Redevelopment Authority for building and renovation in the original amount of \$170,000 dated August 15, 1995. Payments are due monthly in the amount of \$860, including interest at a stated rate of 2%, with the final payment due August 1, 2016. The note is secured by a mortgage on the property and all assets of the Humanities Center.	\$46,857	\$ 56,102
Note payable to the City of Saint Paul Housing and Redevelopment Authority for building and renovation in the original amount of \$100,000 dated August 15, 1995. Payments are due monthly in the amount of \$460, including interest at a stated rate of 1%, with the final payment due August 1, 2016. The note is secured by a mortgage on the property and all assets of the Humanities Center.	\$25,624	\$ 30,847
Total notes payable	\$72,481	\$ 86,949
Less: current maturities	\$(14,757)	\$(14,437)
Long-term portion	<u>\$57,724</u>	<u>\$ 72,512</u>

(Continued)

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Note 7 LONG-TERM DEBT Cont.

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

<u>Year ending</u> <u>October 31</u>	<u>Amount</u>
2012	\$14,757
2013	\$15,001
2014	\$15,292
2015	\$15,447
2016	\$11,984
Total	<u>\$72,481</u>

Note 8 NET ASSETS

A. UNRESTRICTED

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

	<u>2011</u>	<u>2010</u>
Property and Equipment	\$1,840,140	\$1,954,944

B. TEMPORARILY RESTRICTED

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

	<u>2011</u>	<u>2010</u>
State of Minnesota operating grant	\$ 395,000	\$ 166,667
State of Minnesota arts and cultural heritage funds	\$ 586,428	\$ 300,014
Council of Asian Pacific Minnesotans arts and cultural heritage funds	-	\$ 167,897
Council of Black Minnesotans arts and cultural heritage funds	-	\$ 171,304
Minnesota Indian Affairs arts and cultural heritage funds	-	\$ 149,515
Chicano Latino Affairs Council arts and cultural heritage funds	-	\$ 141,918
Civics Education arts and cultural heritage funds	\$ 493,100	\$ 223,190
Smithsonian Museum on Mainstreet	-	\$ 15,386
Councils of Color arts and cultural heritage funds	\$ 986,492	-
Children's Museums arts and cultural heritage funds	\$ 988,620	-
Treaties project	\$ 21,860	-
Absent Narratives program work	\$ 86,030	-
General arts and culture program work	\$ 5,123	-
Professional development programs for teachers and school districts	<u>\$ 60,583</u>	<u>\$ 721,360</u>
Total	<u>\$3,623,236</u>	<u>\$ 2,057,251</u>

(Continued)

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Note 8 NET ASSETS Cont.

Restrictions are classified above according to their main restriction. Some of the restrictions have components of both time and purpose restrictions.

C. 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>2011</u>	<u>2010</u>
Program expenditures	\$1,975,348	\$1,642,188
Elapsed time restriction	<u>\$ 245,667</u>	<u>\$ 227,536</u>
Total	<u>\$2,221,015</u>	<u>\$1,869,724</u>

Note 9 RETIREMENT PLAN

The Humanities Center provides an employee retirement plan through a defined contribution program. The Humanities Center currently contributes 6% of each employee's salary and provides a match up to an additional 2% of salary, depending on the employee's contribution, for employees eligible to participate in the retirement plan. Total contributions were \$64,128 and \$61,572 for the years ended October 31, 2011 and 2010.

Note 10 COMMITMENTS

In 1995, the Humanities Center began a capital campaign to renovate the west wing of Gillette Hospital to be used for its administrative and program operations. The Humanities Center received several significant governmental grants and loans. The Humanities Center received a \$1,200,000 grant from the City of Saint Paul which requires the Humanities Center to repay all or a portion of the grant if the Humanities Center does not occupy the renovated space for a specified period of time. If the Humanities Center had vacated the renovated space within 10 years, they would have been required to repay 100% of the grant proceeds. If the vacancy occurs within the time frame of 10 to 20 years, the Humanities Center will be required to repay the grant funds minus 10% for each full year after the first 10 years. The money for this grant was raised through state general obligation bonds.

The Humanities Center received additional funding for the capital campaign through two loans from the City of Saint Paul (Note 7). In order to retain these funds, the Humanities Center must comply with certain provisions and conditions specified in both the grant and loan agreements.

The Humanities Center has entered into contracts with consultants that are dependent on future funding. These contracts are not enforceable if the Humanities Center does not receive the expected funding.

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Note 11 OPERATING LEASES

The Humanities Center has multiple leases for office equipment. The lease terms range from month-to-month to 3 years. Total lease expenses were \$ 8,485 and \$15,063 for the years ended October 31, 2011 and 2010. A lease for the copier expires August 2013.

Future minimum rental payments required under the copier lease are:

2012	\$2,964
2013	\$2,470

Note 12 CONTINGENCIES

FEDERAL AND STATE FUNDS

The Humanities Center receives financial assistance from federal and state governmental agencies in the form of grants. These programs generally require compliance with the terms and conditions specified in the grant agreements, which are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Humanities Center. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the Humanities Center.

Note 13 SUMMARIZED PRIOR YEAR FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Humanities Center's financial statements as of and for the year ended October 31, 2010, from which the summarized information was derived.

Note 14 RELATED PARTIES

A member of the Board of Directors is employed by a law firm used by the Humanities Center.

Note 15 SUBSEQUENT EVENTS

Effective November 1, 2011, the Humanities Center converted to a Safe Harbor 401K plan. The eligibility requirements to participate, receive discretionary contributions and the matching percentages have changed with the conversion.

Management has evaluated subsequent events through the date of the Independent Auditor's Report and concluded that there are no additional subsequent events that require disclosure.