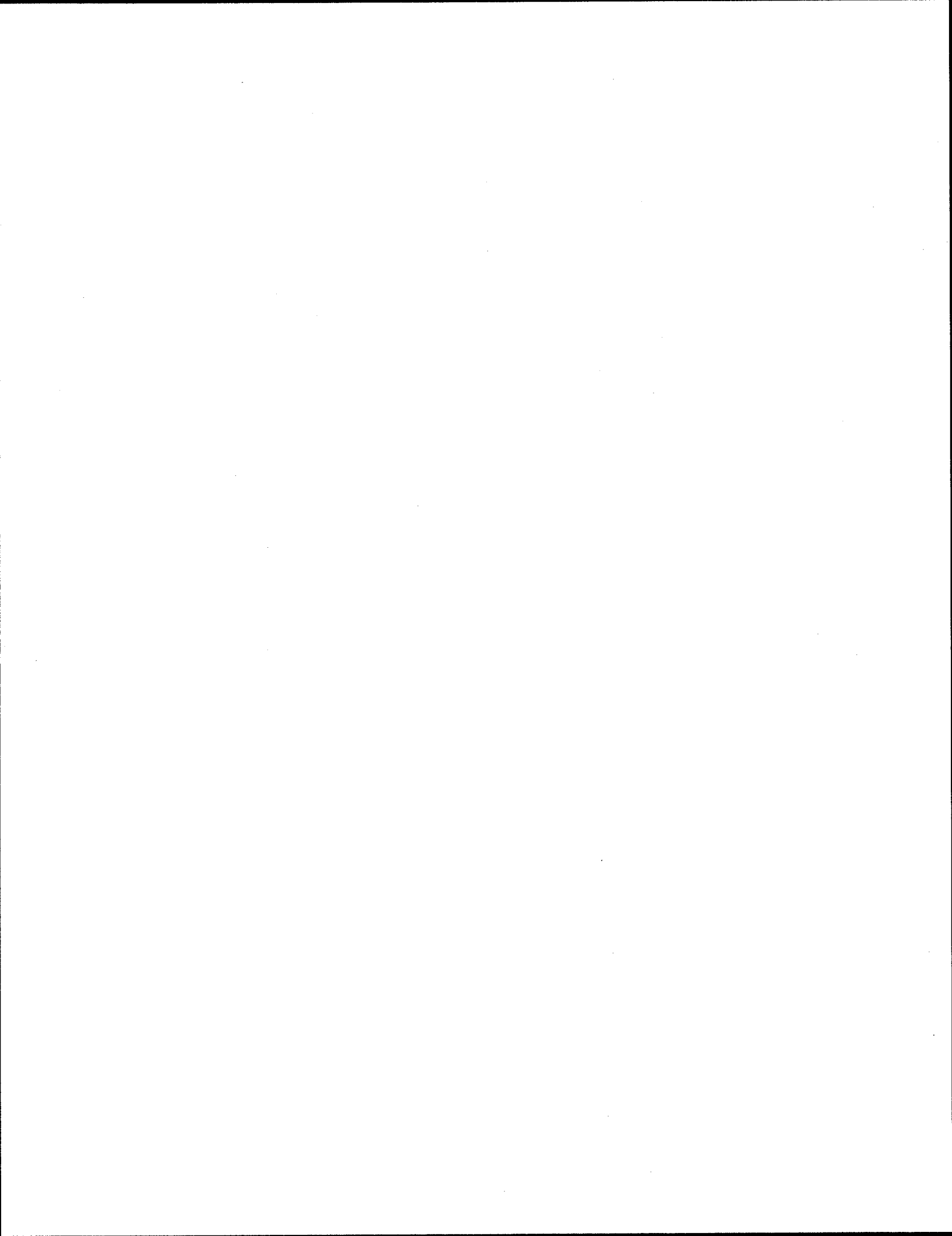


MINNESOTA HUMANITIES CENTER

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
OCTOBER 31, 2012**



MINNESOTA HUMANITIES CENTER
FINANCIAL STATEMENTS
For The Year Ended October 31, 2012
With Comparative Totals For 2011

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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, 2012, 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 2011 financial statements and, in our report dated January 31, 2012, 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, 2012, 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 March 4, 2013, 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.

Saint Paul, Minnesota
March 4, 2013

*Mahoney Ulbrich
Christiansen Russ P.A.*

MINNESOTA HUMANITIES CENTER
STATEMENT OF FINANCIAL POSITION
October 31, 2012
With Comparative Amounts For October 31, 2011

	2012	2011
Assets:		
Current assets:		
Cash and cash equivalents	\$211,991	\$775,155
Accounts receivable	74,262	77,910
Contributions receivable - current	1,522,491	180
Grants receivable - current	1,676,549	3,320,284
Prepaid expense	26,094	1,537
Total current assets	<u>3,511,387</u>	<u>4,175,066</u>
Land, building and equipment:		
Land lease	235,000	235,000
Building	2,550,295	2,550,295
Office equipment and furniture	671,931	627,754
Total land, building and equipment	<u>3,457,226</u>	<u>3,413,049</u>
Less accumulated depreciation and amortization	<u>(1,649,721)</u>	<u>(1,572,909)</u>
Net land, building and equipment	<u>1,807,505</u>	<u>1,840,140</u>
Other assets:		
Investments	1,993,490	376,159
Total other assets	<u>1,993,490</u>	<u>376,159</u>
Total assets	<u>\$7,312,382</u>	<u>\$6,391,365</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$95,106	\$54,190
Current maturities of long-term debt	15,000	14,757
Deferred revenue	1,500	-
Accrued expenses	119,288	104,849
Total current liabilities	<u>230,894</u>	<u>173,796</u>
Long-term debt	42,778	57,724
Total liabilities	<u>273,672</u>	<u>231,520</u>
Net assets:		
Unrestricted net assets:		
Unrestricted - undesignated	898,689	696,469
Unrestricted - designated	1,807,505	1,840,140
Total unrestricted net assets	<u>2,706,194</u>	<u>2,536,609</u>
Temporarily restricted	4,332,516	3,623,236
Total net assets	<u>7,038,710</u>	<u>6,159,845</u>
Total liabilities and net assets	<u>\$7,312,382</u>	<u>\$6,391,365</u>

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

MINNESOTA HUMANITIES CENTER
STATEMENT OF ACTIVITIES
For The Year Ended October 31, 2012
With Comparative Totals For The Year Ended October 31, 2011

	2012			2011
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Support:				
Contributions	\$78,550	\$3,642,745	\$3,721,295	\$211,430
In-kind	26,307	-	26,307	2,981
Grants from governmental agencies:				
Federal grants	842,865	-	842,865	966,930
Other governmental agencies	-	-	-	3,624,000
Revenue:				
Investment income	20,449	-	20,449	3,498
Conference center rental income - program related	300,239	-	300,239	319,724
Conference center rental income - non-program related	55,977	-	55,977	45,606
Conference center rental costs-non-program related	(61,902)	-	(61,902)	(48,829)
Program income	13,495	-	13,495	73,200
Miscellaneous income	609	-	609	2,082
Revenue subtotal	328,867	-	328,867	395,281
Net assets released from restrictions	2,933,465	(2,933,465)	-	-
Total support and revenue	4,210,054	709,280	4,919,334	5,200,622
Expense:				
Program services:				
MHC educational programs	3,020,531	-	3,020,531	2,694,888
Conference center rental costs-program related	332,520	-	332,520	342,314
Total program services	3,353,051	-	3,353,051	3,037,202
Supporting services:				
Management and general	555,362	-	555,362	531,994
Fundraising	132,056	-	132,056	157,361
Total supporting services	687,418	-	687,418	689,355
Total expense	4,040,469	-	4,040,469	3,726,557
Change in net assets	169,585	709,280	878,865	1,474,065
Net assets at beginning of year	2,536,609	3,623,236	6,159,845	4,685,780
Net assets at end of year	\$2,706,194	\$4,332,516	\$7,038,710	\$6,159,845

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

MINNESOTA HUMANITIES CENTER
 STATEMENT OF FUNCTIONAL EXPENSES
 For The Year Ended October 31, 2012
 With Comparative Totals For The Year Ended October 31, 2011

	2012										Totals		
	Program Services					Supporting Services							
	MHC Educational Programs	Conference Center Rental Costs-Program Related	Total Program Services	Management and General	Fundraising	Total Supporting Services	Conference Center Rental Costs - Non-Program	2012	2011				
Expenses:													
Salaries and temporary help	\$729,892	\$148,091	\$877,983	\$312,372	\$69,850	\$382,222	\$27,569	\$1,287,774	\$1,282,514				
Payroll taxes	64,405	12,674	77,079	21,635	5,948	27,583	2,359	107,021	106,188				
Employee benefits and HR admin fees	158,509	41,033	199,542	62,591	22,335	84,926	7,639	292,107	278,059				
Regrant expense	654,250	-	654,250	-	-	-	-	654,250	443,336				
Contract services	838,323	6,107	844,430	56,549	19,599	76,148	1,137	921,715	1,037,138				
Site fees	75,538	-	75,538	-	-	-	-	75,538	8,333				
Participants stipends	40,503	-	40,503	-	64	64	-	40,567	9,597				
Staff development	5,856	607	6,463	8,499	465	8,964	113	15,540	6,374				
Insurance and bonding	6,249	5,236	11,485	2,137	977	3,114	975	15,574	19,866				
Equipment rental and maintenance/bldg maint	10,087	10,621	20,708	7,800	882	8,682	1,977	31,367	31,823				
Accounting and legal	2,182	-	2,182	18,262	-	18,262	-	20,444	20,189				
Memberships and subscriptions	11,232	678	11,910	5,083	3,894	8,977	126	21,013	23,194				
Postage	15,368	310	15,678	1,264	505	1,769	58	17,505	12,715				
Printing and mailing services	10,754	208	10,962	-	-	-	39	11,001	31,348				
Supplies - office and programs/off-site program meals	80,770	8,567	89,337	8,729	644	9,373	1,595	100,305	62,962				
Telephone and internet	8,747	1,521	10,268	4,309	1,066	5,375	283	15,926	16,123				
Travel	179,384	992	180,376	6,002	456	6,458	185	187,019	92,370				
Advertising and marketing	26,230	4,766	30,996	10,238	263	10,501	887	42,384	16,663				
License and permits	-	1,651	1,651	-	-	-	307	1,958	1,988				
Interest and investment exp, or card exp	2,372	1,466	3,838	1,725	197	1,922	273	6,033	9,858				
Food services, conference center housekeeping	-	47,182	47,182	-	-	-	8,784	55,966	53,629				
Internal use of conference center	47,176	(46,856)	320	8,090	313	8,403	(8,723)	43,087	50,798				
Utilities	10,824	23,122	33,946	3,326	1,511	4,837	4,304	7,239	27,961				
Investment in fixed assets	2,091	169	2,260	4,948	-	4,948	31	552	552				
Payment in lieu of real estate tax	-	231	231	278	-	278	43	-	1,052				
Cost of goods sold	-	-	-	-	-	-	-	-	2,981				
In kind expenses - donated goods	-	-	-	-	-	-	-	-	-				
Miscellaneous	2,027	86	2,113	1,020	-	1,020	17	3,150	3,111				
Total expenses before depreciation and amortization	2,982,769	268,462	3,251,231	544,857	128,969	673,826	49,978	3,975,035	3,650,722				
Depreciation and amortization	37,762	64,058	101,820	10,505	3,087	13,592	11,924	127,336	124,664				
Total expenses before removal of nonprogram conference center rental costs	3,020,531	332,520	3,353,051	555,362	132,056	687,418	61,902	4,102,371	3,775,386				
Conference center rental costs - nonprogram	-	-	-	-	-	-	(61,902)	(61,902)	(48,829)				
Total expenses as reported on the statement of activities	3,020,531	332,520	3,353,051	555,362	132,056	687,418	-	4,040,469	3,726,557				
Allocation of principal payments	4,142	7,452	11,594	(13,587)	606	(11,594)	1,387	-	-				
Total expenses after allocation of principal payments	\$3,024,673	\$339,972	\$3,364,645	\$541,775	\$132,662	\$675,824	\$1,387	\$4,040,469	\$3,726,557				

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

MINNESOTA HUMANITIES CENTER
STATEMENT OF CASH FLOWS
For The Year Ended October 31, 2012
With Comparative Totals For The Year Ended October 31, 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Changes in net assets	\$878,865	\$1,474,065
Adjustments to reconcile the change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	127,336	124,664
Unrealized (gain) loss	(15,451)	1,499
In-kind software	(26,307)	-
Reinvestment of dividends and interest	(3,323)	(5,074)
(Increase) decrease in accounts receivable	3,648	(585)
(Increase) decrease in contributions receivable	(1,522,311)	733,541
(Increase) decrease in grants receivable	1,643,735	(2,277,455)
(Increase) decrease in prepaid expense	(24,557)	5,727
(Increase) decrease in inventory	-	7,528
Increase (decrease) in accounts payable	40,916	36,698
Increase (decrease) in deferred revenue	1,500	(1,505)
Increase (decrease) in accrued expenses	14,439	56,721
Net cash provided (used) by operating activities	<u>1,118,490</u>	<u>155,824</u>
Cash flows from investing activities:		
Purchase of land, building and equipment	(68,394)	(9,860)
Purchase of investments	(2,048,707)	(438,621)
Sale and maturity of investments	450,150	1,000,000
Net cash provided (used) by investing activities	<u>(1,666,951)</u>	<u>551,519</u>
Cash flows from financing activities:		
Payments on debt	(14,703)	(14,468)
Net increase (decrease) in cash and cash equivalents	(563,164)	692,875
Cash and cash equivalents at beginning of year	<u>775,155</u>	<u>82,280</u>
Cash and cash equivalents at end of year	<u>\$211,991</u>	<u>\$775,155</u>
Additional disclosures:		
Interest paid	<u>\$1,214</u>	<u>\$1,371</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, 2012
With Comparative Totals For The Year Ended October 31, 2011

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

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

MHC Educational Programs: The Minnesota Humanities Center educational programs prepare schools, cultural organizations, state agencies, and other professional and community based organizations to meet the complicated needs of the 21st century. Through its Absent Narratives approach and strategy the Humanities Center puts the under-represented and untold stories and experiences of marginalized communities at the heart of school, community and organizational planning for the future of Minnesota. Whether these marginalized communities are ethnic minorities, veterans, or immigrants and refugees the Humanities 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 is 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 is 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, support and revenue 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, 2012
With Comparative Totals For The Year Ended October 31, 2011

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 an institution and exposes the Humanities Center to a credit risk. The Humanities Center believes it is not exposed to any significant risk on these funds. As of October 31, 2012, deposits exceeded the insured limit by \$9,421.

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, 2012, 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. 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.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For The Year Ended October 31, 2012
With Comparatative Totals For The Year Ended October 31, 2011

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 \$5,000. 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. 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 \$1,500 and \$0 at October 31, 2012 and 2011.

J. 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 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. These funds were for work from July 1, 2011, through June 30, 2013.

K. CONTRIBUTIONS

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received which are designated for future periods or restricted by the donor are recorded as temporarily restricted until the appropriate future period or the donor restriction is satisfied, respectively.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For The Year Ended October 31, 2012
With Comparatative Totals For The Year Ended October 31, 2011

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

L. 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.

M. ADVERTISING COSTS

Advertising expenses are expensed as incurred. Advertising expenses were \$ 42,384 and \$16,663 for the years ended October 31, 2012 and 2011.

N. 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 \$14,827 and \$11,954 for the years ended October 31, 2012 and 2011.

O. 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.

P. ESTIMATES

Management uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Q. CONTRIBUTED MATERIALS

Contributed materials are recorded in the financial statements at their estimated fair value at the date of donation. The Humanities Center received \$26,307 of Microsoft product discounts and \$2,981 for miscellaneous program supplies for the years ended October 31, 2012 and 2011.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For The Year Ended October 31, 2012
With Comparatative Totals For The Year Ended October 31, 2011

Note 2 MAJOR SOURCES OF SUPPORT AND REVENUE

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

	<u>2012</u>	<u>2011</u>
National Endowment for the Humanities	\$ 838,365	\$ 710,282
US Department of Education	0	256,648
State of Minnesota	0	3,624,000
Anonymous Foundation	3,657,955	0

Note 3 CONTRIBUTIONS AND GRANTS RECEIVABLE

As of October 31, 2012, all contributions 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. The Humanities Center is responsible for insuring the building. 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, 2012 and 2011.

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.

Note 5 INVESTMENTS

Investments were comprised of the following at October 31:

	<u>2012</u>	<u>2011</u>
Mutual fund money market	\$1,106,755	\$ 142,527
Negotiable certificates of deposit	<u>866,735</u>	<u>233,632</u>
Total investments	<u>\$1,993,490</u>	<u>\$ 376,159</u>

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

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 4,998	\$ 4,997
Unrealized gain (loss)	<u>15,451</u>	<u>(1,499)</u>
Total investment income	<u>\$20,449</u>	<u>\$3,498</u>

(Continued)

MINNESOTA HUMANITIES CENTER
 NOTES TO FINANCIAL STATEMENTS
 For The Year Ended October 31, 2012
 With Comparative Totals For The Year Ended October 31, 2011

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 values are derived using a computerized valuation model and therefore represent an estimated market value.

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

<u>2012:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Mutual fund money market	\$1,106,755	\$ -	\$1,106,755
Negotiable certificates of deposit	<u>-</u>	<u>886,735</u>	<u>886,735</u>
Total investments	<u>\$1,106,755</u>	<u>\$ 886,735</u>	<u>\$1,993,490</u>
<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	<u>-</u>	<u>233,632</u>	<u>233,632</u>
Total investments	<u>\$142,527</u>	<u>\$233,632</u>	<u>\$ 376,159</u>

(Continued)

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Note 6 FAIR VALUE MEASUREMENTS Cont.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Humanities Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 7 LONG-TERM DEBT

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

	<u>2012</u>	<u>2011</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.	\$ 37,424	\$ 46,857
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.	<u>20,354</u>	<u>25,624</u>
Total notes payable	<u>57,778</u>	<u>72,481</u>
Less: current maturities	<u>(15,000)</u>	<u>(14,757)</u>
Long-term portion	<u>\$ 42,778</u>	<u>\$ 57,724</u>

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

<u>Year ending</u> <u>October 31</u>	<u>Amount</u>
2013	\$15,000
2014	15,248
2015	15,501
2016	<u>12,029</u>
Total	<u>\$57,778</u>

(Continued)

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Note 8 NET ASSETS

A. UNRESTRICTED

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

	<u>2012</u>	<u>2011</u>
Property and Equipment	\$1,807,505	\$1,840,140

B. TEMPORARILY RESTRICTED

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

	<u>2012</u>	<u>2011</u>
State of Minnesota operating grant	\$ 158,000	\$ 395,000
State of Minnesota arts and cultural heritage funds	353,442	586,428
Civics Education arts and cultural heritage funds	266,506	493,100
Councils of Color arts and cultural heritage funds	695,107	986,492
Children's Museums arts and cultural heritage funds	551,847	988,620
Treaties project	-	21,860
Absent Narratives program work/professional development programs for teachers and school districts	2,307,614	146,613
General arts and culture program work	-	5,123
Total	<u>\$4,332,516</u>	<u>\$3,623,236</u>

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>2012</u>	<u>2011</u>
Program expenditures	\$2,696,465	\$1,975,348
Elapsed time restriction	237,000	245,667
Total	<u>\$2,933,465</u>	<u>\$2,221,015</u>

(Continued)

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Note 9 RETIREMENT PLAN

The Humanities Center provides an employee retirement plan through a Safe Harbor 401K plan. The Humanities Center changed to this plan effective November 1, 2011. 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 for in the fiscal year). For the year ended October 31, 2012, the Board approved a 4% contribution. Total matching contributions were \$44,131; accrued discretionary contributions were \$47,678, for a total expense of \$91,809 for the year ended October 31, 2012. Contributions were \$64,128 for the year ended October 31, 2011. In 2012, more employees were eligible for the plan, and employees increased their contribution rates to receive the maximum match.

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.

In 2012, the Humanities Center entered into a contract for the design, development and implementation of computer systems upgrades. The upgrades will create a system that will provide better reporting and internal management of the event center. The estimated cost of the project is approximately \$31,000.

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 \$7,703 and \$8,485 for the years ended October 31, 2012 and 2011. A lease for the copier expires August 2013.

Future minimum rental payments required under the copier lease are:

2013	\$2,470
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(Continued)

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Note 12 CONTINGENCIES

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

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, 2011, from which the summarized information was derived.

Note 14 RELATED PARTIES

A member of the Board of Directors (but left the Board prior to the end of the year ended October 31, 2012) is employed by a law firm used by the Humanities Center. Fees paid by the Humanities Center for the years ended October 31, 2012 and 2011, were approximately \$700 and \$2,400, respectively.

Note 15 SUBSEQUENT EVENTS

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