

**MINNESOTA HUMANITIES CENTER**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
OCTOBER 31, 2013**

**MINNESOTA HUMANITIES CENTER**  
**FINANCIAL STATEMENTS**  
For The Year Ended October 31, 2013  
With Comparative Totals For 2012

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Minnesota Humanities Center (a nonprofit corporation), which comprise the statement of financial position as of October 31, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited Minnesota Humanities Center's 2012 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated March 4, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2014, 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* in considering Minnesota Humanities Center's internal control over financial reporting and compliance.

Saint Paul, Minnesota  
April 11, 2014

*Maloney Ulbrich*  
*Christianese Rues P.A.*

**MINNESOTA HUMANITIES CENTER**  
**STATEMENT OF FINANCIAL POSITION**  
October 31, 2013  
With Comparative Amounts For October 31, 2012

	<u>2013</u>	<u>2012</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$218,944	\$211,991
Accounts receivable	33,754	74,262
Contributions receivable-current	2,814,046	1,522,491
Government grants receivable - current	2,727,016	1,676,549
Prepaid expense	20,933	26,094
Total current assets	<u>5,814,693</u>	<u>3,511,387</u>
Land, building and equipment:		
Land lease	235,000	235,000
Building	2,563,702	2,550,295
Office equipment and furniture	681,412	671,931
Total land, building and equipment	<u>3,480,114</u>	<u>3,457,226</u>
Less accumulated depreciation and amortization	<u>(1,773,641)</u>	<u>(1,649,721)</u>
Net land, building and equipment	<u>1,706,473</u>	<u>1,807,505</u>
Other assets:		
Investments	4,426,500	1,993,490
Total other assets	<u>4,426,500</u>	<u>1,993,490</u>
Total assets	<u><u>\$11,947,666</u></u>	<u><u>\$7,312,382</u></u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$131,865	\$95,106
Current maturities of long-term debt	15,123	15,000
Deferred revenue	350	1,500
Accrued expenses	107,871	119,288
Total current liabilities	<u>255,209</u>	<u>230,894</u>
Long-term debt	27,567	42,778
Total liabilities	<u>282,776</u>	<u>273,672</u>
Net assets:		
Unrestricted net assets:		
Unrestricted - undesignated	987,075	898,689
Unrestricted - designated	1,706,473	1,807,505
Total unrestricted net assets	<u>2,693,548</u>	<u>2,706,194</u>
Temporarily restricted	8,971,342	4,332,516
Total net assets	<u>11,664,890</u>	<u>7,038,710</u>
Total liabilities and net assets	<u><u>\$11,947,666</u></u>	<u><u>\$7,312,382</u></u>

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

**MINNESOTA HUMANITIES CENTER**

## STATEMENT OF ACTIVITIES

For The Year Ended October 31, 2013

With Comparative Totals For The Year Ended October 31, 2012

	2013			2012
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Support:				
Contributions	\$53,609	\$6,364,995	\$6,418,604	\$3,721,295
Event sponsorship	-	16,000	16,000	-
In-kind	1,799	-	1,799	26,307
Grants from governmental agencies:				
Federal grants	598,081	-	598,081	842,865
Other governmental agencies	-	3,792,000	3,792,000	-
Revenue:				
Investment income	6,864	-	6,864	20,449
Publication sales	24	-	24	-
Conference center rental income - program related	300,650	-	300,650	300,239
Conference center rental income - non-program related	45,322	-	45,322	55,977
Conference center rental costs-non-program related	(55,210)	-	(55,210)	(61,902)
Program income	36,020	-	36,020	13,495
Miscellaneous income	5,199	-	5,199	609
Subtotal	992,358	10,172,995	11,165,353	329,727
Net assets released from restrictions	5,534,169	(5,534,169)	-	-
Total support and revenue	6,526,527	4,638,826	11,165,353	4,919,334
Expense:				
Program services:				
MHC educational programs	5,520,663	-	5,520,663	3,020,531
Conference center rental costs-program related	358,289	-	358,289	332,520
Total program services	5,878,952	-	5,878,952	3,353,051
Support services:				
Management and general	555,818	-	555,818	555,362
Fundraising	104,403	-	104,403	132,056
Total support services	660,221	-	660,221	687,418
Total expense	6,539,173	-	6,539,173	4,040,469
Change in net assets	(12,646)	4,638,826	4,626,180	878,865
Net assets at beginning of year	2,706,194	4,332,516	7,038,710	6,159,845
Net assets at end of year	\$2,693,548	\$8,971,342	\$11,664,890	\$7,038,710

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

**MINNESOTA HUMANITIES CENTER**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For The Year Ended October 31, 2013  
With Comparative Totals For The Year Ended October 31, 2012

	2013										Totals	
	Program Services					Support Services					2013	2012
	MHC Educational	Conference Center Rental Costs-Program Related	Total Program Services	Management and General	Fundraising	Total Support Services	Conference Center Rental Costs - Non - Program	Totals				
Expense:												
Salaries and temporary help	\$878,251	\$166,641	\$1,044,892	\$302,041	\$63,039	\$365,080	\$25,032	\$1,435,004	\$1,287,774			
Payroll taxes	62,833	12,361	75,194	20,762	4,560	25,322	1,857	102,373	107,021			
Employee benefits and HR admin fees	188,199	43,433	231,632	82,470	22,529	104,999	6,524	343,155	292,107			
Regrant expense	1,557,654	-	1,557,654	-	-	-	-	1,557,654	654,250			
Contract services	1,820,238	7,599	1,827,837	56,871	2,112	58,983	1,141	1,887,961	921,715			
Site fees	243,437	-	243,437	-	-	-	-	243,437	75,538			
Participant stipends	151,830	-	151,830	-	-	-	-	151,830	40,567			
Staff development	7,791	291	8,082	5,209	447	5,656	44	13,782	15,540			
Insurance and bonding	7,972	5,875	13,847	1,545	789	2,334	883	17,064	15,574			
Equipment rental and maintenance/bldg maint	30,064	9,810	39,874	2,803	2,330	5,133	1,474	46,481	31,367			
Accounting and legal	105	-	105	19,634	-	19,634	-	19,739	20,444			
Memberships and subscriptions	1,622	1,610	3,232	15,847	-	15,847	242	19,321	21,013			
Postage	6,516	511	7,027	863	36	899	77	8,003	17,505			
Printing and mailing services	34,838	515	35,353	896	-	896	77	36,326	11,001			
Supplies -office and programs/off-site program meals	28,963	9,845	38,808	8,713	1,471	10,184	1,479	50,471	100,305			
Telephone and internet	13,272	1,760	15,032	4,938	1,144	6,082	264	21,378	15,926			
Travel	335,170	901	336,071	5,333	92	5,625	135	341,831	187,019			
Advertising and marketing	20,177	1,594	21,771	200	-	200	-	22,211	42,384			
License and permits	-	1,563	1,563	-	-	-	235	1,798	1,958			
Interest and investment exp, cr card exp	799	2,161	2,960	2,609	467	3,076	325	6,361	6,033			
Food services, conference center housekeeping	-	56,493	56,493	-	-	-	8,486	64,979	55,966			
Internal use of conference center	68,691	(68,916)	(225)	10,577	-	10,577	(10,352)	-	-			
Utilities	12,041	31,189	43,230	3,052	1,328	4,380	4,685	52,295	43,087			
Investment in fixed assets	3,097	2,462	5,559	2,251	-	2,251	1,758	9,568	7,239			
Payment in lieu of real estate tax	-	210	210	312	-	312	32	554	552			
Miscellaneous	10,300	-	10,300	-	-	-	-	10,300	3,150			
Total expense before depreciation and amortization	5,483,860	287,908	5,771,768	547,126	100,344	647,470	44,638	6,463,876	3,975,035			
Depreciation and amortization	36,803	70,381	107,184	8,692	4,059	12,751	10,572	130,507	127,336			
Total expense before removal of nonprogram conference center rental costs	5,520,663	358,289	5,878,952	555,818	104,403	660,221	55,210	6,594,383	4,102,371			
Conference center rental costs-nonprogram	-	-	-	-	-	-	(55,210)	(55,210)	(61,902)			
Total expense as reported on the statement of activities	5,520,663	358,289	5,878,952	555,818	104,403	660,221	-	6,539,173	4,040,469			
Allocation of mortgage principal payments	4,227	8,084	12,311	(13,993)	468	(13,525)	1,214	-	-			
Total expense after allocation of principal payments	\$5,524,890	\$366,373	\$5,891,263	\$541,825	\$104,871	\$646,696	\$1,214	\$6,537,959	\$4,040,469			

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

**MINNESOTA HUMANITIES CENTER****STATEMENT OF CASH FLOWS**

For The Year Ended October 31, 2013

With Comparative Totals For The Year Ended October 31, 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$4,626,180	\$878,865
Adjustments to reconcile the change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	130,507	127,336
Unrealized (gain) loss	(1,564)	(15,451)
In-kind software	-	(26,307)
Reinvestment of dividends and interest	(4,380)	(3,323)
(Increase) decrease in accounts receivable	40,508	3,648
(Increase) decrease in contributions receivable	(1,291,555)	(1,522,311)
(Increase) decrease in grants receivable	(1,050,467)	1,643,735
(Increase) decrease in prepaid expense	5,161	(24,557)
Increase (decrease) in accounts payable	36,759	40,916
Increase (decrease) in deferred revenue	(1,150)	1,500
Increase (decrease) in accrued expenses	(11,418)	14,439
Net cash provided (used) by operating activities	<u>2,478,581</u>	<u>1,118,490</u>
Cash flows from investing activities:		
Purchase of land, building and equipment	(29,475)	(68,394)
Purchase of investments	(4,877,215)	(2,048,707)
Sale and maturity of investments	2,450,150	450,150
Net cash provided (used) by investing activities	<u>(2,456,540)</u>	<u>(1,666,951)</u>
Cash flows from financing activities:		
Payments on debt	(15,088)	(14,703)
Net increase (decrease) in cash and cash equivalents	6,953	(563,164)
Cash and cash equivalents at beginning of year	<u>211,991</u>	<u>775,155</u>
Cash and cash equivalents at end of year	<u>\$218,944</u>	<u>\$211,991</u>
Additional disclosures:		
Interest paid	<u>\$751</u>	<u>\$1,214</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, 2013  
With Comparatative Totals For The Year Ended October 31, 2012

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**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 21<sup>st</sup> 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 Center'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.

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 was also responsible for administering a competitive grant process and administering the Legacy Funding for civics education, and Legacy Funding for the Minnesota Children's Museum, the Duluth Children's Museum, The Children's Museum of Southern Minnesota and the Grand Rapids Children's Museum.

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:

(Continued)

**MINNESOTA HUMANITIES CENTER**  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended October 31, 2013  
With Comparatative Totals For The Year Ended October 31, 2012

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**Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.**

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

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of 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 at this time.

**C. CASH AND CASH EQUIVALENTS**

For purposes of the statement of cash flows, the Humanities Center considers highly liquid securities purchased with an original maturity of three months or less to be cash equivalents. Cash and liquid securities held with its investment brokerage accounts are not considered 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, 2013, deposits exceeded the insured limit by \$13,319.

**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, 2013, 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, 2013  
With Comparatative Totals For The Year Ended October 31, 2012

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**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 \$350 and \$1,500 at October 31, 2013 and 2012.

**J. GRANTS FROM GOVERNMENTAL AGENCIES**

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

State government grants are awarded at the beginning of the State of Minnesota's budget cycle, which operates on a two-year cycle. Funding for 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 2013, multi-year grants were again awarded 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, 2013, through June 30, 2016, as the legislation permits an additional twelve months past the end of the state fiscal year (June 30, 2015) for grant close-outs.

**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, 2013  
With Comparatative Totals For The Year Ended October 31, 2012

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**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 \$22,211 and \$42,384 for the years ended October 31, 2013 and 2012.

**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 \$4,646 and \$14,827 for the years ended October 31, 2013 and 2012.

**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; however losses have been incurred so no tax has been due.

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 \$1,799 and \$26,307 for software and miscellaneous program supplies for the years ended October 31, 2013 and 2012.

(Continued)

**MINNESOTA HUMANITIES CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
For The Year Ended October 31, 2013  
With Comparatative Totals For The Year Ended October 31, 2012

**Note 2 CONTRIBUTIONS AND GRANTS RECEIVABLE**

As of October 31, 2013, all contributions were due within one year. Certain grants receivable are available to be drawn over a two-year period and do not have a detailed payout schedule. Because of the future uncertainty of the timing of receipts, no discount has been calculated. All receivables are expected to be collected; therefore, no allowance has been recorded.

**Note 3 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, 2013 and 2012.

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; the City has indicated that no payment will be required after that date.

**Note 4 INVESTMENTS**

Investments were comprised of the following at October 31:

	<u>2013</u>	<u>2012</u>
Brokerage bank account	\$1,958,695	\$ 371,886
Mutual fund money market	385,257	734,869
Negotiable certificates of deposit	<u>2,082,548</u>	<u>866,735</u>
Total investments	<u>\$4,426,500</u>	<u>\$1,993,490</u>

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

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 5,300	\$ 4,998
Unrealized gain (loss)	<u>1,564</u>	<u>15,451</u>
Total investment income	<u>\$6,864</u>	<u>\$20,449</u>

(Continued)

**MINNESOTA HUMANITIES CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
For The Year Ended October 31, 2013  
With Comparatative Totals For The Year Ended October 31, 2012

**Note 5 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.

*Cash, AG Deposit account and Mutual 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.

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

<u>2013:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Brokerage bank account	\$ 250,000	\$ -	\$ 250,000
AG deposit account	1,708,695	-	1,708,695
Mutual fund money market	385,257	-	385,257
Negotiable certificates of deposit	-	<u>2,082,548</u>	<u>2,082,548</u>
Total investments	<u>\$2,343,952</u>	<u>\$2,082,548</u>	<u>\$4,426,500</u>
<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>866,735</u>	<u>866,735</u>
Total investments	<u>\$1,106,755</u>	<u>\$866,735</u>	<u>\$1,993,490</u>

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**Note 5 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 6 LONG-TERM DEBT**

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

	<u>2013</u>	<u>2012</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.	\$ 27,700	\$ 37,424
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>14,990</u>	<u>20,354</u>
Total long-term debt	42,690	57,778
Less: current maturities	<u>(15,123)</u>	<u>(15,000)</u>
Long-term portion	<u>\$ 27,567</u>	<u>\$ 42,778</u>

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

Year ending <u>October 31</u>	<u>Amount</u>
2014	\$15,123
2015	15,429
2016	<u>12,138</u>
Total	<u>\$42,690</u>

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**Note 7 NET ASSETS**

**A. UNRESTRICTED**

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

	<u>2013</u>	<u>2012</u>
Property and Equipment	\$1,706,473	\$1,807,505

**B. TEMPORARILY RESTRICTED**

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

	<u>2013</u>	<u>2012</u>
State of Minnesota operating grant	\$ 418,333	\$ 158,000
State of Minnesota arts and cultural heritage funds	802,245	353,442
Civics Education arts and cultural heritage funds	16,179	266,506
Councils of Color arts and cultural heritage funds	101,693	695,107
Children's Museums arts and cultural heritage funds	1,410,376	551,847
State of Minnesota for regrant to Everybody Wins!	19,778	
Council of Disabilities arts and cultural heritage funds	319,469	-
For Veteran's Voices programming	9,016	-
Story Circles	3,698	-
Absent Narratives program work/professional development programs for teachers and school districts	<u>5,870,555</u>	<u>2,307,614</u>
Total	<u>\$8,971,342</u>	<u>\$4,332,516</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>2013</u>	<u>2012</u>
Program expenditures	\$5,292,502	\$2,696,465
Elapsed time restriction	<u>241,667</u>	<u>237,000</u>
Total	<u>\$5,534,169</u>	<u>\$2,933,465</u>

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**Note 8 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, 2013, the Board approved a 4% discretionary contribution. Total matching contributions were \$48,220; accrued discretionary contributions were \$53,108; for a total expense of \$101,328 for the year ended October 31, 2013. Contributions were \$91,809 for the year ended October 31, 2012. In 2013, more employees were eligible for the plan and employees increased their contribution rates to receive the maximum match.

**Note 9 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 6). In order to retain these funds, the Humanities Center must comply with certain provisions and conditions specified in both the grant and loan agreements.

**Note 10 OPERATING LEASES**

The Humanities Center leases a copier. Total leased equipment expenses were \$9,743 and \$7,703 for the years ended October 31, 2013 and 2012. This amount includes the base lease costs, fees for copies above the minimums and one time rental costs. Actual lease payments were \$3,201. The lease for the copier expired August 2013 and was renewed for an additional 3 years at a lower rate. The minimum payments include a base number of copies and maintenance; overages are also recorded in the lease expense account.

Future minimum rental payments required under the copier lease are:

2014	\$2,004
2015	\$2,004
2016	\$2,004

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**Note 11 MAJOR SOURCES OF SUPPORT AND REVENUE**

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

	<u>2013</u>	<u>2012</u>
National Endowment for the Humanities	\$ 563,243	\$ 838,365
State of Minnesota	\$ 3,792,000	\$ -
Anonymous Foundation	\$ 6,119,430	\$ 3,657,955

**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, 2012, from which the summarized information was derived.

**Note 14 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.